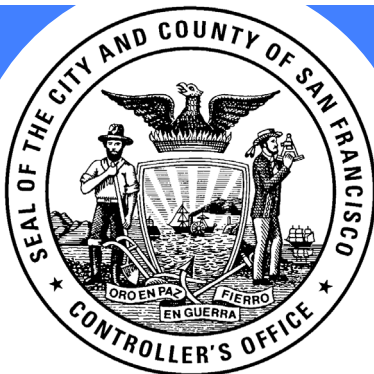


# Homelessness Gross Receipts Tax March 2024 Update



**CITY & COUNTY OF SAN FRANCISCO**

Office of the Controller

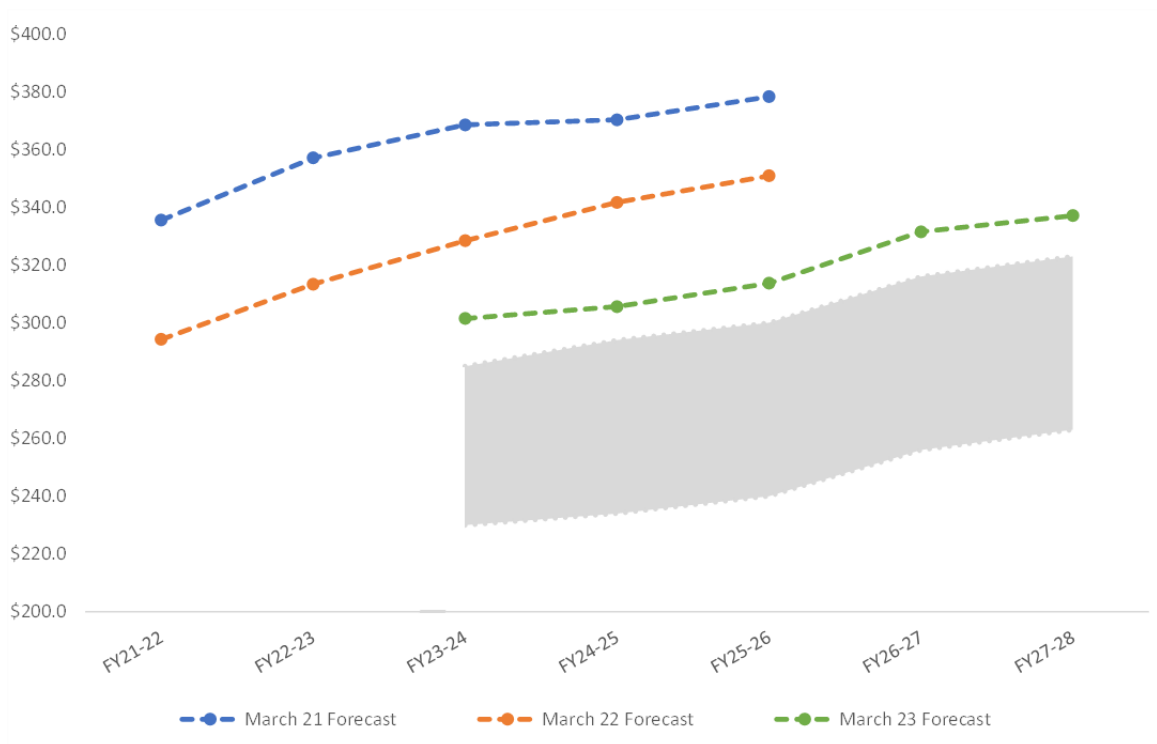
3.28.2024

# Highlights

- **Forecasts are our best thinking at a moment in time.** We update projections throughout the year to help manage budgets to a changing reality.
- **San Francisco business tax receipts are sensitive to national and local economic conditions; highly progressive; increasingly complex; and therefore volatile.** High interest rates have dampened venture capital activity, which disproportionately impact San Francisco's startup ecosystem. The long-term shift to remote and hybrid work have driven office vacancies, resulting in lower local gross receipts. Increasing number of legal disputes over the City's business taxes result in lower revenue recognition and forecasted reductions to the base.
- **We continue to anticipate a reduction to business tax versus budget when spending plans were last considered.** Although we don't yet have a final forecast for the FY 2024-25 and FY 2025-26 budget, we've developed a range of estimates. Estimates are subject to change based on updated 2023 tax filings and first quarter prepayments in April 2024.
- **Ensuring stable programming:** Given the OCOH fund's reliance on a single source (homelessness gross receipts tax) and two fiscal years' of unanticipated year-end reductions, the Controller's Office recommends developing spending plans on the lower end of the revenue forecast. Should actual revenue exceed budget, funds would be available to appropriate in future years.

# Homelessness Gross Receipts Tax (HGR)

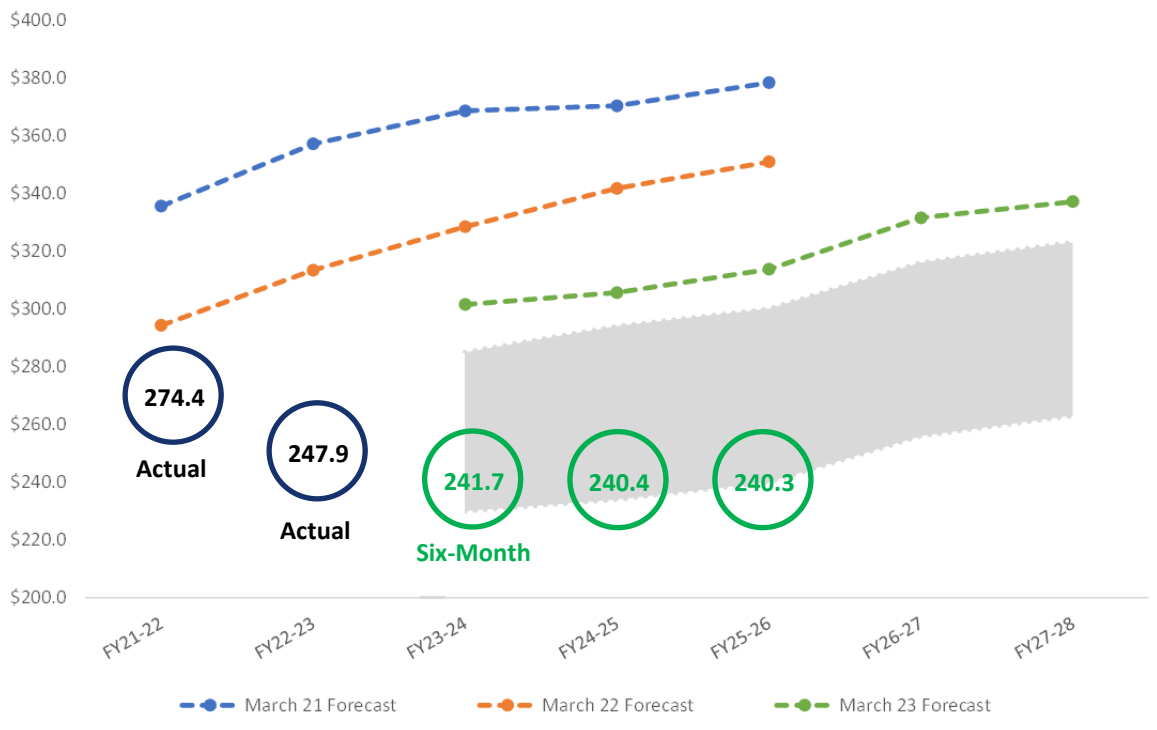
March 2021, 2022, 2023, and 2024 HGR Forecasts



- As the City has gained experience with this tax, we've consistently reduced the forecast each March, when departments develop and budget spending plans.
- Key assumptions
  - Underlying growth of 0%/2%/3%/3%
  - Current levels of remote work continue
  - Lowering current and future years due to known, ongoing tax disputes.

# Homelessness Gross Receipts Tax (HGR)

March 2021, 2022, 2023, and 2024 HGR Forecasts



- Actuals were significantly lower than March forecast in last two years.
- Given volatility of revenue, Controller's Office advised departments to make initial spending plans at the bottom end of the revenue range, \$240.4m in FY 2024-25 and \$240.3m in FY 2025-26.
- Should revenue come in above budget, it would be available for future appropriation.

## Next Steps

- January 2024, Controller, Mayor's Office and Board of Supervisors issue the Five-Year Financial Plan
- February 2024, Controller's Six-Month Budget Update for FY 2023-24
- ★ March 2024, Controller, Mayor's Office and Board of Supervisors issue an update to the Five-Year Financial Plan
- May 2024, Controller's Nine-Month Budget Update for FY 2023-24
- June 1, Mayor's Proposed Budget
- August, Board Final Adoption of Budget
- September, Year End Actuals

# Appendix: Homelessness Gross Receipts Tax Basics

- November 2018 Proposition C imposed a tax on gross receipts in excess of \$50M, in addition to the existing gross receipts business tax. (i.e., if a business earned \$150M, it pays taxes on \$100M)
- Rate: HGR tax rates differ by industry

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

- Base: Homelessness gross receipts tax (HGR) payors include the largest payors of the existing gross receipts (GR) tax. In tax year 2022, there were 358 payors of HGR versus 10,492 payors of GR.