

November 21, 2019

John Arntz
Director of Elections
Department of Elections
City and County of San Francisco
1 Dr. Carlton B. Goodlett Place, Room 48
San Francisco, CA 94102

Re: Voter Approval of “Limits on Office Development” – March 2020 Ballot

Dear Mr. Arntz:

Thank you for the opportunity to review the “Limits on Office Development” initiative measure (“Measure”) that will appear on the March 3, 2020 ballot. As you requested, and in anticipation of the Ballot Simplification Committee’s (“BSC”) preparation of a fair and impartial summary of the Measure, the Office of Economic and Workforce Development provides this objective analysis of the Measure’s effect on current Department and City practices.

Please note that we defer to and concur with the Planning Department’s analysis, in a letter from Director Rahaim dated today, of the way in which the Office Development Annual Limit Program currently operates as law and how this would be changed by the Measure. We confine our comments here to an analysis of the way in which the Measure, if adopted by the voters, would affect office development in the City, as well as provision of affordable housing and other City services.

Assumptions:

Two assumptions underlie this analysis:

- 1) Since the annual limit program serves as a relatively restrictive upper limit on office production in the City, we assume that while office development will be cyclical, over a long period of time (we use 20 years in this analysis) the City will produce as much office as the limit will allow.
- 2) As explained in the Planning Department’s submission, the Measure would have the effect of reducing available office allocation by the percentage by which the City does not meet its Regional Housing Needs Allocation (RHNA) goals. On average, the City has met about 54% of its RHNA goals over the last four reportable years and we assume that going forward the City will continue to meet approximately 50% of its RHNA goals.



Analysis:

1) *Effect of the Measure on office production and rents over time:*

We believe the measure will reduce new office development over the next 20 years by approximately 50%. Though the measure includes “reserves” that may allow certain office development projects now in the pipeline to move forward despite lack of available office allocation, those advances will be “paid back” through deductions from the allocation available in the future.

Demand for office space in the City is likely to remain high, particularly from technology companies whose employees prefer to live in the City, so with a reduced supply and continued strong demand, office rents will increase significantly, across all types and sizes of office space in the City.

2) *Effect of the Measure on funding for affordable housing over time:*

The Jobs Housing Linkage Fee is a significant source of funds to provide subsidy for development of affordable housing. This fee has recently been increased substantially by the Board of Supervisors. The new fee levels for large office projects are: \$52.20 per square foot for office projects currently in the pipeline, \$60.90 per square foot for projects that submit applications before January 2021, and \$69.60 per square foot thereafter, more than double the previous fee of \$28.57 per square foot.

We estimate that if this Measure does not pass, the City will receive approximately \$1.5 billion over the next 20 years from the Jobs Housing Linkage Fee, for use in developing affordable housing. If the Measure does take effect, this amount will be reduced by approximately \$600 - 900 million.

3) *Effect of the Measure on property tax revenues over time:*

Property taxes are a significant source of revenue for the general operations of City and County government, as well as providing some funding for affordable housing. The property tax rate in fiscal year 2019-20 is 1.18% of assessed value.

We estimate that if this Measure does not pass, the City will receive approximately \$2.5 billion over the next 20 years from the property tax, for use in supporting a variety of City services. If the Measure does take effect, this amount will be reduced by approximately \$1 - 1.5 billion.

4) *Effect of the Measure on gross receipts tax revenues over time:*

Gross receipts taxes are an additional source of revenue for the general operations of City and County government. The Gross Receipts tax rate on real estate is 0.325%.



We estimate that if this Measure does not pass, the City will receive approximately \$580 million over the next 20 years from the gross receipts tax, for use in supporting a variety of City services. If the Measure does take effect, this amount will be reduced by approximately \$240 – 350 million

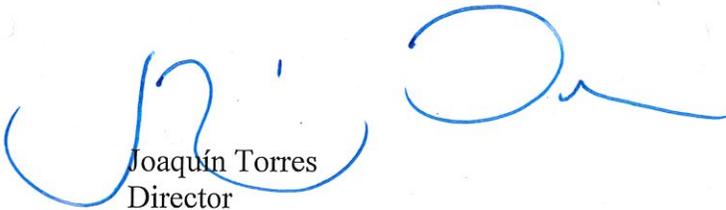
(Please note that our analysis of the Measure's affect on gross receipt taxes looks only at gross receipts taxes that would be paid by the office developers themselves. The businesses which occupy the office space would also pay gross receipts taxes to the City, at a variety of different rates depending on their type of business. If the Measure is adopted by the voters, there will be less office space in the City over 20 years and fewer businesses occupying that space, With less office space developed over 20 years gross receipts taxes from businesses will be reduced, but we are unfortunately unable to accurately calculate this reduction.)

5) *Overall Effect on City Revenues*

Based on the projections above, we estimate that should the measure pass City revenues would be reduced by approximately \$1.8 – 2.7 billion.

Thank you for the opportunity to provide this analysis. My staff and I are available for any questions or followup.

Sincerely,



Joaquín Torres
Director

