



SMALL BUSINESS COMMISSION
OFFICE OF SMALL BUSINESS



CITY AND COUNTY OF SAN FRANCISCO
EDWIN M. LEE, MAYOR

May 20, 2014

Ms. Angela Calvillo, Clerk of the Board
Board of Supervisors
City Hall Room 244
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4689

Subj: File No. 140098 [Initiative Ordinance - Business and Tax Regulations Code - Tax on Sugar-Sweetened Beverages to Fund Food and Health Programs]

Small Business Commission Recommendation: **No Recommendation**

Dear Ms. Calvillo:

At its meeting of May 5, 2014, the Small Business Commission heard Board of Supervisors (BOS) File No. 140098. The Commission moved to provide no recommendation to the Board of Supervisors due to concerns about the impacts of the legislation, as described below.

Beverage sales are an important part of restaurant operations. While profit margins on food sales are relatively slim, profit margins on beverage sales tend to be large. Soda sales in particular offer a steady and important source of revenue for small restaurant proprietors. The goal of the sugar-sweetened beverage (SSB) tax is to increase the price of sodas containing caloric sweeteners in order to reduce consumption thereof. Reduced SSB consumption will hurt small business profits, which concerns the Commission. Additionally, the Commission believes restaurants may take additional steps to offset increased costs of SSBs, including eliminating free refills or increasing the prices for all soda beverages, not only for SSBs. The result will be increased prices for consumers across the entire soda category, not only among the targeted category of SSBs. And as the legislation suggests, such direct and indirect increases in prices (even for non-SSBs) will reduce consumption, further eroding small restaurant profits.

Another Commission concern involved the scope of the program under consideration. Seeing as it is limited to San Francisco, the Commission wondered whether the tax would generate sufficient revenue and whether public education efforts would have sufficient impact to truly change consumer habits in the desired manner. Purchases at restaurants will likely be impacted greatly since consumers generally have few options but to eat in their immediate vicinity, which is usually within San Francisco. However, many parts of the city lie within close proximity to other taxing jurisdictions where consumers may choose to travel in order to make SSB purchases for home consumption, especially if the price of a 12-pack of soda cans increases by 100% or more*. Price changes of this magnitude will change consumer behavior, but not in the way intended by the legislation.

Shifting purchases for home consumption to vendors outside San Francisco will not only harm local market operators and reduce City sales tax revenues on the taxable portions of grocery trips, but it will diminish the behavior-changing impact that the tax is designed to affect. Easy evasion of the tax will undermine its purported impacts on consumption. The Commission would feel more comfortable with a comprehensive effort in this regard at the State or Federal levels, such that consumer behavior would be much more likely to change and all SSB vendors will be on equal footing. Furthermore, the resources generated from a wider effort would be able to enable a sufficient public awareness campaign utilizing the most

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CODE - TAX ON SUGAR-SWEETENED BEVERAGES TO FUND FOOD AND HEALTH
PROGRAMS] (5/20/2014)

effective media channels, including television, radio, internet, and print.

For the foregoing reasons, the Commission was unable to lend its support to this legislation. The Commission defers to the voters to decide what is best if the Board of Supervisors approves the legislation for the ballot. Please feel free to contact me should you have any questions.

Sincerely,



Regina Dick-Endrizzi
Director, Office of Small Business

cc: Jason Elliot, Mayor's Office
Peter Lauterborn, Office of Supervisor Eric Mar
Jeff Cretan, Office of Supervisor Scott Wiener
Linda Wong, Office of the Clerk of the Board

* Based on a large grocery retailer's promotion for the week of 5/14 – 5/20/2014. The promotion was for 12 12-ounce cans of a leading soda brand for \$2.59 (excluding California CRV). At the proposed two-cents per ounce tax rate, the 144 ounces of SSB would be subject to a tax of \$2.88, resulting in a 111% purchase price increase.