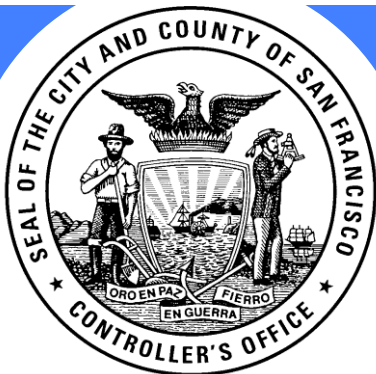


Homelessness Gross Receipts Tax Spring 2023 Update



CITY & COUNTY OF SAN FRANCISCO

Office of the Controller

3.23.2023

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 and staff manage budgets to changing reality.
- The March 2023 forecast of homelessness gross receipts tax continues to be weak versus budget, but stronger than November 2022 forecast. The forecast is better by about \$15-25m (5-10%) annually in current and future fiscal years.
- Although forecast is improvement vs prior projection, it's still lower than levels anticipated in previous budget cycles given structural changes in the City's economy. The improvement is not likely to sustain service levels assumed in previously adopted expenditure plans.
- **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.

Revenue Forecasts Generally Declining

History of Homelessness Gross Receipts Tax Forecasts

(in millions)

Year	5 Yr (Nov 2020)	5 Yr (Mar 2021)	5 Yr (Nov 2021)	5 Yr (Mar 2022)	5 Yr (Nov 2022)	5 Yr Update (Mar 2023)	Actuals
FY20-21	721.4	675.0					680.1
<i>Paid FY19-20&Prior</i>	462.3	462.3					462.3
<i>Paid in FY20-21</i>	259.1	212.7					217.8
FY21-22	352.9	335.6	296.2	294.3			273.8
FY22-23	362.0	357.1	318.9	313.4	284.2	310.6	
FY23-24	372.3	368.5	330.6	328.4	281.5	301.5	
FY24-25	375.5	370.3	340.5	341.7	288.2	305.6	
FY25-26	384.6	378.3	347.9	350.9	297.1	313.7	
FY26-27					316.0	331.5	
FY27-28					322.8	337.1	
Average, Plan Period	369.5	362.0	334.5	333.6	301.1	317.9	

Spending plans were initially developed around the expectation that this fund would have, ~\$370 million annually. Over time, our expectation has fallen closer to ~\$300 million annually.

FY 22-23 through FY 27-28 Forecast

Year	Projections			Changes	
	5 Yr (Mar 2022)	5 Yr (Nov 2022)	Update (Mar 2023)	Vs Prior Proj	Vs Budget
FY22-23	313.4	284.2	310.6	26.4	(2.8)
FY23-24	328.4	281.5	301.5	20.0	(26.9)
FY24-25	341.7	288.2	305.6	17.4	(36.1)
FY25-26	350.9	297.1	313.7	16.6	
FY26-27		316.0	331.5	15.5	
FY27-28		322.8	337.1	14.3	

Based on cash receipts, filings to-date and overall economic outlook, HGRT is forecasted to be higher than our previous best thinking.

Major assumptions from November 2022 remain:

- 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.

Cash receipts stronger than expected in the tax year 2022 4th quarter.

Risks

- Economic risks
 - Cyclical
 - Structural
- San Francisco business taxes are volatile, in part because of the small population of taxpayers. The business decisions of a handful of firms can drastically change the revenues in this fund.
- The OCOH fund is supported by a single revenue source, increasing its exposure to unanticipated changes in the business cycle.

Next Steps & Closing

- **Timeline**
 - 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
 - June 1, 2023, Mayor's Proposed Budget
- **Current year is expected to be close to budget.** Controller's Office will monitor revenue closely as the year closes. Departments may need to make slight reductions to expenditure budgets to revenue.
- **Upcoming budget years will need to be revisited,** based on latest revenue forecast and existing spending plans.

Appendix

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

Business Activity	Tax Rate
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.