File No. 100750

Committee Item No. 2
Board Item No. 43

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee BUDGET AND FINANCE Date 7/14/10

Board of Supervisors Meeting Date 7/20/10

Cmte	Board	
☒	☒	Motion
☐	☐	Resolution
☐	☐	Ordinance
☒	☒	Legislative Digest
☐	☐	Budget Analyst Report
☐	☐	Legislative Analyst Report
☐	☐	Introduction Form (for hearings)
☒	☒	Department/Agency Cover Letter and/or Report
☐	☐	MOU
☐	☐	Grant Information Form
☐	☐	Grant Budget
☐	☐	Subcontract Budget
☐	☐	Contract/Agreement
☐	☐	Award Letter
☐	☐	Application
☐	☐	Public Correspondence

OTHER (Use back side if additional space is needed)

☐	☐	
☐	☐	
☐	☐	
☐	☐	
☐	☐	

Completed by: Gail Johnson Date 7/12/10
Completed by: [illegible] Date 7/15/10

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

[Increase the Real Property Transfer Tax.]

Motion ordering submitted to the voters an ordinance authorizing an amendment to the Real Property Transfer Tax at an election to be held on November 2, 2010.

MOVED, That the Board of Supervisors hereby submits the following ordinance to the voters of the City and County of San Francisco, at an election to be held on November 2, 2010.

Ordinance amending the San Francisco Business and Tax Regulations Code by amending Section 1102 of Article 12-C - Real Property Transfer Tax to increase the Real Property Transfer Tax on certain properties.

NOTE: Additions are *single-underline italics Times New Roman*; deletions are ~~*strike-through italics Times New Roman*~~.

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

Section 1. The San Francisco Business and Tax Regulations Code is hereby amended by amending Section 1102 of Article 12-C to read as follows:

SEC. 1102. TAX IMPOSED.

There is hereby imposed on each deed, instrument or writing by which any lands, tenements, or other realty sold within the City and County of San Francisco shall be granted, assigned, transferred or otherwise conveyed to, or vested in, the purchaser or purchasers, or any other person or persons, by his or her or their direction, when the consideration or value of the interest or property conveyed (not excluding the value of any lien or encumbrances remaining thereon at the time of sale) (i) exceeds $100.00 but is less than or equal to ~~*$250,000.00*~~*$250,000.00*, a tax at the rate of $2.50 for each $500.00 or fractional part thereof; or

(ii) more than $250,000.00 and less than ~~$1,000,000.00~~*$1,000,000.00*, a tax at the rate of $3.40 for each $500.00 or fractional part thereof for the entire value or consideration, including, but not limited to, any portion of such value or consideration that is less than $250,000.00; or (iii) ~~more than~~*at least* $1,000,000.00 and less than $5,000,000.00, a tax at the rate of $3.75 for each $500.00 or fractional part thereof for the entire value or consideration, including, but not limited to, any portion of such value or consideration that is less than $1,000,000.00~~.~~; or (iv) ~~more than~~*at least* $5,000,000.00 and ~~above~~*less than $10,000,000.00*, a tax at the rate of *$10.00*~~$7.50~~ for each $500.00 or fractional part thereof for the entire value or consideration, including, but not limited to, any portion of such value or consideration that is less than $5,000,000.00*; or (v) at least $10,000,000.00 and above, a tax at the rate of $12.50 for each $500.00 or fractional part thereof for the entire value or consideration, including but not limited to, any portion of such value or consideration that is less than $10,000,000.00*. The People of the City and County of San Francisco authorize the Board of Supervisors to enact ordinances, without further voter approval, that will exempt rent-restricted affordable housing, as the Board may define that term, from the increased tax rate in subsections (iv) *and (v)*.

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

By: Carol A. Boardman
Carol A. Boardman
Deputy City Attorney

FILE NO. 100750

LEGISLATIVE DIGEST

[Increase the Real Property Transfer Tax]

Motion ordering submitted to the voters an ordinance authorizing an amendment to the Real Property Transfer Tax at an election to be held on November 2, 2010.

Existing Law

The Real Property Transfer Tax is currently imposed at rates that vary depending on the value or consideration of the property transferred. The rate for property valued at more than $100 but less than or equal to $250,000.00 is $2.50 for each $500.00 or fractional part thereof. The rate for property valued at more than $250,000.00 but less than or equal to $1,000,000.00 is $3.40 for each $500.00 or fractional part thereof that is less than $250,000.00. The rate for property valued at more than $1,000,000.00 but less than $5,000,000.00 is $3.75 for each $500.00 or fractional part thereof that is less than $1,000,000.00. The rate for property valued at more than $5,000,000.00 is $7.50 for each $500.00 or fractional part thereof that is less than $5,000,000.00.

..

Amendments to Current Law

This ordinance increases the rate for property valued at least $5,000,000.00 and less than $10,000,000.00, to $10.00 for each $500.00 or fractional part thereof for the entire value or consideration, including, but not limited to, any portion of such value or consideration that is less than $5,000,000.00 and adds a new rate for property valued at least $10,000,000.00. The rate for property valued at $10,000,000.00 and above is $12.50 for each $500.00 or fractional part thereof for the entire value or consideration, including but not limited to, any portion of such value or consideration that is less than $10,000,000.00.

Background Information

The amendment increases the rate for property valued at $5,000,000.00 and above.

CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

July 14, 2010

Mr. John Arntz
Department of Elections
City Hall, Room 48
Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4689

RE: Ordinance to increase the Real Property Transfer Tax on certain properties

Dear Mr. Arntz,

Had the proposed ordinance been in place during the period from Fiscal Year 2000-01 through Fiscal Year 2008-09, in my opinion, it would have resulted in average annual revenue increases ranging from $6 million to $90 million, averaging $36 million. The ordinance would increase the tax rate on transactions between $5 million and $10 million from 1.5% to 2%, and the rate on transactions over $10 million would increase from 1.5% to 2.5%.

While we estimate that the proposed ordinance would have resulted in average additional revenue of $36 million per year in the recent past, it is important to note that this is the City's most volatile revenue source, and estimates based on prior years' activity may not be predictive of future revenues.

Sincerely,

Ben Rosenfield
Controller

This analysis reflects our current understanding of the proposal. We will update this analysis as additional information becomes available. Should this item be placed on the November 2, 2010 ballot, we will prepare a fiscal impact statement for the Voter Information Pamphlet.

415-554-7500 City Hall • 1 Dr. Carlton B. Goodlett Place • Room 316 • San Francisco CA 94102-4694 FAX 415-554-7466

City and County of San Francisco

Office of the Controller – Office of Economic Analysis

Increasing the Real Property Transfer Tax (Amended): Economic Impact Report

Item #100750

Office of Economic Analysis

July 14, 2010

Introduction

- The City charges a tax on the transfer of real property, residential and commercial, equal to a percentage of the property's sale price.
- The tax is progressive in that sellers of higher-valued properties pay a higher tax rate.
- The proposed legislation would split the highest bracket, and raise the tax rates in the two highest brackets only.

Current and Proposed Transfer Tax Rates

Current Transfer Tax

Sales Price	Tax per $500 Value	Effective Percentage Tax Rate
<$250k	$2.50	0.50%
$250k -$1M	$3.40	0.68%
$1M - $5M	$3.75	0.75%
$5M+	$7.50	1.50%

Proposed Transfer Tax

Sales Price	Tax per $500 Value	Effective Percentage Tax Rate
<$250k	$2.50	0.50%
$250k -$1M	$3.40	0.68%
$1M - $5M	$3.75	0.75%
$5M - $10M	$10.00	2.00%
$10M+	$12.50	2.50%

Only properties selling for above $5 million would be affected by the tax. These are primarily commercial properties, and the vast majority of commercial properties would be affected.

Fiscal Impact of the Proposed Increase

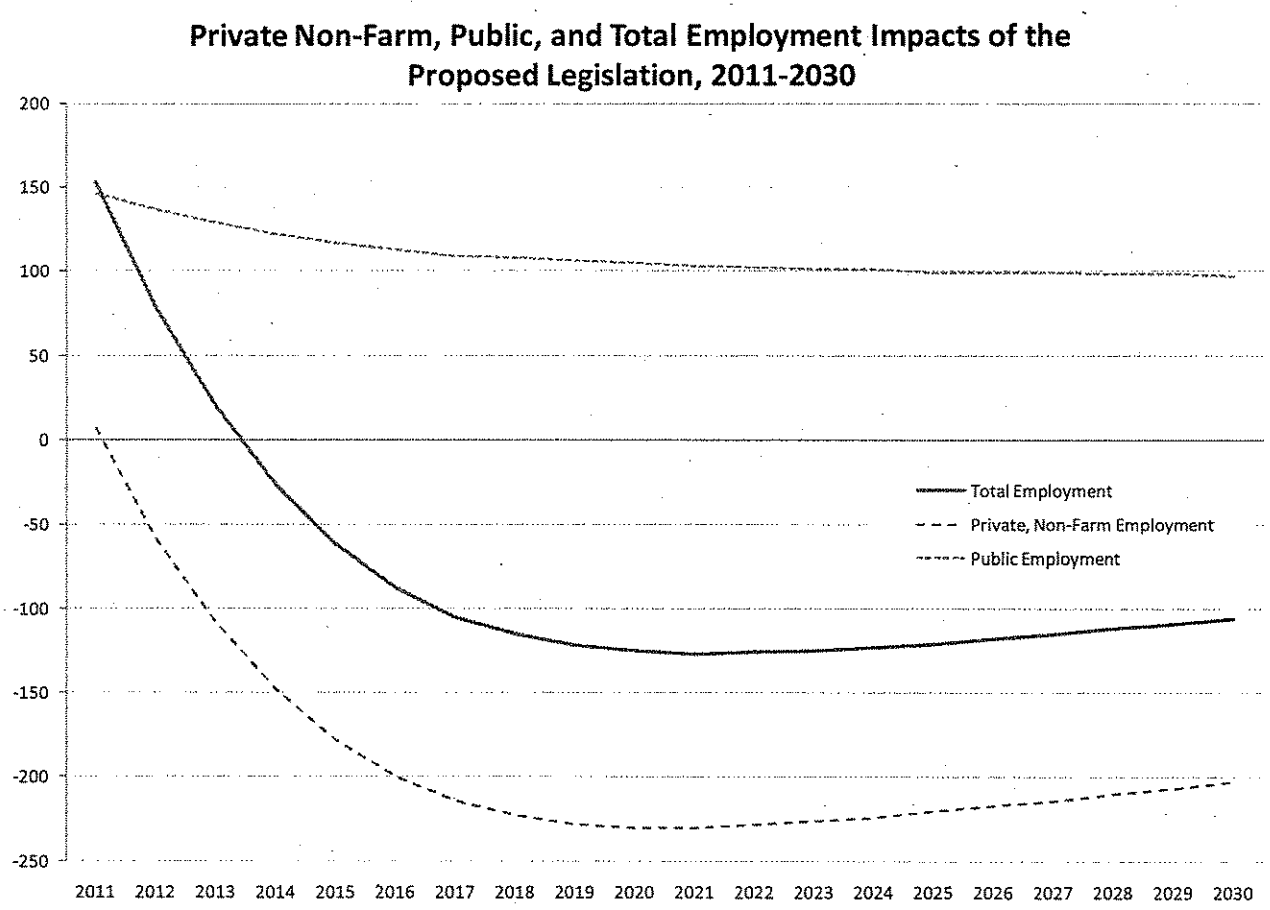
- The transfer tax is the City's most volatile tax revenue, and estimating changes to the tax involves high levels of uncertainty.
- If the proposed rates had been in effect the past nine years, the revenue gain would have fluctuated from $6M to $90M, with an average gain of $35M.

Fiscal Year	Revenue: Current Rates	Revenue: Proposed Rates	Gain Under Proposed
FY01	$85.2	$113.4	$28.2
FY02	$53.2	$59.8	$6.6
FY03	$56.9	$62.8	$5.9
FY04	$95.9	$114.3	$18.3
FY05	$160.6	$216.1	$55.5
FY06	$190.4	$266.7	$76.3
FY07	$203.3	$293.2	$89.8
FY08	$112.9	$144.3	$31.4
FY09	$52.8	$59.1	$6.3
			$35.4 Average Gain

Economic Impact Factors

- The vast majority of affected properties would be commercial real estate, particularly offices.
- These value of these would be reduced, both because of the higher tax payment upon transfer, and because a future buyer would pay less for a property with a larger transfer tax attached to it.
- Sellers would not be able to pass the tax on to buyers at the time of transfer. However, since essentially all office owners are affected, they would be able to raise rents on current tenants to offset their reduction in asset value.
- This pass-through would make San Francisco less competitive and reduce job growth relative to what it would be without the tax. The increased revenue to the City would be a countervailing economic benefit.
- The analysis on the next page assumes the tax is worth $35 million a year to the City, that 80% of office space in San Francisco is renter-occupied, and that commercial landlords can pass through 90% of the tax value to tenants in professional services & financial services, and corporate headquarters.

Economic Impact of Higher Rent and Government Spending



The initial impact of the legislation is positive for jobs and the economy, as the stimulus effect of increased government spending outweighs the contractionary effect of higher office rents. After year 2013, however, the loss of private sector jobs outweighs the public sector job benefit, for net job losses through 2030.

The average 20-year job loss is 180 private sector jobs, and 80 jobs in the public & private sectors. The average reduction to City GDP over 20 years is $30 million.

Staff Contacts

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