

File No. 111102

Committee Item No. 7

Board Item No. \_\_\_\_\_

## COMMITTEE/BOARD OF SUPERVISORS

### AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance Committee

Date: November 30, 2011

Board of Supervisors Meeting

Date \_\_\_\_\_

#### Cmte Board

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| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Budget & Legislative Analyst Report          |
| <input type="checkbox"/>            | <input type="checkbox"/> | Ethics Form 126                              |
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| <input type="checkbox"/>            | <input type="checkbox"/> | Department/Agency Cover Letter and/or Report |
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#### OTHER

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Completed by: Victor Young

Date: November 21, 2011

Completed by: Victor Young

Date: \_\_\_\_\_

An asterisked item represents the cover sheet to a document that exceeds 25 pages. The complete document is in the file.

1 [Business and Tax Regulations Code - Payroll Expense Tax Exclusion for Compensation Paid  
2 to Individuals With a Felony Conviction]

3 **Ordinance amending the San Francisco Business and Tax Regulations Code, Article**  
4 **12-A, by adding Section 906.5 to establish a Payroll Expense Tax exclusion for**  
5 **compensation paid to individuals who have a felony conviction.**

6  
7 NOTE: Additions are *single-underline italics Times New Roman*;  
8 deletions are *strike-through italics Times New Roman*.  
9 Board amendment additions are double-underlined;  
Board amendment deletions are ~~strikethrough normal~~.

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

11 Section 1. Findings. The Board of Supervisors hereby finds that:

12 (a) Former incarceration is a significant barrier to employment.

13 (1) Job seekers with criminal records are offered employment at half the rate  
14 of those without criminal records and African Americans with criminal records are offered  
15 employment at one third the rate of those without criminal records.

16 (2) Incarceration weakens the social and referral networks that can lead to  
17 job opportunities.

18 (3) State and federal laws often exclude former offenders from some  
19 industries, such as banking or occupations requiring contact with children or involving the  
20 delivery of some health and security services.

21 (4) Employer surveys reveal that employers are more averse to hiring  
22 ex-offenders than they are toward any other disadvantaged group, including welfare  
23 recipients. The trend of limited or negative job growth in industries that historically have been  
24 most likely to provide work for formerly incarcerated individuals, such as construction and  
25 manufacturing, has exacerbated this aversion.

1 (5) Ex-offenders constitute a very significant percentage of the demographic  
2 cohort that already is challenged in obtaining employment in the modern economy due to low  
3 education and literacy levels. Approximately 70 percent of offenders and ex-offenders are  
4 high school dropouts and according to one study, about half are functionally illiterate.  
5 Ex-offenders also often have significant gaps in their work histories, due to incarceration.

6 (6) The U.S. Department of Justice concludes that the internet makes  
7 criminal history information increasingly available to non-criminal justice users. The increased  
8 availability of criminal history means that employers are more likely to check the criminal  
9 backgrounds of potential employees and exclude them based on a criminal conviction.

10 (b) The need for employment is particularly acute for the formerly-incarcerated  
11 population in the United States.

12 (1) Ex-offenders often owe court supervision fees, victim restitution or child  
13 support. In addition, financial liens and garnishments against future earnings often make it  
14 difficult for formerly incarcerated individuals to pay back debt owed. In some instances, debts  
15 garnished from wages when combined with standard taxation can impose effective tax rates  
16 on ex-offenders as high as 65 percent.

17 (2) Lack of economic mobility among the formerly incarcerated population  
18 has lasting effects on their families. Children of formerly incarcerated parents are likely to  
19 stay in a lower economic demographic cohort than their peers.

20 (c) The costs associated with low employment levels among ex-offenders extend  
21 beyond individual offenders and into communities.

22 (1) The United States has the highest documented incarceration rate in the  
23 world. In 2008, one in every 31 adults was behind bars, or under probationary or parole  
24 supervision.

1 (2) On May 23, 2011, the U.S. Supreme Court upheld an affirmative  
2 injunction issued by a special three-judge panel that ordered California to reduce its 143,000  
3 prison population by 30,000 in two years after the court determined that the system's health  
4 care services violated the Eighth Amendment's ban on cruel and unusual punishment. As a  
5 result, Governor Jerry Brown signed AB 109, which, on October 1, 2011, the implementation  
6 of which sent tens of thousands of low-level offenders to counties for supervision.

7 (3) In 2010, San Francisco County spent \$47,500 per prisoner.

8 (4) In 2010, the San Francisco Adult Probation Department spent  
9 approximately \$12 million on supervision costs alone.

10 (5) Approximately 750,000 felons are released each year in the United  
11 States. The recidivism rate for those who obtain employment within the first six months of  
12 their release is nearly half of those who do not.

13 (6) A 2011 University of Pennsylvania study found that high recidivism rates  
14 in Philadelphia cost the city in wage and sales taxes as well as incarceration. The report  
15 estimated that if Philadelphia could cut the number of inmates returning to jail by 1,500, it  
16 would save \$26.3 million per year.

17 (d) San Francisco, California and the United States all have extremely high  
18 recidivism rates.

19 (1) Nearly two out of every three inmates released from U.S. state and  
20 federal prisons are expected to be rearrested within three years.

21 (2) California's recidivism rate is approximately 70 percent.

22 (3) According to a study conducted by the City Hall Fellows, the recidivism  
23 rate in San Francisco for 2010 was approximately 63 percent.

24 (e) Employment for ex-offenders reduces recidivism rates and positively impacts  
25 communities.

1 (1) Studies have shown that post-incarceration job training programs reduce  
2 recidivism by more than 20 percent.

3 (2) Combined employment and supportive housing programs have proven to  
4 reduce recidivism by 20 percent.

5 (3) In a cost-benefit analysis of crime-reduction programs from across the  
6 United State over the past 25 years, the Washington State Institute for Public Policy found  
7 significant gains to taxpayers from several workforce programs, in terms of both recidivism  
8 and cost savings from reduced crime.

9  
10 Section 2. The San Francisco Business and Tax Regulations Code is hereby amended  
11 by adding Section 906.5, to read as follows:

12 **SEC. 906.5. EX-OFFENDER EXCLUSION.**

13 (a) For purposes of this Section, the following terms shall have the meaning set forth below:

14 (1) Ex-Offender. Ex-Offender means an individual convicted of a felony in any state or  
15 federal court.

16 (2) Full-Time. Full-Time means that for a minimum of six months, an individual  
17 worked or performed services at least 40 hours per week.

18 (3) Part-Time. Part-Time means that for a minimum of six months, an individual  
19 worked or performed services at least 20 hours per week.

20 (b) A person may exclude from its Payroll Expense \$675,000 for each Ex-Offender who  
21 works or provides services for that person on a Full-Time basis, and a person may exclude from its  
22 Payroll Expense \$337,500 for each Ex-Offender who works or provides services for that person on a  
23 Part-Time basis.

24 (c) In order to be eligible for the Payroll Expense Tax exclusion authorized under this  
25 Section, persons wishing to claim the exclusion must:

1           (1)    Complete and submit an initial application to the Office of Economic and  
2 Workforce Development for review and evaluation. The Office of Economic and Workforce  
3 Development shall use this application to verify that applicants seeking the Payroll Expense Tax  
4 exclusion under this Section meet the eligibility requirements. The Office Economic and Workforce  
5 Development and the Office of the Treasurer and Tax Collector shall prescribe the form of the  
6 application and, consistent with this Ordinance, the rules and regulations regarding eligibility for the  
7 Ex-Offender Payroll Expense Tax exclusion.

8           (2)    File an annual affidavit under declaration of perjury with the Office of Economic  
9 and Workforce Development that details the total number of Ex-Offenders hired during the year, and  
10 provides the names and felony records of the Ex-Offenders along with information regarding whether  
11 the Ex-Offenders worked or performed services on a Full-Time or Part-Time basis. The affidavit must  
12 be filed with the Office of Economic and Workforce Development on or before January 31 of each year.

13           (3)    Each affidavit submitted to the Office of Economic and Workforce Development  
14 must state that each Ex-Offender whom the applicant has hired is not displacing another employee of  
15 the applicant.

16           (4)    Maintain records and documents in a manner acceptable to the Tax Collector  
17 that objectively substantiate any exclusion claimed under this Section and provide them to the Tax  
18 Collector upon request.

19           (5)    Timely file an annual Payroll Expense Tax Return with the Tax Collector  
20 regardless of the amount of tax liability shown on the return after claiming the exclusion provided for  
21 in this Section.

22           (6)    A person delinquent in any taxes, fees or penalties owed to the City and County  
23 of San Francisco is ineligible to claim the Payroll Expense Tax exclusion under this Section.

24           (d)    A person may not use or claim any unused portion of the exclusion available under this  
25 Section after the expiration of this Section.

1           (e) The Office of the Treasurer and Tax Collector may adopt rules and regulations  
2 regarding the exclusion provided under this Section.

3           (f) The Tax Collector shall verify that any exclusion claimed pursuant to this Section is  
4 appropriate.

5           (g) A misrepresentation or misstatement by any person regarding eligibility for the  
6 exclusion authorized under this Section that results in the underpayment or underreporting of the  
7 Payroll Expense Tax shall be subject to penalties.

8           (h) A person may not claim the exclusion provided by this Section concurrently with any  
9 other Payroll Expense Tax exclusion or credit, and may not use it in conjunction with the Small  
10 Business Tax Exemption under Section 905-A.

11           (i) The Tax Collector shall submit an annual report to the Board of Supervisors for each  
12 year for which the exclusion authorized under this Section is available that sets forth aggregate  
13 information on the dollar value of the exclusions taken each year, the number of persons claiming this  
14 exclusion.

15           (j) The exclusion set forth in this Section shall become effective with the tax year  
16 commencing on January 1, 2012. It shall remain effective until the earlier of the date it is scheduled to  
17 expire under this Section or, in the event the Payroll Expense Tax Ordinance under 12-A of the  
18 Business and Tax Regulations Code is repealed, on the date the Payroll Expense Tax Ordinance under  
19 Article 12-A of the Business and Tax Regulations is no longer in effect.

20           (k) The exclusion set forth in this Section shall expire by operation of law on December 31,  
21 2013, and the City Attorney shall cause it to be removed from future editions of the Business and Tax  
22 Regulations Code unless the Board of Supervisors or the voters extend the exclusion prior to December  
23 31, 2013.

24           (l) The Office of Economic and Work Force Development shall conduct on-going outreach  
25 and marketing efforts to inform business owners, Ex-Offenders, and those who assist Ex-Offenders in

1 finding employment, about the Ex-Offender Payroll Expense Tax exclusion. The Office of Economic  
2 and Workforce Development shall produce an annual report about the exclusion and present the  
3 report's findings to the Board of Supervisors. The report shall include the number of businesses that  
4 have applied for the exclusion, the number of businesses that have received the exclusion, and the  
5 number of Ex-Offenders who have found employment as a result of the exclusion. The report shall also  
6 specifically evaluate the effectiveness of the marketing and outreach efforts conducted by the Office of  
7 Economic and Workforce Development to promote the exclusion.

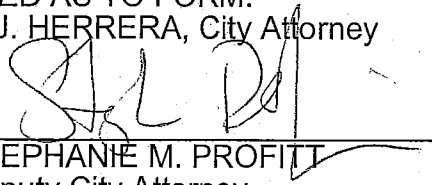
8 (m) The Office of Economic and Workforce Development shall coordinate with any and all  
9 City and County of San Francisco agencies the missions of which include helping Ex-Offenders reenter  
10 society, or administering programs available to participants who are Ex-Offenders reentering society.  
11 Such coordination should strive to maximize the number of Ex-Offenders finding employment through  
12 utilization of the Ex-Offender Payroll Expense Tax exclusion. The Adult Probation Department, the  
13 Public Defender's Office, and the Human Services Agency are examples of such agencies.

14 (n) The Office of the Treasurer-Tax Collector and the Office of Economic and Workforce  
15 Development may request an annual budget appropriation equal to the actual costs of administering  
16 this Payroll Expense Tax exclusion.

17  
18 Section 3. Effective Date. This Ordinance shall become effective 30 days from the  
19 date of passage.

20  
21  
22 APPROVED AS TO FORM:  
23 DENNIS J. HERRERA, City Attorney

24 By:

25   
STEPHANIE M. PROFITT  
Deputy City Attorney



## LEGISLATIVE DIGEST

[Business and Tax Regulations - Payroll Expense Tax Exclusion for Compensation Paid to Individuals With a Felony Conviction]

**Ordinance amending the San Francisco Business and Tax Regulations Code Article 12-A by adding Section 906.5 to establish a Payroll Expense Tax exclusion for compensation paid to individuals who have a felony conviction.**

### Existing Law

San Francisco imposes a Payroll Expense Tax on business entities based on the compensation they pay to employees and others for work or services performed in San Francisco. (Business and Tax Regulations Code Section 901 et seq.) The tax rate is 1.5% of taxable Payroll Expense. This tax is determined each year based on the Payroll Expenses of the entity.

### Amendments to Current Law

The proposed amendment would amend Section 906 to establish a \$675,000 exclusion from a person's Payroll Expense for each Ex-Offender who works or performs services on a Full-Time basis for that person; alternatively, a person may exclude \$337,500 from its Payroll Expense for each Ex-Offender who works or performs services on a Part-Time basis for that person. The Ex-Offender Payroll Expense Tax exclusion is available for 2012 and 2013.

### Background Information

San Francisco imposes a Payroll Expense Tax on business entities based on the compensation they pay to employees and others for work or services performed in San Francisco. (Business and Tax Regulations Code Section 901 et seq.) The tax rate is 1.5% of taxable Payroll Expense. This legislation aims to provide San Francisco employers with a meaningful incentive to employ Ex-Offenders. Studies have shown that when an Ex-Offender finds employment, the likelihood of the Ex-Offender re-offending is reduced.

**Item 7**  
**Files 11-1102**

**Department(s):**  
Office of Economic and Workforce Development  
Treasurer/Tax Collector

## EXECUTIVE SUMMARY

### Legislative Objectives

- The proposed ordinance would amend the City's Business and Tax Regulations Code to establish a Payroll Expense Tax exclusion for San Francisco businesses that hire ex-offenders. The proposed Payroll Expense Tax exclusion would be a two-year pilot program from January 1, 2012 through December 31, 2013.

### Key Points

- Businesses with an annual payroll of \$250,000 or more currently pay Payroll Expense Taxes to the City of 1.5 percent of the firm's payroll expenses for work or services performed in San Francisco.
- Under the proposed ordinance, a San Francisco business that hires an ex-offender full-time, or 40 hours per week for at least six months, would be allowed to exclude, one-time, \$675,000 from its payroll expenses for the calculation of Payroll Expense Taxes due to the City. Therefore, if a San Francisco business hires an ex-offender full-time, the business' Payroll Expense Tax would be reduced by \$10,125, equal to 1.5 percent of \$675,000.
- A San Francisco business that hires an ex-offender part-time, or at least 20 hours per week for at least six months, would be allowed to exclude, one-time, \$337,500, from its payroll expenses for the calculation of Payroll Expense Taxes due to the City. Therefore, if a San Francisco business hires an ex-offender part-time, the business' Payroll Expense Tax would be reduced by \$5,062, equal to 1.5 percent of \$337,500.
- According to the legislative digest prepared by the City Attorney's Office, the purpose of the proposed ordinance is to provide San Francisco employers with a meaningful incentive to employ ex-offenders. According to the legislative digest, studies have shown that when an ex-offender finds employment, the likelihood of the ex-offender re-offending is reduced.

### Fiscal Impacts

- The proposed ordinance would require estimated one-time General Fund expenditures of approximately \$150,000 by the Treasurer/Tax Collector's Office for the additional costs to retain an outside consultant to make necessary revisions to the Treasurer/Tax Collector's Office's existing Payroll Expense Tax documents.
- The proposed ordinance would also result in some additional undetermined costs to the Office of Economic and Workforce Development to promote the proposed Payroll Expense Tax exclusion for hiring ex-offenders and to provide prescreening for ex-offenders.
- The Budget and Legislative Analyst cannot estimate the amount of the reduced Payroll Expense Tax revenues to the City as a result of the proposed ordinance because it is not known at this time how many San Francisco businesses would hire ex-offenders in order to receive the proposed Payroll Expense Tax exclusion.

- The Budget and Legislative Analyst cannot estimate the potential cost savings to the City because the number of ex-offenders hired by San Francisco businesses in order to be eligible to receive the proposed Payroll Expense Tax exclusion is not known, and the potential reduced Sheriff's Department's costs due to reduced re-incarceration of these ex-offenders, is not known.

#### **Policy Considerations**

- If the Board of Supervisors approves the proposed ordinance and elects to continue the Payroll Expense Tax exclusion for ex-offenders at the end of the two-year pilot program, the Budget and Legislative Analyst suggests that the City conduct a more in-depth study on the economic and fiscal benefits associated with employing ex-offenders.

#### **Recommendation**

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

## **MANDATE STATEMENT**

### **Mandate Statement**

In accordance with the City's Business and Tax Regulations Code Section 902.1<sup>1</sup>, San Francisco businesses pay Payroll Expense Taxes to the City of 1.5 percent of the firm's payroll expenses for work or services performed in San Francisco. Each San Francisco businesses' tax liability is determined annually based on the payroll expenses of the entity. Under the Business and Tax Regulations Code Section 905-A, San Francisco businesses with payroll expenses of \$250,000 or less are exempt from Payroll Expense Taxes. Provisions of the Business and Tax Regulations Code that provide additional Payroll Expense Tax exclusions include:

- Sections 906.1 and 906.2 provide Payroll Expense Tax exclusions for businesses engaged in certain biotechnology enterprises and clean energy technology, respectively.
- Section 906.3 provides a Payroll Expense Tax exclusion for certain businesses that are located in or relocate to the Central Market Street and Tenderloin Area.
- Section 906.4 provides a Payroll Expense Tax exclusion for that portion of an eligible person's payroll expense that is attributable to Stock-Based Compensation, expiring December, 31, 2017.

Charter Section 2.105 provides that all legislative acts in San Francisco be by ordinance, approved by a majority of the Board of Supervisors.

<sup>1</sup> Business and Tax Regulations Code Section 902.1(a) specifically defines Payroll Expense as compensation paid to individuals including shareholders of a professional corporation or a Limited Liability Company (LLC), for salaries, wages, bonuses, commissions, property issued or transferred in exchange for the performance of services (including but not limited to stock options), compensation for services to owners of pass-through entities, and any other form of compensation, who during any tax year, perform work or render services, in whole or in part in the City.

## DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend Article 12-A of the City's Business and Tax Regulations Code by adding Section 906.5 to establish a two-year pilot program, implementing a Payroll Expense Tax exclusion for businesses that hire ex-offenders. The proposed ordinance would become effective with the tax year commencing on January 1, 2012, and expire on December 31, 2013.

### Purpose of the Proposed Ordinance

According to the legislative digest prepared by the City Attorney's Office, the purpose of the proposed ordinance is to provide San Francisco employers with a meaningful incentive to employ ex-offenders. According to the legislative digest, studies have shown that when an ex-offender finds employment, the likelihood of the ex-offender re-offending is reduced.

### Provisions of the Proposed Ordinance

Under the proposed ordinance, a San Francisco business that hires an ex-offender full-time, or 40 hours per week for at least six months, would be allowed to exclude, one-time, \$675,000 from its payroll expenses for the calculation of Payroll Expense Taxes due to the City. Therefore, if a San Francisco business hires an ex-offender full-time, the business' Payroll Expense Tax would be reduced by \$10,125, equal to 1.5 percent of \$675,000.

A San Francisco business that hires an ex-offender part-time, or at least 20 hours per week for at least six months, would be allowed to exclude, one-time, \$337,500 from its payroll expenses for the calculation of Payroll Expense Taxes due to the City. Therefore, if a San Francisco business hires an ex-offender part-time, the business' Payroll Expense Tax would be reduced by \$5,062, equal to 1.5 percent of \$337,500.

Therefore, to qualify for the Payroll Expense Tax exclusion, businesses must incur payroll expenses of at least \$675,000 per year to hire an ex-offender full time and \$337,500 per year to hire an ex-offender part time.

In order to be eligible for the Payroll Expense Tax exclusion, businesses must (a) complete and submit an initial application to the Mayor's Office of Economic and Workforce Development (OEWD) as prescribed by OEWD; (b) file with OEWD an affidavit to establish entitlement to the Payroll Expense Tax exclusion by January 31 of each year, that must state that each ex-offender who the applicant has hired is not displacing another existing employee; (c) maintain records and documentation in a manner acceptable to the Treasurer/Tax Collector's Office that objectively substantiates the claimed Payroll Expense Tax exclusion; (d) provide all records and documentation to the Treasurer/Tax Collector's Office upon request; and (e) file an annual Payroll Expense Tax Return with the Treasurer/Tax Collector's Office regardless of the amount of tax liability shown on the return after claiming the Payroll Expense Tax exclusion.

Under the proposed ordinance, the Treasurer/Tax Collector's Office would be responsible for adopting rules and regulations for implementing the proposed Payroll Expense Tax exclusion for businesses that hire ex-offenders. The Treasurer/Tax Collector's Office would also be

responsible for (a) verifying all exclusion claims; and (b) submitting an annual report to the Board of Supervisors for each year of the exclusion that includes both the (i) number of exclusions claimed and (ii) aggregate dollar value of the reduced Payroll Expense Taxes due to the City as a result of the exclusions.

Under the proposed ordinance, OEWD would be responsible for (a) conducting on-going outreach and marketing efforts regarding the proposed Payroll Expense Tax exclusion, to inform business owners, ex-offenders, and those who assist ex-offenders in finding employment; (b) submitting an annual report to the Board of Supervisors for each year of the proposed Payroll Expense Tax exclusion that includes (i) the number of businesses that have applied for the exclusion, (ii) the number of businesses that have received the exclusion, and (iii) the number of ex-offenders who have found employment as a result of the exclusion; and (c) coordinating with any and all City and County of San Francisco agencies whose mission includes (i) helping ex-offenders to reenter society, or (ii) administering programs available to ex-offenders who are reentering society.

## FISCAL ANALYSIS

### Prospective Businesses and Payroll Tax Impacts

As noted above, under the proposed ordinance, a San Francisco business that hires an ex-offender full-time would be allowed to exclude \$675,000 per year from its payroll expenses for the calculation of Payroll Expense Taxes due to the City. Therefore, if a San Francisco business hires an ex-offender full-time, the business' Payroll Expense Tax would be reduced by \$10,125 per year, equal to 1.5 percent of \$675,000.

A San Francisco business that hires an ex-offender part-time would be allowed to exclude \$337,500 per year from its payroll expenses for the calculation of Payroll Expense Taxes due to the City. Therefore, if a San Francisco business hires an ex-offender part-time, the business' Payroll Expense Tax would be reduced by \$5,062 per year, equal to 1.5 percent of \$337,500.

To receive a Payroll Expense Tax exclusion for more than one ex-offender, the firm must have at least an additional payroll expense of (a) \$675,000 per full-time ex-offender in order to obtain an additional \$10,125 reduction in Payroll Expense Taxes due to the City and (b) \$377,500 per part-time ex-offender in order to obtain an additional \$5,062 reduction in Payroll Expense Taxes due to the City.

According to Mr. Greg Kato, Policy and Legislative Manager with the Treasurer/Tax Collector's Office, only approximately 5,000 businesses in the City currently report more than \$675,000 in annual payroll expense, which is the minimum annual payroll expense for a business to receive the full exclusion for one ex-offender employee.

According to Ms. Jennifer Matz, Director of the Mayor's Office of Economic and Workforce Development (OEWD), as of the writing of this report, OEWD cannot identify prospective San Francisco businesses that would participate in the proposed Payroll Expense Tax exclusion for

hiring ex-offenders. According to Mr. Kato, the Treasurer/Tax Collector's Office does not have information on how many businesses currently employ, or plan to employ, ex-offenders. Therefore, the Treasurer/Tax Collector's Office cannot estimate how many businesses would qualify for the proposed Payroll Expense Tax exclusion for hiring ex-offenders.

Because the City does not have information on the number of San Francisco businesses that would participate in the Payroll Expense Tax exclusion for hiring ex-offenders, the Budget and Legislative Analyst cannot estimate the reduction in Payroll Expense Tax revenues due to the City. A program implemented by the City of Philadelphia in 2007 provides a \$10,000 one-time tax credit to Philadelphia businesses that hire ex-offenders and provide tuition support or vocational training. The City of Philadelphia reports 12 businesses have applied for the one-time payroll tax credit, totaling \$120,000.

### **Potential Cost Savings**

According to Ms. Maureen Gannon, Sheriff's Department Chief Financial Officer, the annual cost to San Francisco of a prisoner in county jail is \$46,720 (\$128 per day x 365 days). However, because the number of ex-offenders that would be hired by San Francisco businesses, in order to be eligible to receive the proposed Payroll Expense Tax exclusion is not known, and the potential reduced Sheriff's Department's costs due to reduced re-incarceration of these ex-offenders, is not known, the Budget and Legislative Analyst cannot estimate the potential cost savings to the City.

### **Administrative Impacts and Costs**

The Mayor's Office of Economic and Workforce Development has pledged to work with City agencies that work with ex-offenders, such as the Adult Probation Department and the Public Defender's Office, as well as conduct outreach to local businesses that may benefit from the Payroll Expense Tax exclusion. Ms. Matz states that OEWD would incur some additional costs to promote the proposed Payroll Expense Tax exclusion for hiring ex-offenders and to provide prescreening for ex-offenders. Ms. Matz does not have specific estimates of such additional costs at this time.

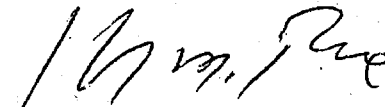
Under the proposed ordinance, each business would be required to file an annual Payroll Expense Tax return with the Treasurer/Tax Collector's Office regardless of the amount of the business's tax liability, after claiming the proposed Payroll Expense Tax exclusion. Mr. Kato states that the Treasurer/Tax Collector's Office would incur an initial one-time General Fund expenditure of approximately \$150,000 for the additional costs to retain an outside consultant to make necessary revisions to the Treasurer/Tax Collector's Office's existing Payroll Expense Tax documents.

**POLICY CONSIDERATIONS****In-Depth Study of the Economic and Fiscal Benefits of Employing Ex-Offenders In San Francisco is Necessary**

The proposed ordinance would establish a two-year pilot program to allow San Francisco businesses to receive a Payroll Expense Tax exclusion for hiring ex-offenders. If the Board of Supervisors approves the proposed ordinance and elects to continue the Payroll Expense Tax exclusion for ex-offenders at the end of the two-year pilot program, the Budget and Legislative Analyst suggests that the City conduct a more in-depth study on the economic and fiscal benefits associated with employing ex-offenders. In 2011, the city of Philadelphia produced a similar study, the *Economic Benefits of Employing Formerly Incarcerated Individuals in Philadelphia*, prepared by the Economy League of Greater Philadelphia.

**RECOMMENDATION**

Approval of the proposed ordinance is policy decision for the Board of Supervisors.



Harvey M. Rose

cc: Supervisor Chu  
Supervisor Mirkarimi  
Supervisor Kim  
President Chiu  
Supervisor Avalos  
Supervisor Campos  
Supervisor Cohen  
Supervisor Elsbernd  
Supervisor Farrell  
Supervisor Mar  
Supervisor Wiener  
Clerk of the Board  
Cheryl Adams  
Controller  
Rick Wilson

