

SAN FRANCISCO HAS REVENUE OPTIONS THAT ARE FAIR TO ALL

Evaluating revenue sources should be an ongoing function of government, with the expectations that adjustments need to be made on a regular basis in order to respond to needs and adapt to changing economic and social environments. Even in the best of times, some functions of city government are inadequately funded, including mental health services for children, childcare, recreation and parks, housing, public transit, and youth employment. In order to address the current crisis, as well as plan for the long-term future, the city must increase revenue, in addition to reallocating current resources. Revenue strategies must meet three major criteria: They must be progressive and fair to all, so that those with greatest resources provide the most revenue. They must provide adequate resources to meet basic city needs. And they must promote positive economic, environmental and social policies that are in the best interest of the city.

The Board of Supervisors and Mayor should place revenue measures on the November, 2004, ballot. Options include:

- **Local Vehicle License Fee**

If Assemblyman Leno is able to get his bill passed in the State Legislature, San Francisco can institute its own vehicle license fee, restoring the fee to its previous 2% rate would provide no greater burden on vehicle owners than they shouldered in 1998. Additionally, it is designed such that owners of expensive cars pay more than owners of older or lower-priced vehicles. The incremental cost to an average vehicle owner would be approximately \$152 per year.

Revenue generated - \$16 million for FY 2004-05; \$64 million for FY 2005-06

- **Commercial Occupancy Tax**

San Francisco could institute a measure like what the business tax study undertaken by LA proposed, which levies a tax on businesses based on square footage used or occupies. If the rates are set properly, such a tax will not over-burden any specific property type. For example, the LA study recommended a rate of \$0.30 cents per square foot on office space, meaning that a business owning or renting space in San Francisco would pay an additional cost of \$0.30 on top of the average annual rental cost of \$26.53 per square foot – an increase of 1.1 percent. For multi-family residential, the LA study proposes a \$0.02 per square foot rate, which for an typical 1,000 square foot apartment would cost the landlord \$20 per year compared to the current market average annual rental revenue of \$21,264. This is a stable revenue-generating tax, which is focused on businesses and residential rentals that have benefited from Proposition 13 as these property owners less frequently sell their property than single family homes or condominium owners.

Revenue generated - \$39.4 million annually, starting FY 2004-05

- **Real Estate Property Transfer Tax**

San Francisco's property transfer tax (a one-time tax applied to the sale price of property) is less than half of Oakland's or Berkeley's. If San Francisco adopted the rate from across the Bay, the rate would go from our weighted average rate of .71% to 1.61%. The transfer tax is progressive in design, in that it levies a larger tax burden on buyers and sellers with higher values. Additionally, this is one-time in that only buyers or sellers pay when a transaction occurs, with the parties able to negotiate who will pay the tax as part of their sales agreement.

Revenue generated – \$69.7 million annually, starting FY 2004-05

- **Close “Partnership Compensation” Loophole**

When San Francisco's largest corporations sued the City and the gross receipts tax was eliminated, the City lost millions of dollars annually. The result was that some businesses, particularly law firms organized as *partnerships*, pay little business taxes. This situation can be corrected by eliminating the loophole that allows partnerships to avoid taxation on partnership compensation, as compared to other non-partnership business types. This loophole is even inequitable within the business community and has no reasonable public policy basis to continue

Revenue generated - \$13.5 million annually, starting FY 2004-05

- **Utility Users Tax**

Currently most California cities tax residential use of utilities. San Francisco taxes only non-residential consumption of landline telephone services, electricity, natural gas, steam and water. All cellular telephone services – regardless of business or non-business – are currently taxed so no increase is proposed there. Instituting a 7.5% tax on electricity, natural gas, landline telephone and cable would encourage energy conservation. Exemptions are also assumed for low-income households.

Revenue generated - \$18.9 million in FY 2004-05; \$37.8 million in FY 2005-06

- **Property Parcel Tax**

A parcel tax is a tax on the owner of a parcel of land. It can be made somewhat progressive by having a different rate by property type or the amount of improved square footage placed on top of a parcel. Additionally, exemptions can apply for low-income property owners. Many communities have multiple parcel taxes targeted for acute service needs – including Schools, Library, Public Safety, Trauma Centers, etc. San Francisco has only one parcel tax (\$32.20 per year), and could institute an additional \$250 tax per residential parcel and \$1,000 for non-residential.

Revenue generated - \$68.2 million annually, starting in FY 2004-05