

## **MEMORANDUM**

To: TZK Broadway  
From: Economic & Planning Systems, Inc.  
Subject: Economic Impacts of Proposed Kenwood/ZinZanni Hotel and Dinner Theatre; EPS #171150  
Date: April 12, 2019

*The Economics of Land Use*



This memorandum provides a preliminary evaluation of the economic impacts associated with the development of the proposed Kenwood/ZinZanni Hotel and Dinner Theatre (Project). The Project program includes a theater and entertainment venue<sup>1</sup> space that houses Teatro ZinZanni's historic spiegel tent and a new public park, located at Seawall Lots 323 and 324 in San Francisco at the intersection of Embarcadero and Broadway. The Project is proposed to include approximately 192 boutique hotel rooms; a new approximately 29,570-square foot entertainment venue, which includes a welcoming lobby, bar area, kitchen, and back-of house facilities; and an approximately 14,000-square foot, privately funded public plaza and park.

The Project will generate millions of dollars in revenues from development impact fees, which will support transportation improvements, child care, schools, and other community benefits. The Project also will generate annual fiscal revenues to the City of San Francisco in the form of Transient Occupancy Taxes; and sales, property, and other General Fund taxes that will flow to the City and County of San Francisco and the San Francisco Port. In addition, it will provide the San Francisco Port with a steady revenue stream from the ground lease and rental income. This memorandum provides an overview of these estimated tax revenues, by type, during the third year of operation (stabilization) based on the Fiscal Year 2018/19 City Budget. In addition, this memorandum provides estimates for the number of construction and permanent jobs that will be generated by the Project.

Economic & Planning Systems, Inc.  
One Kaiser Plaza, Suite 1410  
Oakland, CA 94612-3604  
510.841.9190 tel  
510.740.2080 fax

Oakland  
Sacramento  
Denver  
Los Angeles

[www.epsys.com](http://www.epsys.com)

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<sup>1</sup> The Entertainment Venue will host a variety of uses including Entertainment (General, Nighttime, Outdoor, Arts and Recreation), Bona Fide Eating Place and Restaurant uses, each as defined in the San Francisco Planning Code.

## Summary of Benefits to the City

New tax revenues from the Project will include both ongoing annual revenues and one-time revenues, as summarized in **Table 1** and **Table 2**, respectively.

Ongoing revenues to the City include new tax receipts from property and property-related taxes, as well as hotel and sales taxes.<sup>2</sup> Based on the proposed development, these ongoing revenues are currently estimated to amount to slightly more than \$4.4 million in annual revenue to the City upon full Project buildout at stabilization, as summarized in **Table 1**. These tax revenues will be available to help fund public improvements and services Citywide. In addition, there is an estimated \$890,000 of base rent paid to the Port in the first year of the lease, which escalates annually thereafter, not included in the General Fund revenues.

**Table 1 Summary of Annual General Fund Revenues, Rounded**

Revenue Item	Annual Revenue
<b>Annual General Fund Revenue</b>	
Possessory Interest Tax (1)	\$809,700
Property Transfer Tax	\$277,500
Property Tax in Lieu of VLF	\$184,200
Sales Tax (2)	\$84,900
Transient Occupancy Tax	\$3,070,700
Gross Receipts Tax	<u>not estimated</u>
<b>Estimated GF Revenue Total</b>	<b>\$4,427,000</b>
<b>Other Annual Revenue</b>	
Port Rent (3)	<b>\$890,000</b>

(1) Possessory Interest Tax Estimate was provided by TZK.

(2) Sales tax is based on Year Three's (assumed stabilization) direct food and beverage revenues.

(3) Provided by TZK.

Sources: TZK, City and County of San Francisco; Economic & Planning Systems, Inc.

One-time revenues to be generated through development impact fees are estimated to amount to slightly more than \$8 million as summarized in **Table 2**. These revenues will fund a variety of community benefits, including transportation improvements, schools, public art, and child care.

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<sup>2</sup> The Project will generate additional annual fiscal revenues, such as Utility Users Tax, Parking Tax, and Gross Receipts Tax, which are not estimated as part of this preliminary analysis.

**Table 2 Summary of One-Time Development Impact Fee Revenues, Rounded**

<b>Impact Fee Category</b>	<b>Amount</b>
Jobs-Housing Linkage Fee	\$3,333,400
Transportation Sustainability Fee (TSF) <sup>1</sup>	\$3,132,900
Child Care Fee <sup>2</sup>	\$258,200
Schools Fee <sup>3</sup>	\$55,800
Public Art Requirement (1% of Hard Costs) <sup>4</sup>	\$711,600
Bike Parking In Lieu	\$13,000
Water and Wastewater Capacity Fees <sup>5</sup>	\$500,000
<b>Total Estimated Development Impact Fees</b>	<b>\$8,004,900</b>

(1) The Transportation Sustainability Fee (TSF) replaced the Transportation Impact Development Fee (TIDF) on December 26, 2015. Under the TIDF, the project would have generated \$2.5 million.

(2) Child Care Fee levels are assessed as a per square foot fee. As of 2019, the fee is \$1.85 per square foot.

(3) School fees are calculated on a basis of "increased floor area"

(4) Hard cost estimate provided by TZK on January 12, 2018.

(5) Estimated provided by TZK.

Sources: City of San Francisco Planning Department; TZK Broadway; EPS.

## Select Annual Fiscal Revenues

### Possessory Interest Tax

The Project site is owned by the Port of San Francisco, a public agency, and, therefore, is not on the Assessor's roll. Because the Port will continue to own the land, the Port will continue to be exempt from paying property tax. However, the Project will pay possessory interest tax instead. The estimate of the possessory interest tax of an annual \$809,700 was provided by TZK.

### Property Transfer Tax

The City collects a property transfer tax of \$6.80 per \$1,000 of transferred value on transactions up to \$1 million, \$7.50 per \$1,000 on transactions up to \$5 million, \$22.50 per \$1,000 on transactions from \$5 million to \$10 million, \$27.50 per \$1,000 on transactions from \$10 million to \$25 million, and \$30.00 per \$1,000 on transactions more than \$25 million.

The commercial components, mainly the hotel, are estimated by TZK at a market value of \$185 million and are expected to turnover once every 20 years. For estimating purposes, it is assumed that sale of the hotel would be spread evenly over each year, although it is more likely that hotel sale will be sporadic. It is also assumed that the transaction of the hotel would fall into the transactions of more than \$25 million category. Actual amounts will vary depending on economic factors and the applicability of the tax to specific transactions.

### **Property Tax In-Lieu of Vehicle License Fees**

The State budget currently converts a significant portion of what used to be Motor Vehicle License Fee (VLF) subventions, previously distributed by the State based on a per-capita formula, into property tax distributions. These distributions increase over time based on assessed value growth within each jurisdiction. These revenues to the City are projected to increase proportionately to an increase in the assessed value of the Project.

### **Transient Occupancy Tax**

Transient Occupancy Tax will be generated by the hotel component of the Project. Based on findings from TZK, average room rates for the boutique hotel product is approximately \$347.76 per night (2022 opening) and an occupancy rate of 90 percent at stabilization. The City currently collects a 14 percent tax on room charges, which accrues to the City's General Fund.

### **Sales Taxes**

The City General Fund receives 1 percent of taxable sales. A summary of these General Fund revenues is reflected in the sales tax estimate shown in **Table 1**. This analysis evaluates taxable sales generated by the direct food and beverage component of the hotel operations. Revenues reflect estimates from year three of operations (assumed stabilization).

Expenditures of ZinZanni patrons will include a portion of the ticket price (dinner is included in the cost of the ticket and taxed accordingly) and all additional sales of alcohol and other beverages. Hotel patrons are also expected to provide additional net new taxable spending in San Francisco, and sales taxes also will be generated by employee and business spending; however, these categories are not estimated as part of this preliminary analysis.

In addition to the 1 percent sales tax received by every city and county in California, voter-approved local taxes dedicated to transportation purposes are collected. Two special districts, the San Francisco County Transportation Authority and the San Francisco Public Financing Authority (related to San Francisco Unified School District), also receive a portion of sales taxes (0.50 and 0.25 percent, respectively) in addition to the 1 percent local portion. The City also receives revenues from the State based on sales tax for the purpose of funding public safety-related expenditures. For the purposes of this analysis, these non-General Fund sales tax revenue streams were not included.

### **Sales Taxes from Construction**

During the construction phase of the Project, one-time revenues will be generated by sales and use taxes on construction materials and fixtures. Sales tax will be allocated directly to the City and County of San Francisco in the same manner as described above. Because they are one-time revenues, construction-related sales taxes are not estimated or shown in **Table 1**.

### **Gross Receipts Tax**

Gross receipts tax revenues from on-site businesses and activities are not estimated as part of this analysis. Actual revenues from future gross receipt taxes will depend on a range of variables, including business sizes, share of activity within San Francisco, and other factors.

## **One-Time Development Impact Fee Revenues**

The City of San Francisco imposes impact fees on new development to mitigate all or a portion of the costs of providing public services to the new development. Applicable development impact fees relating to developing the Project include the following:

- 1) Jobs-Housing Linkage Fee
- 2) Transportation Sustainability Fee (TSF)
- 3) Child Care Fee
- 4) Schools Fee
- 5) Public Art Requirement
- 6) Bike Parking In Lieu Fee
- 7) Water and Wastewater Capacity Fees

### **Jobs-Housing Linkage Fee**

This fee addresses the impact created by employment generating uses to the availability of affordable housing in the City. The fee is calculated based on a per square foot basis for all commercial uses, including theater and retail at \$26.66 per square foot and hotel uses at \$21.39 per square foot.

### **Transportation Sustainability fee (TSF)**

In 2015, the City adopted the TSF ordinance which replaced the Transit Impact Development Fee (TIDF). The TSF is part of a broader Transportation Sustainability Program and was a fee increase when compared to the former TIDF nonresidential fee. The 2018 TSF fee rate is \$21.23 per square foot for nonresidential uses.

### **Child Care Fee**

The existing child care fee, levied at \$1.85 per square foot, addresses the impact created by certain employment-generating uses (hotel and office) on the availability of child care. While the fee would not be imposed if the Project elects to provide on- or off-site child care, this analysis assumes the in-lieu fee would be required. This analysis assumes payment of the existing Child Care fee but notes the projected fee level under the proposed fee structure that would increase per square foot fee levels.

### **School Impact Fee**

This fee addresses the impacts to the school system created by employment-generators and housing. The fee ranges from \$0.60 per square foot of theater and retail space to \$0.31 per square foot for hotel usage. It applies city wide and is imposed on "increased floor area."

### **Public Art Requirement**

The City of San Francisco requires location specific projects to provide public artwork on the private property equal to 1 percent of construction costs. The program was established by the 1985 Downtown Plan and is governed by Section 429 of the Planning Code. Since 2012, certain projects may choose to dedicate a portion of the 1 percent art requirement to the City's Public Art Trust.

### **Bike Parking In Lieu**

Following implementation of citywide bicycle parking standards, an ordinance was passed to established to allow a portion of the bicycle parking requirements to be satisfied by payment of the in lieu fee. The Project currently includes 25 spaces for bike parking at \$519 per space.

### **Water and Wastewater Capacity Fees**

Technically a capacity charge as opposed to a mitigation fee, Water and Wastewater Capacity Fees cover City costs in providing new or increased water service to customers. It applies citywide to all projects and is estimated to be a one-time payment of \$500,000.

### **Jobs Supported by Proposed Project**

The Project is expected to support nearly 415 temporary construction jobs on site and accommodate over 129 permanent workers on site as summarized below in **Table 3**.

EPS estimates that the Project will generate approximately 415 full-time equivalent jobs on site during the construction process, assuming direct construction costs of approximately \$71.2 million. In addition, the Project is expected to accommodate 118 full-time equivalent (FTE) workers on site at buildout. This total consists of approximately 62 Kenwood/ZinZanni employees, 48 hotel employees, and 8 restaurant employees.

**Table 3 Estimated Temporary and Ongoing Employment Supported by the Project**

<b>Impact Type</b>	<b>Sq.Ft.</b>	<b>Job-Years</b>
<b>Temporary Construction Employment<sup>1</sup></b>		<b>415</b>
<b>Annual Operational Employment</b>		
Theater	29,570	62
Hotel <sup>2</sup>	114,000	48
Restaurant <sup>3</sup>	<u>4,000</u>	<u>8</u>
<b>Total</b>	<b>147,570</b>	<b>118</b>

(1) Based on Project direct construction cost of \$71.2 million as provided by TZK.

(2) Hotel use assumes one full-time equivalent job for every four rooms.

(3) Assumes an average standard of one full-time equivalent job per every 500 square feet.

Sources: TZK Broadway; Teatro ZinZanni; and IMPLAN