



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

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B+F clerk

File 151275

Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

January 26, 2016

The Honorable Board of Supervisors
City and County of San Francisco
Room 244, City Hall

Angela Calvillo
Clerk of the Board of Supervisors
Room 244, City Hall

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RECEIVED
GENERAL BOND
JAN 27 2016

Re: Office of Economic Analysis Impact Report for File Number 151275

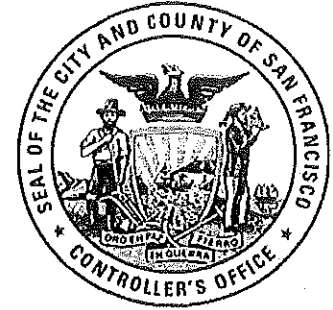
Dear Madam Clerk and Members of the Board:

The Office of Economic Analysis is pleased to present you with its economic impact report on file number 151275, "General Obligation Bond for Public Health and Safety: Economic Impact Report." If you have any questions about this report, please contact me at (415) 554-5268.

Best Regards,

Ted Egan
Chief Economist

cc Linda Wong, Committee Clerk, Budget and Finance Committee



General Obligation Bond for Public Health and Safety : Economic Impact Report

Office of Economic Analysis

Item # 151275

January 26th, 2016

Introduction

- On December 15, 2015, Mayor Lee introduced a resolution placing a \$350 million General Obligation bond on the June 2016 ballot.
- General Obligation (GO) bonds are debt instruments backed by a property tax surcharge. GO bonds must be approved by the voters with a two-third majority.
- The \$350 million bond would improve the earthquake safety of community health, emergency response and safety, and animal care facilities.
- The City has determined that many of these facilities are deteriorating and are seismically inadequate to ensure public health and safety in the event of a major earthquake.
- As with all general obligation debt issued by the City, the resolution provides that landlords may pass-through 50% of the resulting property tax increase to residential tenants in rent-controlled units.
- The OEA is issuing this report as the proposal could have material economic impact on the city, if it were approved by the voters.

Proposed Uses of the GO Bond Proceeds

According to the Department of Public Works in December, 2015, the uses of the bond proceeds would be as follows. The uses may be amended; however, if the total size of the bond does not change, any such amendment would not affect the conclusions of this report.

- \$222 million would go towards essential seismic retrofit and improvements at the Zuckerberg San Francisco General Hospital and Trauma Center.
- \$30 million would go towards renovation, expansion and modernization of fire response systems of Southeast Health Center at 2401 Keith St. in the Bayview-Hunter's Point Neighborhood.
- \$44 million will be used to construct a seismically safe San Francisco Fire Department Ambulance Deployment Facility.
- \$54 million would be dedicated to construct a seismically safe Animal Care and Control (ACC) shelter. The new multi-story animal shelter will be constructed within the envelope of an historic Municipal Railway Overhead Lines building at 1401-1419 Bryant St. The new facility would replace the existing seismically-vulnerable ACC building at 1200 15th St.

Economic Impact Factors

- **Construction Spending:** Approval of the ballot measure would lead to \$350 million in construction spending in the local economy.
- **Higher Property Taxes:** Although the City's Capital Plan introduces new general obligation debt only when older debt is retired, ensuring that property taxes do not rise, if the voters reject this proposal, the property tax rate would fall. Thus, the bond would result in a higher property tax rate than would otherwise be in effect.
- **Safer Facilities:** Improvement in the safety of vital public health infrastructure would reduce injuries, fatalities, and property damage, given the likelihood of an earthquake. However, given uncertainties in earthquake probabilities, the OEA is not able to quantify these benefits at this time.

Economic Impact Assessment

- The REMI model is a system of econometric models that represent important relationships in the city's economy. The OEA uses REMI to simulate the impact of policy changes.
- For this proposed legislation, the REMI model was used to assess the impact of:
 - A \$350 million increase in construction spending over a 5-year period, from 2017 to 2021, or \$70 million annually on average.
 - An increase in property taxes equivalent \$350 million in principal, plus interest rate financed at a 6% rate over a 20 year term, or about \$30.5 million annually, on average.
- Although the debt service costs exceed the construction spending, the net economic impact is projected to be positive. This is because the positive multiplier effects of construction spending outweigh the negative multiplier effects of higher property taxes.
- The net impact, however, is relatively small. Based on the REMI model simulation, the city's economy is expected to add an average of 90 jobs and grow by \$13.5 million, over the 20 year forecast horizon.
- Although the actual interest rate, and the timing of the expenditures, are subject to uncertainty, the finding of a positive net economic impact is not sensitive to reasonable alternative assumptions.

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