THIS PRINT COVERS CALENDAR ITEM NO. : 12

SAN FRANCISCO
MUNICIPAL TRANSPORTATION AGENCY

DIVISION: Board of Directors

BRIEF DESCRIPTION:

Supporting an ordinance that would amend the Business and Tax Regulations Code to add a new gross receipts tax category for transportation network company services, private transit vehicle services, and autonomous vehicle passenger services.

SUMMARY:

- Supervisor Peskin has introduced an ordinance amending the Business and Tax Regulations Code to add a new gross receipts tax category for transportation network company services, private transit vehicle services, and autonomous vehicle passenger services.
- If approved by the Board of Supervisors, this would be submitted to the voters at the November 6, 2018 election. The measure would require a 50% + 1 majority to pass.
- If approved by the voters, this ordinance would increase the gross receipts tax for TNC services, PTV services, and autonomous vehicle passenger services.
- The proposed tax would raise the cost to affected businesses of operating and generating gross receipts
- The Controller's Office estimates the proposed tax would generate $32 million in revenue each year. However, because of the uncertainty, actual revenues could vary substantially.
- The gross receipts tax from this new industry category may be used for the City's general purposes.

ENCLOSURES:
1. SFMTAB Resolution
2. BOS Ordinance

APPROVALS: **DATE**

DIRECTOR ________________ 6/11/2018

SECRETARY R.Boomer ________________ 6/11/2018

ASSIGNED SFMTAB CALENDAR DATE: June 19, 2018

PURPOSE

Supporting an ordinance that would amend the Business and Tax Regulations Code to add a new gross receipts tax category for transportation network company services, private transit vehicle services, and autonomous vehicle passenger services.

STRATEGIC PLAN GOALS AND TRANSIT FIRST POLICY PRINCIPLES

This item address the following goals and objectives in the SFMTA's Strategic Plan:

Goal 3: Improve the quality of life and environment in San Francisco and the region.

Objective 3.5: Achieve financial stability for the agency.

This does not directly address any of the City's Transit First Policy Principles.

DESCRIPTION

Persons engaged in business in the City, including transportation network companies (TNCs) and companies providing private transit vehicle (PTV) services, currently pay a gross receipts tax to the City. Rates vary by line of business and the amount of the person's taxable gross receipts, and range from 0.075% to 0.65%. If a business conducts multiple lines of business that cross multiple rate schedules, special rules apply depending on whether a business activity accounts for more than 80% of the business's total gross receipts (80-20 Rule), and whether a business activity accounts for less than 20% of the business's total gross receipts (20% Rule).

Persons engaged in business in the City also currently pay a payroll expense tax to the City. Certain businesses in the Central Market Street and Tenderloin Area are eligible for an exclusion from the payroll expense tax as well as a limit on the gross receipts tax. Such exclusion and limit are set to expire on May 20, 2019.

Supervisor Aaron Peskin introduced an ordinance amending the Business and Tax Regulations Code to add a new gross receipts tax category for transportation network company (TNC) services, private transit vehicle (PTV) services, and autonomous vehicle (AV) passenger services, revise the application of the gross receipts tax for persons engaged in multiple business activities, and eliminate the payroll expense tax exclusion and the gross receipts tax limit for certain persons in the Central Market Street and Tenderloin Area; and increasing the City's appropriations limit by the amount collected under the new gross receipts tax category for four years from November 6, 2018. This would be submitted to the voters at an election to be held on November 6, 2018.

If approved by the voters, this ordinance would increase the gross receipts tax for TNC services, PTV services, and autonomous vehicle passenger services by adding a new industry category for such services, effective January 1, 2019.

This ordinance would increase the gross receipts tax for TNC services, PTV services, and AV passenger services, by adding a new industry category for such services. The gross receipts tax rates for this industry category would be:

- .625% for taxable gross receipts between $0 and $1,000,000;
- .705% for taxable gross receipts between $1,000,000.01 and $2,500,000;
- .87% for taxable gross receipts between $2,500,000.01 and $25,000,000; and
- .975% for taxable gross receipts above $25,000,000.

The existing gross receipts tax rules and procedures, as amended by this ordinance, would apply to taxpayers in this new industry category. The gross receipts tax from this new industry category may be used for the City's general purposes.

Also effective January 1, 2019, this ordinance would replace the 80-20 Rule and the 20% Rule with a *de minimis* rule, by which taxpayers may combine the gross receipts from any business activity that generates less than $10,000 in total gross receipts with the gross receipts that generate the highest amount of the taxpayer's total gross receipts. The Tax Collector would have the authority to raise the $10,000 threshold prior to the beginning of a tax year, if the Tax Collector determines that doing so would improve filing simplicity without significantly reducing tax revenues.

This ordinance also would change the expiration date of the payroll expense tax exclusion and gross receipts tax limit for certain businesses in the Central Market Street and Tenderloin Area from May 20, 2019 to December 31, 2018.

STAKEHOLDER ENGAGEMENT

As this ordinance is not a work product of the SFMTA, the SFMTA has done no outreach.

ALTERNATIVES CONSIDERED

The Board could choose to take no position on the ordinance or to take a "do not pass" position.

FUNDING IMPACT

The Economic Impact Report prepared by the Controller's Office of Economic Analysis stated the following regarding the proposed measure:

- The proposed tax would raise the cost to affected businesses of operating and generating gross receipts in San Francisco. Because San Francisco gross receipts are generated by maintaining payroll and incurring sales in the city, as well as overall business growth, the proposed tax would create a disincentive to locate jobs and do business in the city.
- To the extent that affected businesses reduce employment and operations in San Francisco, this would generate negative multiplier effects in the city's economy, and tend to contract it.

- As a General Tax, the revenue from the proposed tax would be deposited in the General Fund for any government purpose. The additional local government spending would generate positive multiplier effects throughout the local economy, creating an economic stimulus.
- The net economic impact of the proposed tax results from the relative strength of these positive and negative multiplier effects.
- TNCs and Private Transit Vehicle services revenues cannot be determined from standard economic statistics. Because of this, the revenue estimate in this report is subject to considerable uncertainty.
- Based on publicly-reported information from these business activities, we estimate the proposed tax would generate $32 million in revenue each year. However, because of the uncertainty, actual revenues could vary substantially from this estimate.
- Future tax revenue will be sensitive to the overall trends of an emerging industry. Growth has been rapid in recent years, and with continued growth, revenue could far exceed the estimate in this report. On the other hand, changes in technology or regulation could make the categories in the proposed tax less relevant, leading to less-than expected revenue in the future.
- Furthermore, the tax burden of large TNCs under the proposed tax would be highly sensitive to where their employees work. If businesses react to the tax by relocating more jobs out of San Francisco than anticipated, the City could experience a greater negative economic impact, and an erosion of its business tax base.

ENVIRONMENTAL REVIEW

On April 30, 2018, the Planning Department, determined that the proposed ordinance is not defined as a "project" under the California Environmental Quality Act (CEQA) pursuant Title 14 of the California Code of Regulations Sections 15060(c) (2) and 15378.

A copy of the CEQA determination is on file with the Secretary to the SFMTA Board of Directors and is incorporated herein by reference.

OTHER APPROVALS RECEIVED OR STILL REQUIRED

The San Francisco Board of Supervisors will need to approve placing the proposed ordinance on the November 6, 2018 ballot. The measure would require a 50% + 1 majority to pass.

The City Attorney has reviewed this calendar item.

RECOMMENDATION

None. This is a policy matter for the SFMTA Board of Directors.

SAN FRANCISCO
MUNICIPAL TRANSPORTATION AGENCY
BOARD OF DIRECTORS

RESOLUTION No. ______________

WHEREAS, Persons engaged in business in the City, including transportation network companies (TNCs) and companies providing private transit vehicle (PTV) services, currently pay a gross receipts tax and payroll expense tax to the City; and,

WHEREAS, Supervisor Aaron Peskin has introduced an ordinance that would amend the Business and Tax Regulations Code to add a new gross receipts tax category for transportation network company services, private transit vehicle services, and autonomous vehicle passenger services; and,

WHEREAS, If approved by the Board of Supervisors, this ordinance would appear on the ballot for the City and County of San Francisco on November 6, 2018; and,

WHEREAS, The Controller's Office estimates the proposed tax would generate $32 million in revenue each year; and,

WHEREAS, On April 30, 2018, the Planning Department, determined that the proposed ordinance is not defined as a "project" under the California Environmental Quality Act (CEQA) pursuant Title 14 of the California Code of Regulations Sections 15060(c) (2) and 15378; and,

WHEREAS, A copy of the CEQA determination is on file with the Secretary to the SFMTA Board of Directors, and is incorporated herein by reference; now, therefore be it

RESOLVED, That the San Francisco Municipal Transportation Agency does hereby support the ordinance that would amend the Business and Tax Regulations Code to add a new gross receipts tax category for transportation network company services, private transit vehicle services, and autonomous vehicle passenger services.

I certify that the foregoing resolution was adopted by the San Francisco Municipal Transportation Agency Board of Directors at its meeting of June 19, 2018.

____
Secretary to the Board of Directors
San Francisco Municipal Transportation Agency