

## **MEMORANDUM**

To: TZK Broadway

From: James Musbach and Walker Toma

Subject: Economic Impacts of Proposed Teatro ZinZanni / Kenwood Hotel and Dinner Theatre; EPS #151160

Date: May 13, 2016

*The Economics of Land Use*



This memorandum provides a preliminary evaluation of the economic impacts associated with the development of the proposed Teatro ZinZanni Hotel and Dinner Theatre (Project), which includes a theater and entertainment venue space for Teatro ZinZanni, located at Seawall Lots 323 and 324 in San Francisco. The Project is proposed to be comprised of approximately 180 hotel rooms;<sup>1</sup> a new 285-seat live-performance dinner-theater performance and entertainment space, which includes a welcoming lobby and bar area, kitchen and back-of-house facilities for Teatro ZinZanni; and an approximately 10,000-square foot, privately funded public plaza and park at the intersection of Embarcadero and Broadway.

The Project will generate substantial revenues from development impact fees, which will support affordable housing, 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 (TOT); and sales, property, and other General Fund taxes that will flow to the City and County of San Francisco. This memorandum provides an overview of these estimated tax revenues, by type, at stabilization. In addition, this memorandum provides estimates for the number of construction and permanent jobs that will be generated by the Project.

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<sup>1</sup> Approximately 8 of the hotel rooms will be used by ZinZanni's performers as extended stay, discounted hotel lodging.

## 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 \$4.9 million in annual revenue to the City upon full Project build-out in 2016 dollars. These tax revenues will be available to help fund public improvements and services Citywide.

**Table 1 Summary of Select Annual General Fund Revenues (2016\$)**

Revenue Item	Annual General Fund Revenue
<b>Annual General Fund Revenue</b>	
Possessory Interest Tax	\$808,000
Property Transfer Tax	\$155,000
Property Tax in Lieu of VLF	\$131,000
Transient Occupancy Tax	\$3,672,000
Sales Tax	\$164,000
Gross Receipts Tax	<u>not estimated</u>
<b>Subtotal</b>	<b>\$4,931,000</b>

Sources: 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 \$7.8 million. 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, Gross Receipts Tax, which are not estimated as part of this preliminary analysis. A preliminary Parking Tax estimate is provided but not included in the fiscal impact summary.

**Table 2 Summary of One-Time Development Impact Fee Revenues (2016\$)**

<b>Impact Fee Category</b>	<b>Amount</b>
Jobs-Housing Linkage Fee	\$3,271,681
Transit Impact Development Fee (TIDF) [1]	\$2,446,129
Child Care Fee [2]	\$211,619
Schools Fee [3]	\$20,673
Public Art Requirement (1% of Hard Costs) [4]	\$851,740
Bike Parking In Lieu	\$10,500
Water and Wastewater Capacity Fees [5]	<u>\$1,000,000</u>
<b>Total Estimated Development Impact Fees</b>	<b>\$7,812,342</b>

[1] The Transportation Sustainability Fee (TSF) is proposed to replace the existing TIDF fee structure and would increase fees for commercial uses to \$18.04 per square feet. Under the TSF, the Project would pay an estimated \$3.1 million in transportation fees.

[2] A revision to the Child Care Fee was proposed in July, 2015. If adopted, fee levels would be increased on a per square foot fee levels as well as include residential uses. Under the proposed fee structure, the Project would generate an estimated \$275,000 in Child Care fees.

[3] School fees are calculated on "habitable square footage" only. Fee level was adjusted to reflect net square footage for all use types assuming 85 percent of gross.

[4] Hard cost estimate based on Webcor Builders 11/23/2015 estimate.

[5] TZK Broadway estimate based on SFPUC Resolution 07-0100.

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

## **Select Annual Fiscal Revenues**

### **Possessory Interest Tax**

The Project site is currently 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 Developer Team will pay possessory interest tax instead. Possessory interest tax will be assessed in much the same way standard property tax would be – based on the assessed value of the land and the improvements, subject to the limits established by Proposition 13.<sup>3</sup> The City receives up to \$0.65 of every possessory interest tax dollar collected; the balance goes to other agencies, including the Education Revenue Augmentation Fund (ERAF), which provides funding for schools. Taxpayers also pay various "overrides," including taxes for Citywide General Obligation bonds, special taxes and assessments that exceed the constitutional 1 percent property tax. These overrides are not estimated in this analysis. For purposes of this analysis, the development cost is used as a proxy to estimate the assessed value of the Project.

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<sup>3</sup> Ad valorem property taxes supporting general obligation bond debt in excess of this 1 percent amount are excluded for purposes of this analysis. Such taxes require separate voter approval and proceeds are payable only for uses approved by the voters.

### **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, \$20.00 per \$1,000 on transactions from \$5 million to \$10 million, and \$25.00 per \$1,000 on transactions above \$10 million.

The commercial components of the Project are expected to turnover once every 20 years. For estimating purposes, it is assumed that sales are spread evenly over each year, although it is more likely that sales will be sporadic. An average tax rate has been applied to the average sales transactions to estimate the potential annual transfer tax to the City. 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 (TOT)**

Hotel Room Tax (also known as Transient Occupancy Tax or TOT) will be generated by the hotel component of the Project. Based on findings from recent hotel market studies and information provided to the Port of San Francisco, this analysis assumes a nightly room rate of \$487 (in 2016 dollars) and an occupancy rate of 85 percent in year three of operations (assumed stabilization). The City currently collects a 14 percent tax on room charges, which accrues to the City's General Fund. Based on the pro forma included in the January 2016 memorandum to the Port, the City would begin collecting TOT revenues of approximately \$3.2 million in 2019, and increasing to approximately \$3.7 million at stabilization (2021).

### **Sales Taxes**

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

In addition, this analysis evaluates taxable expenditures by Teatro ZinZanni patrons for both 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. For the purposes of this analysis, the average ticket price for Teatro ZinZanni is estimated to be \$150 per person, 30 percent of which is estimated to be taxable. In addition, patrons are estimated to spend an average of \$33 per show on alcoholic and other beverages (these expenditures reflect additional spending beyond the price of the ticket). 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.

### **Parking Tax**

Since 2007, the City of San Francisco has imposed a 25 percent occupancy tax on all non-residential parking spaces in the City. Revenue generated by the Parking Tax supports a variety of SFTMTA operations; however, as the Parking Tax does not support General Fund operations it has been excluded from the fiscal impact summary shown in **Table 1**. Based on preliminary estimates of hotel occupancy, anticipated theater patrons, and associated parking demand, EPS estimates nearly \$75,000 in parking tax would be generated annually. Note that this calculation assumes existing garage and street parking in the project area can absorb the increased parking demand generated by the Project as was found in the December 9, 2015 CHS memorandum on vehicle trip generation and parking demand.

## **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) Transit Impact Development Fee (TIDF)
- 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.

### **Transit Impact Development Fee**

The existing Transit Impact Development Fee (TIDF) is imposed to address the impact created by non-residential uses on the transit system. For the purposes of the Proposed Project, and consistent with current Planning Department policy, non-residential uses would pay the TIDF fee for all net new square footage.

### **Child Care Fee**

The existing child care fee 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. It applies city wide and is imposed on gross square footage (not net new) for all uses.

### **Public Art Requirement**

The City of San Francisco requires specific projects to provide public artwork on the private property equal to 1 percent of project costs. All or part of this requirement may be satisfied by either providing accepted art of the resulting 1 percent valuation on-site, or paying such amount to a newly established Public Art Trust Fund (Fund).

### **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.

### **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 city wide to all projects. For the purposes of this preliminary analysis, capacity fees were not included here.

## **Jobs Supported by Proposed Project**

The Project is expected to support nearly 425 temporary construction jobs on site<sup>4</sup> and accommodate over 105 permanent workers on site as summarized below in **Tables 5** and **6**.

EPS estimates that the Project will generate approximately 425 full-time equivalent jobs on site during the construction process, assuming direct construction costs of approximately \$76 million. In addition, the Project is expected to accommodate 107 full-time equivalent (FTE) workers on

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<sup>4</sup> Although additional jobs are anticipated to be supported through indirect and induced effects of the Project's construction spending, only direct job creation is calculated as a part of this preliminary analysis.

site at buildout. This total is comprised of approximately 62 Teatro ZinZanni employees, performers, band members and support staff, and 45 hotel employees.

**Table 3 Estimated Temporary Employment Supported by Project Construction**

Impact Type	Employment
Direct Effect	423

\* Assumes Project direct construction cost of \$76 million based Webcor Builders 10/23/2015 estimate.

**Table 4 Estimated Ongoing Employment Supported by Project**

Types	Net New SF	Jobs
Entertainment [1]	28,301	62
Hotel [2]	146,591	45
<b>Total Net New Jobs</b>		<b>107</b>

[1] Entertainment use includes theater operations, restaurant and bar component. Job estimates of 50 full-time and 24 part-time employees provided by Teatro ZinZanni. For the purposes of this analysis, part-time employees assumed to equal .5 FTE.

[2] Hotel use assumes one full-time equivalent job for every four rooms.

Sources: TZK Broadway; Teatro ZinZanni.