

# City & County of San Francisco

## Revenue Advisory Panel – Summary Report & Findings

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Revenue Advisory Panel  
Chaired by Supervisor Fiona Ma  
September 2003 to March 2004

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Report Date: April 2004

## I. Executive Summary

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Supervisor Fiona Ma convened the Revenue Advisory Panel in September 2003. She charged the Panel with reviewing the City's revenue system in a holistic, analytically rigorous and comprehensive way, with the goal being a system that is fair, simple and supports economic growth.

Over 70 interested stakeholders, including representatives from business, non-profits, labor and City staff, participated in a dozen meetings held over the course of seven months. Stakeholders participated by sharing revenue strategies, ideas and alternatives, along with their projected impacts to their constituency base. Participants identified criteria on which they would judge each revenue alternative. In addition to the required criteria that any alternative be legally practicable, the Panel developed four general categories of evaluative criteria:

- Promotes Economic Development
- Promotes Administrative, Tax & Fiscal Efficiency
- Ensures Payer Equity & Fairness
- Provides Adequate Resources

After a review of the City & County of San Francisco's main revenue sources, including detailed summaries of the City's larger, general tax revenues, which comprise half of the City's General Fund, the Panel narrowed the list of preferred alternatives to be forwarded to policymakers for further deliberation. Over 30 revenue ideas (or combinations of such) were discussed to varying degrees. Six ideas or categories emerged as more popular or as having a larger potential revenue impact – gauged through two straw polls and an anonymous ballot as illustrated on the following page. The top categories included:

### **Top 3 Categories Favored by Panel Participants**

- Local Vehicle License Fee (Assemblyman Leno's Proposal)
- Business Taxes
- Tenant Homebuyer Program (Rental Housing Conversions to Condos)

### **Next 3 Larger-Impact Categories Considered by Panel Participants**

- Real Property Transfer Tax
- Property Parcel Tax
- Utility Users Tax

Over the seven-month process more ideas than those included in the ballot summary were presented. A complete list is provided in Section V of this report. This report summarizes the Panel's deliberation process and provides summary details and background information on the City's larger revenues. For further information about City revenues and various proposals discussed by the Revenue Advisory Panel, please contact Todd Rydstrom, Director of Budget & Analysis, at 415-554-4809 or at [Todd.Rydstrom@sfgov.org](mailto:Todd.Rydstrom@sfgov.org) in the Controller's Office.

# Revenue Alternatives: Survey of Revenue Advisory Panel - March 26, 2004

Support? Check One.

			Est. Value in US\$ Millions	
Yes	No	Blank	FY 2004-05	FY 2005-06
☆ 28	4	1	\$ 16.0	\$ 64.0

## Vehicle License Fee

☆ ■ Assemblyman Leno's Local VLF Proposal

## Property - Transfer Tax

13	15	5	■ Make SF's same as Berkeley & Oakland, avg. 0.71% to 1.61% (Single Rate)	\$ 34.9	\$ 69.7
9	15	9	■ Former Prop L - Double > \$1M, 0.75% to 1.50% (Top Tier Increase Only)	\$ 12.4	\$ 24.7
12	16	5	■ Gonzalez Proposal - Double > \$2M, 0.75% to 1.50% (Top Tier Increase Only)	\$ 7.1	\$ 14.1

## Business Taxes

5	20	8	■ #1 Payroll Tax - Rate Change, 1.50% to 1.60%	\$ 9.4	\$ 18.8
8	19	6	■ #2 Payroll Tax - Rate Change, 1.50% to 1.45%	\$ (4.7)	\$ (9.4)
☆ 19	12	2	☆ ■ #3 Payroll Tax - Close 'Partnership Compensation' Loophole	\$ 13.5	\$ 13.5
☆ 15	11	7	☆ ■ #4 Receipts-based Tax, Gross, Net or Modified e.g. Gross or Net Receipts @ Low Rate to Collect Local Actuals Data for Tax Study	<b>Multiple Proposals</b>	
14	16	3	■ #5 Commercial Occupancy Tax [e.g. square footage based, LA Study]	\$ 39.4	\$ 39.4
☆ 22	5	6	☆ ■ #6 Tax Holiday for Biotechnology Firms for __ (insert # of ) years Voters expressed support for tax holiday durations of: 5, 10, 15, and 10-15 years.	<b>Depends on Duration</b>	
7	17	9	■ #7 Combination of ... above #2 & #4 ... with Revenue Neutrality	\$ -	\$ -

## Utility Users Tax

6	22	5	■ Charging Residential Users of Energy & Landline Telephone	\$ 14.4	\$ 28.9
4	22	7	■ Charging Residential Users of Energy, Landline Telephone & Cable TV (all)	\$ 18.9	\$ 37.8

## Property - Parcel Tax

6	17	10	■ \$250 per parcel	\$ 46.1	\$ 46.1
10	17	6	■ \$250 per residential parcel, and \$1,000 per non-residential parcel	\$ 68.2	\$ 68.2
7	18	8	■ Per Square Foot of Improvement	<b>Multiple Proposals</b>	

## Tenant Homebuyer Program (Write-In)

☆ 14	1	18	☆ ■ Assuming 1,000 Units per year	\$3.3 to \$5.2	\$4.6 to \$7.4
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☆ Represents a simple majority, voter preference.

**Total Ballots - 33 Submitted, vs. 45 attendees** (including 4 non-voting Controller Staff).

80% ... % estimated to have voted.

## II. Objectives & Scope

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In September 2003, Supervisor Fiona Ma formed the Revenue Advisory Panel and charged the Panel to review the revenue structure of the City and County of San Francisco. Participants were notified that this Panel would provide an opportunity for any interested stakeholder to learn about existing City revenues and to propose increases, decreases or other enhancements that would ensure a system that is fair, simple and supports economic growth.

The Controller's Office along with various other City staff presented materials over the seven-month process. The Panel was asked to review the existing revenue system, including a review of tax revenues, and provide ideas, strategies and alternatives that could be forwarded to policy makers and ultimately support the goal of moving the City's system toward one that is more fair, simpler, and supports economic growth.

The process roadmap used by the Panel is summarized below.

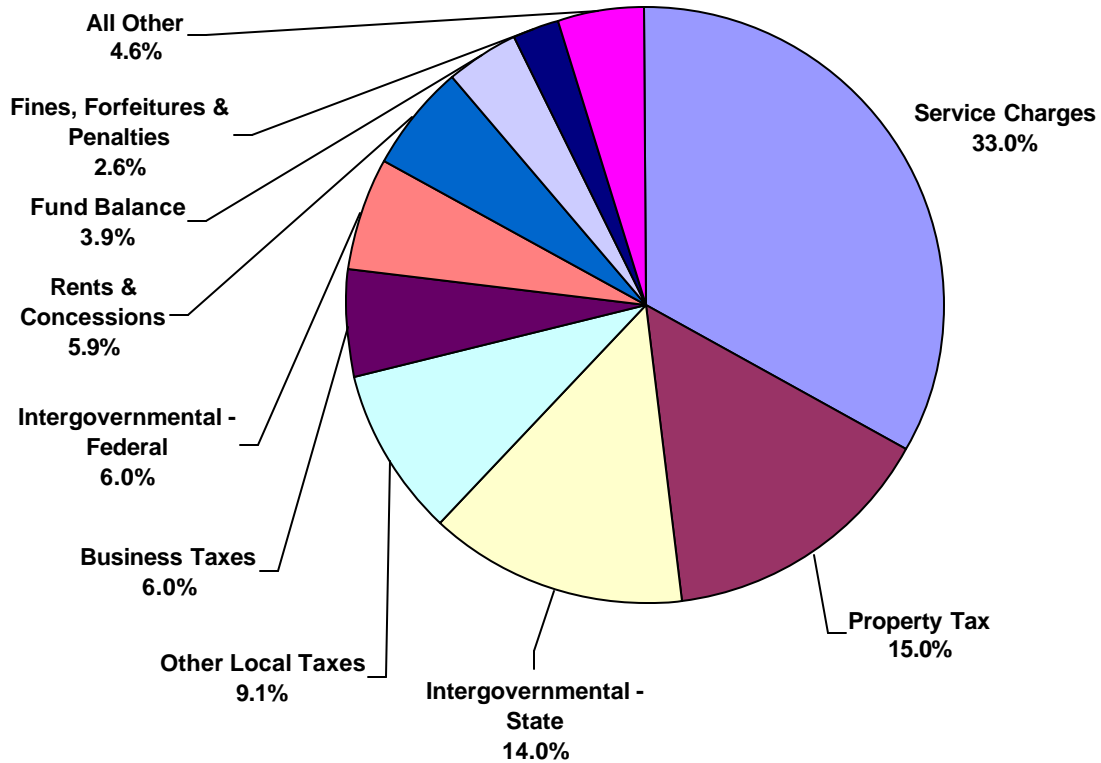
### Revenue Analysis - Process Road Map

- 1 Define... What is our policy problem or policy opportunity?**
- 2 Assess... What does our current revenue system look like? What about our neighbors?**
- 3 Establish... What constitutes an efficient / effective revenue system? How does it look?**
- 4 Identify... How will revenue alternatives be compared? What are the evaluative criteria?**
- 5 Propose & Discuss... What are the proposed alternatives?**
- 6 Compare... How do the Alternatives stack up against the Evaluative Criteria?**
- 7 Decide & Recommend... What will the Revenue Working Group recommend?**
- 8 Communicate... Forward Ballot Proposition and have the Voters ultimately decide.**

### III. Current Revenue System & Background

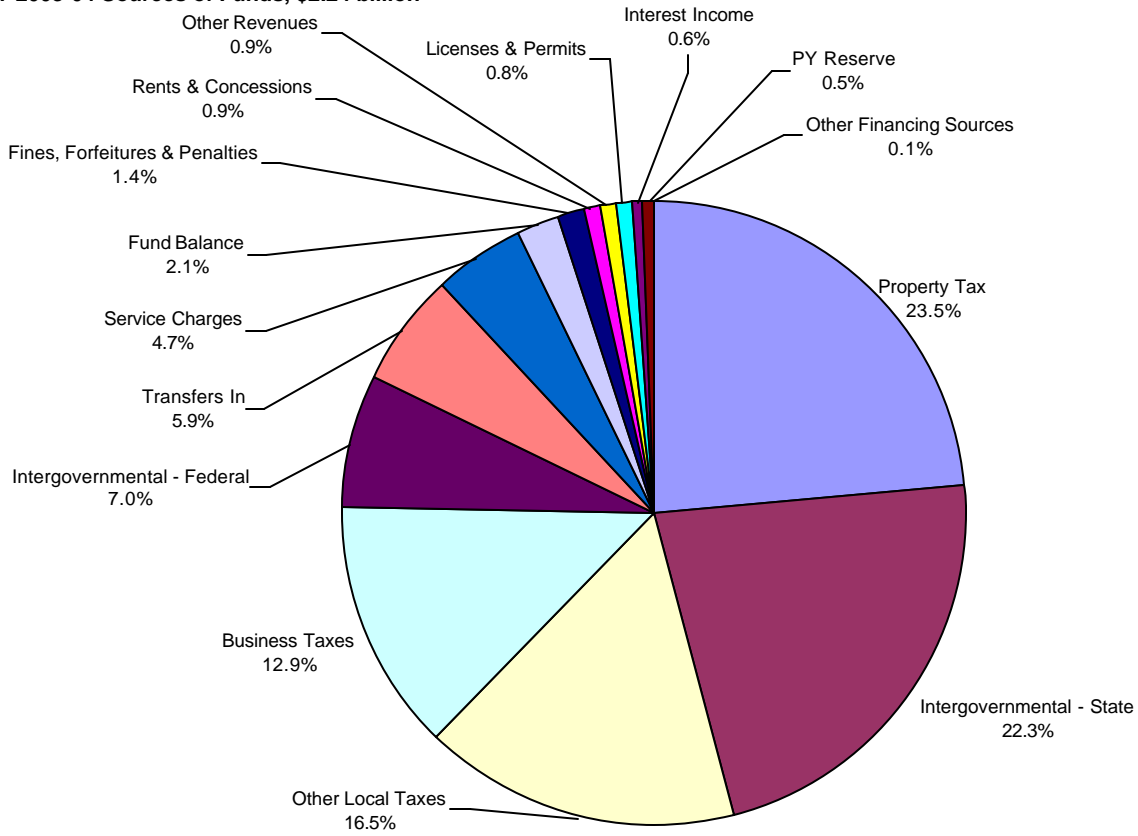
#### Current Revenue System Tax Overview

City & County of San Francisco's All Funds Budget  
 FY 2003-04 All Sources of Funds, \$4.8 billion



REVENUES By Size	FY2003-04 Budget	% of Total
Charges for Services	\$ 1,583,692,578	33.0%
Property Tax	718,456,020	15.0%
Intergovernmental - State	671,508,885	14.0%
Other Local Taxes	435,855,623	9.1%
Business Taxes	289,319,318	6.0%
Intergovernmental - Federal	286,794,974	6.0%
Rents & Concessions	282,160,147	5.9%
Fines, Forfeitures & Penalties	125,130,822	2.6%
ALL Other Revenues, including...	208,852,286	4.4%
Other Revenues		
Intergovernmental - Other		
Interest & Investment Income		
Licenses & Permits		
Contributions (Retirement)		
ISF Charges for Services		
Non-ISF Charges		
<b>Total Regular Revenues</b>	<b>\$ 4,601,770,653</b>	<b>95.9%</b>
<b>PY Fund Balance (FB)</b>	<b>186,317,048</b>	<b>3.9%</b>
<b>PY Reserves (FB)</b>	<b>11,423,818</b>	<b>0.2%</b>
	<b>\$ 4,799,511,519</b>	<b>100.0%</b>

**City & County of San Francisco's General Fund  
FY 2003-04 Sources of Funds, \$2.24 billion**



**General Fund Sorted by Size**

Sources of Funds	FY2003-04	
	Original Budget	% of Total
Property Tax	\$ 527,743,737	23.5%
Intergovernmental - State	500,300,355	22.3%
Other Local Taxes	371,250,623	16.5%
Business Taxes	288,619,318	12.9%
Intergovernmental - Federal	156,914,333	7.0%
Transfers In	132,710,845	5.9%
Service Charges	106,563,766	4.7%
Fines, Forfeitures & Penalties	31,680,929	1.4%
Rents & Concessions	20,015,084	0.9%
Other Revenues	19,250,961	0.9%
Licenses & Permits	17,074,300	0.8%
Interest Income	12,511,000	0.6%
Other Financing Sources	1,625,000	0.1%
<b>Total Sources</b>	<b>2,186,260,251</b>	<b>97.4%</b>
PY Fund Balance (FB)	47,059,038	2.1%
PY Reserves (FB)	11,423,818	0.5%
	<b>\$ 2,244,743,107</b>	<b>100.0%</b>

## General Fund Revenues ... Who Pays & Contributes By Type of Revenue

FISCAL YEAR 2003-04									
GENERAL FUND (millions)	Original Budget (millions)	% of Total	Shading Indicates ' Who Pays / Contributes'						
			Residents		Visitors	Government		Consumer Service User	Other
			Citizen	Business		Federal	State		
<b>1 PROPERTY TAXES</b>	\$ 527.74	24.0%							
<b>BUSINESS TAXES:</b>									
2 Business Registration Tax	\$ 6.53	0.3%							
3 Gross Receipts Tax	\$ -	0.0%							
4 Payroll Tax	\$ 282.09	12.8%							
<b>Total Business Taxes</b>	<b>\$ 288.62</b>	<b>13.1%</b>							
<b>OTHER LOCAL TAXES:</b>									
5 Sales Tax	\$ 122.51	5.6%							
6 Hotel Room Tax	\$ 90.05	4.1%							
7 Utility Users Tax	\$ 68.36	3.1%							
8 Parking Tax	\$ 32.66	1.5%							
9 Real Property Transfer Tax	\$ 55.00	2.5%							
10 Admission Tax	\$ 2.67	0.1%							
<b>Total Other Local Taxes</b>	<b>\$ 371.25</b>	<b>16.9%</b>							
<b>LICENSES, PERMITS &amp; FRANCHISES</b>									
11 Licenses & Permits	\$ 6.05	0.3%							
12 Franchise Tax	\$ 11.02	0.5%							
<b>Total Licenses, Permits &amp; Franchises</b>	<b>\$ 17.07</b>	<b>0.8%</b>							
13 <b>FINES, FORFEITURES &amp; PENALTIES</b>	<b>\$ 31.68</b>	<b>1.4%</b>							
14 <b>INTEREST &amp; INVESTMENT INCOME</b>	<b>\$ 12.51</b>	<b>0.6%</b>							
<b>RENTS &amp; CONCESSIONS</b>									
15 Garages - Rec/Park	\$ 7.74	0.4%							
16 Rents and Concessions - Rec/Park	\$ 11.95	0.5%							
17 Other Rents and Concessions	\$ 0.32	0.0%							
<b>Total Rents and Concessions</b>	<b>\$ 20.02</b>	<b>0.9%</b>							
<b>INTERGOVERNMENTAL REVENUES</b>									
18 Federal Social Service Subventions	\$ 154.04	7.0%							
19 Federal Other Grants & Subventions	\$ 2.88	0.1%							
<b>Total Federal Subventions</b>	<b>\$ 156.91</b>	<b>7.1%</b>							
20 State Social Service Subventions	\$ 126.59	5.8%							
21 State Health & Welfare Realignment	\$ 132.56	6.0%							
22 State Health/Mental Health Subventions	\$ 69.35	3.2%							
23 State Public Safety Sales Tax	\$ 65.32	3.0%							
24 State Motor Vehicle In-Lieu	\$ 112.61	5.1%							
25 State Other Grants & Subventions	\$ (6.13)	-0.3%							
<b>Total State Subventions</b>	<b>\$ 500.30</b>	<b>22.8%</b>							
<b>CHARGES FOR SERVICES:</b>									
26 General Government Service Charges	\$ 25.74	1.2%							
27 Public Safety Service Charges	\$ 15.93	0.7%							
28 Recreation Charges - Rec/Park	\$ 5.37	0.2%							
29 MediCal, MediCare and Health Svc Chgs	\$ 38.69	1.8%							
30 Other Service Charges	\$ 11.48	0.5%							
<b>Total Charges for Services</b>	<b>\$ 97.21</b>	<b>4.4%</b>							
31 <b>RECOVERY OF GEN. GOV'T. COSTS</b>	<b>\$ 9.36</b>	<b>0.4%</b>							
32 <b>OTHER REVENUES</b>	<b>\$ 20.88</b>	<b>1.0%</b>							
<b>TOTAL REVENUES</b>	<b>\$ 2,053.55</b>	<b>93.5%</b>							
<b>TRANSFERS INTO GENERAL FUND:</b>									
33 Airport	\$ 25.27	1.2%							
34 Other Transfers	\$ 117.45	5.3%							
<b>TOTAL GENERAL FUND RESOURCES</b>	<b>\$ 2,196.28</b>	<b>100.0%</b>							

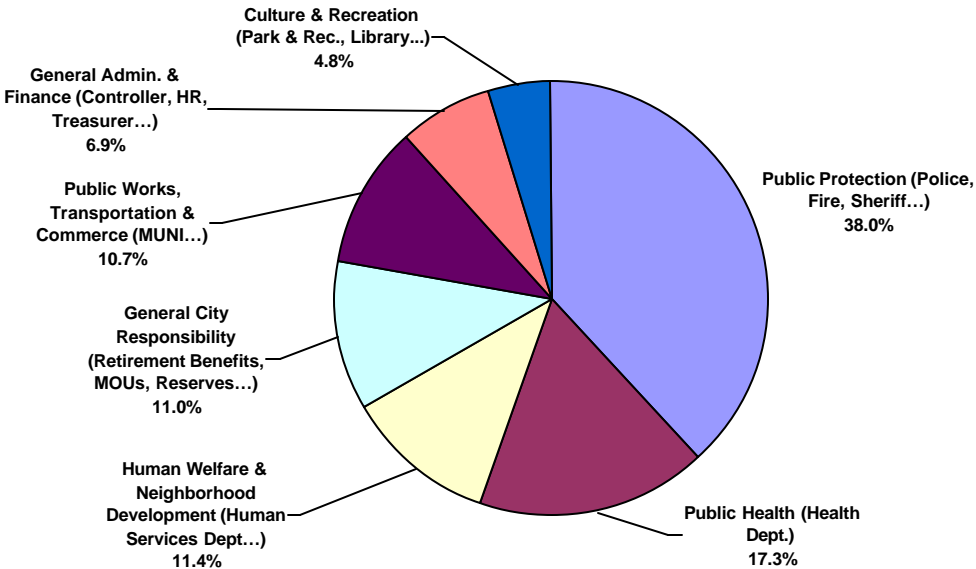
■ Indication of 'Who Pays / Contributes'.

■ Burden is partially on citizens, businesses and visitors, though revenue actually collected from the State (generally formula based).

**Budgeted Use of General Taxes & Other Discretionary Revenues**

The previous three pages illustrate the budgetary sources, including everything from service charges and taxes to rents and fund balance. It is also helpful to review the budgetary uses to summarize how the discretionary revenues are used. The illustration below summarizes the \$1.5 billion in General Fund Support allocations in the FY 2003-04 budget – that is, the amount of general revenues needed to cover the difference between a department’s expenditure budget and its departmental revenues.<sup>1</sup> Discretionary revenues, like general taxes, ultimately cover the cost of providing governmental services that are not otherwise covered by departmental fees, federal or state subventions or other departmental revenues.

**FY 2003-04 Original Budget**



<b>Major Service Area</b>	<b>FY 2003-04 Budget</b>
Public Protection	\$ 557,041,234
Public Health	\$ 253,696,047
Human Welfare & Neighborhood Development	\$ 166,745,564
General City Responsibility	\$ 161,354,912
Public Works, Transportation & Commerce	\$ 156,813,341
General Admin. & Finance	\$ 100,829,229
Culture & Recreation	\$ 69,987,817
<b>Total General Fund Support</b>	<b>\$ 1,466,468,144</b>

<sup>1</sup> Of the \$1.5 billion, approx. \$0.4 billion covers Charter mandates, like the Municipal Transportation Agency, Library and Children’s Baselines, Employee/Retiree Health & Dental Benefits, and minimum Police staffing.



The General Fund Support allocation can also be illustrated by department as follows:

	Supported by		% of Total
	Total Budget FY 2003-04	General Fund FY 2003-04	
<b>Public Protection</b>			
Police	\$ 294,723,470	\$ 211,439,637	71.7%
Fire	\$ 216,150,251	\$ 141,149,293	65.3%
Sheriff	\$ 111,943,271	\$ 89,392,627	79.9%
Trial Courts	\$ 39,974,899	\$ 32,589,710	81.5%
District Attorney	\$ 30,657,011	\$ 21,882,532	71.4%
Juvenile Probation	\$ 29,583,276	\$ 20,540,928	69.4%
Public Defender	\$ 16,005,467	\$ 15,454,675	96.6%
Emergency Communications	\$ 34,993,938	\$ 12,571,467	35.9%
Adult Probation	\$ 9,719,038	\$ 8,140,809	83.8%
Admin. Svcs. - Medical Examiner	\$ 4,177,546	\$ 3,879,556	92.9%
<b>Subtotal - Public Protection</b>	<b>\$ 787,928,167</b>	<b>\$ 557,041,234</b>	<b>70.7%</b>
<b>Public Works, Transportation &amp; Commerce</b>			
Municipal Transportation Agency	\$ 541,197,079	\$ 129,022,850	23.8%
Public Works	\$ 156,754,054	\$ 24,489,605	15.6%
Telecommunication & Information Svcs.	\$ 73,203,523	\$ 1,671,088	2.3%
Public Finance & Business Affairs	\$ 1,851,239	\$ 1,366,336	73.8%
Public Utilities Commission	\$ 582,036,975	\$ 196,239	0.0%
Board of Appeals	\$ 455,341	\$ 67,223	14.8%
<b>Subtotal - PW, Transport. &amp; Commerce</b>	<b>\$ 1,355,498,211</b>	<b>\$ 156,813,341</b>	<b>11.6%</b>
<b>Human Welfare &amp; Neighborhood Development</b>			
Human Services	\$ 495,059,726	\$ 144,396,271	29.2%
Children, Youth & Their Families	\$ 44,384,120	\$ 10,636,229	24.0%
Aging & Adult Services	\$ 30,794,654	\$ 7,673,323	24.9%
Department on the Status of Women	\$ 2,743,323	\$ 2,399,263	87.5%
Human Rights Commission	\$ 4,200,963	\$ 1,572,182	37.4%
County Education Office	\$ 68,296	\$ 68,296	100.0%
<b>Subtotal - Human Welfare &amp; Nbrhd. Dev.</b>	<b>\$ 577,251,082</b>	<b>\$ 166,745,564</b>	<b>28.9%</b>
<b>Community Health</b>			
Public Health	\$ 1,000,612,084	\$ 253,696,047	25.4%
<b>Culture &amp; Recreation</b>			
Recreation & Park Commission	\$ 106,489,982	\$ 31,761,801	29.8%
Public Library	\$ 56,881,840	\$ 29,481,203	51.8%
Asian Art Museum	\$ 7,860,723	\$ 4,294,723	54.6%
Art Commission	\$ 7,612,118	\$ 2,054,020	27.0%
Academy of Sciences	\$ 1,899,291	\$ 1,899,291	100.0%
Law Library	\$ 512,962	\$ 496,779	96.8%
<b>Subtotal - Culture &amp; Recreation</b>	<b>\$ 181,256,916</b>	<b>\$ 69,987,817</b>	<b>38.6%</b>
<b>General Administration &amp; Finance</b>			
Controller's Office	\$ 22,298,040	\$ 19,452,525	87.2%
Human Resources	\$ 76,770,007	\$ 16,271,379	21.2%
Treasurer / Tax Collector	\$ 19,254,717	\$ 12,708,429	66.0%
Administrative Services	\$ 86,993,268	\$ 11,555,491	13.3%
Elections	\$ 13,480,709	\$ 11,166,386	82.8%
Board of Supervisors	\$ 9,291,198	\$ 8,856,698	95.3%
City Attorney	\$ 46,107,799	\$ 7,138,602	15.5%
Assessor / Recorder	\$ 12,061,909	\$ 6,951,643	57.6%
Mayor	\$ 9,163,730	\$ 5,471,447	59.7%
Ethics Commission	\$ 909,518	\$ 732,574	80.5%
Civil Service Commission	\$ 653,544	\$ 524,055	80.2%
<b>Subtotal - General Admin. &amp; Finance</b>	<b>\$ 296,984,439</b>	<b>\$ 100,829,229</b>	<b>34.0%</b>
General City Responsibility	\$ 292,411,839	\$ 161,354,912	55.2%
All Other Departments, less Recoveries	\$ 307,568,781	\$ -	0.0%
<b>TOTAL</b>	<b>\$ 4,799,511,519</b>	<b>\$ 1,466,468,144</b>	<b>30.6%</b>

## IV. Evaluative Criteria

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Group participants provided input as to what evaluative criteria should be used to evaluate revenue proposals. Just as is typically the case with public policy issues, the evaluative criteria outlined by the Panel participants have inherent conflict within and across categories, not to mention the relative importance for each participant. Participants concluded that in addition to the necessary criteria that an alternative is legally viable, four major categories of criteria should be used. These include:

### I. Promotes Economic Development

#### **Creates a Business Friendly Tax Structure**

- > Promotes quality job growth
- > Promotes jobs that match the local skill base
- > Promotes business retention
- > Makes San Francisco a less costly location to do business
- > Enhances San Francisco's regional competitiveness
- > Encourages unique LOCAL manufacturing - light industry
- > Includes targeted tax credits for 'targeted' industries

#### **Provides funding for infrastructure and necessary for economic development**

#### **Diversifies our economic base**

#### **Provides for a phased-in implementation of any tax change**

### II. Promotes Administrative, Tax & Fiscal Efficiency

#### **Administration Efficiency**

- > Keeps and ensures administration is straight forward, stream-lined and simple
- > Minimizes costs to administer, collect, monitor, appeal & audit
- > Requires no new bureaucracy or additional staffing
- > Is easy for taxpayers to understand
- > Promotes collection of delinquent taxes

#### **Tax Efficiency**

- > Costs are federal tax deductible for the payer
- > Costs are state tax deductible for the payer

#### **Budget & Cash Flow Efficiency**

- > Maintains or adds to the budgeted revenue diversity
- > Maintains or adds to the cash flow predictability & timing needs
- > Revenue is relatively stable during downturns and predictable
- > Revenue source is dynamic, growing over time in tandem with costs

### III. Ensures Payer Equity & Fairness

**Cost burden is distributed across wide base of taxpayers**

**Tax rate is set as low as possible (while meeting needs)**

**Beneficiaries or users of City services pay their fair share**

**Does not disadvantage employee-intensive vs. capital intensive industries**

**Does not discriminate or benefit based on business structure (Corp., LLP, LLC)**

**Is not regressive, i.e. lower-income groups won't be paying disproportionate share**

**Is progressive, those with more, pay more**

### IV. Provides Adequate Resources

**Raises adequate revenue, annually** (examples of Panelists' definitions of 'adequate' outlined below)

-> Not less than base General Fund budget (*no time period indicated*)

-> No assumption should be made that the current level of expenditure continues

-> Must be neutral (e.g. if we eliminate one revenue it must be replaced it at same \$ level)

-> Must increase revenue, net (*no amount indicated*)

-> Amount brings major City services to acceptable levels (e.g. national average)

-> \$27 million per year, i.e. the total annual cost from eliminating Gross Receipts

-> \$80 million per year (minimum), needed to provide humans services / quality of life programs

## V. Revenue Alternatives

Panel participants articulated a number of revenue strategies and ideas. Participants seemed to favor diligence in tax collection and enforcement efforts to ensure compliance of any existing tax or fee obligation. A number of participants felt strongly with regard to selected alternatives and were encouraged to present their ideas in greater detail during the upcoming policy making process. The table below is an attempt to order or categorize the various ideas, with intent to include all revenue related ideas brought from Panel participants.

	<b>Tax Alternatives</b>	<b>Non-Tax Alternatives</b>
<b>Larger Revenue Impact Potential &amp;/or Higher Preference by the Panel</b>	<b>Property Parcel Tax (Fixed \$ or per SQFT)</b> <b>Real Property Transfer Tax</b> <b>Business Taxes</b> Payroll Tax Gross, Net, or Modified Receipts Commercial Occupancy Tax (SQFT) Commercial Rental Tax (SQFT) Close Partnership Compensation Loophole Tax Holiday or Tax Credit <b>Utility Users Tax</b> Charging Residential for Energy & Landline Phone Charging Residential for Cable <b>Vehicle License Fee (Local VLF, Leno Proposal) *</b> Local Income Tax * Sales Tax Externalities Taxation Approach	<b>Tenant Homebuyer Program, Rental Conversions</b> <b>Develop More Conducive Business Climate</b>
<b>Smaller Revenue Impact Potential &amp;/or Lower Preference by the Panel</b>	Hotel Room Tax Parking Tax or Commuter Tax* Franchise Tax VLF - 15% Add-on for Public Transit Luxury or Sin Tax Ideas...Tax on... Alcohol * Cigarettes * Fast Food Lottery Tickets * Latte Coffees	Neighborhood Parking Permits Parking Meters - Charge on Weekends & Holidays Vacant Unit Sunset Fee (Rent Control Exemption) Fines Assessments & Fixed Charges Licenses - Move To / Toward Full-Cost Recovery Permits - Move To / Toward Full-Cost Recovery Fees - Move To / Toward Full-Cost Recovery Rental Fees - Move To / Toward Market Rate Fares - Move To / Toward Full-Cost Recovery Roadway Entrance Fee for SFO Land Traffic SFO Restricted Parking Permits - Review Policy Sell Surplus or Unused Assets City Lottery *

### **Other Considerations for Any Alternative...**

\* indicates that it would require a change in Federal or State Law.

#### **Sunset Clauses**

**Exemptions**, for example for Low-Income Households

**Revenue Neutrality**, for example a multi-component Business Tax with subsequent year rate adjustments

**Special or Dedicated Taxes vs. General Taxes**, implications for super vs. simple majority

City & County of San Francisco

Controller's Office

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Estimating the projected revenue impact of the various alternatives proved to be straightforward for some, but impossible at this time for others. For example, estimates for existing taxes are generally more straightforward as some data exists, whereas projections for taxes the City currently doesn't have, such as a Net Receipts Business Tax, would require further study, including a survey of businesses by industry in order to ascertain a reasonable revenue projection under any tax rate scenario.

Where possible, the table on the previous page groups revenue alternatives by likely revenue impact. The discussion below provides selected highlights about the revenue alternatives. Additionally, the appendices to this report provide detailed analysis of the City's larger tax revenues including comparative tax rates for San Francisco, our neighboring jurisdictions and the ten largest cities in California.

## **Larger Revenue Impact Potential &/or Higher Preference by the Panel**

### **Property Taxes**

#### **Ad Valorem – Value Based**

Proposition 13 limits the property tax rate to one percent plus a supplemental rate needed to pay for voter-approved indebtedness. San Francisco's property tax rate for secured property is 1.1070 percent for FY 2003-04. This compares, for example, to Oakland's 1.3385 percent – rate nearly 21 percent higher than San Francisco's tax.

#### **Parcel Based**

While parcel taxes are a popular taxation method in many other California municipalities, San Francisco has tended to use this alternative sparingly in the past. Today, only one parcel special tax is levied, that being the School Facilities Safety Special Tax (Proposition B passed in 1990, with a 2010 sunset). Currently, owners of single-family residential parcels and non-residential parcels pay an annual parcel tax of \$32.20 on their annual property tax bill. Owners of mixed-use and multi-family parcels pay \$16.10 per dwelling unit. This compares, for example, to Oakland that has a number of parcel taxes, including for example \$195 per parcel for Schools, \$75 per single-family parcel for Libraries.<sup>2</sup>

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<sup>2</sup> In addition to these parcel taxes Oakland has other special assessment and fixed charges billed to property owners including for example, a Landscaping & Lighting Assessment District levy of \$111.54 for a single-family home, City/County Paramedic & Emergency Medical charges of \$43.10, AC Transit Support charge of \$24.00, a County Vector Control charge of \$7.20, a Flood Control charge of \$1.10, and a Mosquito Abatement charge of \$0.80.

## **Real Property Transfer Tax**

The City currently has a 3-tier Real Property Transfer Tax rate, with a maximum of 0.75 percent for transaction in excess of \$1,000,000. The City's rates are all lower than neighboring Berkeley or Oakland, which both have single-tier rates of 1.61 percent and appear to be the highest in the State. This compares to San Francisco's highest-tier rate of 0.75 percent on transactions of \$1 million or more.

## **Business Taxes**

### **Payroll**

The City currently has a 1.5 percent Payroll Tax. Generally, the Panel favored applying the tax equitably across all business. This included closing the partnership compensation loophole, which effectively exempts partnership compensation from the Payroll Tax. One of the complaints against the payroll tax is that it discourages employment (essentially making employee costs 1.5 percent higher than they would otherwise be) and places additional tax burden on higher-wage paying industries. Other concerns such as placing a tax burden on start-up firms, like biotech firms that have higher levels of employee compensation with minimal to no profit were voiced by a number of participants. Others expressed their belief that the advantage of the payroll tax was that it is relatively straightforward to administer. Additionally, some felt that the Payroll Tax fairly taxes businesses in relation to their economic activity and to some degree the incremental burden their employees place on the City, such as public transportation use, parking & traffic control, public protection and street sweeping – regardless of whether the employees were residents or commuted into the City each work day. The Panel concluded that the complete replacement of the Payroll Tax with a Receipts-based Business Tax (with one or multiple categories for that matter) is not feasible at this time due to limited data availability on which revenues and projected burdens across industries could be projected.

### **Gross Receipts**

The Gross Receipts Tax was repealed in 2001; however, a number of participants were in favor of reintroducing a Gross Receipts Tax in a constitutionally sound manner either in addition to or as a partial replacement for a portion of the Payroll Tax. Some participants believed that this tax was less likely to discourage employment. Though others expressed concern that it would likely be more complicated given significantly varying profit margins across industry types, which could necessitate numerous rate categories. On the other hand, San Francisco businesses have a familiarity with the taxation approach and some may prefer it to other business tax alternatives. Additionally, re-implementing a Gross Receipts Tax at a low rate (and that could sunset after a period of time) could be a means of collecting data and some revenue, which could be used in part to fund an alternative business taxation study, such as the one undertaken by the City of Los Angeles. At the conclusion of the study, the coalition-based alternatives could be placed before the voters.

## **Net Receipts**

In a recent study by MBIA MuniServices Company (MMC) for the City of Los Angeles, the Net Receipts Tax was recommended as more equitable, in that it eliminates double taxation and improves equity.<sup>3</sup> MMC recommended the Net Receipts tax be introduced in conjunction with a commercial occupancy tax based on square footage. The Panel expressed interest in researching the implications of a Net Receipts tax for the City and Business community of San Francisco; however, data for this would require either an extensive sampling initiative on a business population upwards of 65,000 or an annual filing requirement for all businesses in order to obtain the necessary data for our jurisdiction. Implementing a net receipts tax at a very low rate to collect data could also be a means of acquiring data and helping to fund an alternative business taxation study, such as the one undertaken by the City of Los Angeles.

## **Commercial Occupancy**

A Commercial Occupancy Tax based on square footage is relatively easy to explain, administer and audit, while providing a stable revenue base. This type of tax could have an uneven impact across industries, depending on the rate set for each property type such as manufacturing, retail, office, etc. The Los Angeles business tax study recommended partial replacement of that City's Gross Receipts Tax with a Commercial Occupancy Tax to replace approximately a quarter of total gross receipts tax revenue. Under this model, vacant space may be either subject to the tax or exempt. A Commercial Occupancy Tax could be one of the business tax categories included on the Tax Collector's annual business tax return form.

## **Tax Holiday or Tax Credit<sup>4</sup>**

The Panel also discussed the possibility of a Tax Holiday or Tax Credit, including but not limited to biotechnology and nano-technology firms. The idea here was to provide incentive to larger-growth potential, start-up firms with currently little or no up-front profit to establish in San Francisco. For example, a biotech firm could be exempt from business taxes but could still be subject to the utility users tax and property taxes. The Center for Economic Development also presented data showing that while a tax holiday for biotech firms would result in foregone business tax revenues, they would still contribute through property and utility user taxation.

## **Local Income Tax**

Currently the California Revenue & Taxation Code prohibits any local jurisdiction from levying a municipal income tax. While such a revenue source is used in other metropolitan areas, such as Philadelphia, this would require a change in State law in order to do it.<sup>5</sup>

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<sup>3</sup> Published January 2004

<sup>4</sup> A tax credit could be designed to have the same net effect as a tax holiday, except that a tax credit would help to ensure that businesses complete annual tax returns to provide financial data for subsequent fiscal impact analysis.

<sup>5</sup> A number of other alternatives discussed are also precluded under Federal or State law. In addition to a Municipal Income Tax, California cities are precluded from taxing financial institutions, insurance companies, and sales of alcoholic beverages, tobacco, and gasoline. Having a City Lottery is also statutorily prohibited under California law.

## **Sales Tax**

The Panel was generally reluctant to raise the Sales Tax rate for San Francisco. San Francisco already has a high rate of Sales Tax compared to its neighboring cities and counties; however, with the passage of Measure A in Alameda County, Oakland's Sales Tax rate will go to 8.75 percent compared to San Francisco's 8.50 percent rate. Some participants were concerned that a further increase to the Sales Tax rate may discourage commerce, and would be economically detrimental, rather than a source of revenue enhancement.

## **Utility Users Tax**

Currently the City does not levy a Utility User Tax on residential consumption of electricity, natural gas and landline telephone services. Additionally, San Francisco has no Utility Users Tax for cable or satellite television services. Taxing residential users could generate up to \$37.8 million in FY 2005-06, assuming low-income households are exempt from the energy and telephone levy. Spillover benefits may also apply here, as it would provide an incentive to residential consumers to conserve, having a positive environmental impact. This alternative did not receive overall support.

## **Externalities Tax**

The San Francisco Planning and Urban Research Association also forwarded to the Panel a taxation approach recommended by Redefining Progress, an Oakland based think tank, that "San Francisco policymakers... give thought to the benefits of shifting the tax base "from work to waste", sending a message that is both pro-business and pro-environment." Essentially, this is an ideological shift toward taxing activities with negative externalities (i.e. spill-over effects like energy consumption, water use and waste production) instead of taxing activities with positive externalities (i.e. revenue generation, production, jobs creation and payroll). While there is some correlation between the two, setting tax policy that effectively provides direct tax savings incentives to maximize conservation could prove beneficial on multiple fronts. This alternative or taxation approach could have significant public policy implications.

## **Vehicle License Fee**

The State recently reduced the effective Vehicle License Fee (VLF) again from 2.00 to 0.65 percent of a vehicle's value. This had the effect of making the average VLF bill go from \$225 to \$73 per year – for a savings to vehicle owners of \$152 or 67.5 percent. Assemblyman Leno has proposed a change to the California Revenue & Taxation Code, which would permit a supplemental local option VLF of up to 1.35 percent (that is, going from the 0.65 back up to the 2.00 percent of a vehicle's value) that would otherwise be paid by vehicle owners absent the rollback of the VLF. This revenue proposal was supported by Panel participants; however, is contingent upon a State law change.



## **Tenant Homebuyer Program (Condo Conversion)**

The Tenant Homebuyer Programs could have a beneficial impact on City revenues; however, the magnitude of that impact would be dependent upon the number of units converted and the transaction sales price. Revenues could be positively impacted by an increase in assessed valuation and underlying property and transfer taxes. For example, as of January 1, 2003 (which impacts the FY 2003-04 budget year) the average condominium assessed valuation was \$400,000 per unit – five times the \$77,000 for the average rental unit. This alternative could have significant public policy implications as the number of rental units could be reduced. A revenue impact illustration is included as an attachment to this report.

## **Smaller Revenue Impact Potential &/or Lower Preference by the Panel**

### **Hotel Room Tax**

The Hotel Room Tax rate is already the highest in the region and state at 14 percent. The Panel was generally concerned that further increases to this tax could negatively impact tourism, an important source of economic activity. Some members of the panel recommended this rate be reduced in an effort to increase tourism. Others preferred to leave it at the existing rate.

### **Parking Tax**

The Panel was generally concerned about increasing the 25 percent Parking Tax rate was already the highest in the region and state. Concerns were expressed about the impact on downtown parking lots, which have shouldered a significant hit given that the City has lost one in ten jobs since our 2000 peak. On a related note, a commuter tax appears to be subject to a constitutional prohibition as potentially impeding commerce.

### **Franchise Tax**

The City currently charges a Franchise Tax to PG&E for electricity, natural gas, and Comcast & RCN for cable television. The electric and gas franchises have been in existence since 1939 and are contracts in perpetuity - meaning that a potentially lengthy, legal process would need to be undertaken in order to change their terms. Additionally, the City already charges the maximum franchise fee (5 percent) permitted under Federal law for cable television.

## **Neighborhood Parking Permits**

The Panel was interested in exploring an increase in Neighborhood Parking Permits as an additional source of revenue. The Department of Parking & Traffic presented information about the program and explained that program revenues could not be greater than the actual costs to operate the program. The Department will review this during the budget process.

## **Parking Meters**

One Panel participant raised the idea of extending parking meter hours to include Sundays and / or holidays; however, this would come with incremental enforcement costs. Additionally, while the Neighborhood Parking Permit program was limited to cost recovery as reported by the Department of Parking & Traffic, an increase in the number of meters or areas subject to meters could be an incremental revenue source.

## **Vacant Unit Sunset Fee**

The Vacant Unit Sunset Fee proposal would levy a \$5,000 per unit one-time charge on property owners and in turn would permit them an exemption from subsequent rental increase restrictions. This option would be available to owners only in the event that their unit(s) becomes vacant. This proposal appears to be distinct from the statewide vacancy decontrol as implemented under the Costa-Hawkins legislation, in that it would give owners flexibility to increase rents at any time after the current tenant vacates the property, as opposed to only at the time a tenant vacates a property. Revenues from this proposal would likely be restricted to affordable housing uses and would require additional legal research should policymakers wish to move forward.

## **Licenses, Permits, Fees & Fares**

Panel participants raised the idea of moving to or toward greater cost recovery for licenses, permits, service charges/fees and fares. The Panel did complete a high-level review of licenses and permits and selected fees and permits, but agreed that the upcoming budget process would be a better time to review these types of revenue alternatives.

## **VI. Tradeoffs & Recommendations**

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Each revenue alternative affected taxpaying groups differently. Additionally, just as is typically the case with public policy issues, the evaluative criteria outlined by the Panel participants have inherent conflict within and across categories, not to mention the relative importance for each participant. Overall, the Panel noted the delicate balance between the needs of business, non-profits and residents, preferring a mutually beneficial outcome if possible.

Participants voiced concern that San Francisco needs to be more business friendly and pointed out the importance of appealing directly to business and potential employers rather than assuming that they will automatically want to locate and stay in San Francisco. Also, sentiment was voiced that businesses and individuals alike should be informed as to what their tax dollars buy. A concern of some was that taxes have gone up over time but that services have neither expanded nor improved in quality.

The Panel did not reach a consensus on any one revenue system approach. However, straw polls and a sample ballot provided to participants at the final meeting on March 26, 2004 were helpful as a tool in summarizing general attitudes toward alternative approaches. The table included in the Executive Summary highlights the voting results. The direction of the Panel was to forward these results along with a summary report as completed by the Controller to the Mayor and Board for further policy deliberation. Additionally, the Panel recommended that City policymakers and departments review prior management audit recommendations to explore revenue-related (and cost-savings) recommendations to ensure that revenue enhancement or savings strategies are successfully implemented wherever possible.

## **VII. Attachments**

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FY 2003-04 Budget Summary & High-Level Economic Overview, September 25, 2003

### Revenue Summaries for Taxes

#### Property Taxes

- Ad Valorem
- Real Property Transfer Tax

#### Business Taxes

- Business License Registration
- Payroll Tax
- Controller's Presentation of the Business 2002 Tax Study, June 12, 2002

#### Sales Tax

#### Hotel Room Tax

#### Utility Users Tax

#### Parking Tax

#### Franchise Tax

### Revenue Summaries for Non-Tax Revenues

#### Licenses & Permits

#### Motor Vehicle License Fee (in lieu)

Commercial Occupancy & Real Property Transfer Tax Analysis (Supervisor Ammiano Memo)

Tenant Homebuyer Program – Revenue Impact Illustration

Meeting Agendas – Summary by Meeting Date

Names of Registering Participants Over the 12-Meeting Process