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July 23, 2024

Hon. Mayor James Coleman and Members of the City Council
City of South San Francisco
400 Grand Avenue
South San Francisco, CA 94080

RE: Agenda Item 16 - Business License Tax

Dear Hon. Mayor Coleman and Members of the City Council,

For seven decades, the San Mateo County Economic Development Association (SAMCEDA) has been a leading voice for the economic engine that is San Mateo County. SAMCEDA believes in the power of a strong economy driven by an appreciation of what that engine provides to our ecosystem on the Peninsula.

With the current state of the economy, everyone from city hall to businesses of all sizes in South San Francisco are facing the same challenges with interest rates, inflation, labor costs, and the list goes on. SAMCEDA recognizes that the City of South San Francisco needs solutions and new revenue to help address a structural deficit, and we appreciate the work of City staff and the City Council to get to a potential solution.

SAMCEDA even supports a reasonable and responsible effort to modernize your current business license tax structure and we believe the \$55 per employee rate for General Business is a good balance of modernizing the cost structure without going too far.

However, SAMCEDA strongly recommends against a new tax structure which currently does not include a cap on total tax payments.

SAMCEDA is cautioning every city manager and their city council members across San Mateo County attempting to place a modernized business license tax on the November 2024 ballot that there is a "tipping point" at which any city goes too far in balancing its budget on the back of its business community – often the largest businesses – because that seems easy, and voters may agree.

SAMCEDA has been tracking these efforts across San Mateo County and what we are hearing from our members, other medium and large sized businesses, commercial property owners, financial institutions, and commercial leasing brokers is consistent, concerning, and should be understood in South San Francisco. If you go too far and hit the tipping point:

- Your existing businesses might leave;
- Your existing businesses might stay, but expand elsewhere;
- New businesses looking for a home will avoid your city;
- And specific to South San Francisco, if you don't have a reasonable cap on total tax payments, you provide no incentive for your largest employers to add new employees – it will have the opposite effect.

In a post-pandemic environment, office vacancy rates for available Class A office space and Life Science/Lab space coupled with millions of square feet of new Life Science/Lab space under

**Government Code Section
54957.5 SB 343 Item
Agenda: 07/24/2024 REG CC
Item 16**



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development between San Jose and San Francisco, means there are plenty of options in cities with more affordable business license taxes that include caps.

A decision this November on a business license tax increase that goes too far may get you an infusion of new tax revenue in the short term but is it worth the risk that in five or so years your structural deficit is worse because your tax structure drove business and investment away. This represents a significant and avoidable risk, and we advise against this all or nothing approach.

And specific to the City of South San Francisco, having an ongoing glut of empty office and lab space and becoming a place too expensive to operate a large business, we caution about these very real consequences:

- Your post-COVID vacancy rates will only get larger – driving your sale tax down more;
- Companies like AstraZeneca will continue to leave South San Francisco;
- Projects under construction like Southline will continue to struggle to find new tenants;
- Nearby cities like San Bruno and San Carlos with more affordable business license taxes will become a more attractive place to locate to, or relocate to, over South San Francisco.

Economic development broadly defined is about business retention and business attraction. It is about paying attention to those companies and industries that cluster on the Peninsula. Think life sciences in South San Francisco, Foster City, Redwood City and now expanding to Brisbane, Belmont, San Carlos. Think about tech in Redwood Shores, Burlingame, Menlo Park and San Mateo. these varied business sectors allow for buffers to both downturns and inevitable churns whereby industry either grows, expands, stagnates and/or dies.

Focusing on business retention means having respect for what business already provides to South San Francisco and engaging with your business community separate and apart from times of crisis. It means being willing and open to understanding the complexities of different industries and what their challenges are and how a City can partner with business so that a business wants to stay, grow, hire, partner and become part of the fabric.

SAMCEDA encourages the City Council to reject the recommendation of no cap and engage in a thoughtful discussion tomorrow about adding a cap to your proposed business license tax. We encourage a goal of retaining your existing businesses and hopefully attracting new ones that would avoid calling South San Francisco home if you have no cap.

Thank you for your consideration.

Sincerely,

Rosanne Foust
President & CEO, SAMCEDA