

Three-Year Review of the Impact of the Central Market Payroll Tax Exclusion

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Introduction

- 2011 – City creates a payroll tax incentive for businesses to locate in the Central Market / Tenderloin Area.
- The Area roughly consists of the Tenderloin from Polk to Ellis to Mason to McAllister Street, and Market Street from between 5th and 6th to 11th St.
- Legislation directed the Controller's Office to prepare an impact report after 3 years.

Legislation Details

- The City levies a payroll tax on businesses with more than \$250,000 in payroll in the city.
- The exclusion allows a business to pay the payroll tax on the lesser of its "base year payroll" in the Central Market/Tenderloin, or its actual payroll in the Area.
- The "base year payroll" is generally the business's payroll in its first year.
- In effect, the exclusion allows a business to not pay tax on additional payroll that it adds after it moves into the Area, for up to six years. It therefore acts like a tax incentive to locate in the Area.
- The exclusion expires 8 years after its effective date, in 2019.
- Our report covered the 2011 – 2013 period, when the original 1.5% payroll tax was in effect.



Treasurer's Reports

Year	Businesses Approved for the Exclusion	Payroll Tax Foregone (\$ million)
2011	2	\$0.0
2012	14	\$1.9
2013	11	\$4.2



Approach

- Measure changes in the Area using as many economic data sources as available
- To isolate the effect of the policy (to the greatest extent possible) – compare before-and-after changes within the Area to changes in the same indicator in the rest of the city.
- Indicators examined:
 - Payroll tax paid – indicator of wages and employment
 - Payroll tax filings – indicator of business growth
 - Taxable Sales in the Area – indicator of retail growth
 - Commercial rent – indicator of area's desirability to businesses, and business displacement
 - Residential rent and housing values – indicator of relative housing affordability

Payroll Tax Revenue

	2010 Payroll Tax	2013 Payroll Tax	Change, 2010-2013	% Change, 2010-2013
Central Market / Tenderloin Area	\$1.2	\$8.8	\$7.6	648%
Rest of City	\$337.5	\$496.6	\$159.1	47%



Payroll Tax Filing Businesses

	2010 Businesses	2013 Businesses	Change, 2010-2013	% Change, 2010-13
Central Market / Tenderloin Area	124	185	61	49%
Rest of City	13,776	16,908	3,132	23%



Taxable Sales

	2010 Taxable Sales	2013 Taxable Sales	Change, 2010-13	% Change, 2010-13
Central Market / Tenderloin Area				
Tenderloin	\$32.6	\$42.3	\$9.6	30%
Market Street	\$28.6	\$25.3	-\$3.3	-12%
Area Total	\$61.2	\$67.6	\$6.4	10%
Rest of City	\$7,222	\$9,019	\$1,796	25%



Commercial Rent

	2010 Average Rent	2014 Average Rent	Change, 2010-14	% Change, 2010-14
Mid-Market Submarket	\$27.46	\$47.57	\$20.11	73%
Entire City	\$33.56	\$57.41	\$23.85	71%



Residential Rent

	Number of Properties	Average Rent Increase, 2011 Q3 - 2014 Q2
Within 1/4 mile	9	23%
Within 1/2 mile	14	22%
Rest of City	34	26%



Housing Values

	Average Value, 5/11	Average Value, 8/14	% Change, 2010-13
Central Market / Tenderloin Area			
Van Ness/Civic Center	\$474,500	\$733,600	55%
South of Market	\$543,000	\$843,700	55%
Area Total	\$508,750	\$788,650	55%
Rest of City	\$822,526	\$1,249,924	52%



Evaluating the Impact: Neighborhood Perspective

- \$7.1 million in payroll tax growth in the Area, beyond what would have been expected had the Area grown at the same rate as the rest of the city during the 2010-13 period.
- We estimate this represents approximately 3,000 jobs.
- 32 more businesses than would have been expected given citywide growth – only 19 businesses have taken the exclusion.
- Lack of any relative housing or commercial rent inflation relative to the rest of the city – though 3-year increases are very high.
- Taxable sales grew more slowly than the rest of the city – particularly along Market Street, where they declined in absolute terms.
- Given the level of use of the exclusion, we believe it is reasonable to attribute the Area's differences to the policy for the period in question.

Evaluating the Impact: City Perspective

- Two questions from the perspective of the city as a whole:
 1. Did the exclusion create a net fiscal benefit or cost to the City?
 2. How significant was the policy's impact on the city's economy?
- First question: impossible to determine, because we cannot know how many businesses were prevented from moving out of town by the exclusion (preserving their base payroll) or just encouraged to move within the city (losing the tax on their new payroll).
- In other words, we don't know how much of the \$7.1 million really represents new payroll tax revenue to the city, and how much of the \$6.1 million in exclusion represents revenue the city would otherwise have received.
- Second question: also depends on how many businesses were kept in the city, so ultimately unknown. But even if all 3,000 jobs would have left the city, that represents less than 5% of SF job growth during the period.
- Also, since the alternative locations would most likely have been elsewhere in the Bay Area, other impacts of this growth (on housing) would have been felt anyway.

Central Market/Tenderloin Strategy

November 2014 Update



Demographics

- Average household size is smaller than the rest of SF, and more male than the rest of SF
- 31% of households have an income of under \$15,000 per year (compared to 10% in SF)
- 31% have a bachelors degree or higher, compared to 51% in the rest of SF
- 54% of the labor force is working or looking for jobs, as compared with 66% in the rest of SF
- 47% of the City's homeless population was counted in District 6 in 2013, compared to 40% in 2011
- 68% of the homeless families with children reside in District 6
- There are 3500 kids in the Tenderloin



Highlights

- 20 formerly vacant or nearly vacant, mainly **historic buildings** have been renovated and occupied or are in development
- 15 new community-oriented **arts venues** have opened or are in development
- More than 22 **small businesses** have opened along Market in the Tenderloin, and on Sixth Street





Leaseholders and Occupants of Formerly Vacant Buildings

A 86-98 Golden Gate – Sewing Company – 15,000 SF retail

B 172 Golden Gate – Available – 57,000 SF retail/office

C 1 Jones – Renovation Underway – 38,000 SF

D 1155 Market – City and County of SF – 160,000 SF office

E 1275 Market – Dolby – 345,000 SF office

F 1355 Market – 1 million SF Office
 • Twitter – 381,940 SF • One Kings Lane – 51,000 SF
 • Runway – 25,000 SF • Yammer Microsoft – 76,000 SF
 • Viz Media – 19,500 SF

G 144 Taylor – PianoFight Theater; Clay Underground – 35,000 SF retail

H 25 Taylor – WeWork – 42,500 SF – WeWork

I 969 Market – Mardone Studios, Renovation underway – 24,000 SF

J 989 Market – Blick Art Supply – approx. 87,000 SF office
 • Zendesk – 33,000 SF • Zoosk – 52,000 SF

K 988 Market – 30,000 SF
 • Benchmark Capital – 5,000 SF • Spotify – 13,000 SF

L 1019 Market – Zendesk – 73,000 SF

M 1028 Market – in development | 30,000 SF

N 950 Market – in development

O 1125 Market – in development

P 1455 Market – 233,000 SF
 • Square – 324,000 SF • Uber – 88,000 SF

Q 1061 Market Street – Startupperz; Pando Media; Desmos

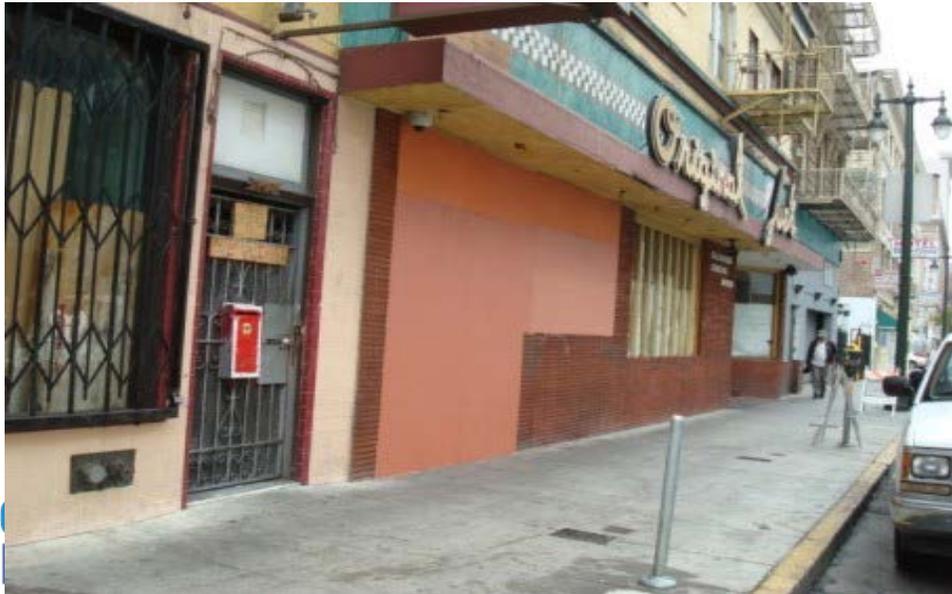
R 1 Tenth Street – Twitter – 313,206 SF

S 255 Golden Gate Street – Dataway – 6650 SF

T 1067 Market Street – Dynamighty – 3400 SF

Key Programs Piloted

- **Community safety ambassadors** and Central Market CBD Expansion
- **Healthy Retail SF** and other **small business retention** programs
- **Arts organization technical assistance** program and **Community Arts Stabilization Trust**
- **Daytime activities pop-ups** in SROs



and other underutilized space – gym, cooking, art, freespace

In the Works

- UN Plaza programming, **sidewalk activation**/art projects – i.e. Piano Project, Night Market, Pause-Play-Connect
- Tenderloin **Safe Passage** enhancement
- **PUC pedestrian lighting** project
- **Better Market Street**, and other streetscape and pedestrian improvements



- **Boedekker Park and Civic Center Playground** Renovation projects

Key Outcomes To Date 2011-2014

- 18 new companies, 2 coworking facilities and 2 VCs located in Central Market
 - representing over 14,500 potential jobs
 - commercial office availability down from 22% to 5%
- Storefront vacancy rate decreased from 30% to 16%
 - Over 5,600 units of housing approved or under construction, 20% BMR; 4000 more units proposed



2013-2014 Stakeholder Engagement

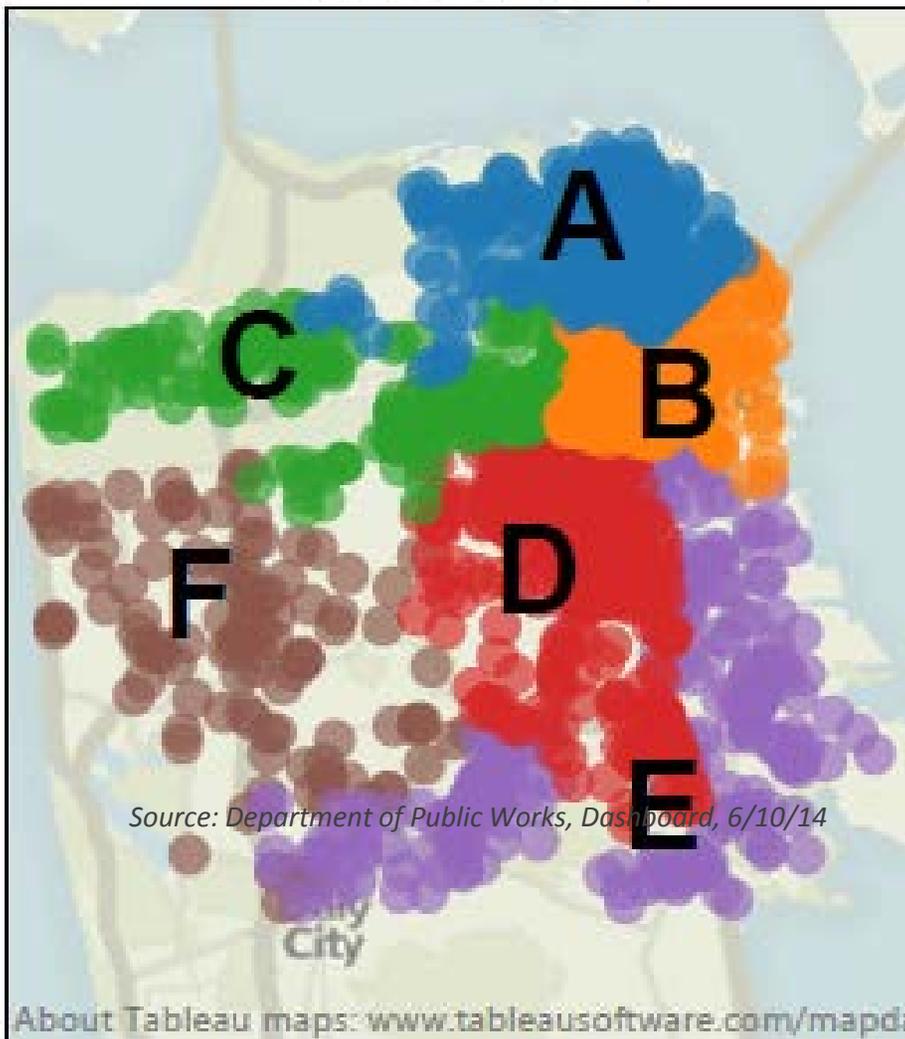
- Shopper, merchant, and resident surveys; arts, social service, housing and CBD focus groups
- Some key themes included:
 - **Cleanliness and safety** are still major concerns
 - **Mental health care** appears to fall short
 - Neighborhood residents need more **open space, recreational opportunities, affordable retail/food**
 - Concerns about nonprofit/small business **displacement**



Street Cleaning Volume

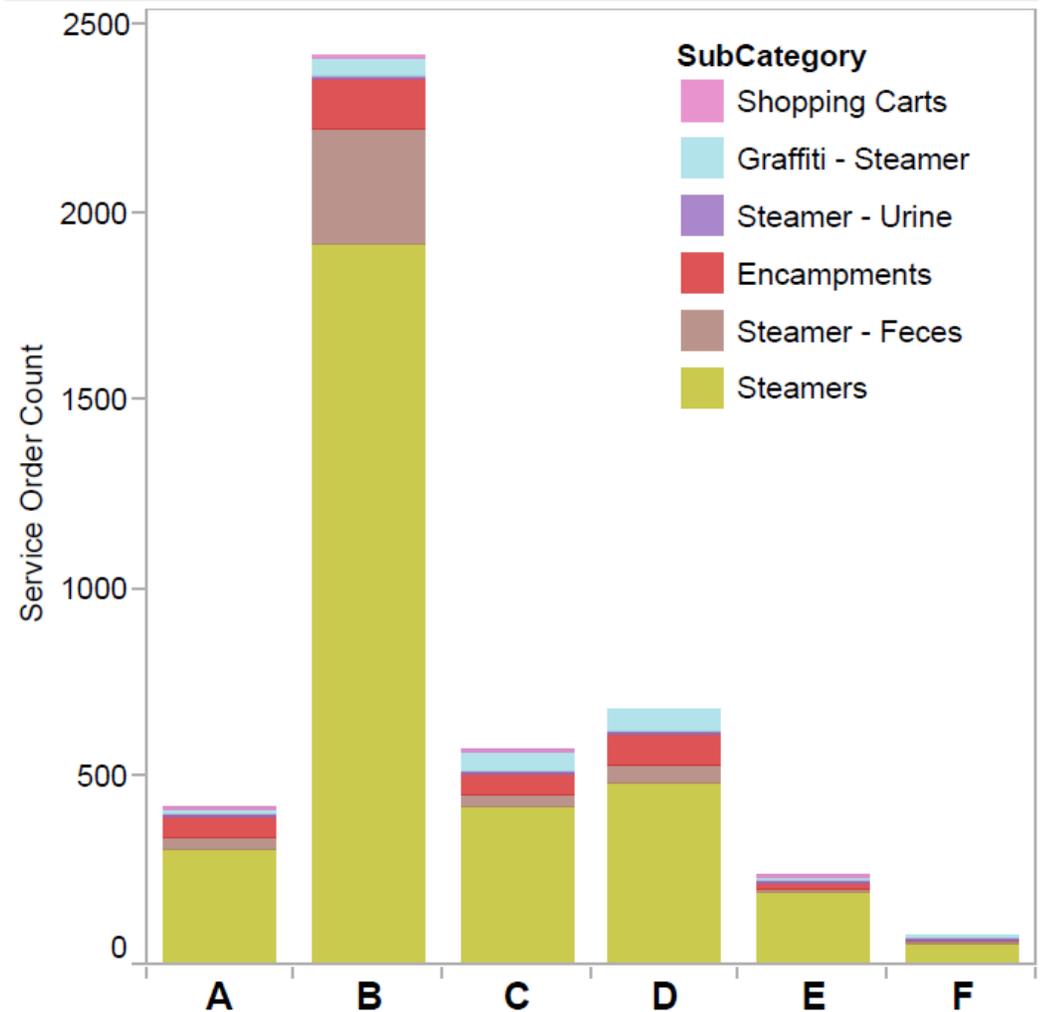
Study Area falls into District B

BSES Zone Map



Volume, Feb - Apr 2014

service requests by SES work zone



Homeless PIT, District 6

	2011		2013	
	#	% of City Total	#	% of City Total
Total Homeless	2,611	40%	3,038	47%
Sheltered	1,610	52%	1,893	56%
Unsheltered	1,001	30%	1145	38%
Homeless Persons in Families with Children	420	66%	462	68%

Source: San Francisco Point-in-Time Surveys, 2011 and 2013

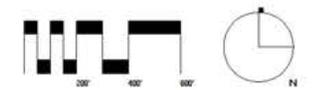


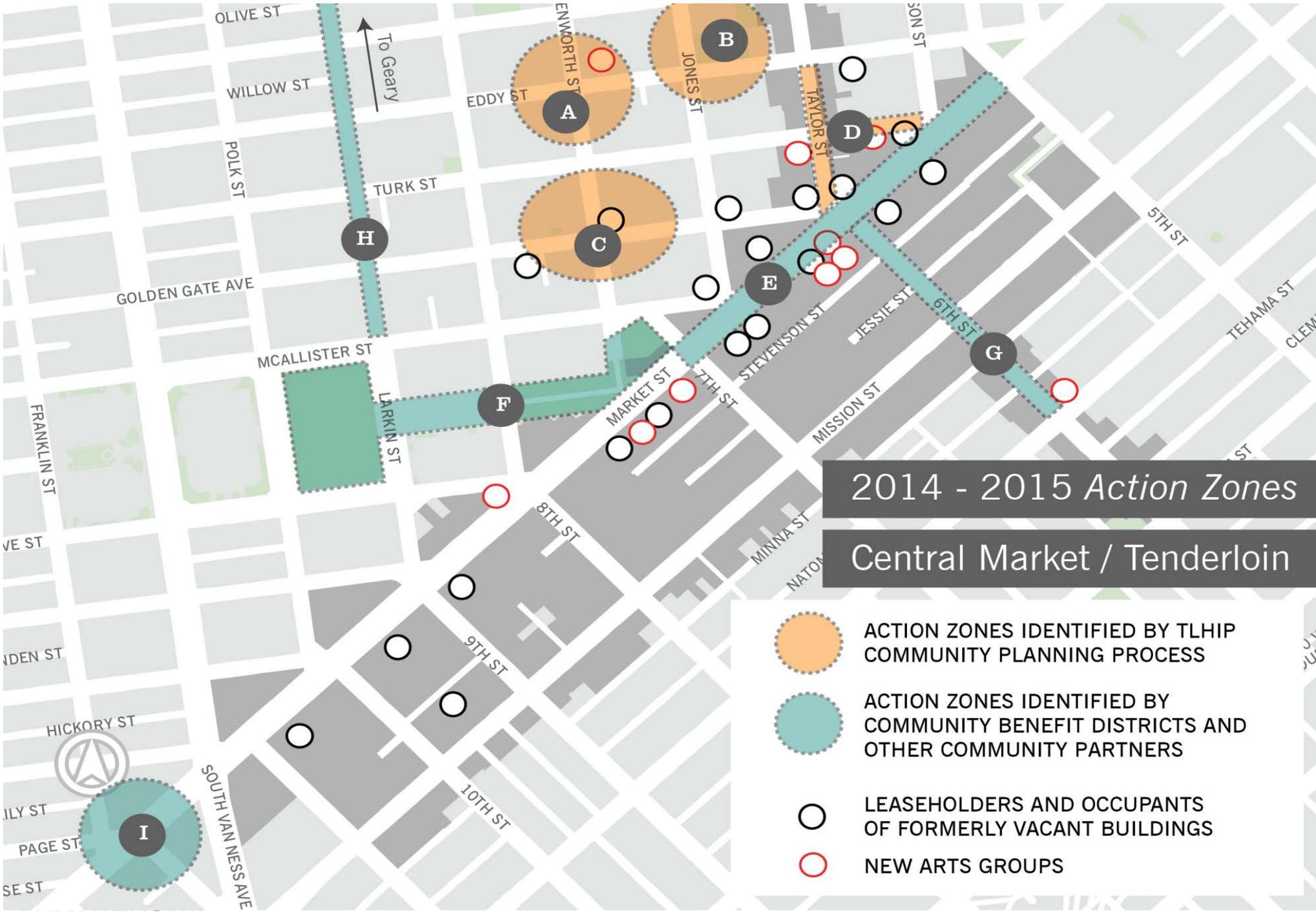
Central Market/Tenderloin

Existing Public Realm Planning Efforts



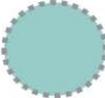
- Living Innovation Zone Funded/Built
- Living Innovation Zone Proposed
- Parklet
- Pedestrian Improvements
- Safe Passage/Green Connection
- Better Market Street Project
- Polk Street Bike/Ped Improvements
- Complete Streets Projects (5th, 6th Folsom)
- UC Hastings Streetscape Improvements
- Bike Routes
- Van Ness BRT
- SFPUC Pedestrian Lighting
- Market and Van Ness Intersection
- Boeddeker Park Redesign
- UN Plaza Near-term Activation and Long-term Redesign
- Brady Block Open Space Planning
- 2-Way Eddy/Ellis Street
- Tenderloin Community Safe Routes to School
- Action Zones





2014 - 2015 Action Zones

Central Market / Tenderloin

- 
 ACTION ZONES IDENTIFIED BY TLHIP COMMUNITY PLANNING PROCESS
- 
 ACTION ZONES IDENTIFIED BY COMMUNITY BENEFIT DISTRICTS AND OTHER COMMUNITY PARTNERS
- 
 LEASEHOLDERS AND OCCUPANTS OF FORMERLY VACANT BUILDINGS
- 
 NEW ARTS GROUPS

Resources/Contacts

- [Investsf.org](https://investsf.org)
- [Epicenter-sf.org](https://epicenter-sf.org)

