

SPUR | VOTER GUIDE

SAN FRANCISCO NOVEMBER 2018 | State and local ballot analysis and recommendations

<p>STATE PROP</p> <p>1</p> <p>Affordable and Veterans' Housing Bond</p> <p>VOTE YES ✓</p>	<p>STATE PROP</p> <p>2</p> <p>Funds for Supportive Housing</p> <p>VOTE YES ✓</p>	<p>STATE PROP</p> <p>3</p> <p>Water Bond</p> <p>VOTE YES ✓</p>	<p>STATE PROP</p> <p>6</p> <p>Gas Tax Repeal</p> <p>VOTE NO ✗</p>	<p>STATE PROP</p> <p>10</p> <p>Repeal of Rent Control Rules</p> <p>VOTE NO ✗</p>
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SPUR provides in-depth analysis and recommendations on San Francisco local ballot propositions and select California state propositions for the November 6, 2018, election.

The goal of the SPUR Voter Guide is to provide objective analysis and advise voters on which measures will deliver real solutions. We evaluate measures based on two sets of factors:

Outcomes

- Will the measure make the city better?
- Do the positive impacts of the measure outweigh any negative impacts?

Process

- Is it necessary and appropriate to be on the ballot?
- Is it written in a clear and straightforward way?
- Will it be implementable?
- Does the measure make it easier or harder to make future governance and management decisions?

For San Francisco local propositions, SPUR's Ballot Analysis Committee heard arguments from both sides of the issues, debated the measures' merits and provided recommendations to our San Francisco Board of Directors. The board then voted, with a 60 percent vote required for SPUR to make a recommendation.

For California state propositions, SPUR's regional decision-making body, the SPUR Executive Board, reviewed and debated the merits of select state measures and voted, with a 60 percent vote required for SPUR to make a recommendation.



SPUR

IDEAS + ACTION FOR A BETTER CITY

SPUR promotes good planning and good government through research, education and advocacy.

We are a member-supported nonprofit organization.

SPUR's San Francisco Board of Directors debated and voted on SPUR's local San Francisco ballot recommendations on August 15, 2018.

SPUR's Executive Board reviewed, debated and voted on SPUR's California state ballot recommendations in June, July, August and September of 2018.

SPUR Ballot Analysis Committee

Robert Gamble (Co-Chair), Molly Turner (Co-Chair), Summer Bundy, Michaela Cassidy, Jim Chappell, Kim-Mai Cutler, Don Falk, Ariane Hogan, Aaron Johnson, Jim Lazarus, Masharika Maddison, George Miller, Jeanne Myerson, Rebecca Prozan, Steve Vettel

SPUR Staff

Kristy Wang, Susannah Parsons, Karen Steen, Alicia John-Baptiste, Arielle Fleisher, Gabriel Metcalf, Adhi Nagraj, Sarah Jo Szambelan, Laura Tam

Copy edited by Valerie Sinzdak | Designed by Nicole Smiley

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1

Affordable and Veterans' Housing Bond

Authorizes Bonds to Fund Housing

Authorizes the state to issue \$4 billion in general obligation bonds to support affordable housing.

VOTE YES



WHAT THE MEASURE WOULD DO

California Proposition 1 would authorize the state to issue \$4 billion in general obligation bonds to support affordable housing. Under this measure, \$3 billion of the bonds would go to fund existing state affordable housing programs, and \$1 billion would go to an existing program that assists veterans with purchasing farms, homes and mobile homes.

The funds would be distributed as follows:

- \$1.5 billion to the Multifamily Housing Program for the construction, rehabilitation and preservation of multifamily homes for households with incomes under 60 percent of their area median income
- \$150 million to the Transit-Oriented Development Implementation Program, which provides low-interest loans to high-density development near transit
- \$300 million to the Infill Incentive Grant Program, which funds new construction and rehabilitation of infrastructure that supports higher-density affordable and mixed-income housing in infill locations (empty or underused sites in existing neighborhoods)
- \$150 million to the California Housing Finance Agency's homebuyer assistance programs for low- and moderate-income homebuyers
- \$300 million to the Joe Serna, Jr. Farmworker Housing Grant Program to assist with the construction or rehabilitation of housing for agricultural employees and families
- \$300 million to the Local Housing Trust Matching Grant Program
- \$300 million to the CalHome Program to provide grants to local public agencies and nonprofit developers to assist multifamily homeownership projects through deferred-payment loans
- \$1 billion to the CalVet Home Loan Program, which provides loans to veterans for the purchase of single-family homes, farms, units in cooperative developments and mobile homes

THE BACKSTORY

Prop. 1 takes Senate Bill 3 to the voters for approval. SB 3 was authored by Senator Jim Beall during the 2017-18 legislative session and enjoyed widespread support. This measure was a key funding component of the state housing package that was passed last fall. The bond was originally in the amount of \$3 billion, but negotiations among Democratic leaders at the last minute led to a \$1 billion increase to fund veterans' housing programs.

This state general obligation bond measure needs a simple majority (50 percent plus one vote) to pass.

1

Veterans and Affordable Housing Bond

**PROS**

- The state has an affordable housing crisis that cannot be addressed without significant public investments to bring down housing costs for low- and moderate-income households. This bond is one piece of the solution.
- The funding would be distributed through existing programs that have a successful track record of making housing more affordable for California residents.
- The Bay Area has one of the worst housing shortages in the state, and the multifamily, infill infrastructure and transit-oriented development programs funded by Prop. 1 are likely to benefit this region, among others.

CONS

- SPUR has not identified any points that we believe to be true cons of this measure.

SPUR'S RECOMMENDATION

The scale of California's housing shortage and the vast need for affordable housing in particular are pressing issues today, and serious investment in the creation and preservation of affordable housing is urgently needed. This bond measure is one important way to make housing more affordable to residents across California, whether through new construction, preservation or homebuyer assistance. Funds would be distributed through programs that are already up and running and that prioritize affordable and environmentally sustainable housing for California's future.

Vote YES on Prop 1.



2

Funds for Supportive Housing

Authorizes Bonds to Fund Existing Housing Program for Individuals With Mental Illness

Authorizes the state to issue \$2 billion in revenue bonds for the construction of permanent supportive housing for people living with severe mental illness who are homeless or are at risk of becoming homeless.

VOTE YES



WHAT THE MEASURE WOULD DO

California Proposition 2 would ratify the provisions of an existing law, the No Place Like Home Act of 2016, and would issue \$2 billion in bonds to finance permanent supportive housing. In response to a lawsuit over the 2016 statute, this measure would confirm that California voters believe affordable housing is key to stabilization and recovery from mental illness. This measure would direct some funding from the Mental Health Services Fund to be spent on creating housing for individuals living with severe mental illness who are homeless or at risk of chronic homelessness.

If passed, Prop. 2 could be amended by a two-thirds vote of the state legislature as long as the amendments further the intent of this measure.

THE BACKSTORY

In 2004, the voters approved Prop. 63, the Mental Health Services Act, which created a 1 percent tax on incomes over \$1 million in order to fund county mental health programs.

In 2016, the legislature passed the No Place Like Home Act, which, among other things, dedicated \$2 billion from Prop. 63 toward the acquisition, design, construction, rehabilitation and preservation of permanent supportive housing for people suffering from mental illness.

Overwhelming evidence shows that stable permanent housing is a necessary foundation before anyone can resolve health issues, pursue personal goals or improve their quality of life.¹ Permanent supportive housing is highly effective at targeting the most vulnerable populations, including those suffering from mental illness. It includes wraparound supportive services that promote residents' recovery and maximize their independence.

While the No Place Like Home Act of 2016 successfully passed the state legislature two years ago, a lawsuit has held up the state's ability to issue these bonds or to direct Prop. 63 dollars toward the creation of housing. The lawsuit is being funded by two mental health advocates who argue that the voters intended for Prop. 63 funding to go to the treatment of people with severe mental illness, not to housing. They have also expressed concerns that this housing might serve people who do not suffer from mental illness.

The lawsuit is scheduled to be heard this year (it is unlikely to be resolved before the election), but in the meantime, the state legislature decided to put Prop. 2 on the November ballot to confirm the voters' agreement that the creation of housing for people with severe mental illness who are also homeless is in line with the intent of the Mental Health Services Act.

Apart from the plaintiffs in the lawsuit, there appears to be little opposition to this measure. The original legislative author of Prop. 63 supports Prop. 2.

This measure requires a simple majority (50 percent plus one vote) to pass.

FOOTNOTES

¹ Stefan G. Kertesz, Travis P. Bagget, James J. O'Connell, David S. Buck and Margot B. Kushel, "Per-manent Supportive Housing for Homeless People – Reframing the Debate," *New England Journal of Medicine*, December 1, 2016.

2

Funds for Supportive Housing

**PROS**

- Prop. 2 would support the creation of supportive housing, which has been proven to help keep people with mental illness stably housed. The permanent supportive housing model includes both housing and services to residents.
- Prop. 2 would help address the state's homelessness challenges. More than 130,000 people are estimated to be experiencing homelessness in California, and many of them, especially those people who are considered to be chronically homeless, struggle with mental illness.
- The essence of Prop. 2 has already been passed by a majority of our elected state representatives.

CONS

- SPUR has not identified any points that we believe to be true cons of this measure.

SPUR'S RECOMMENDATION

SPUR believes that part of the effective long-term treatment of people with mental illness is keeping them stably housed. By creating more permanent supportive housing, Prop. 2 would directly help the people originally intended to be served by the Mental Health Services Act. It would also aid in current efforts to address the statewide homelessness crisis.

Vote YES on Prop 2.



3 Water Bond

Authorizes Bonds to Fund Water Supply Projects

Authorizes the state to issue \$8.9 billion in general obligation bonds for water supply, environmental and infrastructure investments.

VOTE YES



WHAT THE MEASURE WOULD DO

California Proposition 3 would authorize the state to issue \$8.87 billion in general obligation bonds for water supply, conservation, infrastructure and environmental improvement projects all over the state. More specifically, it would fund safe drinking water, the implementation of the Sustainable Groundwater Management Act, watershed and wetland restoration, habitat conservation, urban and agricultural water conservation and stormwater management.

Prop. 3 would dedicate funding to numerous state agencies, including the California Natural Resources Agency, the Coastal Conservancy, the Department of Water Resources and the University of California. The state resources agency would be responsible for regular public reporting and independent audits.

THE BACKSTORY

Prop. 3 is intended to complement other state water and parks bond funds that have passed recently, including Prop. 68, which passed in June of this year, and Prop. 1, which passed in 2014. It would fund many elements of Governor Brown's 2013 Water Action Plan, which aims to increase the resiliency of California's water system and strengthen the ability of California communities to cope with drought conditions.

This measure was put on the ballot by a signature campaign. It was written and sponsored by the director of the Natural Heritage Institute's California Water Program (who was formerly the deputy secretary of the resources agency). Prop. 3's proponents had originally tried to get some of its biggest-ticket items — including safe drinking water, dam safety and fixing ground subsidence in the Central Valley — included in Prop. 68. But the legislature's negotiations around Prop. 68 resulted in a smaller bond dedicated partially to water infrastructure and partially to parks. Proponents then collected signatures to place this larger bond on the ballot.

As a state general obligation bond, this measure needs a simple majority (50 percent plus one vote) to pass.

3

Water Bond



PROS

- This measure would provide significant funding for water infrastructure and reliability in California at a time when the state is drought-stressed and when local governments need additional resources to support implementation of new policies like the 2014 Sustainable Groundwater Management Act.
- This measure would support better equity in California's water system by providing \$750 million for safe drinking water and wastewater treatment for disadvantaged communities and by waiving matching fund requirements in disadvantaged communities.
- This measure would accelerate restoration of the natural environment, such as wetlands in San Francisco Bay, to support ecological resilience to climate change. For example, Prop. 3 includes \$200 million for the Bay, complementing the \$500 million over 20 years raised through 2016's Measure AA, the nine-county parcel tax passed by voters in June 2016 for Bay restoration.
- This measure could increase California's available water supply by more than 1.5 million acre-feet, enough to supply 3 million homes, by investing in water conservation and recycling, watershed restoration and land management for water yield.

CONS

- This measure did not go through the normal legislative process and is not the byproduct of consensus among elected officials. Therefore, it may contain provisions that support special interests based on their involvement with the measure, rather than supporting the public interest.
- This is a very large bond that would add to the indebtedness of the General Fund by \$400 million annually, which could result in other programs being cut to pay for this debt.

SPUR'S RECOMMENDATION

Bonds are one of the main ways the state can invest in water infrastructure, and our recent drought has shown the need for significant investment. Although we just passed Prop. 68 earlier this year, these two measures are complementary and fund different aspects of the state's water needs. Prop. 3 would directly benefit the Bay Area through funding for water recycling, conservation and San Francisco Bay restoration — which is critically important to do now before sea levels rise or our next long-term drought settles in.

Vote YES on Prop 3.



6 Gas Tax Repeal

Eliminates Road Repair and Transportation Funding

Repeals Senate Bill 1, the state transportation funding bill (commonly referred to as the “gas tax”), and requires voter approval for any future imposition, extension or increase in gas and car taxes.

VOTE NO



WHAT THE MEASURE WOULD DO

California Proposition 6 would repeal Senate Bill 1, the 2017 transportation funding bill that raised gas taxes in order to pay for road repairs and transportation improvements. If this measure passes, SB 1’s \$5 billion per year funding would cease at the end of the current fiscal year. Projects that haven’t yet begun construction would have to be canceled, scaled down or delayed indefinitely. Prop. 6 would also require voter approval for any future imposition, extension or increase in gas and vehicle taxes. This means that not only would Prop. 6 eliminate funding for critical projects, it would make it dramatically more difficult to enact fuel and vehicle-related taxes, potentially resulting in less revenue for transportation infrastructure in the future. Some have called it the Prop. 13 of California transportation.

THE BACKSTORY

After nearly two years of debate, the California State Legislature passed SB 1 in April of 2017. SB 1 raised the gas tax by 12 cents per gallon, raised the diesel fuel tax by 20 cents per gallon, added a \$100 “road improvement fee” for zero-emission vehicles and raised annual registration fees on other vehicles by \$25 to \$175 depending on a vehicle’s value. The gas taxes went into effect on November 1, 2017, and the registration fees on January 1, 2018; the fee for zero-emission vehicles and other vehicles will go into effect in July 2020.

SB 1 raises \$5.2 billion annually in perpetuity. The bill pegs its funding sources to the Consumer Price Index, which means its taxes and fees won’t lose value every year. The vast majority of the funds — \$3.7 billion — are devoted to roadway maintenance and some “complete streets” improvements that will support active transportation projects. Public transit receives \$750 million of the annual total, and bicycle and pedestrian projects are also eligible for funding. So far, 6,000 projects throughout the state have received SB 1 funds.

Over the next 10 years, SB 1 is projected to provide more than \$3.5 billion in funding to cities and counties in the Bay Area. The BART extension to downtown San Jose, new hybrid diesel-electric buses for AC Transit, express bus routes along Highway 101 and a fare discount for low-income transit riders are all examples of projects at risk of being defunded if Prop. 6 passes and SB 1 is repealed.

Those opposed to SB 1 argue that the taxes and fees create hardships for working-class families and are unnecessary. Some opponents contend that the money raised could be diverted away from road repairs to non-transportation-related projects. However, in June 2018, California voters passed a constitutional amendment requiring SB 1 money — and all other fuel taxes — to be spent on transportation.

The repeal effort began within days after SB 1 passed the state legislature. Prop. 6 was proposed by members of California’s Republican congressional delegation and by Republican gubernatorial candidate John Cox. Reportedly, the state Republican Party and the national Republican Party see Prop. 6 as a means to turn out Republican voters in the November election and limit Democratic efforts to gain congressional seats.

Governor Jerry Brown, the California Chamber of Commerce, California Professional Firefighters, the California Association of Highway Patrolmen, the League of Women Voters of California, the League of California Cities, cities, labor unions, environmental groups and many others oppose Prop. 6.

This state constitutional amendment needs a simple majority (50 percent plus one vote) to pass.

6

Gas Tax Repeal



PROS

- If SB 1 is repealed, Californians would pay lower taxes and fewer fees. A family of four could expect to save more than \$500 a year.

CONS

- SB 1 was a monumental win for California and the Bay Area. The repeal would threaten road improvement and maintenance projects throughout the state. The Bay Area alone stands to lose \$3.6 billion should Prop. 6 pass.
- Two decades without a gas tax increase has created a \$130 billion backlog in necessary repairs and improvements. Repealing SB 1 would bring a halt to much-needed repairs to our crumbling roads and aging bridges.
- SB 1 gives cities a reliable funding stream for road maintenance. Repealing SB 1 would force cities once again to focus local and regional funding measures on shoring up existing roads and transit instead of building a world-class regional transportation system.
- SB 1 will support nearly \$183 billion in increased economic activity and benefits for California residents. Prop. 6 would eliminate more than 68,000 well-paying jobs fixing our roads that otherwise would be created over the next decade. Nearly every aspect of the California economy relies on having usable roads.
- Requiring the legislature to obtain voter approval of new or increased vehicle-related taxes and fees would make it harder to raise revenues for transportation infrastructure than it's ever been. The impact on California's roads and transit services would be broad and long-lasting.

SPUR'S RECOMMENDATION

SPUR has long advocated for a stable source of funding for transportation improvements, and we support funding transportation with transportation-related user fees. SB 1 achieved both of these aims. It was the culmination of years of compromise and dialogue among hundreds of different interests; it's a solution at the scale of thinking that actually solves problems. The state's roads and transit systems need to be in good shape to support the world's fifth-largest economy, control greenhouse gas emissions and maintain quality of life. SB 1 is an overdue investment in transportation. If Prop. 6 passes, there would be no other source of revenue on the horizon. Much like the effect of 1978's Prop. 13, the detrimental impacts of Prop. 6 could last for decades.

Vote NO on Prop 6.



10 Repeal of Rent Control Rules

Expands Local Authority to Enact Rent Control

Repeals the 1995 Costa-Hawkins Rental Housing Act, which placed restrictions on how rent control ordinances can be enacted at the local level.

VOTE NO



WHAT THE MEASURE WOULD DO

California Proposition 10 would repeal the 1995 Costa-Hawkins Rental Housing Act,¹ a state law that restricts local rent control laws. Cities use rent control to regulate the rent, or the increases in rent, that landlords can charge. According to the Turner Center for Housing Innovation, 15 of California's 482 jurisdictions currently have some form of rent control, which covers 25 percent of the state's rental units.

California cities currently have the ability to pass rent control ordinances. The Costa-Hawkins Act restricts those laws in the following ways:

- Exempts from rent control all housing units built after February 1, 1995, as well as all single-family homes and all condominiums.
- For cities that had rent control ordinances when Costa-Hawkins passed, retains their existing exemption dates instead of 1995. For example, the only units in San Francisco and San Jose that can fall under rent control are those that were built prior to 1979, when those cities passed rent control ordinances; in Oakland, the threshold year is 1983.
- Prohibits cities from controlling rent levels upon turnover of a unit (known as "vacancy control"). When a tenant moves out of a rent-controlled unit, the city must allow the landlord to re-rent it at market rate.

Prop. 10 would remove these provisions from the state code and let cities impose any kind of rent control they choose.

In order to comply with previous state court rulings, Prop. 10 contains language that says cities and counties could not limit a landlord's right to a fair rate of return on property. What exactly this would mean in practice is not yet clear.

This measure could be amended by the state legislature with a two-thirds vote if the amendments further the purposes of Prop. 10. Reinstating any portion of Costa-Hawkins would require going back to the voters for a majority vote.

THE BACKSTORY

The Costa-Hawkins Rental Housing Act was originally passed by the California State Legislature in 1995 in response to strong rent control ordinances that several cities (Berkeley, East Palo Alto, West Hollywood, Santa Monica and Cotati) passed in the 1980s. Municipalities can still pass local rent control laws under Costa-Hawkins; the 1995 law was intended to protect the production of housing by exempting new construction from rent control and to protect landlords' right to set rents upon the turnover of units. If not regulated, these factors can raise overall housing costs across a city. (See SPUR's Recommendation on page 14 for more on the relationship between rent control and overall housing costs.)

Tenant activists have wanted to repeal the Costa-Hawkins Act since it passed. There have been many attempts through the state legislature to amend or repeal the law over the years. Most recently, legislators in 2017 introduced Assembly Bill 1506, which would have repealed Costa-Hawkins. AB 1506 was not heard in 2017. While it did get a hearing in 2018, it did not pass out of committee. Tenant activists collected nearly 600,000 signatures to qualify Prop. 10 for the ballot instead.

There were several last-ditch attempts to negotiate compromises that would amend, rather than repeal, Costa-Hawkins through the state legislative process, but no agreement was reached.² Thus, Prop. 10 represents a full repeal.

This measure needs a simple majority (50 percent plus one vote) to pass.

FOOTNOTES

¹ Sections 1954.50, 1954.51, 1954.52 and 1954.53 of Chapter 2.7 of Title 5 of Part 4 of Division 3 of the Civil Code are known as the Costa-Hawkins Rental Housing Act.

² For examples of potential compromise ideas, see: Turner Center for Housing Innovation "Finding Common Ground on Rent Control: A Turner Center Policy Brief," 2018. Accessed at <http://turnercenter.berkeley.edu/finding-common-ground-rent-control>

10

Repeal of Rent Control Rules



PROS

- California's affordable housing shortage is a pressing crisis and deserves immediate action. In cities that decide to impose or expand rent control ordinances, Prop. 10 would allow many more units to be rent-controlled, which could have immediate benefits for those tenants.
- Costa-Hawkins set an arbitrary and static threshold date for exemption from rent control. This means cities with rent control can only see their stock of rent-controlled units go down, never up, over time. Allowing cities to set rolling exemption dates could bring additional housing units under rent control after a carefully considered time past their construction.

CONS

- Allowing cities to apply rent control to new buildings could lead to a reduction in the amount of new rental housing produced in the future. Banks, pension funds and other sources of investment to build housing could face a climate of uncertainty about future rents and policies, making it unlikely that they would choose to invest significant capital in building rental housing in California. (See SPUR's Recommendation on page 14.) It is important for the state to provide some parameters so that cities do not — inadvertently or otherwise — inhibit the construction of new rental housing. Costa-Hawkins may be imperfect, but it provides a few safeguards.
- Allowing vacancy control could increase the number of rental units that are converted to condos. A recent study estimates that rent control caused San Francisco rents to rise by 5.1 percent because many landlords, when faced with the financial limitations of rent control, chose to convert rental units to condos or other owner-occupied housing. Collectively, these individual choices removed 15 percent of the rental stock from the market between 1994 and 2012.³ The reduction in the rental housing stock drove up competition, increasing rents overall.

FOOTNOTE

³ Rebecca Diamond, Tim McQuade and Franklin Qian. "The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco," Stanford University, 2017. Accessed at <https://web.stanford.edu/~tmcquade/rentcontrol.pdf>



SPUR'S RECOMMENDATION

California is experiencing an epic housing crisis, the likes of which the state has never seen. Particularly in coastal cities, we are seeing runaway rents and sales prices, more street homelessness and the displacement of low- and moderate-income people from their communities. Under these circumstances, measures that aim to stop the extraordinary run-up in rental housing prices are important ideas that deserve consideration. But unfortunately Prop. 10 has some very problematic unintended consequences that prevent SPUR from supporting it.

Rent control provides significant benefits to residents who live in rent-controlled units.⁴ In many cases, residents would not be able to remain in their home — or even in their city — if their rent went up to market-rate levels. In addition, by allowing households in rent-controlled units to remain in place, rent control provides greater community stability. However, rent control is an imperfect tool for stabilizing communities because it is not targeted to help low-income households or other disadvantaged populations; the people who benefit the most are those who have been in their rental unit the longest, not necessarily those who need the most help. Supporting means-based affordable housing programs would be more effective.

Beyond this concern, there are specific ways that Prop. 10 has the potential to exacerbate the very problem it seeks to solve:

Rent control makes housing cost more. Regulating it mitigates the problem.

Prop. 10 has widespread appeal because of its promise to stabilize rents. But unfortunately, removing all regulations on rent control is more likely in the long run to make housing more expensive than it already is.⁵

This is because:

1. With the exception of subsidized affordable housing, which relies on government funding and tax incentives, housing is developed in a market-economy environment. Housing production is highly dependent on capital financing because it costs so much to build, usually in the tens of millions of dollars for multi-unit projects. The institutions making decisions about whether or not to lend money to housing developers (banks, pension funds and other investors) consider whether they can reasonably expect to be paid back for their investment.

When housing units become rent-controlled, the amount of return that these investors can expect goes down because rents can't go up along with operating costs and other factors over time. Depending on the state of each cost variable (construction costs, permits costs, public benefit fees, etc.), a fixed rate of return may make housing development infeasible. In other words, it will cost more to build a housing unit than the builder and investor can receive in return. When that happens, less new rental housing gets built. Further, if certain aspects of rent control laws are not regulated and can be changed at any time, this creates uncertainty for lenders. As a result, those lenders will be even less likely to lend money, and if they do, they will probably charge higher interest rates to mitigate their risk. This has two implications: It can stop housing from being produced, and it can make the resulting housing unit more expensive, because the increased financing cost makes it more expensive to build.
2. Landlords expect to make a return on their rental properties. When new laws cause units to become rent-controlled or limit the rent increase allowed on vacant units, landlords can either choose to take a lower rate of return or take their units off of the rental market by selling them as condos, allowing family members to move in or redeveloping the property entirely. When rental units are taken out of the market, the remaining rental units become more expensive because there are fewer of them relative to all the people who want to rent them.

FOOTNOTES

⁴ *Ibid*, page 3.

⁵ Dirk W. Early, "Rent Control, Rental Housing Supply, and the Distribution of Tenant Benefits," *Journal of Urban Economics* 48(2), 2000.

Dirk W. Early and Jon T. Phelps, "Rent Regulations' Pricing Effect in the Uncontrolled Sector: An Empirical Investigation," *Journal of Housing Research* 10 (2), 1999.

George Fallis and Lawrence B. Smith, "Uncontrolled Prices in a Controlled Market: The Case of Rent Controls," *American Economic Review* 74(1), 1984.

Blair Jenkins, "Rent Control: Do Economists Agree?" *Econ Journal Watch* 6 (1), January 2009. Accessed at <https://econjwatch.org/articles/rent-control-do-economists-agree>

10

Repeal of Rent Control Rules



Unregulated rent control can be used to stop rental housing production altogether.

Because rent control can have the effect of stopping the production of rental units, there is a real risk that some cities could implement it as a way to limit the amount of new housing that is developed. Some cities have seen a similar effect with inclusionary housing, the requirement that developers provide a certain percentage of affordable units within market-rate housing developments. In some cases, the percentage has been set so high that many proposed projects are no longer viable, effectively stopping production of market-rate housing. There is speculation that this is exactly the effect some supporters of the high percentages intended.

The state plays an important role in facilitating housing production.

Many cities don't want to build housing because adding more residents leads to higher costs for providing services. One important revenue source for these services is property taxes, but Prop. 13, passed in 1978, caps property tax increases at 2 percent annually. Meanwhile, the cost to a city of providing services — police, fire, schools, libraries, streets, parks, social services, etc. — often increases at rates substantially above 2 percent per year. As a result, city officials, concerned that new residents can lead to budgetary strain, are sometimes disinclined to approve new housing. In addition, community pressure to keep cities looking and feeling the same as they do today leads some elected officials to oppose housing development that could result in changes to their communities.

Because of this dynamic at the local level, it's important for the state to play a role in facilitating housing development. If cities don't build housing, California's affordability crisis will simply intensify. While imperfect, Costa-Hawkins sets reasonable safeguards to ensure that local rent control rules do not inhibit the creation of new housing.

We are already seeing evidence of how this could play out at the local level: The Berkeley City Council has placed a measure on the November ballot that — if passed along with Prop. 10 — would limit rent increases even when a unit turns over to a new tenant and would allow rent control to be imposed on buildings when they are 20 years old. This could inhibit new construction since it can take longer than 20 years for investors to see their expected returns. If cities all over the state make such decisions, there could be a significant slowing in new construction and even greater competition for the existing housing stock across California.

Addressing housing affordability for everyone requires a different solution.

Today, 30 percent of California households are paying more than 30 percent of their incomes on housing. Rates of homelessness are increasing, and communities are experiencing intense displacement pressure. This is a crisis of immense proportion. We must act to make housing affordable, stabilize our communities and open our cities to residents of all backgrounds and economic means.

SPUR believes that the solution to housing affordability and community stabilization lies in both building massive amounts of new housing for people at all income levels and protecting tenants as we dig ourselves out of our housing shortage.

Unfortunately, the wholesale repeal of Costa-Hawkins would not improve our prospects. While there would undoubtedly be people who would benefit from an expansion of rent control, there would be many more who would be hurt by it. The biggest impact of this measure in the long run would be to exacerbate the housing shortage in California.

Vote NO on Prop 10.



A Seawall Safety Bond

Embarcadero Seawall Earthquake Safety Bond

Authorizes the City of San Francisco to issue \$425 million in general obligation bonds for the improvement, seismic strengthening, reconstruction and repair of the hundred-year-old Embarcadero seawall and other critical infrastructure associated with it.

VOTE YES



WHAT THE MEASURE WOULD DO

Prop. A would authorize a \$425 million general obligation bond to fund planning, design, engineering and construction management for:

- Earthquake resiliency projects such as retrofitting and replacing the seawall, bulkhead buildings, wharves, piers and other critical facilities
- Flood protection projects such as flood walls and barriers, enhanced foundations and floodproofing
- Mitigation projects and other public benefits such as public access enhancements and transportation improvements
- Up to 2 percent for educational and interpretive art and other art enrichment on Port of San Francisco property

The measure would require the city to create a citizens' bond oversight committee and to be transparent to the public through regular public hearings and online information.

THE BACKSTORY

The Embarcadero seawall is the foundation of 3 miles of the city's waterfront, stretching from Mission Creek to Fisherman's Wharf. It was built over a hundred years ago by the State of California off of San Francisco's original Bay shoreline. This retaining wall enabled the city to use landfill to create and develop over 500 acres of land up to First Street — a low-lying area that the seawall still protects from flooding today. The seawall supports the city's historic piers, wharves, maritime uses and iconic sites such as the Ferry Building, and it underpins utility networks including BART, Muni, ferries, the sewer and water systems, and communications infrastructure. According to the city, the seawall protects more than \$100 billion of assets and economic activity.

Today the seawall is old and sinking into the Bay. In addition, it was built before the era of modern seismic safety. In 2016, a study by the city and the port found that the seawall is likely to be damaged by a major earthquake, which could threaten lives and cause potentially significant disruption to critical lifeline infrastructure, such as utility lines for water, electricity, natural gas, telecommunications and transportation.

The seawall currently protects the city from storm-related flooding and extreme high tides, but it was not designed for the future we now expect as sea levels rise. Even today's extreme flood events could overtop the Embarcadero and flood the city's BART and Muni tunnels.

According to the city's budget analyst, the seawall is a critical infrastructure priority and is part of the general obligation bond program in the city's 2018 Capital Plan. Because of the size of the project — expected to be between \$2 billion and \$5 billion — the port cannot fund the seawall retrofit through operating revenues.

This measure was placed on the ballot by a unanimous vote of the Board of Supervisors and the mayor. As a bond measure, it requires two-thirds approval to pass.

A

Seawall Safety Bond



San Francisco's Embarcadero Seawall

Built off of San Francisco's original shoreline, the seawall is the foundation of 3 miles of waterfront. It protects more than 500 acres of low-lying land from flooding, as well as critical infrastructure.

SOURCE: SAN FRANCISCO PORT AUTHORITY

PROS

- This measure would improve life safety and reduce the failure risk of critical infrastructure that affects most people who live and/or work in the northeast part of the city.
- This measure would have a long-term positive impact on the continued viability of business, property values, tourism, transportation and historic resources near the Embarcadero by reducing potential earthquake damage and providing flood protection.
- This measure would help leverage additional federal, state and private dollars to help fund the complete cost of earthquake upgrades (expected to be between \$2 billion and \$5 billion).

CONS

- All of San Francisco's waterfront is vulnerable to earthquakes and sea level rise, and this measure would only partially pay for improvements along a 3-mile stretch of it. The measure would not provide enough money for strengthening and improvements in other areas, including lower-income parts of the city.

SPUR'S RECOMMENDATION

The Embarcadero seawall protects millions of dollars of assets and economic activity in the northeast part of San Francisco, as well as infrastructure of regional importance, such as communications, Muni and BART lines. Critically, the seawall is a lifesaving asset the city will rely on when the next major seismic event occurs, but currently it can't fulfill this function. While SPUR recognizes that this bond is not large enough to fund the full slate of waterfront improvements needed to protect the city from earthquakes and sea level rise, we believe it is an important first step toward shoring up one of the most seismically vulnerable and critical pieces of infrastructure in the Bay Area.

Vote YES on Prop A.



B

Data Protection Guidelines

City Privacy Guidelines

Puts forward guidelines that any city department or the Board of Supervisors could enact to protect privacy in the collection, storage and sharing of personal information of San Francisco residents and visitors.

VOTE NO



WHAT THE MEASURE WOULD DO

Prop. B would amend San Francisco’s charter to put forth a set of 11 data privacy guidelines that aim to protect personal information that is collected about people living in or visiting San Francisco. Covered information would include name, address, physical description, banking information, Social Security number and geolocation, among other data.

The 11 guidelines would offer a nonbinding reference for the city in considering future privacy laws and regulations, as well as requirements for contractors, grantees or other parties who receive permits, licenses or entitlements from the city. The measure would also require the city administrator to submit criteria for the city’s own collection, storage, use and sharing of personal information to the Board of Supervisors by March 31, 2019.

Under the guidelines: personal information would only be collected, stored or shared for authorized purposes; consent would be required to gather or share personal information; no one would be denied services or products if they didn’t give consent to collect their information; and everyone would be given the chance to see and correct their personal information, among other requirements.

THE BACKSTORY

This proposed charter amendment was introduced in July 2018 amid recent scrutiny over personal data privacy related to Facebook and other companies, as well as global conversations about data privacy in the wake of the European Union’s recently adopted General Data Protection Regulation (GDPR).

Prop. B’s proposed guidelines are similar to the rules in the California Consumer Privacy Act, which was signed into law in June 2018, in time to negotiate the removal of a more stringent state initiative that would have appeared on the November state ballot. California’s recently passed law is the strongest data privacy law in the United States, inspired by the EU’s GDPR. The California state law will take effect in 2020 and requires businesses to disclose what personal information they collect and for what business purpose, to delete data at a consumer’s request and to allow consumers to opt out of the sale of their data without consequence or charges. It also fines companies that don’t comply.

The original version of Prop. B included stronger, more prescriptive language than what was finalized. Negotiation with technology companies and others resulted in a policy that would only provide nonbinding guidance for future data privacy legislation.

This measure was placed on the ballot by a 9 to 0 vote of the Board of Supervisors. As a charter amendment, it must be on the ballot and requires a simple majority (50 percent plus one vote) to pass.

B**Data Protection Guidelines****PROS**

- This measure recognizes a widely shared desire to better regulate the collection, storage, sharing and selling of personal information, especially when people do not know about or consent to their information being collected or shared. It also acknowledges the sweeping effects technology practices can have, as exemplified by the recent use of personal Facebook information by the third-party firm Cambridge Analytica in the lead-up to the 2016 presidential election.
- In addition to regulating data collection, storage and sharing by third parties, this measure includes City of San Francisco government agencies to ensure that government is good actor in consumer data privacy.

CONS

- The state or federal level is a better place to achieve the goal of protecting the privacy of personal information. For example, California's recent law ensures wider predictability for entities that operate across multiple cities in the state.
- This nonbinding measure would not have an enforceable impact on the city's collection of personal data. Because it is a set of guidelines only, it could result in different city departments adopting different or conflicting policies.
- This measure does not need to be on the ballot. Should the City of San Francisco want to enact its own policies and practices regarding the collection, storage and sharing of personal information, the Board of Supervisors could do so without going to the voters and amending the City Charter.

SPUR'S RECOMMENDATION

Recent events in the United States and elsewhere demonstrate the need to regulate how personal data is collected, stored and used — and government should be proactive in protecting citizens as technology evolves. This measure seeks to be forward-thinking and comprehensive, and including government agencies in the regulation is a worthy expansion of the current scope of California's new law around data privacy. However, SPUR believes that either the state or federal level is the more appropriate scale for regulating the collection and use of personal information, particularly for creating consistent rules for companies that operate across city boundaries. Prop. B is set at too small a scale to accomplish its stated intent.

Vote NO on Prop B.





Business Tax for Homeless Services

Additional Business Taxes to Fund Homeless Services

Imposes an additional tax on individuals and businesses that receive more than \$50 million in gross income in San Francisco, to fund homelessness services and housing.

VOTE YES



WHAT THE MEASURE WOULD DO

Prop. C would impose an additional tax on individuals and businesses in San Francisco that earn more than \$50 million in gross receipts (total income) per year in order to fund homelessness services and housing. Out of 13,000 businesses that currently pay the gross receipts tax, approximately 300 to 400 would be affected.

Currently, the gross receipts tax rate for businesses that would be affected by Prop. C ranges from 0.16 percent to 0.65 percent, depending on the business. Companies earning gross receipts in excess of \$50 million would pay an additional tax on the excess amount at rates ranging from 0.175 percent to 0.69 percent. (For example, if a business's annual gross receipts were \$54 million, the additional tax would apply only to the \$4 million in excess of \$50 million.) For those businesses paying the payroll tax instead of the gross receipts tax, the payroll tax rate would increase from 1.4 percent to 2.9 percent.

Businesses currently exempt from the existing gross receipts tax (including certain nonprofits, banks and insurance companies) would also be exempt from this additional tax, as would gross receipts received from commercial rents, since those businesses are already being taxed at a higher rate under June's Prop. C.

Estimates have Prop. C raising \$250 million to \$300 million annually, which would be deposited into a newly created Our City, Our Home Fund. The gross receipts tax currently generates \$900 million per year, so this would be a 28 to 33 percent increase. After administrative costs, the funds would be distributed as follows:

- At least 50 percent would go to the Mayor's Office of Housing and Community Development (MOHCD) to help people experiencing homelessness access permanent housing. Uses would include short-term rental subsidies, permanent supportive housing and preservation of single-room occupancy buildings (SROs). A minimum of 20 percent of this allocation would be spent on housing for homeless youth, and a minimum of 36 percent would be spent on housing for homeless families.

- Up to 10 percent would go to the Department of Homelessness and Supportive Housing (HSH) to help people experiencing homelessness access short-term residential shelters and to fund hygiene programs.
- Up to 15 percent would go to MOHCD and/or HSH to provide services to those at risk of becoming homeless or those who have recently become homeless.
- At least 25 percent would go to the Department of Public Health (DPH) to create a new mental health services program that would serve homeless people severely impaired by behavioral health issues.

According to HSH, Prop. C would house 5,000 homeless people, provide outreach and mental health services to 10,000 people, assist 30,000 people with eviction protections, legal counsel and short-term assistance, and expand shelter beds by 1,000 within 10 years. There are currently 1,000 people on the city's shelter bed waiting list.

Prop. C establishes a baseline level of expenditure on homelessness programs, so that the Board of Supervisors could not simply use this new revenue as a substitute source of funds for existing programs. Based on information from the controller's office, the estimated baseline would be approximately \$380 million annually, not including the \$300 million in new tax revenue generated by this measure. However, since this measure is not a charter amendment, this baseline guidance is not legally binding on the board's budget decisions.

Prop. C would go into effect on January 1, 2020, and would require the Board of Supervisors to create a nine-member committee to oversee the administration of the Our City, Our Home Fund.

This measure could be amended by a two-thirds vote of the Board of Supervisors without going back to the voters if changes are consistent with the intent of the initiative.



Business Tax for Homeless Services



THE BACKSTORY

As of the 2017 San Francisco Homeless Count, there were 7,499 people considered homeless living in San Francisco, of whom 4,353 were unsheltered.¹ On many fronts, San Francisco is already doing more than other cities to address homelessness. The city has made significant investments in permanent supportive housing and pioneered a new model for shelters, the navigation center. But the current crisis is dwarfing these efforts. In 2016, Mayor Ed Lee established the Department of Homelessness and Supportive Housing to more effectively help those experiencing homelessness access stable housing and services. HSH has made progress delivering new supportive housing units, creating new navigation centers and providing prevention and other services, but chronic homelessness has not declined. Homelessness remains the issue of highest concern for San Franciscans, and it is clear that more needs to be done.

The Coalition on Homelessness, GLIDE and other homeless advocates gathered signatures to place this measure on the ballot. The coalition that worked on this measure sought input from city staff, people experiencing homelessness, service providers and business associations like the Chamber of Commerce, the Hotel Council and SF Travel.

In 2012, San Francisco switched its system of taxing businesses from a payroll tax to a gross receipts tax. In developing the current gross receipts tax, the mayor's office and the city controller's office conducted extensive outreach to affected business sectors. That process resulted in establishing different tax rates based on the relative profitability of industries in San Francisco. Every business that grosses more than \$1,090,000 in San Francisco or has a San Francisco payroll expense of more than \$300,000 is subject to the gross receipts tax. However, the gross receipts tax has not grown sufficiently to fully phase out the payroll tax. The gross receipts tax needs to be renegotiated and brought back to the voters at a future election, but neither Prop. C nor any of the other recent gross receipt tax measures would provide this needed fix.

This measure was put on the ballot with voter signatures to capitalize on the California Supreme Court's recent Upland decision, which concluded that a tax measure placed on a local ballot by signature requires only a simple majority (50 percent of the vote plus one) to pass. June's Prop. C and Prop. G were also written to capitalize on the Upland decision, but both measures face litigation. It is still unclear whether these measures will require a simple majority or two-thirds support to pass.

PROS

- This tax would generate significant funds, almost doubling the annual amount currently invested in city efforts to address homelessness. While it is impossible to assess whether this would "solve" homelessness in San Francisco, this funding would be a game-changing investment that would have deep impact.
- The proposed allocations in the measure are based on data as well as on HSH's existing strategic framework. In addition, the sponsors sought out input from many perspectives, including people experiencing homelessness, service providers and businesses that would be affected by this new tax (some of whom still oppose the measure).
- At least half of the funding would go toward housing people and keeping them housed rather than toward services, outreach or temporary shelter. A high level of investment in permanent solutions is needed to make a dent in this chronic problem.

CONS

- This measure is one of several piecemeal efforts to increase tax revenue for specific issues or to tax specific business sectors. San Francisco instead needs a more comprehensive effort to update and reform the gross receipts tax, one that adjusts gross receipts rates across industries to complete the phasing out of the payroll tax and, ideally, one that takes all of the city's funding needs into account comprehensively.
- The tax could cause affected businesses to leave the city. If it passes, 3 percent of the city's tax-paying businesses will pay 67 percent of the city's business tax revenue, rather than the 57 percent they currently pay. The risk of losing businesses is higher when a tax is shouldered by a small number of businesses rather than a broader set of taxpayers.
- Homelessness is a widespread problem in the Bay Area and is caused by a set of structural and systemic factors (such as economic dislocation, reduced social safety nets, failed federal housing policy and mass incarceration) that extend across city boundaries. The burden is not San Francisco's alone to bear and would be better addressed through regional policy and funding.

FOOTNOTE

¹ 2017 San Francisco Homeless Count & Survey. Accessed at <http://hsh.sfgov.org/wp-content/uploads/2017/06/2017-SF-Point-in-Time-Count-General-FINAL-6.21.17.pdf>.

C

Business Tax for Homeless Services



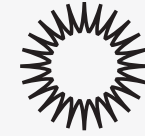
SPUR'S RECOMMENDATION

SPUR takes issue with the recent trend of one-off tax measures that support specific uses or affect specific sectors. We did not support June's Prop. C or Prop. D for this reason, calling instead for a more comprehensive effort to update the city's gross receipts tax. Besides falling short in this area, the measure would probably have significant impacts on businesses in San Francisco, given the scale of the tax increase.

But these concerns are overshadowed by San Francisco's homelessness challenge, which has reached visible crisis proportions. In a city with a thriving economy and a budget exceeding \$11 billion, there are too many people who remain in need. This measure would generate significant funding to be spent in a holistic way, providing "upstream" services that prevent homelessness and bolster mental health support, as well as supporting a range of housing options for those experiencing homelessness or at risk of becoming homeless. Absent federal leadership on this issue, San Franciscans have the opportunity to make significant investments in short- and long-term solutions scaled to the scope of this challenge. After weighing both sides, SPUR believes Prop. C is worthy of support.

Vote YES on Prop C.





SPUR

10

ballot measures.

70

staff & board members.

500

hours of analysis.

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D Cannabis Tax and E-Commerce Tax

Additional Tax on Cannabis Businesses; Expanding Business Tax Criteria

Levies an additional tax on the gross receipts of cannabis-related businesses in San Francisco and extends local business taxes to companies based elsewhere but doing business in San Francisco.

NO RECOMMENDATION

WHAT THE MEASURE WOULD DO

Prop. D would do two things: It would impose an additional tax on cannabis-related businesses, and it would allow the city to levy a tax on companies that do business in San Francisco but aren't located there.

The first part of the measure would levy a tax on the gross receipts (or total income) of companies engaging in cannabis business activities in San Francisco. These activities include but are not limited to the cultivation, possession, manufacture, processing, storing, labeling, distribution or sale of cannabis or cannabis products.¹

For cannabis retail sales, the rate would be 2.5 percent of gross receipts up to \$1 million and 5 percent of gross receipts above \$1 million. For business activities other than retail sales, the rate would be 1 percent of gross receipts up to \$1 million and 1.5 percent of gross receipts above \$1 million. The new rates would go into effect on January 1, 2021. These tax rates would be in addition to the current gross receipts tax rate that San Francisco businesses pay. Those rates vary from 0.075 percent to 0.65 percent, based on the kind of business and the amount of the business's gross receipts. The controller's office estimates that this additional tax would increase city tax revenue by \$5 million to \$12 million annually beginning in 2021.

The first \$500,000 in gross receipts from cannabis business activities would be exempt from the tax, as would the retail sale of medical cannabis. Businesses that are exempt from San Francisco's current gross receipts tax (including certain nonprofits, banks and insurance companies) would also be exempt.

The Board of Supervisors could, by a two-thirds majority, vote to increase any of the tax rates at any time, though the total rate could not exceed 7 percent and the increase could not exceed 1 percent in any given year. The Board of Supervisors could also decrease any of the tax rates by majority vote.

This measure is a general tax, and proceeds would be deposited in the city's General Fund.

The second part of the measure, separate from the cannabis tax, proposes to amend the Business and Tax Regulations Code to expand which businesses pay a gross receipts tax. In addition to current requirements that subject a business

to the gross receipts tax for "engaging in business within the city," the measure would also include businesses located elsewhere, as long as they have gross receipts in the city over \$500,000. Beginning in 2019, this amendment would permit San Francisco to tax businesses that operate over the internet and don't have a physical presence in the city, such as Etsy, Wayfair and Overstock. The controller's office estimates that this part of the measure would raise \$2 million to \$4 million annually in the short term, with the potential for significant additional tax revenue in the future.

THE BACKSTORY

In November 2016, California voters passed Prop. 64, which legalized the recreational use of marijuana.² In the last year, San Francisco has been working to establish a regulatory system for the cannabis industry, encouraging legal and illegal cannabis businesses to register and apply for permits to operate. The measure's proponents argue that now is the time to create a system for taxation and that the industry's growth thus far indicates that businesses can shoulder the additional tax, particularly with enough lead time to prepare.³ Many neighboring jurisdictions already tax cannabis businesses: Oakland has a 10 percent tax on recreational cannabis, Berkeley has a 5 percent tax on recreational cannabis and Sonoma County has a 3 percent tax on cannabis manufacturing and a 2 percent tax on dispensaries.

The measure has gone through several rounds of negotiations, which pushed out the start date, decreased the tax rates and narrowed the scope of applicable business activities. Despite these changes, members of the cannabis industry remain opposed to the tax.

FOOTNOTES

¹ For the purposes of this measure, "cannabis" does not include industrial hemp products such as cannabidiol (CBD) products.

² Marijuana remains banned at the federal level.

³ A July 11, 2018, memo from the controller's office to Supervisor Malia Cohen reported a 25 percent growth in revenue for retail sales of cannabis in the last year.

D

Cannabis Tax and E-Commerce Tax

While this measure is a general tax and revenues would be deposited into the General Fund, its author intends it to fund support for the cannabis industry, including the city's Cannabis Equity Program, workforce development support, public education campaigns, enforcement and more. The author plans to develop a Board of Supervisors resolution stating the above intention, similar to what was done with the sugary beverage tax passed in 2016.

Regarding the second part of this measure, in June 2018 the U.S. Supreme Court ruled in *South Dakota v. Wayfair* that a business's physical presence is no longer a requirement in collecting state sales taxes. Those in support of the ruling say it paves the way for changes to state and municipal taxation that better reflect the modern economy and level the playing field between e-commerce and local businesses. It remains to be seen how states and cities like San Francisco interpret this new decision for the purposes of collecting business taxes — and how the taxes hold up in court.

This measure was placed on the ballot by a vote of 8 to 3 at the Board of Supervisors. As a general tax, it requires a simple majority (50 percent plus one vote) to pass.

PROS

- If enacted as intended, Prop. D would dedicate tax revenue toward programs that support the growth and normalization of the cannabis industry, including workforce development and the city's Cannabis Equity Program, created to ensure that cannabis legalization and cannabis business activities benefit those who were most impacted by the War on Drugs.
- In distinguishing between retail and nonretail activities, this measure seeks to protect jobs in cultivation and manufacturing (many of them middle-wage) and maintain a healthy local cannabis industry.
- The cannabis tax could be amended by ordinance at the Board of Supervisors, providing legislative flexibility to revise the rates up or down as the industry grows and changes.
- The tax is structured to take effect in 2021 — after the city is expected to revise its gross receipts tax rates across industries.
- The taxation of e-commerce companies without a physical presence in San Francisco would level the playing field for local brick-and-mortar businesses.

CONS

- This measure is one of several piecemeal efforts to increase tax revenue for specific issues or to tax specific business sectors. San Francisco instead needs a more comprehensive effort to update and reform the gross receipts tax, one that adjusts rates across industries to complete the phasing out of the payroll tax and, ideally, one that takes all of the city's funding needs into account comprehensively.
- This measure would both lower the threshold at which retail cannabis businesses would be subject to taxation and significantly increase their gross receipts tax rate — which could push them back into the black market.

SPUR'S RECOMMENDATION

As a new industry and a long-stigmatized substance, cannabis is in need of support and normalization in San Francisco. The first part of this measure intends to put revenues toward worthy programs to grow cannabis businesses, and the second part could help local businesses of all kinds better compete. There is merit to establishing a tax regime for cannabis early but structuring it with flexibility to allow businesses to adjust over time; the tax has been constructed thoughtfully and is being shared as a model with other jurisdictions in California.

On the other hand, taxing a fledgling industry at too high a rate and too soon could send businesses back to the black market. Cannabis retailers in particular face a high cost of doing business in San Francisco, which already includes an 8.5 percent local sales tax and a 15 percent state excise tax. The city could wait and gather data on the industry as it grows before imposing additional taxes. Moreover, San Francisco needs to adjust its gross receipts rates comprehensively across industries and fully phase out the payroll tax. SPUR's board was divided on these points and was not able to reach enough votes to recommend either a "yes" vote or a "no" vote on this measure.

SPUR has no recommendation on Prop. D.

E

Hotel Tax for the Arts

Partial Allocation of Hotel Tax for Arts and Cultural Purposes

Allocates a portion of the city's hotel tax for arts and culture programs.

NO RECOMMENDATION

WHAT THE MEASURE WOULD DO

Prop. E would allocate a portion of San Francisco's existing hotel tax for arts-related programs and financial support. The hotel tax is currently 14 percent of hotel rent revenue and generates approximately \$370 million a year. Revenues generated by the hotel tax are currently deposited into the city's General Fund for discretionary spending on a range of city services.

This measure would set aside a portion of the tax for the following allocations:¹

- \$16.3 million to the city administrator for grants to nonprofit arts and cultural organizations
- \$6.4 million to the San Francisco Arts Commission for programs that move the city's arts funding toward cultural equity
- \$3.8 million to the Arts Commission to support the operation and programming of city-owned cultural centers
- \$3 million to the Mayor's Office of Housing and Community Development to support city-designated cultural districts
- \$2.5 million to the Arts Commission to address the needs of the arts community, as determined by a cultural services allocation plan²

The remainder of the tax would continue to go into the General Fund.

The allocations amount to 8 percent of total current hotel tax revenues. The controller's office estimates that in fiscal year 2018-19, Prop. E would distribute \$5 million more to these uses as compared to current spending; the allocations would grow to an additional \$13 million in fiscal year 2021-22.

The allocations are structured to fluctuate year to year with the tourist economy and the growth of the hotel tax overall. The controller's office estimates that hotel tax revenue will grow an average 4.5 percent per year.

Finally, the measure would make several adjustments to the proposed allocations in the first several years, for example, to focus on cultural equity funding for the first two years.

FOOTNOTES

¹ All allocations include administrative costs.

² This cultural services allocation plan would be developed by the director of cultural affairs no later than March 1, 2019, and every five years thereafter and would be approved by the Arts Commission and city administrator.

THE BACKSTORY

San Francisco's hotel tax was created in 1961 by Mayor George Christopher, and revenues were partially dedicated to funding for the arts on the grounds that the city needs cultural facilities to attract tourists. It was a groundbreaking policy at the time, inspiring similar hotel tax allocations in cities around the country. The tax rate in San Francisco was initially set at 6 percent and was increased incrementally to the current rate of 14 percent.

During economic downturns, the hotel tax was repeatedly amended to distribute funding to other programs, and in June 2013 the Board of Supervisors removed the allocation to arts programs and dedicated all hotel tax revenues to the General Fund.

Today, arts and culture programs in San Francisco are funded by the General Fund, primarily through five major city arts departments: the Arts Commission,³ the Asian Art Museum, the Fine Arts Museums,⁴ Grants for the Arts and the War Memorial.⁵

In 2016, a coalition of arts organizations and homeless advocates put a measure on the ballot that would have allocated revenues generated by a portion of the hotel tax to a variety of arts and culture organizations, as well as to programs to end family homelessness — what amounted to about \$210 million based on current hotel tax revenues. The measure failed to get the two-thirds majority vote needed to pass. In 2018, a coalition of many of the same arts organizations negotiated a new proposal, revising down the allocation amounts and dedicating funding only to arts and culture programs.

This measure was placed on the ballot by a unanimous vote of the Board of Supervisors. As a dedicated tax, the measure requires two-thirds approval to pass.

FOOTNOTES

³ The Arts Commission also receives public funding through the Art Enrichment Ordinance, which generates an average of an additional \$5 million annually.

⁴ The museums only receive a portion of their total organizational budgets through the City and County of San Francisco; the majority is private funding.

⁵ See <http://openbook.sfgov.org/webreports/details3.aspx?id=2611>

E

Hotel Tax for the Arts

PROS

- The hotel tax was created to promote arts and cultural activities that bring tourists to San Francisco. Prop. E would restore this intention and reverse some of the diversion of hotel tax revenues to other programs over the years. The arts continue to draw visitors from around the world, and the revenue source for this set-aside would be appropriately tied to its expenditure purpose.
- At 8 percent of hotel tax revenues, the allocations set out in this measure are reasonable, and the measure's tie to increases and decreases in overall hotel tax revenue means that the impact on other needs funded by the General Fund would likely be small.

CONS

- As a set-aside, this measure would reduce the amount of General Fund revenue that would be available for other public purposes.
- Any future changes to these allocations would require another vote at the ballot. It's best to give the legislative budget process the flexibility to determine priorities for city funding year to year.
- Prop. E does not need to be on the ballot. The Board of Supervisors could decide to dedicate these revenues without bringing it to the voters.

SPUR'S RECOMMENDATION

The arts are a defining element of San Francisco, drawing visitors, improving neighborhoods and contributing significantly to the local economy. More importantly, they enrich us as individuals and as a society: They teach compassion, strengthen our ties to each other and inform our political and social consciousness. The hotel tax has historically been a major source of funding for arts and culture programs in San Francisco, and this measure would restore that link with minimal impact on the city's General Fund. On the other hand, this measure would restrict city revenue and tie the hands of the Board of Supervisors, who will at some point in the future face an economic downturn and a number of competing needs with limited resources. SPUR's board was divided on these points and was not able to reach enough votes to recommend either a "yes" vote or a "no" vote on this measure.

SPUR has no recommendation on Prop. E.



SPUR

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