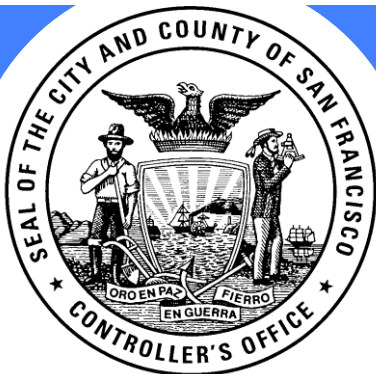


# Homelessness Gross Receipts Tax Fall 2022 Update



**CITY & COUNTY OF SAN FRANCISCO**

Office of the Controller

11.17.2022

# Overview

- **San Francisco business taxes are volatile**, and budgets are based on forecasts at a moment in time. We update those projections throughout the year to help policy-makers manage budgets to changing reality.
- **We're projecting business tax weakness versus budgeted levels, in both the current and future fiscal years.** Our November forecast projects approximately \$30-50M in annual losses in the current and future fiscal years from prior projection. This revision is in addition to the prior downward revision of a similar magnitude.
- **Significant downside risk remains.** While the forecast assumes slow or no growth in the City's underlying tax base, it is not a recession scenario.
- **Current and future year plans need to be revised.** We will have another forecast in February and March 2023, in time for annual budget cycle.

# Basics of Homelessness Gross Receipts Tax (HGR)

- November 2018 Proposition C imposed a gross receipts tax in excess of \$50m, in addition to the existing gross receipts business tax. (i.e., if a business earned \$50m + \$100, pay taxes on \$100.)
- Rate: HGR tax rates differ by industry

<b>Business Activity</b>	<b>Tax Rate</b>
1 Retail Trade, Wholesale Trade and Certain Services	0.175%
2 Manufacturing, Transportation & Warehousing, Information, Biotechnology, Clean Technology, and Food Services	0.500%
3 Accommodations, Utilities, Arts, Entertainment and Recreation	0.425%
4 Private Education and Health Services, Administrative and Support Services, and Miscellaneous Business Activities	0.690%
5 Construction	0.475%
6 Financial Services, Insurance, and Professional, Scientific and Technical Services	0.600%
7 Real estate and Rental and Leasing Services	0.325%

- Base: Homelessness gross receipts tax (HGR) payors include the largest payors of the existing gross receipts (GR) tax. In tax year 2020, there were 339 payors of HGR versus 10,305 payors of GR.

## FY 2021-22 Revenue Worse Than Expected

- Tax revenues are forecasted on quarterly+ basis and reported in Controller's various publications. Our forecast of HGRT worsened over time, with new information.

	<u>Date</u>	<u>Report</u>	<u>(\$ millions)</u>
<b>Budget</b>	Spring 2021	<b>Nine-month Report</b>	<b>\$335.60</b>
Forecast	Fall 2021	5-Year Plan Update	\$296.20
Forecast	February 2022	Six-Month Report	\$303.70
Forecast	March 2022	5-Year Plan Update	\$294.30
<b>Actuals</b>	<b>August 2022</b>	<b>Annual Comprehensive Financial Report (ACFR)</b>	<b>\$278.60</b>

- FY 2021-22 actuals lower than budget primarily because of the persistence of high levels of telecommuting/work-from-home was not anticipated at the time of budget development. The Delta and Omicron waves of COVID-19 pandemic pushed many businesses' return to office dates from fall 2021 into spring 2022.

# FY 22-23 through FY 27-28 Preliminary Forecast

## Homelessness Gross Receipts Tax Forecast

(in \$ millions)

Year	Budget / Prior Forecast	5 Yr (Nov 22 Proj)	Difference
FY22-23	313.4	284.2	(29.2)
FY23-24	328.4	281.5	(46.9)
FY24-25	341.7	288.2	(53.5)
FY25-26	350.9	297.1	(53.8)
FY26-27		316.0	
FY27-28		322.8	

- Based on prior year performance, cash receipts to-date, and overall economic outlook, HGRT is forecasted to be lower than our previous best thinking.
- Key assumptions:
  - Persistent telecommuting results in net effect of 40% vs 33% decrease of gross receipts attributable to San Francisco.
  - Slow or no growth of tax base in earlier years of forecast, back to inflation in future years to reflect slowing of economy.

## Next Steps

- January 2023, Controller, Mayor's Office and Board of Supervisors issues the Five-Year Financial Plan
- February 2023, Controller's Six-Month Budget Update for FY 2022-23
- March 2023, Controller, Mayor's Office and Board of Supervisors issues an update to the Five-Year Financial Plan
- May 2023, Controller's Nine-Month Budget Update for FY 2022-23

# Closing

- **Current year reductions.** Similar to FY 2021-22, departments will need to reduce expenditure budgets to equal forecasted revenue amounts in FY 2022-23.
- **Spending plans in the upcoming budget years will need to be revisited.** The Controller's Office will update our future fiscal year forecasts in February and March of 2023 with the most recent information.
- **There's significant downside risk to this forecast.**