

Item 10 File 11-0749	Department(s): Office of the Treasurer and Tax Collector
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> The proposed ordinance would authorize the City and County of San Francisco to institute a one-half percent Safe Communities Transaction and Use Tax (Sales Tax) for a period of ten years if either the State Legislature or the State electorate do not reinstitute the temporary one percent increase in Sales Tax or impose a substantially similar tax before November 30, 2011. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> The State of California imposed a temporary one percent Sales Tax increase effective April 1, 2009 that expired on June 30, 2011, which increased San Francisco's Sales Tax rate from 8.5 percent to 9.5 percent. The decrease of one percent in the State Sales Tax rate as of July 1, 2011 will directly impact the State's General Fund and will likely result in decreased State funding to San Francisco in FY 2011-12. Per the text of the proposed ordinance and the supplementary Safe Communities Transaction and Use Tax Expenditure Plan, the Safe Communities Transaction and Use Tax is required to be expended for support of San Francisco's public safety and social safety net programs for children and senior citizens. <p style="text-align: center;">Fiscal Impacts</p> <ul style="list-style-type: none"> According to the Safe Communities Transaction and Use Tax Expenditure Plan, the proposed one-half percent Safe Communities Transaction and Use Tax is estimated to generate approximately \$60,000,000 in FY 2012-13 and approximately \$702,900,000 over the next ten years for the City and County of San Francisco. Each year, per the text of the proposed ordinance, 50 percent of the Safe Communities Transaction and Use Tax revenues, or approximately \$30,000,000 in FY 2012-13, would be required to be appropriated for public safety programs and 50 percent of the revenues, or approximately \$30,000,000 in FY 2012-13 would be required to be appropriated for social safety net programs for children and senior citizens. Specific programs within these categories and the amount for each program would be subject to annual appropriation approval by the Mayor and the Board of Supervisors. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> Approval of the proposed ordinance is a policy decision for the Board of Supervisors. 	

MANDATE STATEMENT/ BACKGROUND

Mandate Statement

In accordance with the City's Business and Tax Regulations Code Sections 1202-1204 and California Revenue and Taxation Code Section 7285.5, the California State Board of Equalization currently collects a one percent local Transaction and Use Tax (Sales Taxes) that is then transferred to the City and County of San Francisco's General Fund as well as various "special district use taxes" that benefit regional transportation and schools (see Table 1 below). In accordance with California Revenue and Taxation Code Section 7285.5, local Sales Taxes can be increased by multiples of one-quarter of one percent, not to exceed two percent, if approved by ordinance by two-thirds of the Board of Supervisors and subsequently approved by a two-thirds vote of the San Francisco electorate. This ordinance includes an expenditure plan describing how the proposed Sales Tax revenues would be expended.

Background

In 2009, the State Legislature imposed a temporary one percent increase in the State Sales Tax increasing it from 6.25 percent to 7.25 percent effective April 1, 2009 through June 30, 2011. The revenues from this one percent increase were dedicated to the State's General Fund. On July 1, 2011, because of the expiration of the temporary one percent increase in the State Sales Tax, the total Sales Tax in San Francisco decreased from 9.5 percent to 8.5 percent. Table 1 below shows the percentage allocation of revenues from both the previous 9.5 percent and current 8.5 percent Sales Tax for San Francisco:

Table 1: Sales and Use Tax

	6/30/2011	7/1/2011
State Sales Tax	7.25%	6.25%
<i>State General Fund</i>	6.00%	5.00%
Fiscal Recovery Act (+)	0.25%	0.25%
Local Revenue Fund	0.50%	0.50%
Public Safety Fund	0.50%	0.50%
Local Sales Tax	1.00%	1.00%
Local Sales Tax (General Fund)	1.00%	1.00%
Fiscal Recovery Act (-)	-0.25%	-0.25%
Local Transportation Tax (TDA)	0.25%	0.25%
Special District Use Tax	1.25%	1.25%
SF County Transportation Authority	0.50%	0.50%
Bay Area Rapid Transit (BART)	0.50%	0.50%
SF Public Financing Authority (Schools)	0.25%	0.25%
Total Sales Tax Rate for San Francisco	9.50%	8.50%

The State of California collected a total of approximately \$42,200,000,000 in Sales Taxes in FY 2009-10 at the 9.5 percent rate, of which approximately \$27,700,000,000 was allocated to the State's General Fund. Based on estimated projections by the State Board of Equalization, the projected annual decrease of State General Fund revenues with the expiration of the temporary one percent increase in Sales Tax is approximately \$4,600,000,000.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend the City's Business and Tax Regulations Code to add Article 16-A which would institute a one-half percent Safe Communities Transaction and Use Tax for a period of ten years, if either the State Legislature or State electorate do not reinstitute the temporary one percent increase or impose a substantially similar tax before November 30, 2011. The proposed ordinance would also create a special revenue fund called the Safe Communities Transaction and Use Tax Fund to receive the additional Sales Tax revenues and allocate those funds to public safety programs and social safety net programs for children and senior citizens.

The proposed ordinance would also approve the Safe Communities Transaction and Use Tax Expenditure Plan prepared by the Mayor's Office on June 14, 2011 which directs the Sales Tax revenues from the Safe Communities Transaction and Use Tax to be divided equally between Public Safety and Social Safety Net programs. Under the proposed ordinance, the Board of Supervisors would have the authority to adjust the percentage allocation of expenditures from the Safe Communities Transaction and Use Tax Fund by a two-thirds vote, provided that any proposed allocations could not be expended for purposes other than those described in the Safe Communities Transaction and Use Tax Expenditure Plan.

As required by Article XIIC of the California Constitution and Section 7285 of the California Revenue and Taxation Code, if approved by the Board of Supervisors, the proposed ordinance would be submitted to the San Francisco voters for approval at the November 8, 2011 municipal election. If approved by at least two-thirds of San Francisco voters, the proposed one-half percent Sales Tax would be effective on April 1, 2012.

FISCAL IMPACTS

According to Ms. Michelle Allersma of the Controller's Office, the local one percent Sales and Use Tax generates approximately \$120,000,000 in annual revenue for the City and County of San Francisco. Therefore, the proposed one-half percent Safe Communities Transaction and Use Tax is projected to generate approximately \$60,000,000 in FY 2012-13 for the City and County of San Francisco. Under the proposed ordinance, this one-half percent increase would be effective for ten years from April 1, 2012 through March 31, 2022. According to projections in the Safe Communities Transaction and Use Tax Expenditure Plan, as proposed by the Mayor's Office, as shown in Table 1 below, over this ten-year period, including projected increases in

overall Sales Tax revenues¹, the additional one-half percent Sales Tax would generate an estimated increase in Sales Tax revenue of \$702,900,000 for San Francisco.

Table 1: Expenditure Category (Millions)

Fiscal Year	Revenue	Public Safety	Social Safety Net
2012*	\$15.0	\$ 7.5	\$ 7.5
2013	\$60.0	\$30.0	\$30.0
2014	\$61.8	\$30.9	\$30.9
2015	\$63.7	\$31.8	\$31.8
2016	\$65.6	\$32.8	\$32.8
2017	\$67.5	\$33.8	\$33.8
2018	\$69.6	\$34.8	\$34.8
2019	\$71.6	\$35.8	\$35.8
2020	\$73.8	\$36.9	\$36.9
2021	\$76.0	\$38.0	\$38.0
2022	\$78.3	\$39.1	\$39.1
Total	\$702.9	\$351.4	\$351.4

* The first year would only include April 1, 2012 through June 30th, 2012

Although the proposed ordinance specifies that the additional revenues would be used for public safety and social safety net programs, the specific appropriation of the Safe Communities Transaction and Use Tax revenues would be determined annually by the Mayor's Office and Board of Supervisors, as part of the annual budget process with the exception of the partial year from April 1, 2012 to June 30, 2012. Those Sales Tax revenues would be available for supplemental appropriations.

POLICY IMPACTS

The California 2011-12 Budget signed into law on June 30, 2011 included \$12,500,000,000 in expenditure reductions. For public safety, a combination of reductions to the Vehicle License Fee² and the State's realignment of corrections³ will have a significant impact on San Francisco. Regarding social safety net programs for children and senior citizens, while the City is still in the process of developing estimates for how much funding will be reduced for children and senior citizens, Mr. Greg Wagner, the Mayor's Office Budget Director believes that the reductions could be substantial.

¹ Mr. Jonathan Lyens from the Mayor's Office advised that these ten-year projections assume an annual 3 percent inflation rate based on increasing prices which would result in additional Sales Tax revenue.

² As of July 1, 2011, the California Vehicle License Fee decreased from 1.15 percent of the value of a vehicle to 0.65 percent. This Fee is used to fund local Public Safety Programs, such that a reduction in the Vehicle License Fee will result in an undetermined reduction in State funding for local Public Safety Programs.

³ Currently, the State of California is in the process of transferring responsibility of some prisoners from the State to individual counties. Ms. Rebekah Krell of the Mayor's Office stated that the true cost of this additional responsibility will likely exceed (by an as yet undetermined amount) the \$5,787,088 that the State has pledged to San Francisco to offset this added responsibility.

According to Mr. Wagner, the proposed one-half percent Safe Communities Transaction and Use Tax is intended to allow the Mayor and the Board of Supervisors to prioritize the City's spending over the next ten years, rather than relying on unknown allocations of State revenues.

The Mayor's Office created an expenditure plan on June 14, 2011, that states, "Expenditures will be split evenly between traditional public safety programs and social safety net programs." The resolution specifically cites children and senior citizens as the targeted group for the social safety net programs. Based on projections in the Safe Communities Transaction and Use Tax Expenditure Plan, as prepared by the Mayor's Office, the one-half percent Safe Communities Transaction and Use Tax would generate an estimated \$60,000,000 in FY 2012-13 for San Francisco, of which \$30,000,000 of revenues would be available for public safety programs and \$30,000,000 would be available for social safety net programs for children and senior citizens. Table 2 below identifies some examples of public safety and social safety net programs that would be eligible for funding with the proposed additional Sales Tax revenues, although, as noted above, the specific appropriations would be determined each year during the annual budget process of the Mayor and the Board of Supervisors.

Table 2: Examples of Eligible Expenditures
<p>Protecting Public Safety (50%)</p> <ul style="list-style-type: none"> Community Policing Police Officer salaries Police Academy classes Fire and Emergency Services Firefighter salaries Vehicle and firefighting equipment replacement <p>Preserving the Social Safety Net (50%)</p> <ul style="list-style-type: none"> In Home supportive services program for seniors Meals for seniors Assistance for independent living Adult day care services Child Care and associated Children's Services Health Care for Children, Families and Seniors

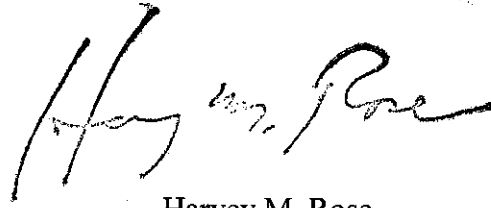
Source: Safe Communities Fund Expenditure Plan

Deputy City Attorney Jean Alexander confirmed that, in accordance with the proposed ordinance and the expenditure plan, the increased Sales Tax revenues must be used to fund public safety and social safety net programs. However, the even split between public safety programs and social safety net programs could be changed by a two-thirds approval of the Board of Supervisors.

If the proposed ordinance is not approved, the overall Sales Tax rate in San Francisco would remain at 8.5 percent. If the proposed ordinance is approved by San Francisco's voters on November 8, 2011, the overall Sales Tax rate in San Francisco would increase from 8.5 percent to 9.0 percent on April 1, 2012.

RECOMMENDATION

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

A handwritten signature in black ink, appearing to read "Harvey M. Rose". The signature is fluid and cursive, with the first name "Harvey" being more prominent than the last name "Rose".

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
Greg Wagner