

File No. 100865

Committee Item No.  
Board Item No. 19

### COMMITTEE/BOARD OF SUPERVISORS AGENDA PACKET CONTENTS LIST

Committee:

Date:

Board of Supervisors Meeting

Date: 9/14/10

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#### OTHER

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Completed by: Gail Johnson

Date 8/6/10

Completed by: Victor Young

Date 9/9/10

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8/4/10

FILE NO. 100865

ORDINANCE NO.

[Establishing an Alcohol Mitigation Cost Recovery Fee.]

Ordinance adding Chapter 106, Sections 106 through 106.28, to the San Francisco Administrative Code to impose a fee on Alcoholic Beverage Wholesalers and certain other persons who distribute or sell Alcoholic Beverages in San Francisco to 1) recover a portion of San Francisco's alcohol-attributable unreimbursed health costs, and 2) fund administration costs.

NOTE: Additions are single-underline italics Times New Roman;  
 deletions are ~~strike-through italics Times New Roman~~.  
 Board amendment additions are double-underlined;  
 Board amendment deletions are ~~strikethrough-normal~~.

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

Section 1. The San Francisco Administrative Code is hereby amended adding a new Chapter 106, Section 106 through 106.28, to read as follows:

**SEC. 106. FINDINGS.**

1. Illness, disability and premature death can be directly attributed to alcohol use. The Centers for Disease Control and Prevention (CDC) has called excessive alcohol consumption the third leading preventable cause of death, or modifiable behavioral risk factor, in the United States, after tobacco and the combination of poor diet and physical inactivity.

2. In a 2010 study published in The Open Epidemiology Journal, researchers found that alcohol use resulted in approximately 10,600 deaths and 72,000 nonfatal hospitalizations in California during 2006 alone.

3. In one study, researchers estimated that the annual economic costs of alcohol use in California for 2005 are between \$35.4 billion and \$42.2 billion, including \$5.4 billion in medical and mental health spending, \$25.3 billion in work losses, and \$7.8 billion in criminal justice spending, property damage, and other public program costs.

Supervisors Avalos, Mirkarimi, Maxwell, Mar  
 BOARD OF SUPERVISORS

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1           4. Two-thirds of San Francisco adults are current drinkers, compared with 55% of United  
2 States adults. The San Francisco Department of Public Health considers alcohol a major public health  
3 problem.

4           5. In San Francisco, alcohol use ranks among the leading causes of premature mortality.  
5 Analyzing data from 2004-2007, the Department of Public Health found that alcohol is a leading cause  
6 of premature death among men in San Francisco, accounting for approximately 10% of all their years  
7 of life lost. The Department of Public Health also found that alcohol use is a notable cause of  
8 premature death among women in San Francisco, falling between fifth and fifteenth as the leading  
9 cause of premature death for that group, depending on the analytical method used.

10           6. Alcohol also plays a role in a significant number of deaths in San Francisco. In Fiscal  
11 Year 2006-2007 – the most recent year for which the San Francisco Medical Examiner published  
12 findings – alcohol was the primary cause of death in 7.7% of natural deaths certified by that office.  
13 Alcohol also is involved in a significant number of accidental deaths in San Francisco. In FY 2006-  
14 2007, 33% percent of all non-vehicular accidental death victims tested by the Medical Examiner had  
15 significant levels of alcohol in their blood. In that same year, alcohol was present in 32.7% of all  
16 vehicular fatalities in San Francisco. Alcohol also was present in 25% of all suicides tested by the  
17 Medical Examiner that year. In addition, 31.8% of all tested homicide victims in San Francisco in FY  
18 2006-2007 had positive blood alcohol levels at the time of death.

19           7. The City and County of San Francisco incurs a range of substantial costs that are  
20 attributable to alcohol consumption, including but not limited to, the costs of medical care for people  
21 with alcohol-related illnesses, treatment and prevention of alcohol misuse, law enforcement for  
22 alcohol-related incidents, and emergency response for alcohol-related motor vehicle collisions. In  
23 addition, San Francisco incurs costs when individuals experience disability, diminished capacity, and  
24 premature death due to alcohol use.

1           8. In 2010, The Lewin Group and Oxford Outcomes, Inc. ("Nexus Study Authors")  
2 conducted a nexus study to calculate a portion of the City and County of San Francisco's health costs  
3 attributable to Alcoholic Beverages. The report, entitled *The Cost of Alcohol to San Francisco:*  
4 *Analyses Supporting an Alcohol Mitigation Fee ("Nexus Study")* is on file with the Clerk of the Board of  
5 Supervisors in File No. 100865 and is incorporated herein by reference.

6           9. This Ordinance establishes the Alcohol Mitigation Cost Recovery Fee to reimburse the  
7 City and County of San Francisco for portion of its otherwise unreimbursed annual costs attributable  
8 to alcohol use as identified in the Nexus Study.

9  
10           **SEC. 106.1. TITLE AND PURPOSE.**

11           This Ordinance shall be known as the "Alcohol Mitigation Cost Recovery Fee Ordinance"  
12 and the Fee imposed herein shall be known as the "Alcohol Mitigation Cost Recovery Fee" or "Fee."  
13 The purpose of this Fee is to at least partly recover the City's unreimbursed 1) health care costs of  
14 alcohol-attributable conditions, 2) costs of emergency transport due to alcohol, 3) alcohol prevention  
15 and treatment programs administered by the Department of Public Health, and 4) administration costs,  
16 including but not limited to collection, investigation, and enforcement costs (Eligible Costs).

17  
18           **SEC. 106.4. DEFINITIONS.**

19           (a) "Account" or "San Francisco Alcohol Mitigation Cost Recovery Account" means the  
20 account the City maintains to receive monies collected under this Chapter.

21           (b) "Alcohol" means ethyl alcohol, hydrated oxide of ethyl, or spirits of wine, from whatever  
22 source or by whatever process produced.

23           (c) "Alcoholic Beverage" means Alcohol, Spirits, liquor, Wine, or Beer, and every liquid  
24 containing Alcohol, Spirits, Wine, or Beer, which contains one-half of 1 percent or more of Alcohol by  
25

1 volume and which is fit for beverage purposes either alone or when diluted, mixed, or combined with  
2 other substances.

3 (d) "Beer" means any Alcoholic Beverage obtained by the fermentation of any infusion or  
4 decoction of barley, malt, hops, or any other similar product, or any combination thereof in water, and  
5 includes ale, porter, brown, stout, lager beer, small beer, and strong beer but does not include sake,  
6 known as Japanese rice wine.

7 (e) "City" means the City and County of San Francisco.

8 (f) "Controller" means the Office of the Controller of the City and County of San  
9 Francisco.

10 (g) "Eligible Costs" means the City's unreimbursed 1) health care costs of alcohol-  
11 attributable conditions, 2) costs of emergency transport due to alcohol, 3) alcohol prevention and  
12 treatment programs administered by the Department of Public Health, and 4) administration costs,  
13 including but not limited to collection, investigation, and enforcement costs identified in the Nexus  
14 Study.

15 (h) "Fee" means the Alcohol Mitigation Cost Recovery Fee imposed under this Chapter  
16 106 of the San Francisco Administrative Code.

17 (i) "Fee Payer" means a Person responsible for paying the Fee.

18 (j) "Manufacturer" or "Alcoholic Beverage Manufacturer" means any Person engaged in  
19 the manufacture of alcoholic beverages.

20 (k) "Person" means any individual, firm, association, copartnership, cooperative  
21 association, joint venture, corporation, personal representative, receiver, trustee, assignee, or any  
22 entity, public or private in nature, but not the City or other governmental agencies exempted from local  
23 fees under State or Federal law.

24 (l) "Retailer" or "Alcoholic Beverage Retailer" means a Person who engages in the sale  
25 of Alcoholic Beverages for consumption and not for resale.

1           (m) "Rule" means any rule, regulation, guideline, instruction or prescribed form that the Tax  
2 Collector duly issues, promulgates, or adopts to enforce and administer this Alcohol Mitigation Cost  
3 Recovery Fee Ordinance.

4           (n) "Sell", "Sale", or "To Sell" means any transaction whereby, for any consideration, title  
5 to alcoholic beverages is transferred from one person to another, and includes the delivery of alcoholic  
6 beverages pursuant to an order placed for the purchase of such beverages and soliciting or receiving  
7 an order for such beverages, but does not include the return of alcoholic beverages by a licensee to the  
8 licensee from whom such beverages were purchased. For purposes of this definition, "licensee" means  
9 any person holding a license, a permit, a certification, or any other authorization issued by the  
10 California Department of Alcoholic Beverage Control.

11           (o) "Spirits" means an Alcoholic Beverage obtained by the distillation of fermented  
12 agricultural products, and includes but is not limited to, alcohol for beverage use, spirits of wine,  
13 whiskey, rum, brandy, vodka, and all dilutions and mixtures thereof.

14           (p) "Tax Collector" means the Office of the Treasurer and Tax Collector of the City and  
15 County of San Francisco.

16           ~~(q) "Wholesaler" or "Alcoholic Beverage Wholesaler" means every Person other than a~~  
17 Manufacturer, Winegrower or rectifier, who is engaged in business as a jobber or wholesale merchant,  
18 selling Alcoholic Beverages to Retailers for resale.

19           (r) "Wine" means the product obtained from normal alcoholic fermentation of the juice of  
20 sound ripe grapes or other agricultural products containing natural or added sugar or any such  
21 alcoholic beverage to which is added grape brandy, fruit brandy, or spirits of wine, which is distilled  
22 from the particular agricultural product or products of which the wine is made and other rectified wine  
23 products and by whatever name and which does not contain more than 15 percent added flavoring,  
24 coloring, and blending material and which contains not more than 24 percent of alcohol by volume,  
25 and includes vermouth and sake, known as Japanese rice wine.

1            (s) "Winegrower" means any person who has facilities and equipment for the conversion of  
2 grapes, berries or other fruit into wine and is engaged in the production of wine.

3  
4            **SEC. 106.7. IMPOSITION OF ALCOHOL MITIGATION COST RECOVERY FEE**

5            (a) Commencing January 1, 2011, the City hereby imposes an Alcohol Mitigation Cost  
6 Recovery Fee at the rate of \$.076 per ounce of Alcohol sold on (1) Alcoholic Beverage  
7 Wholesalers, or other Persons, who sell an Alcoholic Beverage to a Retailer for resale within the  
8 geographic limits of the City, and (2) Alcoholic Beverage Manufacturers, such as brew pubs,  
9 breweries, or Winegrowers, that sell within the geographic limits of the City Alcoholic Beverages  
10 directly to Persons for consumption and not resale, and (3) Alcoholic Beverage Retailers, or their  
11 agents, that purchase outside the geographic boundaries of the City Alcoholic Beverages from  
12 Persons for resale within the geographic boundaries of the City.

13            (b) The fee shall be established at the following rates: (1) \$0.35 per gallon of Beer and  
14 at a proportionate rate for any other quantity, (2) \$1.00 per gallon of Wine and at a  
15 proportionate rate for any other quantity, and (3) \$3.20 per gallon of Spirits and at a  
16 proportionate rate for any other quantity. The City may collect the Fee only once for each  
17 ouncegallon of alcohol sold within the geographic limits of the City. The Fee shall be subject to  
18 adjustment from time to time under Section 106.16.

19            (b)(c) The Fee Payer shall remit the Fee to the Tax Collector each calendar quarter on or  
20 before the last day of the month immediately following each respective quarterly period, and in  
21 accordance with the Tax Collector's Rules, except that all such amounts shall be due immediately upon  
22 the transfer of ownership or cessation of a Fee Payer's business for any reason. The first Fee payment  
23 is due January 1-April 30, 2011 for Fee Payers doing business during the quarter starting January  
24 1, 2011 ending December March 31, 20112010.



1            (e)(d) The City may expend the proceeds of the Fee only to offset, in whole or in part, the  
2            Eligible Costs.

3            (d)(e) The Tax Collector shall deposit all monies collected pursuant to this Alcohol Mitigation  
4            Cost Recovery Fee Ordinance to the credit of the San Francisco Alcohol Mitigation Cost Recovery  
5            Fee Account authorized by Section 106.28.

7            **SEC. 106.10. COLLECTION AND ENFORCEMENT.**

8            (a) The Tax Collector shall enforce the provisions of this Alcohol Mitigation Cost  
9            Recovery Fee Ordinance. The Tax Collector shall collect the Fee, conduct audits, and issue  
10           deficiency and jeopardy determinations pursuant to the Business and Tax Regulations Code, Article 6,  
11           provided that nothing in this Ordinance or in Article 6 of the Business and Tax Regulations Code shall  
12           be construed to mean that the Alcohol Mitigation Cost Recovery Fee is a tax rather than a fee. The  
13           Tax Collector may issue, and serve, subpoenas to carry out these duties.

14           (b) The Tax Collector shall have the power and duty to promulgate Rules to implement and  
15           administer this Ordinance, including but not limited to Rules prescribing methods for Fee collection,  
16           payment and verification. A Fee Payer's failure or refusal to comply with any Rule shall be a violation  
17           of this Ordinance and may subject the violator to the penalties set forth herein or in Business and Tax  
18           Regulations Code, Article 6.

19           (c) Until otherwise specified by Rule, the Tax Collector shall allow any Fee Payer to report  
20           Alcoholic Beverage sales based on either its inventory purchase invoices for the reporting period or its  
21           Alcoholic Beverage sales records for the reporting period. A Fee Payer shall use the same method for  
22           calculating and reporting its Fees each reporting period until otherwise specified by Rule.

23           (d) The Fee is payable, when due, at the office of the Tax Collector, and if not paid the  
24           penalties and interest set forth in Business and Tax Regulations Code Sec. 6.17-1 shall apply.

1           (e) The Tax Collector shall have the authority described in Business and Tax Regulations  
2 Code Sec. 6.4-1(b) to obtain information pertinent to the collection and enforcement of this Fee.  
3 Penalties for noncompliance shall be the same as those authorized under Article 6 of the Business and  
4 Tax Regulations Code.

5  
6           **SEC. 106.13. RECORDS FOR ENFORCEMENT ONLY.**

7           (a) Every Fee Payer shall keep and preserve all such records as the Tax Collector may  
8 require for the purpose of ascertaining and determining compliance with this Alcohol Mitigation Cost  
9 Recovery Fee Ordinance, including but not limited to, all local, State and Federal tax returns and all  
10 inventory purchase invoices, for a period of four five years. The Fee Payer shall submit copies of such  
11 records with its periodic Fee returns as the Tax Collector may by Rule require, and shall make its  
12 original documents available at its retail location for review, inspection or copying by the Tax  
13 Collector upon request during normal business hours as authorized under Article 6 of the Business  
14 and Tax Regulations Code.

15           (b) The City shall access and use a Fee Payer's records required to be prepared or provided  
16 under this Ordinance and Rules promulgated hereunder, including but not limited to its local, State and  
17 Federal tax returns and inventory purchase invoices, solely for the purposes of enforcing this Alcohol  
18 Mitigation Cost Recovery Fee Ordinance. The City shall adhere to all applicable laws, policies and  
19 regulations pertaining to personal information, individual privacy, trade secrets and proprietary  
20 information with respect to such records and such records shall not be considered public records.

21  
22           **SEC. 106.16. ADJUSTMENT AND REVIEW OF FEES.**

23           (a) Biannual Review. Beginning with fiscal year 20122011-12 and biannually every two  
24 years thereafter, the City shall review and, if necessary, adjust the Fee as set forth in this subsection.  
25 By March 1, the Tax Collector shall report to the Controller the monies generated by the Fee for the

1 prior fiscal year, and each involved City department shall report to the Controller the prior fiscal  
2 year's Eligible Costs, and any other information that the Controller determines appropriate to  
3 adjusting the Fee. The Controller shall determine whether the current Fee has produced or is  
4 projected to produce funds sufficient to support the Eligible Costs but not funds that are more than the  
5 costs of providing the services for which the Fee is assessed. The Controller shall, if necessary, adjust  
6 the Fee by increasing or decreasing it for the upcoming fiscal year or years as appropriate to ensure  
7 that over time the City recovers no more than the costs for which the City assesses the Fee. The  
8 adjusted Fee rate shall become operative on July 1. The Controller shall publish the adjusted Fee rate.  
9 Failure to publish the Fee rate shall not affect the rights of the City to collect the adjusted Fee.

10 (b) **Five-Year Review.** Commencing five years after the effective date of this ordinance, and  
11 every five years thereafter, or more often as the Controller may deem necessary, the Controller shall  
12 commission a report updating the Nexus Study. The Controller may also recommend new categories of  
13 unreimbursed costs attributable to alcohol to be recovered through the Fee. In making such  
14 recommendations, and to the extent that new information is available, the report shall update the  
15 information and estimates that were used in the Nexus Study to estimate the Fee, and any other  
16 information the Controller deems appropriate. The Controller then shall recommend to the Board  
17 whether Fee should be increased, decreased, or remain the same. Nothing in this subsection shall  
18 prevent the Controller from adjusting the Fee to ensure that the City recovers no more than the costs  
19 for which the City assesses the Fee under Section 106.16(a).

20  
21 **SEC. 106.19. PREEMPTION.**

22 Nothing in this Chapter shall be interpreted or applied so as to create any power, duty or  
23 obligation in conflict with, or preempted by, any Federal or State law.  
24  
25

1            SEC. 106.22. CITY UNDERTAKING LIMITED TO PROMOTION OF GENERAL  
2            WELFARE.

3            In undertaking the adoption and enforcement of this Chapter, the City is assuming an  
4            undertaking only to promote the general welfare. The City does not intend to impose the type of  
5            obligation that would allow a Person to sue for money damages for an injury that the Person claims to  
6            suffer as a result of a City officer or employee taking or failing to take an action with respect to any  
7            matter covered by this Chapter.

8  
9            SEC. 106.25. SEVERABILITY.

10           If any of the words, sentences, parts, or provisions of this Chapter or the application thereof to  
11           any person or circumstance is held invalid, including any category of costs, the remainder of this  
12           Chapter, including the application of such word, sentence, part or provisions to persons or  
13           circumstances other than those to which it is held invalid, or the collection of the remaining costs, shall  
14           not be affected thereby and shall continue in full force and effect. To this end, the words, sentences,  
15           parts, and provisions of this Chapter are severable.


16  
17           SEC. 106.28. SAN FRANCISCO ALCOHOL MITIGATION COST RECOVERY FEE  
18           ACCOUNT.

19           (a) Establishment of Account. The City shall maintain an San Francisco Alcohol  
20           Mitigation-Cost Recovery Fee Account to receive monies collected under this Chapter.

21           (b) Use of Fee Monies. The Account shall be used solely to recover Eligible Costs.  
22           Expenditures and encumbrances from the Account shall be subject to the budget and fiscal provisions  
23           of the Charter and the Annual Appropriation Ordinance. The Controller shall allocate funds to  
24           Departments based on each Department's share of the combined alcohol-attributable and alcohol fee  
25

1 administration expenditures as determined by the most recent available nexus study and study of  
2 administration expenditures.

3 APPROVED AS TO FORM:  
4 DENNIS J. HERRERA, City Attorney

5 By:   
6 Francesca Gessner  
7 Deputy City Attorney

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**LEGISLATIVE DIGEST**

(Amendment to the Whole, dated August 4, 2010)

[Establishing an Alcohol Cost Recovery Fee]

**Ordinance adding Chapter 106, Sections 106 through 106.28, to the San Francisco Administrative Code to impose a fee on Alcoholic Beverage Wholesalers and certain other persons who distribute or sell Alcoholic Beverages in San Francisco to 1) recover a portion of San Francisco's alcohol-attributable unreimbursed health costs, and 2) fund administration costs.**

Existing Law

The City does not charge any fees to recover its alcohol-attributable health costs.

Amendments to Current Law

The Alcohol Cost Recovery Fee Ordinance ("Ordinance") establishes an Alcohol Cost Recovery Fee ("Fee") on alcohol sold in San Francisco to defray a portion of the alcohol attributable costs that the City incurs each year. Specifically, the Fee would reimburse the City for the following costs: 1) the unreimbursed health care costs of treating alcohol-attributable conditions, 2) the unreimbursed costs of emergency transport due to alcohol, 3) alcohol prevention and treatment programs administered by the Department of Public Health, and 4) administration costs, including but not limited to fee collection, investigation, and enforcement costs.

The Fee is based on the results of a nexus study conducted by The Lewin Group and Oxford Outcomes, Inc. ("Nexus Study Authors") entitled "The Cost of Alcohol to San Francisco: Analyses Supporting an Alcohol Mitigation Fee."

Beginning in Fiscal Year 2011-2012, the Controller may adjust the Fee upward or downward biannually to ensure that the amount collected produces revenue that is sufficient – and that does not exceed – the health costs for which it is assessed. The Fee is not a tax.

Alcoholic beverage wholesalers, and certain other businesses who sell alcohol in San Francisco without wholesalers in the distribution chain, must pay the Fee quarterly to the Office of the Treasurer and Tax Collector. Fee payers are required to keep commercially reasonable records of alcohol sold and must permit the Tax Collector to audit books, papers and records during normal business hours for the purpose of ascertaining and determining compliance with this Ordinance. To enforce the Ordinance, the Tax Collector may issue and enforce deficiency and jeopardy determinations for Fee payments and obligations.

The first Fee payment for the Fee established by this Ordinance would be due April 30, 2011 for Fee Payers doing business during the quarter ending March 31, 2011.

Background

This Amendment to the Whole makes the following changes to the legislation that was introduced on June 22, 2010:

- The Fee would be assessed based on per gallon of beer, wine, and spirits, rather than per ounce of ethanol (Section 106.7(b))
- The Fee amount would be approximately 25% lower and also reflect a \$47,862 reduction in the Tax Collector's administration costs (Section 106.7(b))
- The start date for imposition of the Fee would be January 1, 2011, rather than October 1, 2010 (Sections 106.7(a),(c))
- The Controller's first review and potential adjustment of the Fee would take place fiscal year 2011-12, rather than 2012-13 (Section 106.16(a))
- The Ordinance would be retitled "Alcohol Cost Recovery Fee Ordinance" from "Alcohol Mitigation Fee Ordinance"



**Item 12**  
**File 10-0865**

**Departments:**

Office of the Controller  
Office of the Treasurer-Tax Collector (TTX)  
Office of the City Attorney  
Department of Public Health (DPH)  
Fire Department (SFFD)

**EXECUTIVE SUMMARY****Legislative Objective**

- Ordinance adding Chapter 106, Sections 106 through 106.28 to the City's Administrative Code to impose an Alcohol Mitigation Fee of \$0.076 per fluid ounce of alcohol sold in San Francisco on alcoholic beverage wholesalers, manufacturers, or other persons to (a) recover a portion of San Francisco's alcohol-attributable unreimbursed health costs and (b) fund costs to administer the proposed Fee.

**Key Points**

- The proposed Fee would be used to pay for (a) unreimbursed alcohol-attributable costs incurred by the Department of Public Health (DPH) and the San Francisco Fire Department (SFFD) and (b) costs incurred by the Officer of the Treasurer-Tax Collector (TTX) to administer the Fee.
- The proposed ordinance would impose the proposed Fee once on each ounce of alcohol sold in San Francisco by alcoholic beverage wholesalers, manufacturers, or other persons.

**Fiscal Impact**

- The Lewin Group Nexus Study provides a conservative estimate of total first-year costs of \$18,126,484 for the City's unreimbursed alcohol-attributable costs, including (a) \$17,664,152 in unreimbursed alcohol-attributable costs incurred by DPH and the SFFD and (b) \$462,332 in costs incurred by TTX to administer the Fee.
- The Budget and Legislative Analyst estimates that the proposed Alcohol Mitigation Fee would generate \$16,264,614 in annual revenues to pay for the first year costs of \$18,126,484 which would be incurred by the City, resulting in a balance of \$1,861,870 in unreimbursed alcohol-attributable costs including administration costs.
- TTX advises that the proposed Fee could only be assessed for the final two quarters (the last six months) in FY 2010-2011, from January 1, 2011 through June 30, 2011. Therefore, the Budget and Legislative Analyst estimates total revenues from the proposed Fee in FY 2010-2011 would be approximately \$8,132,307.

**Policy Considerations**

- TTX will (a) rely on self-reporting from businesses paying the proposed Fee and (b) collect the proposed Fee primarily from alcohol wholesalers.
- Every two years, the Controller would be required to review and, if necessary, adjust the proposed Fee as appropriate to ensure that over time the City recovers no more than the eligible unreimbursed alcohol-attributable costs for which the City assesses the Fee. Should the City seek in the future to expand the scope of costs reimbursed by the proposed Fee to include additional unreimbursed alcohol-attributable costs that are not included in the proposed ordinance, doing so would require future amendments to the proposed ordinance.

**Recommendation**

- Approval of the proposed ordinance is a policy matter for the Board of Supervisors.

## BACKGROUND

Ms. Michelle Allersma, Citywide Revenue Manager with the Office of the Controller, advises that in February of 2010 the City Attorney's Office solicited proposals from four consultants and selected the Lewin Group to conduct a Nexus Study to analyze the costs to San Francisco of unreimbursed alcohol-attributable costs, in order to determine the amount to be imposed as a potential Alcohol Mitigation Fee. Ms. Allersma advises that the Lewin Group study cost \$122,500, which was paid using General Fund monies. According to Deputy City Controller Monique Zmuda, this \$122,500 included unexpended General Fund monies in the Controller's Office previously appropriated in FY 2008-2009.

According to a Nexus Study entitled "The Cost of Alcohol to San Francisco: Analyses Supporting an Alcohol Mitigation Fee," report, issued on June 30, 2010 by the Lewin Group, the executive summary of which is included as Attachment I to this report, alcohol use has resulted in an estimated \$17,664,152 annually in "unreimbursed alcohol attributable costs borne by the City." As shown in Table 1 below, using information provided in Exhibit 1-1 on page 2 of Attachment I, the Lewin Group estimates that, of the total \$17,664,152 in unreimbursed costs which would be paid by the proposed Alcohol Mitigation Fee, (a) \$13,692,487 are incurred by the Department of Public Health (DPH) and (b) \$3,971,665 are incurred by the Fire Department (SFFD).

**Table 1: Summary of Alcohol-Attributable Unreimbursed Costs to the City and County of San Francisco in FY 2009-2010 (from the Lewin Group Nexus Study Exhibit 1-1)**

Service	Estimated Cost
DPH – Sobering Center	\$1,030,159
DPH – Mobile Assistance Patrol Van Service 122,942	
DPH – Community Substance Abuse Services – Direct Treatment Costs	7,244,540
DPH – Community Substance Abuse Services – Prevention Services	2,900,351
DPH – SF General Hospital Services	1,814,842
DPH – Jail Health Medical Detoxification	579,653
<i>DPH Subtotal</i>	<i>\$13,692,487</i>
SFFD – Costs for EMS Transports to Destinations other than the Sobering Center	2,927,237
SFFD – Costs for EMS Transports to the Sobering Center	1,044,428
<i>SFFD Subtotal</i>	<i>\$3,971,665</i>
<b>DPH and SFFD COMBINED TOTAL</b>	<b>\$17,664,152</b>

**DETAILS OF PROPOSED LEGISLATION**

The proposed ordinance would (a) authorize a new Alcohol Mitigation Fee of \$.076 per fluid ounce of alcohol sold in San Francisco and (b) create a new Alcohol Mitigation Fee Account into which all Fee revenues received by the City would be deposited. Revenues from the proposed Fee would be used to pay for (a) a portion of the annual alcohol-attributable costs incurred by DPH and SFFD, as determined by the Lewin Group Nexus Study; and (b) costs incurred by the Officer of the Treasurer-Tax Collector (TTX) to administer the Fee.

The proposed ordinance would (a) impose a \$.076 per fluid ounce Fee on alcoholic beverage wholesalers, manufacturers, or other persons,<sup>1</sup> and (b) restrict collection of the proposed Fee to a single collection for each ounce of alcohol sold within the geographic limits of the City. The proposed ordinance authorizes the TTX to (a) collect and enforce the proposed Fee, and (b) develop rules to administer the proposed Fee.

In order to reimburse alcohol-attributable expenditures that were identified in the Lewin Group Nexus Study, under the proposed ordinance, the Controller would be required to annually allocate funds from the Alcohol Mitigation Fee Account to DPH, SFFD; and TTX based on the share of (a) alcohol-attributable expenditures incurred by DPH and SFFD and (b) Fee administration expenditures incurred by TTX.

According to the proposed ordinance, every two years the Controller would be responsible for reviewing and, if necessary, adjusting the proposed Fee to increase or decrease the amount of the Fee as appropriate. Such adjustments by the Controller would ensure that over time the City recovers no more than the City's eligible unreimbursed alcohol-attributable costs for which the City assesses the Fee. Further, a new nexus study is required to be conducted every five years after approval of the proposed ordinance.

In the future, should the City seek to expand or reduce the scope of costs reimbursed by the proposed Fee to include additional or fewer unreimbursed alcohol-attributable costs than are included in the proposed ordinance, doing so would require that future amendments to the proposed ordinance be subject to approval of the Board of Supervisors.

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<sup>1</sup> The Office of the Sponsor advises that an amendment to the proposed ordinance will be introduced which would remove the current section referring to imposition of the proposed Fee on alcoholic beverage wholesalers, manufacturers, and retailers and replace this section with new language referring to imposition of the proposed Fee on alcoholic beverage wholesalers, manufacturers, and "other persons."

## FISCAL ANALYSIS

### Unreimbursed Alcohol-Attributable Expenditures and Budget and Legislative Analyst's estimate of the Fee revenues

As shown on page 2 of Attachment I, using information provided to the Lewin Group by DPH and SFFD personnel, the Lewin Group Nexus Study estimates total first-year costs of \$18,126,484, which would be \$18,082,484 annually thereafter (net of \$44,000 in first-year one-time administrative expenditures), that could be recovered through the proposed Alcohol Mitigation Fee, including (a) \$17,664,152 in unreimbursed alcohol-attributable costs incurred by the DPH and SFFD and (b) \$462,332 in costs incurred by TTX to administer the Fee. Attachment II is a summary from the Nexus Study of the total of \$17,664,152 in unreimbursed alcohol-attributable costs that would be incurred by DPH and SFFD which would be eligible for reimbursement by the proposed Fee. According to Ms. Allersma, the unreimbursed alcohol-attributable costs which would be paid from the proposed Fee are currently paid from the City's General Fund. Ms. Allersma further advises that revenues from the proposed Fee could not be used to reimburse alcohol-attributable costs that are presently reimbursed from non-General Fund sources.

Attachment III, from the Lewin Group Nexus Study, provides background on the conservative approach that the Lewin Group used in estimating the City's unreimbursed alcohol-attributable costs that could be paid by the proposed Fee. As stated in Attachment III, the Lewin Group Nexus Study excluded the following costs from the list of unreimbursed alcohol-attributable costs: (a) "non-health care costs of alcohol use such as alcohol-related costs of criminal justice, child protection, and policing and law enforcement" (b) "costs of alcohol-related homelessness;" and, (c) "costs when alcohol and drugs jointly contributed to problems borne by the City." Further, "only primary diagnoses were used to identify alcohol-related health care services provided by SF General Hospital and Fire Department EMS."

In order to fully recover the first year costs estimated to total \$18,126,484 in annual unreimbursed alcohol-attributable and Fee administration costs, the Lewin Group Nexus Study concluded that the City would need to levy a fee of \$.0847 per fluid ounce of alcohol sold in San Francisco. However, as noted above, the proposed ordinance would only authorize a Fee of \$.076 per fluid ounce of alcohol sold in San Francisco, which is \$.0087 or 10.3 percent less than the \$.0847 per fluid ounce of alcohol fee recommended by the Lewin Group Nexus Study. According to the Office of the Sponsor, the subject ordinance proposes to assess a lower Fee of \$.076 per fluid ounce of alcohol sold in San Francisco in order to ensure that proceeds from the proposed Fee do not exceed the City's unreimbursed alcohol-attributable costs.

The Budget and Legislative Analyst calculates that the proposed Fee of \$.076 per fluid ounce of alcohol sold in San Francisco would result in an estimated \$16,264,614 in revenues that would accrue annually to the City, which would recover approximately 89.7 percent of the total estimated first-year costs of \$18,126,484 in unreimbursed alcohol-attributable costs and Fee administration costs, resulting in a balance of \$1,861,870 in unreimbursed alcohol-attributable

costs incurred by the City as well as its related Fee administration costs which would be paid from the City's General Fund monies.

As shown in Attachment IV, provided by Ms. Tajel Shah, Director of Budget and Operations for TTX, TTX's estimated \$462,332 in annual and one-time costs to administer the proposed Fee includes (a) \$348,618 annually for personnel expenditures, (b) \$55,674 annually in overhead, and (c) \$58,040 for non-personnel expenditures, which includes \$44,000 in one-time expenses and \$14,040 annually for mailing expenditures. The \$348,618 in annual personnel expenditures to administer the proposed Fee includes five new positions (2.75 full-time equivalent (FTE) positions), including (a) one 1823 Senior Administrative Analyst, (b) one 4335 Investigator, (c) 0.25 FTE 1632 Senior Account Clerk, (d) 0.25 FTE 4308 Senior Collections Officer, and (e) 0.25 FTE 4222 Senior Personal Property Auditor.

In Table 2 below, the Budget and Legislative Analyst has recalculated the anticipated personnel costs, including salary and mandatory fringe benefit costs attributed to administration of the proposed Fee, using FY 2010-2011 salary and related fringe benefit costs:

**Table 2: Recalculated Administrative Costs of the Proposed Alcohol Mitigation Fee**

Amount	Item	TTX Estimate	Budget and Legislative Analyst Estimate	Decrease / (Increase) from TTX Estimate
1.0 FTE	1823 Senior Administrative Analyst	\$95,654	\$91,338	\$4,316
0.25 FTE	1632 Senior Account Clerk	\$14,751	\$14,014	\$737
0.25 FTE	4308 Senior Collections Officer	\$16,454	\$15,646	\$808
0.25 FTE	4222 Senior Personal Property Officer	\$23,293	\$22,490	\$803
1.0 FTE	4335 Investigator	\$93,170	\$78,468	\$14,702
	<b>Subtotal Permanent Salaries</b>	<b>\$243,322</b>	<b>\$221,956</b>	<b>\$21,366</b>
	Permanent Salaries Fringe Benefits	\$80,296 (33% rate)	\$90,690 (40.68% rate)	(\$10,394)
	Temporary Salaries	\$25,000	\$25,000	\$0
	Temporary Salaries Fringe Benefits	\$0	\$1,975 (7.9% rate)	(\$1,975)
	<b>Total (Permanent and Temporary)</b>	<b>\$348,618</b>	<b>\$339,621</b>	<b>\$8,997</b>

As shown in Table 2 above, the Budget and Legislative Analyst's calculation for anticipated salary and mandatory fringe benefit costs for administration of the proposed Fee is \$8,997 less than the estimate provided by TTX. While this revised estimate of salary and mandatory fringe benefit costs would reduce total anticipated expenditures by \$8,997 in the first year to be reimbursed by the proposed Fee from \$18,126,484 to \$18,117,487, since the proposed Fee would result in estimated revenues of \$16,264,614, this recalculation of salary and mandatory fringe benefit administrative costs incurred by TTX would not impact the proposed Fee amount.

### Implementation Date and Projected FY 2010-2011 Revenues

According to Ms. Shah, TTX must provide a minimum 30-day notice to all potential Fee payers. Therefore, in order to begin assessing the proposed Fee in the second quarter of FY 2010-2011, which begins on October 1, 2010, Ms. Shah advises that the proposed ordinance would have needed to have been approved by August 1, 2010, in order to provide TTX with the necessary time to notify potential Fee payers by September 1, 2010. Ms. Shah further advises that to begin assessing the proposed Fee in the third quarter of FY 2010-2011, which begins on January 1, 2011, the proposed ordinance would require approval by November 1, 2010.

Given this timing, the proposed Fee could only be assessed for two quarters (the last six months) in FY 2010-2011, from January 1, 2011 through June 30, 2011. Therefore, the Budget and Legislative Analyst estimates that, should the Board of Supervisors approve the proposed ordinance prior to November 1, 2010, total revenues from the proposed Fee in FY 2010-2011 would be approximately \$8,132,307, or one-half of the annual estimated total revenues from the proposed Fee of \$16,264,614.

## POLICY CONSIDERATIONS

### Treasurer-Tax Collector Methods of Collection

Ms. Shah advises that the calculation of Fee administration expenditures as provided by TTX assumes that TTX will (a) rely on self-reporting from those businesses required to pay the proposed Fee and (b) primarily collect the proposed Fee from alcohol wholesalers who sell alcohol in San Francisco, since the proposed ordinance permits the assessment of the Fee at only one time on each ounce of alcohol sold in San Francisco, and assessment of the Fee at the wholesaler level will involve the lowest enforcement and investigation costs to be incurred by TTX for administration of the proposed Fee. Ms. Shah advises that the proposed Fee would be collected quarterly by the TTX based on businesses responses to questions to be incorporated into the City's standard Business Tax forms. According to Ms. Shah, should significant collections efforts and follow up be required between the TTX and alcohol wholesalers, manufacturers or other persons, then the TTX may need to increase expenditures for administration of the proposed Fee.

### Fee per alcoholic beverage

The proposed Fee would be \$0.076 per fluid ounce of alcohol sold in San Francisco. However, because different types of alcoholic beverages contain different amounts of alcohol, the actual proposed Fee per type of alcoholic beverage would vary based on the average amount of alcohol contained in different types of alcoholic beverages. For example, because a 12-ounce bottle of beer contains approximately 0.6 fluid ounces of alcohol, the actual Fee for a single 12-ounce bottle of beer would be approximately \$0.05 (\$0.076 proposed Fee per fluid ounce of alcohol x 0.6 fluid ounces) under the proposed ordinance.

The Lewin Group Nexus Study provided estimates of the actual Fees that could be imposed for many types of alcoholic beverages, based on the Lewin Group's calculated estimated Fee of \$.0847 per fluid ounce of alcohol sold in San Francisco. Using the estimates provided in the Lewin Group Nexus Study, the Budget and Legislative Analyst recalculated the actual Fees for several major types of alcoholic beverages in Table 3 below using the proposed Fee of \$.076 per fluid ounce of alcohol that is included in the proposed ordinance.

**Table 3: Proposed Fee per Type of Alcoholic Beverage**

Alcoholic Beverages	Proposed Fee per item
12 ounce bottle of beer	\$0.05
12-pack of 12-ounce bottles of beer	\$0.54
Keg of beer (1/2 barrel, 15.5 gallons)	\$7.54
750 mL bottle of wine (standard size)	\$0.23
Case of 12 – 750 mL bottles of wine	\$2.80
1.75 L bottle of distilled spirits	\$1.79
750 mL bottle of distilled spirits	\$0.77

#### Nexus Study as Fee Basis

As previously stated, the proposed Fee is based on the Lewin Group Nexus Study, and the proposed Fee would be adjusted by the Controller every two years based on the calculation of unreimbursed alcohol-attributable costs included in this Nexus Study or future nexus studies which would be conducted every five years after approval of the proposed ordinance. If, for instance, the Controller determined that any of the City's expenditures for which the proposed Fee provides reimbursement had changed, then the Controller would be able to adjust the proposed Fee accordingly to ensure that these expenditures were appropriately reimbursed to the City. Under the proposed ordinance, such an increase or decrease in the Fee, as determined by the Controller, would not be subject to further approval by the Board of Supervisors.

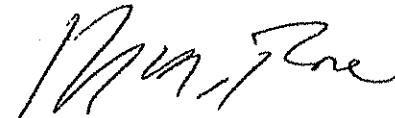
However, expanding or reducing the scope of costs reimbursed by the proposed Fee beyond that which is included in the current Lewin Group Nexus Study, and therefore including additional costs or less costs, would require future amendments to the proposed ordinance which would be subject to approval of the Board of Supervisors.

#### Comment

As noted on page 1 of Attachment I, "Each year the City and County of San Francisco incurs costs resulting from alcohol use. These include the costs of providing medical care for people with alcohol-related illness, treatment and prevention costs, costs to the law enforcement system, costs resulting from alcohol-related motor vehicle crashes and other injuries, and the indirect costs associated with disability and diminished capacity." While imposition of this proposed Fee is not intended to reduce alcohol consumption, it would provide a stream of funding to pay for a portion of the alcohol-attributable unreimbursed costs incurred by the City.

**RECOMMENDATION**

Approval of the proposed ordinance is a policy matter for the Board of Supervisors.



Harvey M. Rose

cc: Supervisor Avalos  
Supervisor Mirkarimi  
Supervisor Elsbernd  
President Chiu  
Supervisor Alioto-Pier  
Supervisor Campos  
Supervisor Chu  
Supervisor Daly  
Supervisor Dufty  
Supervisor Mar  
Supervisor Maxwell  
Clerk of the Board  
Cheryl Adams  
Controller  
Greg Wagner



## I. Executive Summary

Each year, the City and County of San Francisco incurs costs resulting from alcohol use. These include the costs of providing medical care for people with alcohol-related illness, treatment and prevention costs, costs to the law enforcement system, costs resulting from alcohol-related motor vehicle crashes and other injuries, and the indirect costs associated with disability and diminished capacity.

The purpose of this study is to estimate a portion of the health-related economic costs of the measureable, direct effects of alcohol consumption to the City and County of San Francisco. These estimates will be used by the City<sup>1</sup> to assess the public health impact of alcohol and inform policy surrounding an alcohol mitigation fee. There are two major components of this study:

- **Cost Analysis:** Using data collected from City, State and national data sources, we compute the costs of alcohol use to the City, including costs of City-funded alcohol treatment facilities, direct medical costs at City-operated health care facilities, and City-paid fire and ambulance response to alcohol-related medical emergencies.
- **Fee Calculation:** Using alcohol consumption data from the National Institute on Alcohol Abuse and Alcoholism (NIAAA) and population estimates from the U.S. Census Bureau, we estimate the aggregate number of alcoholic drinks consumed in the City. We use this estimate to calculate a maximum fee per alcoholic drink (and an equivalent fee per fluid ounce of alcohol) which recovers a portion of the City's total alcohol-attributable costs.

Analyses are supported by a literature review and environmental scan, included as Appendix C.

Working closely with experts from various government agencies, we (1) identified sources for alcohol-related costs within City boundaries, (2) gathered multiple years' worth of administrative data, and (3) conducted comprehensive cost analyses to estimate alcohol-attributed costs borne by the City in Fiscal Year (FY) 2009-10. Data from FY2007 to FY2010 were used to estimate the current costs and validate the stability of costs over time. Several potential cost categories were not included at this time.

Final estimates are based on either FY2008-09 actual or FY2009-10 budgeted cost. We inflated FY2008-09 cost to FY2009-10 dollars using the same Consumer Price Index (CPI) the City used for the FY2009-10 budget. For direct medical costs, we used the Medical Care CPI for San Francisco reported by the CA Department of Finance Economic Research Unit, which was 3.1% between FY2008-09 and FY2009-10.<sup>2</sup>

We found that alcohol use created an economic burden to the City. Specifically, we identified \$17.7 million in unreimbursed alcohol attributable costs borne by the City. As presented in Exhibit I-1, the costs are categorized into programmatic and overhead costs. All of the programmatic cost items have a strong connection with alcohol use and high data accuracy, meaning that alcohol-

<sup>1</sup> "City" refers in this report to the City and County of San Francisco.

<sup>2</sup> California Department of Finance. Consumer Price Index Forecast April 2010. Available at: [http://www.dof.ca.gov/HTML/FS\\_DATA/LatestEconData/FS\\_Forecasts.htm](http://www.dof.ca.gov/HTML/FS_DATA/LatestEconData/FS_Forecasts.htm). Accessed April 2010.

related incidence was accurately identified and attributed. These costs were not reimbursed or mitigated by any party and were ultimately paid by the City.

Costs are likely to be under-estimated since we used conservative assumptions throughout the study. For example, only primary diagnoses were used to identify alcohol-related health care services provided by the San Francisco General Hospital and Emergency Medical Services, while cases only indicated by secondary diagnoses were excluded at this time. In addition, non-health care costs - such as alcohol-related costs of criminal justice, child protection, and policing and law enforcement - were not included.

Exhibit I-1. Summary of Alcohol-Attributable Unreimbursed Costs to the City and County of San Francisco in FY 2009-10

Service	Programmatic Costs	Program Overhead Costs	All Costs Combined
Sobering Center	\$943,628	\$86,531	\$1,030,159
Mobile Assistance Patrol (MAP) Van Service	\$111,938	\$11,004	\$122,942
Community Substance Abuse Services (CSAS) - Direct Treatment Costs	\$6,596,111	\$648,429	\$7,244,540
Community Substance Abuse Services (CSAS) - Prevention Services	\$2,640,752	\$259,599	\$2,900,351
SF General Hospital Services	\$1,814,842	NA <sup>a</sup>	\$1,814,842
Jail Health Medical Detoxification	\$534,193	\$45,460	\$579,653
Costs for EMS Transports to Destinations Other Than the Sobering Center	\$2,927,237	NA <sup>a</sup>	\$2,927,237
Costs for EMS Transports to the Sobering Center	\$1,044,428	NA <sup>a</sup>	\$1,044,428
<b>TOTAL</b>	<b>\$16,613,129</b>	<b>\$1,051,023</b>	<b>\$17,664,152</b>

<sup>a</sup> For the SF General Hospital and Fire Department, overhead costs included in the programmatic cost estimates.

Our study concludes that the City may annually recover alcohol-attributable costs up to \$18,126,494: \$17,664,162 in unreimbursed annual costs that are attributable to alcohol consumption plus an additional estimated \$462,332 in annual administrative costs. We divided this cost by the estimated number of drinks consumed in the City in 2009. We first estimated the number of alcoholic drinks consumed annually in the state of California on a per capita basis using per capita alcohol consumption data from the National Institute on Alcohol Abuse and Alcoholism (NIAAA). The NIAAA's AEDS estimates per capita alcohol consumption for the state of California to be 2.34 gallons in 2007, with 1.07 gallons being consumed in the form of beer, 0.55 in wine, and 0.72 in distilled spirits. Assuming that a standard drink contains a 0.6 fl oz serving size of alcohol, a reference amount corresponding to standard serving sizes of 12 fl oz for beer, 5 fl oz for wine and 1.5 fl oz for distilled spirits, we estimated per capita consumption among the drinking age population residing in the state of California in 2007 to be approximately 499 drinks (or roughly 228 beers, 117 wines and 154 distilled spirits).

Using data from the U.S. Census Bureau, we estimated the size of the target population residing in the City in 2009 to be 714,818 (87.7% of the total population). We multiplied this figure by the

*San Francisco Alcohol Mitigation Fee*

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estimated number of drinks consumed annually by each drinking-aged person in the state of California. This yielded an estimate of 356,837,146 alcoholic drinks consumed in the City in 2009. Using this estimate, we calculated that the City's total alcohol-attributable costs could be recovered through a maximum permissible fee of \$0.0508 per alcoholic drink, or equivalently, a maximum permissible fee of \$0.0847 per fluid ounce of alcohol.

Exhibit III-1. Summary of Alcohol-Attributable Costs Borne by San Francisco City Government, FY2009-10

Service	Programmatic Costs	Program Overhead Costs	Total Attributed	Methods / Limitation
Sobering Center served 1,639 clients in FY 2008-09	\$943,628	\$86,531	\$1,030,159	The Sobering Center's total budget was \$1,688,093 in FY2008-2009. From this we subtracted \$744,465 covered by Federal funding (Housing and Urban Health (H)U) managed Chronic Alcoholic Grant). The remainder is 100% attributed to alcohol.
Mobile Assistance Patrol (MAP) van service. MAP Van provided 17,132 transports in FY2008-09	\$111,938	\$11,004	\$122,942	The total contracted budget for MAP was \$781,466. The destination of 14.3% of transports was the Sobering Center, and 100% of transports to the Sobering Center are attributed to alcohol. Thus, 14.3% of the total MAP service costs are attributed to alcohol.
Community Substance Abuse Services (CSAS) - SA treatment costs - general fund contracts provided SA treatment for 5,342 Clients in FY 2008-09.	\$6,596,111	\$648,429	\$7,244,540	Clients in the CSAS system can be treated for drugs, alcohol, or both. Based on analyses of all treatment episodes in FY2007-08, FY2008-09, and the first six months during FY 2009-10, we estimated that 35% of direct treatment costs are related to alcohol. Thus, we used an Alcohol Attributable Fraction (AAF) of 35% for these costs. This cost category includes only costs for direct treatment. Prevention costs for the general fund contract budget are listed as a separate item.
Community Substance Abuse Services (CSAS) - other intervention costs - This includes early prevention, prevention and other ancillary services	\$2,640,752	\$259,599	\$2,900,351	We applied the same AAF (35%) calculated above. The itemized budget for FY2009-10 and the budget for previous years come from the Financial Accounting & Management Information System.
Unreimbursed SF General Hospital ER, psych ER, inpatient, and outpatient FY2008-09 costs for accounts with alcohol-attributable diagnoses listed as the primary diagnosis.	\$1,814,842	NA <sup>a</sup>	\$1,814,842	AAF's allocated to specific diagnoses by a CDC scientific workgroup were used to estimate the share of unreimbursed costs attributable to alcohol. Episodes of care (ED visits, inpatient days and outpatient visits) with primary diagnoses included in the list of alcohol-attributable diagnoses in Appendix A were selected and the total cost, and total received payments were summed across episodes for each diagnosis. The unpaid amount was derived by the difference between cost (estimated based on Medicaid cost reports) and reimbursed amounts (including payments from private or public insurance, including capitation, individuals, State fund realignment funding, and Healthy SF Employer Fees). The AAF for the specific primary diagnosis was then applied to the unpaid amount to derive the unpaid cost covered by the City.

Service	Programmatic Costs	Program Overhead Costs	Total Attributed	Methods / Limitation
Jail Health provides medical triage and detoxification checks for 7,395 inmates brought to detox cells	\$534,193	\$45,460	\$579,653	Cost estimates were based on work performed by RNs at current step 5 wage/fringe rates plus medication costs. Overhead and nurse manager wage were not included. Cost is specific to inmates put in alcohol detox cells for alcohol-related problems. To be conservative we attributed 95% of costs to alcohol.
Unreimbursed costs for EMS transports for clients with alcohol-attributable primary diagnoses. In FY2008-09, there were 2,303 alcohol-related transports.	\$2,927,237	NA <sup>a</sup>	\$2,927,237	Staff in the billing company studied the ICD-9 codes on patient care records (PCR) for FY2008-09 and identified all encounters in which alcohol or alcohol-related conditions were the primary diagnosis. Injuries were also identified but the cause of injury was unknown. Unpaid amount was derived by excluding the collected amount from the total charges. The Fire Department EMS division only provides about 80% of the ambulance service to the City; the other 20% are provided by private providers (contractors). The unpaid charges experienced by them are not included in this estimate.
Unreimbursed Costs for EMS Transports to Sobering Center in FY2008-09 totaled \$1,051, with total charges of \$1.3 million.	\$1,044,428	NA <sup>a</sup>	\$1,044,428	100% is attributed to alcohol. Only 6% of \$1.3 million in total charges was reimbursed by clients.
<b>TOTAL</b>	<b>\$16,613,129</b>	<b>\$1,051,023</b>	<b>\$17,664,152</b>	

<sup>a</sup> Overhead costs are included in the programmatic cost estimates.

separately because while there is strong justification for including overhead, the allocation of fixed overhead to particular activities by its very nature is imprecise. City-wide overhead cost is not included in this study.

#### E. Cost Estimates are Conservative

We have taken a conservative approach to cost estimation. Several costs which have a strong conceptual link to alcohol use have been excluded from this study at this time, largely due to the fact that we could not confidently and accurately measure these categories of costs. Our methodology also uses conservative estimates of alcohol attribution factors, which leads to lower cost estimates.

First, non-health care costs of alcohol use such as alcohol-related costs of criminal justice, child protection, and policing and law enforcement are currently outside the scope of this study. These costs have been included in other studies that address the societal costs of alcohol use.<sup>14</sup>

Second, we excluded the costs of alcohol-related homelessness from our study at this time. Several studies found that alcohol and drug use collectively increase the risk of returning to homelessness after housing placement by up to 32%.<sup>15</sup> Many studies have shown a relationship between alcoholism and homelessness both as a contributing cause to homelessness and an effect of homelessness. In addition, many studies have shown that there are considerable local healthcare costs that directly result from serving homeless people with alcohol disorders. But given the multi-factorial causes of homelessness, it is difficult to separate the specific fraction of overall alcohol attributable homelessness costs for local government. Hence, we did not attribute homeless outreach program costs to alcohol at this time, even though homelessness is a recognized and costly public health concern and there is general agreement among professionals that homelessness is linked to alcohol use. Through further investigation and consolidation of various studies, the City may estimate these costs in the future.

Third, we exclude costs when alcohol and drugs jointly contributed to problems borne by City and we currently lack data that would allow us to apportion the costs. This resulted in the exclusion of costs to the Sheriff's Department related to processing, monitoring and managing inmates suffering from drug and alcohol problems. We also excluded costs borne by the City to support chronic inebriates housed in Crestwood Stevenson. Crestwood is a locked facility that provides care for individuals with alcohol-related disorders. In FY2009-10 the City paid a total of \$60,000 to support individuals in this facility. However, while the individuals supported by the City had alcohol-related conditions, most also suffered from conditions that were not necessarily alcohol related and we lacked both the data and a reliable methodology to allocate costs to alcohol alone. All Crestwood Stevenson costs were excluded from this study at this time.

<sup>14</sup> Rosen SM, Miller TR, Simon M. (2008). The cost of alcohol in California. *Alcohol Clin Exp Res.* 32 (11): 925-1936  
Harwood H, Fountain D, Livermore G (1998) The Economic Costs of Alcohol and Drug Abuse in the United States, 1992. NIH Publication No. 98-4327. Department of Human Health Services, Rockville, MD.

Miller TR, Levy DT, Cohen MA, Cox KLC (2006a) Costs of alcohol and drug-involved crime *Prev Sci* 7:333-342.

<sup>15</sup> Foldfinger SM, Shutt RK, Tolomiczenko GS, Seidman L, Turer W, and Caplan B. (1999). Housing placement and subsequent days homeless among formerly homeless adults with mental illness. *Psych. Svc.* 50(5): 674-9.

Fourth, there is evidence that the AAFs that are calculated in the CDC ARDI system, and used in this study, are conservative. In 2006, the CDC's Behavioral Risk Factor Surveillance Survey state estimate of per capita alcohol consumption in California was only 31% of consumption based on state alcohol sales data.<sup>16</sup> The effect of not adjusting for survey underreporting of alcohol consumption can be quite large, potentially resulting in estimates of alcohol burden that are low, i.e., only one-third to one-half of what would be found if such adjustments were made.<sup>17</sup> What this means is that the AAFs used in ARDI, and as they were utilized in this report, are highly likely to produce estimates of alcohol-related burdens of disease that are quite conservative.

Finally, only primary diagnoses were used to identify alcohol-related health care services provided by SF General Hospital and Fire Department BMS. Cases only indicated by secondary alcohol diagnoses were excluded at this time.

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<sup>16</sup> Nelson DE, Naimi TS, Brewer RD, et al. U.S. state alcohol state alcohol sales compared to survey data, 1993-2006. *Addiction*. (in press).

<sup>17</sup> Rey G, Boniol M, Jouglia E. Estimating the number of alcohol-attributable deaths: methodological issues and illustration with French data for 2006. *Addiction*. 2010; 105:1018-1029.

Treasurer/Tax Collector		Administrative Expenses for the Alcohol Mitigation Fee		FY 2010-2011			
YEAR ONE	Personnel Cost	Class	Job Title	FTE	Salaries	Total Cost	Explanation
			Based on 7400 accounts				
		1823	Senior Admin Analyst	1.00	95,654		Management of hearings, initial Set up of entire process, which will require two forms - Distributors and Non-Distributors, Project Management of web development and information development for customers and training of staff
		1632	Senior Account Clerk	0.25	14,751		Account reconciliation of all payments
		4308	Senior Collections Officer	0.25	16,454		Collections on delinquent accounts
		4222	Senior Personal Property Auditor	0.25	23,293		Reviews appeals, conducts audits
		4335	Investigator	1.00	93,170		Business reviews of procurement to ensure that sole mechanism is distributor as well as review to ensure that purchases outside of county borders are reflected
			Subtotal Permanent Salaries			\$ 243,322	
12-16			Fringe Benefits (33% of perm salaries)			\$ 80,296	
			Temp salaries			\$ 25,000	Support initial round of inquiry for first year of roll out of the fee; Managing all exemption processing and data mapping issues; cleaning out data if Distributors exempt out of selling in SF.
			<b>Total Personnel Cost</b>			<b>\$ 348,618</b>	
		020	Overhead @ 15.97% of Salaries & Fringes			\$ 55,674	
			<b>Non-Personnel Cost</b>				
		027	Professional Services - one time		30,000		
		049	Online Form Setup - one time		14,000		
		040	Mailing		14,040		
			<b>Total Non-Personnel Cost</b>			<b>58,040</b>	
			<b>TOTAL</b>			<b>\$ 462,332</b>	



Office of the Treasurer & Tax Collector						
Workorder for the Alcohol Mitgation Fee						
FY 2010-2011						
4-Aug-10						
Based on 4000 accounts						
YEAR ONE						
Personnel Cost						
	Class	Job Title	Fte	Salaries	Total Cost	Explanation
	1823	Sr. Admin Analyst	1.00	91,338		Management of hearings, initial Set up of entire process, which will require two forms - Distributors and Non-Distributors, Project Mangement of web development and information development for customers and training of staff
	1632	Senior Account Clerk	0.25	14,014		Account reconcillitation of all payments
	4308	Senior Coll Officer	0.25	15,646		Collections on delinquent accounts
	4222	Sr Personal Prop Auditor	0.50	44,980		Reviews appeals, conducts audits
		Total Salaries		\$ 165,978		
	013-019	Fringe Benefits		\$ 66,391		
		Temp salaries		\$ 25,000		Support initial round of inquiry for first year of roll out of the fee; Managing all exemption processing and data mapping issues; cleaning out data if Distributors exempt out of selling in SF.
	Total Personnel Cost				\$ 257,369	
	020	Overhead @ 15.97% of Salaries & Fringes			\$ 41,102	
Non-Personnel Cost						
	02700	Professional Services - one time		30,000		
	04931	Online Form Setup - one time		14,000		
	04000	Mailing		72,000	116,000	
					\$ 414,470	

No adjustment for tourists  
 Baseline Consumption by Ethanol Content  
 2007 CA annual per capita ethanol consumption (in gallons), Ages 14+  
 2009 SF population estimate, Ages 15+  
 2009 SF annual alcoholic beverage consumption (in ounces)

Beer	Wine	Distilled Spirits	All Beverages
1.07	0.55	0.72	2.34
714,818.00			
97,901,473.28	50,323,187.20	65,877,626.88	214,102,287.36
			\$17,664,162
			\$414,470
			\$18,078,632
			0.90
			\$16,270,769
			\$0.0760
			\$ 0.44
			\$ 1.25
			\$ 4.00

Alcohol Attributable Costs  
 Administrative Costs  
 Total Costs  
 Percent Recovery  
 Adjusted Costs  
 Maximum permissible mitigation fee per gallon of ethanol  
 Fee per gallon of beer  
 Fee per gallon of wine  
 Fee per gallon of spirits

With 25% adjustment for tourists  
 Baseline Consumption by Ethanol Content  
 2007 CA annual per capita ethanol consumption (in gallons), Ages 14+  
 2009 SF population estimate, Ages 15+  
 2009 SF annual alcoholic beverage consumption (in ounces)  
 With 25% adjustment for tourists

Beer	Wine	Distilled Spirits	All Beverages
1.07	0.55	0.72	2.34
714,818.00			
97,901,473.28	50,323,187.20	65,877,626.88	214,102,287.36
			267627859.2

Alcohol Attributable Costs  
 Administrative Costs  
 Total Costs  
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 Maximum permissible mitigation fee per ounce of ethanol  
 Fee per gallon of beer  
 Fee per gallon of wine  
 Fee per gallon of spirits

			\$17,664,162
			\$414,470
			\$18,078,632
			0.90
			\$16,270,769
			\$0.0608
			\$ 0.35
			\$ 1.00
			\$ 3.20



SMALL BUSINESS COMMISSION  
OFFICE OF SMALL BUSINESS



CITY AND COUNTY OF SAN FRANCISCO  
GAVIN NEWSOM, MAYOR

August 30, 2010

Ms. Angela Calvillo, Clerk of the Board  
Board of Supervisors  
City Hall Room 244  
1 Carlton B. Goodlett Place  
San Francisco, CA 94102-4694

Re: Board of Supervisors File No. 100865 [Establishing an Alcohol Mitigation Fee]

Small Business Commission Recommendation: **Do not approve**

Dear Ms. Calvillo:

On August 9, 2010, the Small Business Commission held a hearing on Board of Supervisors File No. 100865 and recommended that the Board of Supervisors not approve this ordinance.

The intent of this ordinance, according to the legislation's chief proponent, the Marin Institute, is to "ensure alcohol wholesalers and importers- not bars, restaurants, or retailers- will pay their fair share to mitigate the tremendous economic costs of alcohol harm in San Francisco."<sup>1</sup> The Marin Institute also claimed that it was "judicious" to think that consumers will be less likely to purchase alcohol if the fee is implemented.<sup>2</sup> These premises were used in part to justify the introduction of this ordinance and both were subsequently discredited by the Controller's Office in the ordinance's Economic Impact Report. The impact of this fee will in fact be shifted directly to small businesses and their customers, and the effect of reduced consumer spending will be significant. Rather than acknowledging these real implications to small businesses, proponents have pitted San Francisco small businesses against important social programs.

#### **Nexus Study and Equitability**

While this ordinance proposes cost recovery for unreimbursed alcohol related costs that the City incurs, the fee does not take steps to mitigate alcohol related costs to the City. Furthermore, the collection of this fee will provide dedicated funding to programs which largely serve the City's well known chronic inebriant population, which may disincentivize the City from finding real solutions to address the significant costs incurred by these approximately 300 or less persons. The report failed to work with service providers to identify the types of alcohol consumed by persons in targeted programs and services, prohibiting the City from targeting the alcohol most responsible for these costs. Therefore, if passed, this fee will not equitably "charge for harm" and will instead target a broad range of responsible consumers, including visitors from other cities who contribute to our vibrant and economically significant nightlife and restaurant industries. Additionally, this fee disproportionately impacts working class and low income responsible drinkers.

1. Marin Institute (July 12, 2010). "Charge for Harm' Alcohol Mitigation Fee Deserves San Francisco Small Business Support. Press release.
2. Townsend, Tess (August 5, 2010). "Raise a Glass, Raise Tax Revenue," *The Bay Citizen*

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1 DR. CARLTON B. GOODLETT PLACE, ROOM 110 SAN FRANCISCO, CALIFORNIA 94102-4681  
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### Loss of Business and Controller Projections

Since this fee is only being charged for alcohol sold in San Francisco, it further increases the competitive disadvantage that San Francisco small businesses already face. The Controller's Office confirms this by stating in the updated Economic Impact Report that since local consumers can more easily shop at non-San Francisco establishments that are not subject to the fee, the reduction in consumption in San Francisco may be greater than projected. Not taking the above into consideration, the projected average loss in spending per alcohol retailer is already significant.

832 Off Sale Licenses<sup>1</sup>

\$9.3 Million loss of spending<sup>2</sup>

= \$11,177 average per business

(Since spirits are majority of loss of sales, liquor stores will be disproportionately affected.)

2,744 On Sale Licenses<sup>1</sup>

\$4.3 Million loss of spending<sup>2</sup>

= \$1,567 average per business

(Since spirits are a majority of loss of sales, bars and restaurants with type 47 and 48 licenses will be disproportionately affected.)

*These numbers do not include any markup and additional factors that the SBC has identified, detailed below.*

While the SBC believes that the projections used by the Controller's Office are structurally sound, those projections, including loss of sales and job losses, assume that the fee will be passed on to consumers at the same rate collected by the City. Wholesalers and distributors have confirmed that a markup will be added to the fee, which increase the fee by an additional 10 to 20%. In addition, various business sectors that resell or produce and/ or distribute alcoholic beverages face additional factors that will affect the end consumer cost and economic impact. These factors may skew a number of the Controller's projections, including the severity of business losses resulting from drops in consumer spending and the loss of private sector jobs, which will no longer be offset by the increase or retention of public sector employment.

### On Sale Retailers

- The Economic Impact Report assumes that beers sold are 12 ounce servings. A significant amount of beer sold in bars and restaurants are in 16 ounce pint glasses. The calculation for the on-sale portion of the Economic Analysis may not be an accurate representation of the fee price and related calculations as it relates to consumer cost and elasticity.

1. California ABC license query August 9, 2010.

2. San Francisco Controllers Office. *Economic Impact Report for BOS File No. 100865*, Ted Egan. August 9, 2010. Page 7.

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- The California Board of Equalization has established guidelines to account for spillage and spoilage of beer, wine and spirits when reviewing sales tax revenue calculations. The recovery fee for spilled and spoiled product will need to be spread among the revenue generating alcoholic beverages sold to consumers. This amount is approximately 10%.
- While retail off-sale outlets can increase their prices incrementally to reflect the actual increase in cost of goods, a significant majority of on-sale and bars restaurants use \$.25 and \$1.00 price points. Resellers will either absorb the price increase or raise their prices in excess of the increase and risk a higher reduction in demand and elasticity.
- Sales tax adds 9.5% to the price of this fee. Bars include the sales tax price in the price they advertise to customers. Also, credit card fees add approximately 3% to the fee, when applicable.

San Francisco restaurants are operating at very slim profit margins. According to the Golden Gate Restaurant Association, the average pre-tax profit margin in San Francisco restaurants is 2.8%.

#### Off Sale Retailers

- Formula retailers will have a significant advantage over local small businesses. These large vendors will be able to spread the increase in alcohol over thousands of products and among dozens of stores in the bay area to keep San Francisco alcohol prices down. Consumers will recognize this price difference and shift spending towards these chain retailers.

#### Microbreweries and Small Wineries

- Consumers will typically shift their beer spending towards lower price products, confirmed in the elasticity models in the Economic Impact Report. This has the potential to disproportionately hurt the local, small business craft breweries. It may also put San Francisco and other craft brews out of reach of low and moderate income consumers.
- Small wineries and breweries outside of San Francisco, who self distribute, may choose to no longer distribute in San Francisco. Costs of distributing inside San Francisco are already greater due to tolls, parking and other factors. Winemakers and craft breweries seeking to break into the San Francisco market may instead concentrate their efforts elsewhere.
- San Francisco and Bay Area craft brewers and wineries rely on sales of their product in San Francisco to establish and build their brand. This fee will discourage and hinder their growth in this important market and encourage homogenisation as large multi-national alcohol companies leverage their scale and marketing resources to push their own "craft brews" to consumers. This contrasts the direction that the City is moving to in areas such as shop local, farmers markets, and the slow food movement.
- The Small Business Assistance Center has worked with several clients who are proposing to open wineries in the City of San Francisco, partly due to the recent Eastern Neighborhoods

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zoning changes. Increased costs of doing businesses in their proposed home City may result in these job producing businesses opening in other nearby cities.

**Cost Containment**

The Nexus Study states that there are a number of additional unreimbursed expenses that are not included in this ordinance. The SBC is concerned that in five years, the services that this fee provides cost recovery for, including existing and new programs, may result in the fee being significantly increased by the Board of Supervisors. Medical and programmatic cost increases for these programs may outpace inflation and further burden small businesses, should the Board increase the fee following the next Nexus Study in five years. Lastly, the fee itself has the potential to increase significantly should alcohol consumption projections fall short or consumer spending habits in San Francisco change. This would not require approval by the Board of Supervisors, as the Controller's Office will bi-annually adjust the current fee amount to meet the revenue goals of the ordinance.

**Ordinance Time Frame**

This proposed ordinance has been studied at the local level since June of 2009. Regrettably, the Small Business Commission only became involved in reviewing the ordinance upon referral at the end of June 2010. While the SBC respects that Supervisor Avalos is under a strict time frame to pass this ordinance due to the November election, had the SBC been brought in as a stakeholder from the beginning, the opportunity for collaboration may have allowed for many of our concerns to be addressed in the Nexus Study and for a more equitable ordinance to be before the Board of Supervisors. The small business community shares concerns over both the social and individual impacts of chronic inebriation and we are willing to work with the City to identify solutions that address this important issue in a manner that does not target the broad population of responsible drinkers to address an issue largely limited to a small subset of the population and will not have a significant negative impact to a large number of small businesses.

The Commission thanks Supervisor Avalos and his staff for their informational presentations and work to keep the Commission informed over the past two months. The Commission also thanks Ted Egan of the Controllers Office for his continued support to keep the SBC informed on the economic impact of this and other ordinances. Lastly, the Commission thanks the hundreds of businesses as well as the Marin Institute and other organizations that have provided commissioners with important feedback on this ordinance.

Sincerely,

Regina Dick-Endrizzi  
Director, Office of Small Business

cc. Members of the Board of Supervisors  
Starr Terrell, Mayors Office

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(415) 554-6408



**File No. 100865 [Establishing an Alcohol Cost Recovery Fee] SBC Response**  
Chris Schulman to: Angela Calvillo 09/01/2010 03:37 PM  
Eric L. Mar, Michela Alioto-Pier, David Chiu, Carmen Chu, Ross  
Cc: Mirkarimi, Chris Daly, Sean Elsbernd, Bevan Dufty, David Campos,  
Sophie Maxwell, John Avalos, Starr Terrell, Regina Dick-Endrizzi  
This message is digitally signed.

---

History: This message has been replied to.

---

Angela,

Attached is the revised SBC response to BOS File No. 100865 [Establishing an Alcohol Cost Recovery Fee].

The Commission is recommending that the Board of Supervisors not approve this ordinance.

Regards,

Chris Schulman  
Senior Policy Analyst / Commission Secretary  
Office of Small Business  
City Hall, Room 110  
1 Dr. Carlton B. Goodlett Place  
San Francisco, CA 94102

Phone: 415.554-6408  
Fax: 415.558-7844



100865\_SBC legislative response\_3.pdf



SMALL BUSINESS COMMISSION  
OFFICE OF SMALL BUSINESS



CITY AND COUNTY OF SAN FRANCISCO  
GAVIN NEWSOM, MAYOR

August 3, 2010

Ms. Angela Calvillo, Clerk of the Board  
Board of Supervisors  
City Hall room 244  
1 Carlton B. Goodlett Place  
San Francisco, CA 94102-4694

**Re: File Board of Supervisors File No. 100865 [Establishing an Alcohol Mitigation Fee]**

Small Business Commission Recommendation: No formal position at this time.

Dear Ms. Calvillo:

On July 12, 2010, the Small Business Commission held a hearing on Board of Supervisors File No. 100865. The Commission followed up with a Legislation and Policy Committee meeting on August 2.

The Commission will be making formal recommendations to the Board of Supervisors at our August 9, 2010 meeting; however Commissioners and members of the public have identified a number of substantive concerns regarding the proposed ordinance.

**Cost of Doing Business in San Francisco**

A primary concern continues to be that this fee, charged to wholesalers, will be passed on directly to retailers. ~~This will further increase the cost of doing business to San Francisco businesses, which is already higher than other cities in the Bay Area due to higher minimum wages, mandatory sick time, and health care requirements.~~ The competitive advantage gap continues to be widened and this proposed fee will further discourage the patronizing of San Francisco businesses, especially in the very important nightlife and restaurant industry. The Commission asks members of the Board of Supervisors to take the cumulative effect of all fees unique to San Francisco into account when considering this mitigation fee. Furthermore, fee increases and new revenue generating programs consistently target ground floor retail tenants.

The mitigation fees proponents argue that this fee is nominal and is targeting the alcohol industry and large wholesales. However, based on the low profit margins of alcohol retailers, the impact of the fee will be significant. In the off-sale retail sector, the Controllers Office economic impact report projects a reduction in consumer spending of \$3.9 million. With 831 active off-sale licenses, the average loss of income per business is almost \$4,700. With many businesses struggling to survive, this loss of income is significant.

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### **Nexus Study and Chronic Inebriation**

In reviewing the Nexus Study, commissioners have found that unreimbursed costs identified for recovery are largely a result of chronic inebriants. The Commission believes that spreading out this fee to the general population, including visitors and tourists from other cities, is not an equitable approach. The Commission has heard from bars, restaurants, microbreweries and wineries who state that their businesses are not contributing to the chronic inebriant problem. The Commission requests that the Controllers office work with service providers in the Nexus Study to identify the types of alcohol that their clients are consuming and that the fee target those types of alcoholic drinks. Furthermore, funds received through this fee will not take steps to address the underlying chronic inebriation problem. Rather than take steps to reduce the costs to the City through this problem, the City will have a dedicated source of funding which will reduce the incentive to address the chronic inebriation problem.

### **Controllers Report**

In reviewing the Controllers' Offices Economic Impact Report, Commissioners identified several concerns in the analysis. The assumption in the report is for the fee to be passed through to retailers at the exact amount assessed by the City at the wholesale level. It is likely however that the larger distributors will pass on overhead or add a standard markup to the fee. Smaller wholesalers, including local wineries and microbreweries will face increased administrative costs as well, which will need to be absorbed or passed through to retailers and consumers. The Bar and Restaurant industry also has pricing structures unique to their business sector. With price points set at either \$.25 or \$1.00 increments, bars and restaurants will either need to absorb the fee or raise their prices by larger increments than assumed, which will lead to a further decrease in consumer demand and spending. An additional impact unique to on-sale establishments is that a percentage of their product is lost to spillage and spoilage. Averaging 10%, the fee charged for this lost alcohol will have to be spread out among the alcohol actually consumed by customers. The Small Business Commission also recognizes that overall consumer spending will be reduced and reminds the Board of Supervisors that this will both impact unrelated businesses and will result in decreased sales tax revenue. Lastly, although large big box retailers may be able to shift this cost increase toward non-alcoholic products in order to keep their alcohol prices low, small businesses, with limited inventories will not be able to do this. This will result in formula retail big box stores having a competitive advantage over small businesses.

### **Cost Containment**

The legislation indicates that the Controllers office may recommend new categories of unreimbursed costs when the Nexus Study is updated. The Commission is very concerned that once implemented, the concept of a local unmitigated cost recover fee will spiral out of control. Over the years, this fee may further increase and will extend the competitive disadvantage for San Francisco businesses. The costs of these programs may also increase and additional programs can be added, knowing that in a few years these costs can be absorbed by the fee. Additionally, should the volume of alcohol consumed in the City be lower than estimated, the mitigation fee may be significantly raised, similar to the fee on cigarettes, which was recently raised by 65% only one year after being implemented.

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**State or Regional Approach**

The Small Business Commission's primary concern with this proposed alcohol mitigation fee is that it is only assessed at the local level. The legislation's primary proponent recently compared this fee to the recycling fee on bottles and cans, pointing out that this fee has not significantly impacted the alcohol and beverage industry. The Commission does not dispute this claim, however the SBC reminds the Board of Supervisors that this fee is charged on the state level. Commissioners feel that implementing this fee at the state or regional level is much more logical and will have less negative impact to San Francisco businesses. The Commission asks Supervisor Avalos, as a member of the Association of Bay Area Governments, to consider exploring this fee at a regional level and that this ordinance be amended to only take effect once similar ordinances are adopted by neighboring municipalities.

The Commission thanks the Office of Supervisor John Avalos, Ted Egan of the Controllers Office, David Augustine of the Treasurer and Tax Collectors Office for their continued efforts to keep the Commission informed on this legislation.

Sincerely,

Regina Dick-Endrizzi  
Director, Office of Small Business

cc. Supervisor Avalos  
Starr Terrell, Mayors Office  
Gail Johnson, Clerk of the Budget and Finance Committee

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(415) 554-6481

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: Planning Department  
Environmental Review Officer

FROM: Angela Calvillo, Clerk of the Board

DATE: July 6, 2010

SUBJECT: REFERRAL FROM BOARD OF SUPERVISORS  
Budget and Finance Committee

The Board of Supervisors Budget and Finance Committee has received the following, which is being referred to the Planning Department for determination as to whether the proposed fee increase will impact the environment.

**Please provide your findings within 10 days from the date of referral.**

File: 100865

Establishing an Alcohol Mitigation Fee

Please return this cover sheet with the Commission's response to Andrea Ausberry, Assistant Clerk, Budget and Finance.

cc: Nannie Turrell, Major Environmental Analysis  
Brett Bollinger, Major Environmental Analysis

\*\*\*\*\*

RESPONSE FROM PLANNING DEPARTMENT - Date: July 7, 2010

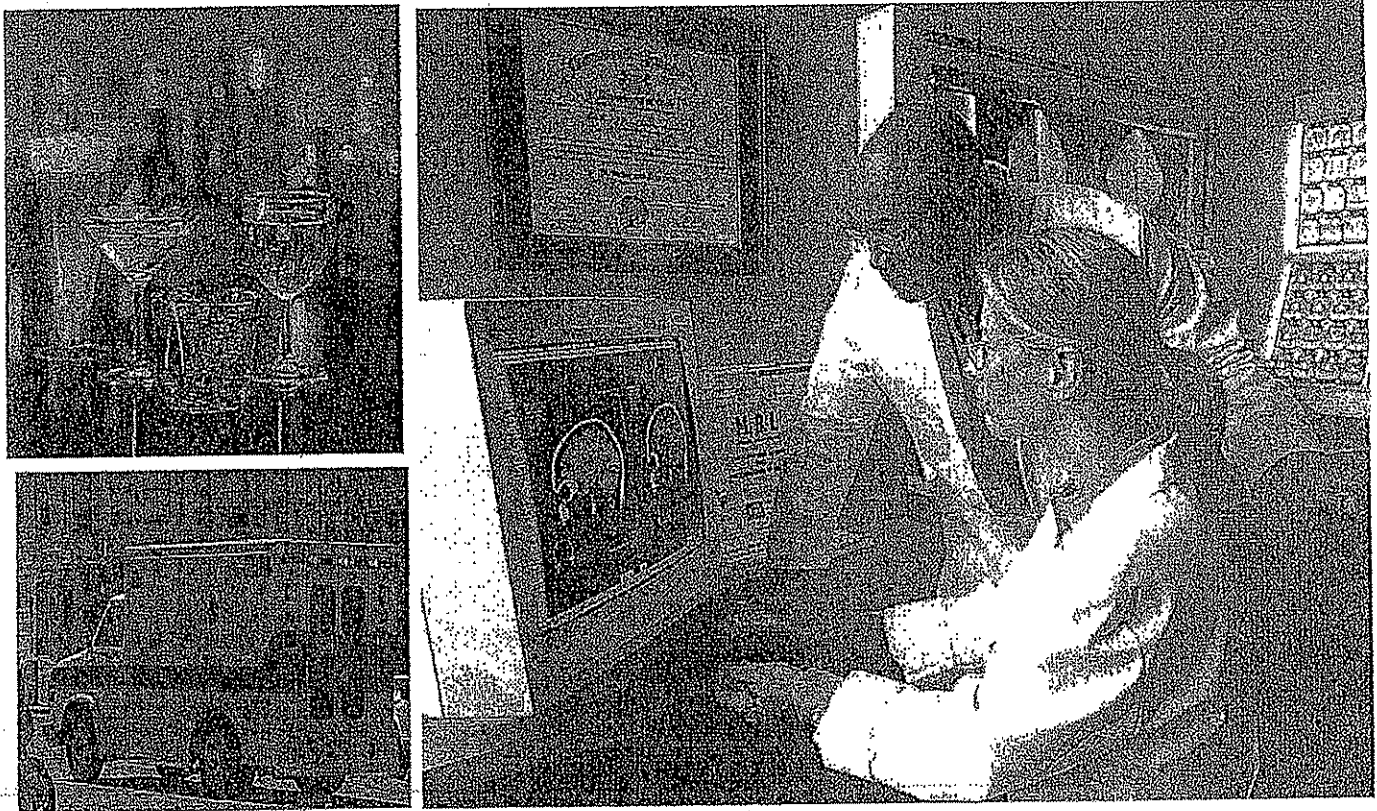
No Comment  
 Recommendation Attached

*Exempt from environmental  
review per CEQA Guidelines  
Section 15273, Rates,  
Fees, Fines and Charges.*

*Nannie Turrell for*  
Bill Wycko, Environmental Review Officer

2/27/08

\*



## The Cost of Alcohol to San Francisco: Analyses Supporting an Alcohol Mitigation Fee

*Prepared for:* City and County of San Francisco

*Submitted by:* The Lewin Group, Inc.

*June 30, 2010*

\* To view full document  
Request file # 100865

**The Cost of Alcohol to  
San Francisco:  
Analyses Supporting an Alcohol  
Mitigation Fee**

*Prepared for:*

**City and County of San Francisco**

*Submitted by:*

**The Lewin Group, Inc.**

*June 30, 2010*

## Acknowledgements

This Report benefitted from the comments and suggestions of the following experts and reviewers (listed alphabetically). We are grateful for the time and input they provided.

- Joshua Bamberger, MD, MPH; Medical Director, Housing and Urban Health; San Francisco Department of Public Health
- David E. Nelson MD, MPH, Director, Cancer Prevention Fellowship Program National Cancer Institute, National Institutes of Health
- Karl Sporer, MD; San Francisco Fire Department EMS Medical Director
- Roland Sturm, PhD; Senior Economist, RAND Corporation
- June M. Weintraub, ScD; Senior Epidemiologist, Environmental Health Section City and County of San Francisco Department of Public Health

## About the authors

**Carol J. Simon, PhD, MS** is Managing Director, Health and Human Services Consulting at The Lewin Group. Dr. Simon has over 25 years experience in the design and evaluation of health care policies. She has recently directed major projects for CMS, AHRQ, CDC, DHHS and State governments focusing on measuring efficiency and effectiveness in health care delivery, rationalizing regulation and payment policy, evaluating barriers to patient access, and assessing the burden of illness. She has published widely on these topics, with her work appearing in *Health Affairs*, *Health Services Research*, *The Journal of Health Economics*, *The Rand Journal*, *American Economic Review*, and has been cited in the *Wall Street Journal* and *New York Times*. Prior to joining the Lewin Group Dr. Simon was Associate Professor and Director of the Health Economics Program at Boston University, and held faculty appointments at the University of Chicago, UCLA and the University of Illinois. Dr. Simon holds a PhD in Economics from the University of Chicago, Graduate School of Business and a M.S. in Finance from M.I.T.

**Yiduo Zhang, PhD**, a Senior Consultant at The Lewin Group, Dr. Zhang has broad content knowledge and experience in the areas of population health measurements, modeling chronic diseases, and biostatistics. He has extensive experience in designing and implementing economic and evaluation studies in modeling health promotion interventions, such as health-related behaviors (e.g., obesity, smoking and binge drinking), diabetes and cardiovascular risks reduction, and disease management. He recently authored several papers in *American Journal of Health Promotion* quantifying the economic cost of obesity, smoking and alcohol misuse among beneficiaries covered by the Military Health System. Other recent work is published in *Health Affairs*, *Diabetes Care*, *American Journal of Managed Care*, *Medical Care*, and the *Population Health Management*. Dr. Zhang received a Doctor of Philosophy in Public Health/Demography and a Master in Health Science in Biostatistics from Johns Hopkins Bloomberg School of Public Health.

**John E. Schneider, PhD** is Director of Health Economics at Oxford Outcomes, Inc. in Morristown, NJ. He is adjunct faculty in the Department of Economics at Drew University and a Faculty Affiliate at the Nicolas Petris Center on Health Care Markets and Consumer Welfare at the University of California Berkeley. He is also a Faculty Affiliate of the Sloan Industry Studies Program and an Industry Leader in the Gerson Lehrman Group Health Care Council. Past positions include Assistant Professor in the Department of Health Management and Policy and the Department of Economics at the University of Iowa; Director of Research at the California Association of Health Plans (Sacramento, CA); and Research Analyst at the Center for Health Economics Research (Waltham, MA). Some of his research has been published in *Health Affairs*, *Inquiry*, *Health Services Research*, *Medical Care Research and Review*, *International Journal of Health Care Finance and Economics*, *Prevention Science*, and *Health Care Financing Review*. He is co-author of a recently published book, *The Business of Health* (AEI Press, 2006), and co-author of a chapter in the 15th edition of *Public Health and Preventive Medicine* (McGraw Hill, 2008).

**Alexis Doyle** is a research assistant to the U.S. Health Economics Division of Oxford Outcomes, Inc. She also works as a research assistant to the Chair of Drew University's Department of Economics and Business Studies. She previously worked as a research assistant for the Health Economics Consulting Group, where she contributed to various cost analyses, including an analysis of the costs of tobacco litter in San Francisco. She is a recent graduate of Drew University, where she received her degree in Economics, summa cum laude, and was the recipient of the 2009-2010 John D. Bosworth Scholarship and the 2010 Prize in Economics. She will be entering the doctoral program in Economics at the University of Massachusetts Amherst.

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Acronym	Definition
AAF	Alcohol Attributable Fractions
ARDI	Alcohol-Related Disease Impact System
CDC	Centers for Disease Control
CSAS	Community Substance Abuse Treatment Services
CPI	Consumer Price Index
ED	Emergency Department
EMS	Emergency Medical Services
FTE	Full-time Equivalent
HUH	Housing and Urban Health
HUD	U.S. Department of Housing and Urban Development
ICD-9	International Statistical Classification of Diseases and Related Health Problems 9th edition
MAP	Mobile Assistance Patrol
NIAAA	National Institute on Alcohol Abuse and Alcoholism
SA	Substance Abuse
SAMHSA	Substance Abuse and Mental Health Services Administration
WHO	World Health Organization

## I. Executive Summary

Each year, the City and County of San Francisco incurs costs resulting from alcohol use. These include the costs of providing medical care for people with alcohol-related illness, treatment and prevention costs, costs to the law enforcement system, costs resulting from alcohol-related motor vehicle crashes and other injuries, and the indirect costs associated with disability and diminished capacity.

The purpose of this study is to estimate a portion of the health-related economic costs of the measureable, direct effects of alcohol consumption to the City and County of San Francisco. These estimates will be used by the City<sup>1</sup> to assess the public health impact of alcohol and inform policy surrounding an alcohol mitigation fee. There are two major components of this study:

- **Cost Analysis:** Using data collected from City, State and national data sources, we compute the costs of alcohol use to the City, including costs of City-funded alcohol treatment facilities, direct medical costs at City-operated health care facilities, and City-paid fire and ambulance response to alcohol-related medical emergencies.
- **Fee Calculation:** Using alcohol consumption data from the National Institute on Alcohol Abuse and Alcoholism (NIAAA) and population estimates from the U.S. Census Bureau, we estimate the aggregate number of alcoholic drinks consumed in the City. We use this estimate to calculate a maximum fee per alcoholic drink (and an equivalent fee per fluid ounce of alcohol) which recovers a portion of the City's total alcohol-attributable costs.

Analyses are supported by a literature review and environmental scan, included as Appendix C.

Working closely with experts from various government agencies, we (1) identified sources for alcohol-related costs within City boundaries, (2) gathered multiple years' worth of administrative data, and (3) conducted comprehensive cost analyses to estimate alcohol-attributed costs borne by the City in Fiscal Year (FY) 2009-10. Data from FY2007 to FY2010 were used to estimate the current costs and validate the stability of costs over time. Several potential cost categories were not included at this time.

Final estimates are based on either FY2008-09 actual or FY2009-10 budgeted cost. We inflated FY2008-09 cost to FY2009-10 dollars using the same Consumer Price Index (CPI) the City used for the FY2009-10 budget. For direct medical costs, we used the Medical Care CPI for San Francisco reported by the CA Department of Finance Economic Research Unit, which was 3.1% between FY2008-09 and FY2009-10.<sup>2</sup>

We found that alcohol use created an economic burden to the City. Specifically, we identified \$17.7 million in unreimbursed alcohol attributable costs borne by the City. As presented in Exhibit I-1, the costs are categorized into programmatic and overhead costs. All of the programmatic cost items have a strong connection with alcohol use and high data accuracy, meaning that alcohol-

<sup>1</sup> "City" refers in this report to the City and County of San Francisco.

<sup>2</sup> California Department of Finance. Consumer Price Index Forecast April 2010. Available at: [http://www.dof.ca.gov/HTML/FS\\_DATA/LatestEconData/FS\\_Forecasts.htm](http://www.dof.ca.gov/HTML/FS_DATA/LatestEconData/FS_Forecasts.htm). Accessed April 2010.

related incidence was accurately identified and attributed. These costs were not reimbursed or mitigated by any party and were ultimately paid by the City.

Costs are likely to be under-estimated since we used conservative assumptions throughout the study. For example, only primary diagnoses were used to identify alcohol-related health care services provided by the San Francisco General Hospital and Emergency Medical Services, while cases only indicated by secondary diagnoses were excluded at this time. In addition, non-health care costs – such as alcohol-related costs of criminal justice, child protection, and policing and law enforcement – were not included.

Exhibit I-1. Summary of Alcohol-Attributable Unreimbursed Costs to the City and County of San Francisco in FY 2009-10

Service	Programmatic Costs	Program Overhead Costs	All Costs Combined
<b>San Francisco Department of Public Health</b>			
Sobering Center	\$943,628	\$86,531	\$1,030,159
Mobile Assistance Patrol (MAP) Van Service	\$111,938	\$11,004	\$122,942
Community Substance Abuse Services (CSAS) - Direct Treatment Costs	\$6,596,111	\$648,429	\$7,244,540
Community Substance Abuse Services (CSAS) - Prevention Services	\$2,640,752	\$259,599	\$2,900,351
SF General Hospital Services	\$1,814,842	NA <sup>a</sup>	\$1,814,842
Jail Health Medical Detoxification	\$534,193	\$45,460	\$579,653
<b>San Francisco Fire Department</b>			
Costs for EMS Transports to Destinations Other Than the Sobering Center	\$2,927,237	NA <sup>a</sup>	\$2,927,237
Costs for EMS Transports to the Sobering Center	\$1,044,428	NA <sup>a</sup>	\$1,044,428
<b>TOTAL</b>	<b>\$16,613,129</b>	<b>\$1,051,023</b>	<b>\$17,664,152</b>

<sup>a</sup> For the SF General Hospital and Fire Department, overhead costs included in the programmatic cost estimates.

Our study concludes that the City may annually recover alcohol-attributable costs up to \$18,126,494: \$17,664,162 in unreimbursed annual costs that are attributable to alcohol consumption plus an additional estimated \$462,332 in annual administrative costs. We divided this cost by the estimated number of drinks consumed in the City in 2009. We first estimated the number of alcoholic drinks consumed annually in the state of California on a per capita basis using per capita alcohol consumption data from the National Institute on Alcohol Abuse and Alcoholism (NIAAA). The NIAAA's AEDS estimates per capita alcohol consumption for the state of California to be 2.34 gallons in 2007, with 1.07 gallons being consumed in the form of beer, 0.55 in wine, and 0.72 in distilled spirits. Assuming that a standard drink contains a 0.6 fl oz serving size of alcohol, a reference amount corresponding to standard serving sizes of 12 fl oz for beer, 5 fl oz for wine and 1.5 fl oz for distilled spirits, we estimated per capita consumption among the drinking age population residing in the state of California in 2007 to be approximately 499 drinks (or roughly 228 beers, 117 wines and 154 distilled spirits).

Using data from the U.S. Census Bureau, we estimated the size of the target population residing in the City in 2009 to be 714,818 (87.7% of the total population). We multiplied this figure by the

estimated number of drinks consumed annually by each drinking-aged person in the state of California. This yielded an estimate of 356,837,146 alcoholic drinks consumed in the City in 2009. Using this estimate, we calculated that the City's total alcohol-attributable costs could be recovered through a maximum permissible fee of \$0.0508 per alcoholic drink, or equivalently, a maximum permissible fee of \$0.0847 per fluid ounce of alcohol.

# Establishing an Alcohol Mitigation Fee: Economic Impact Report - Amended

Item #100865

Office of Economic Analysis

August 9, 2010



## Amendment Details

- Supervisor Avalos amended the original alcohol mitigation fee to reduce its level, and to express it per-gallon for different alcoholic beverages. Originally it was a standard fee per ounce of ethanol.
- According to the amendment, the fee would be assessed at following rates:
  - Beer: \$0.35 per gallon
  - Wine: \$1.00 per gallon
  - Distilled Spirits: \$3.20 per gallon
- Other calculations and conclusions in the OEA report of August 4 have been modified after discussion with outside economists.

Office of the Controller – Office of Economic Analysis

**City and County of San Francisco**

Amended 8/9/2010



# Fee Impacts on Consumption: Per-Serving Price Impacts

- The fee is assessed per gallon of each of three major beverage types. Using standard serving sizes, an estimate of fee per serving can be made.
- The amended fee translates into an estimated 3.3 cents per serving increase in the price of beer, a 4.7 cents increase per glass of wine, and 3.8 cents increase in the price of a distilled spirit beverage.

Beverage Type	Fee per gallon of beverage	Servings per gallon	Fee per Serving
Beer	\$0.35	10.7	\$0.033
Wine	\$1.00	21.3	\$0.047
Distilled Spirits	\$3.20	85.3	\$0.038

[1] - Nexus Study. Ethanol Conversion Coefficients used in the NIAAA's Alcohol Epidemiologic Data System.

Amended 8/9/2010





# Fee Impacts on Alcohol Consumption: Restaurants and Bars

- The reduced fee levels will lead to a smaller decline in alcohol consumption at San Francisco restaurants and bars than was projected in the 8/4 OEA report. Consumption is projected to decline 0.3% for beer, 0.8% for wine, and 0.7% for spirits at these venues.
- These estimates are based on elasticities of demand that come from national research. Because local consumers can more easily shop at non-San Francisco establishments that are not subject to the fee, they may be more price-sensitive than these estimates suggest, and the reduction in consumption may be greater than shown here.

Beverage Type	Fee per Serving	Retail Price per Serving		Elasticity of Demand [2]	Change in Consumption
		Onsale[1]	% Price Increase attributable to fee		
Beer	\$0.033	\$3.75	0.9%	-0.30	-0.3%
Wine	\$0.047	\$6.00	0.8%	-1.00	-0.8%
Distilled Spirits	\$0.038	\$8.00	0.5%	-1.50	-0.7%

[1] - OEA assumptions, based on average prices of \$5 per pint of beer, \$6 per glass of wine, \$8 per spirits cocktail.  
 [2] - cited in Chaloupka, F.J., Grossman, M., and H. Saffer. 2002. "The Effects of Price on Alcohol Consumption and Alcohol-Related Problems" Alcohol Research and Health 26:1, 22-34.



# Fee Impact on Alcohol Consumption: Grocery and Liquor Stores

- The reduced fee will also lead to a smaller reduction in consumption at grocery and liquor stores than was originally projected.
- This is projected to reduce consumption by between 1.0% for beer, 1.9% for wine, and 4.7% for spirits.

Beverage Type	Fee per Serving	Retail Price per Serving - Retail [1]	% Price Increase attributable to fee	Elasticity of Demand [2]	Change in Consumption
Beer	\$0.033	\$1.00	3.3%	-0.30	-1.0%
Wine	\$0.047	\$2.50	1.9%	-1.00	-1.9%
Distilled Spirits	\$0.038	\$1.20	3.1%	-1.50	-4.7%

[1] - OEA assumptions based on average prices of \$6 per six-pack of beer, \$12 per bottle of wine, \$20 per 750 ml (25 oz.) bottle of distilled spirits.

[2] - cited in Chaloupka, F.J., Grossman, M., and H. Saffer. 2002. "The Effects of Price on Alcohol Consumption and Alcohol-Related Problems" Alcohol Research and Health 26:1, 22-34.

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# Fee Impact on Alcohol Consumption: Impacts on Total Fee Revenue

- The revised fees lead to a new estimate of fee revenue. The table below suggests annual consumption is expected to decline by 300,000 gallons, or 1%, and the proposed fee could generate \$16 million in revenue.
- This revenue estimate should be treated as highly uncertain, because of uncertainties about consumption levels, the effect of the fee on consumption, and compliance issues.

	Consumption without fee (M Gallons Beverage)[1]	Consumption impact of fee[2]	Consumption with fee (M Gallons Beverage)	Fee per Gallon	Fee Revenue
<b>Bars &amp; Restaurants</b>					
Beer	6.7	-0.3%	6.7	\$0.35	\$2.3
Wine	1.2	-0.8%	1.2	\$1.00	\$1.2
Distilled Spirits	0.5	-0.7%	0.5	\$3.20	\$1.6
<b>Total</b>	<b>8.4</b>		<b>8.3</b>		<b>\$5.1</b>
<b>Liquor &amp; Grocery Stores</b>					
Beer	14.6	-1.0%	14.4	\$0.35	\$5.0
Wine	2.6	-1.9%	2.6	\$1.00	\$2.6
Distilled Spirits	1.1	-4.7%	1.0	\$3.20	\$3.3
<b>Total</b>	<b>18.2</b>		<b>18.0</b>		<b>\$10.9</b>
<b>Grand Total</b>	<b>26.6</b>		<b>26.3</b>		<b>\$16.0</b>

[1] – Using NIAAA assumptions of alcohol consumption by beverage type, and estimated San Francisco consumption. See pages 6-7.  
 [2] – See pages 10 and 11.

Amended 8/9/2010



# Fee Impact on Alcohol Consumption: Impacts on Consumer Spending

- The revised fee will result in a loss of spending of \$4.3 million at bars and restaurants, and \$9.3 million at liquor and grocery stores.
- These estimates are higher than reported in our 8/4 report, despite the lower fee, because of a corrected calculation.
- The higher estimate of lost business at both types of establishments that sell alcoholic beverages to consumers results in a smaller, though still positive, consumer re-allocation of spending from other retailers in the city.

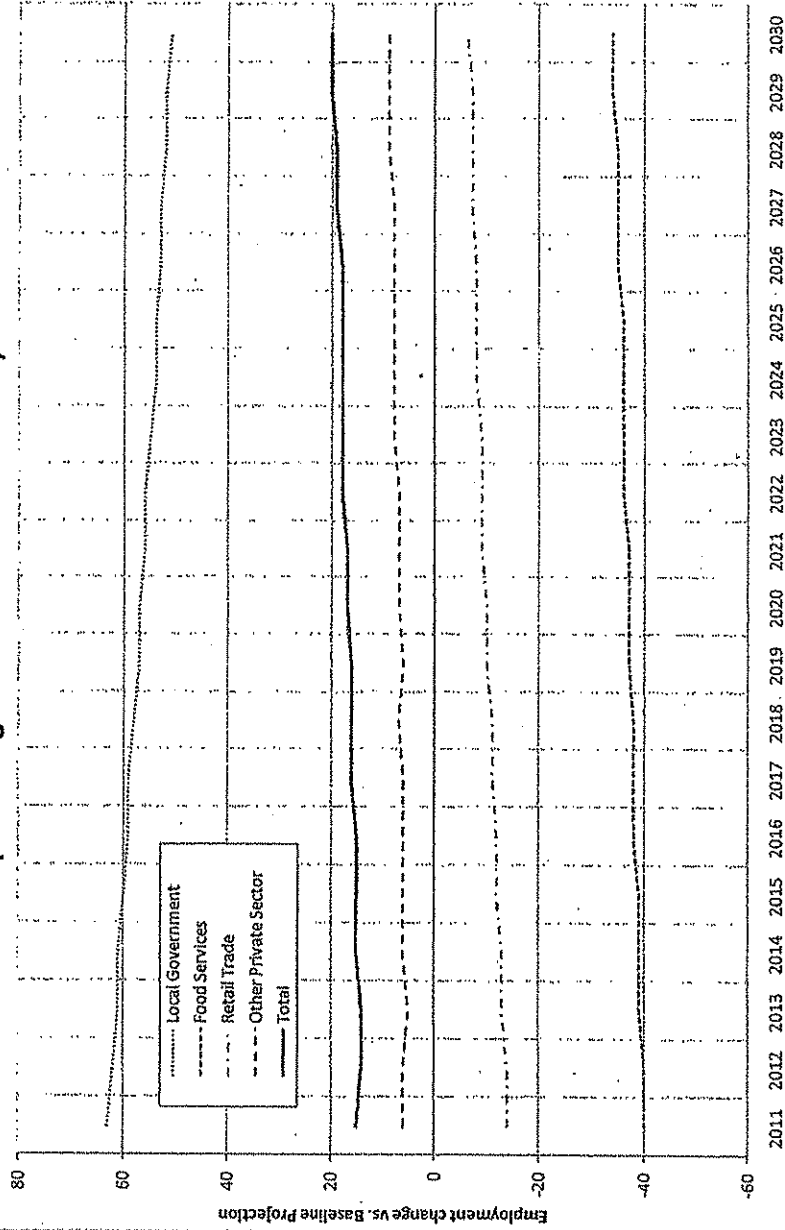
	Consumption Decline (Million Gallons) [1]	Consumption decline (Million Servings) [2]	Average Price without fee [3]	Retail Spending Decline (\$M)
<b>Bars &amp; Restaurants</b>				
Beer	-0.02	-0.2	\$3.75	-\$0.7
Wine	-0.01	-0.2	\$6.00	-\$1.2
Distilled Spirits	0.00	-0.3	\$8.00	-\$2.4
<b>Total</b>	<b>-0.03</b>	<b>-0.68</b>		<b>-\$4.3</b>
<b>Liquor &amp; Grocery Stores</b>				
Beer	-0.14	-1.5	\$1.00	-\$1.5
Wine	-0.05	-1.0	\$2.50	-\$2.6
Distilled Spirits	-0.05	-4.3	\$1.20	-\$5.2
<b>Total</b>	<b>-0.24</b>	<b>-6.87</b>		<b>-\$9.3</b>
<b>Grand Total</b>	<b>-0.27</b>	<b>-7.55</b>		<b>-\$13.6</b>

[1] - Difference between "Consumption without fee" and "Consumption with fee" on page 12.  
 [2] - Converting the consumption decline in million ounces of alcohol to a number of retail servings of each beverage.  
 [3] - See page 10 and 11.



# Economy-Wide Impacts on Jobs

Employment impacts of the Proposed Legislation, 2011-2030  
(Assuming 3% Annual Cost Escalation)



Despite the revised calculations of revenue loss at establishments that sell alcohol, the net economic impact is largely unchanged, because the loss of spending at other retailers is less.

These impacts are not very sensitive to changes in the elasticity of demand. If, because of the availability of retail shopping alternatives outside of San Francisco, consumers were three times more price sensitive than assumed here, the average net job impact would be -50 jobs per year.



## Staff Contacts

Ted Egan, (415) 554-5268.  
[ted.egan@sfgov.org](mailto:ted.egan@sfgov.org)

Office of the Controller – Office of Economic Analysis

**City and County of San Francisco**

