Government Code Section 54957.5
SB 343 Agenda: 08/10/2022
Reg CC Item # 16

ELECTIONS CODE SECTION 9212
Impact Report on Citizens Initiative Ordinance of an Annual Parcel Tax on Some Commercial Office Properties for Early Care and Education and Childcare and Development Programs

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Presented August 10, 2022
South San Francisco City Council Meeting

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1. Introduction

California Elections Code Section 9212 provides that the City Council may order a report on the effect of a proposed initiative and may refer the initiative measure to any city agency or agencies for such a report. The City may order a report before taking action to submit the proposed ordinance to the voters. In ordering the report, the Council may require that the city agency address a number of issues, including fiscal impact, and any matters the Council requests. The report must be presented to the legislative body within 30 days after the elections officer certifies to the legislative body the sufficiency of the petition (Elections Code, Section 9212 (b)). After reviewing and considering this report, the City Council must either adopt the initiative without any amendments or schedule an election for consideration of the initiative by city voters (special election) within 10 days. If a proposed initiative includes the authorization to levy a tax, the City Council does not have the option to adopt the ordinance, and must submit it to the voters.

On July 13, 2022, the South San Francisco City Council approved Resolution #22-567 accepting a Certificate of Sufficiency of Signatures on a Petition for an Initiative Ordinance of an Annual Parcel Tax on Some Commercial Office Properties for Early Care and Education and Childcare and Development Programs. The Council deferred taking action calling for the initiative to be placed on the November 8, 2022 ballot to the meeting of August 10, 2022. Pursuant to Elections Code Section 9212, the Council requested that staff provide a 9212 Impact Report of the effects of the Initiative within 30 days.

The City retained two economic consulting firms with specialized expertise to provide professional and neutral analysis of the implications of the Initiative should it pass.

- Strategic Economics, who specialize in market and development feasibility analysis, fiscal and economic impacts, and public finance, and has also worked on analysis for the Shape SSF General Plan, was asked to evaluate the revenues and business impacts of the parcel tax component. They were able to leverage some of the data that was gathered through research for the general plan update.
- Brion Economics, has expertise in child care planning and economic analysis and is currently working on the San Mateo County Child Care Needs Assessment. The firm was asked to utilize the revenue projections provided by Strategic Economics and estimate the number of children eligible for preschool and estimated number to be served; determine a weighted average tuition cost; estimate the cost of providing preschool at no cost, including the cost of prescribed preschool staff wage enhancements; consider administrative costs; and determine if available revenue would cover the cost of serving eligible children.

Both firms produced a report explaining their assumptions, methodology, and findings. The studies conducted by these consultants was informed and vetted by City staff from the City Manager's Office, Economic and Community Development, Finance, Human Resources, Parks and Recreation, and the City Attorney. Staff also utilized data and recommendations from the South San Francisco Child Care Master Plan, adopted by City Council on June 8, 2022.

2. Early Care and Education Initiative Summary & Title Prepared by the City Attorney

Annual Parcel Tax on Some Commercial Office Properties for Early Care and Education and Childcare and Development Programs

The proposed initiative ordinance ("ordinance") would levy an annual parcel tax on some commercial office properties. The tax rate would be $2.50 per square foot of parcel size. "Commercial office parcel" is defined to mean any parcel of real estate in the City of South San Francisco "that is developed and used by a business entity primarily for operations or services that are professional, scientific, or technical in nature. Such services or operations include but are not limited to computer programming, data processing, research and development activities, or operation of an internet retailing business. Such services or operations do not include warehousing, industrial, or retail activities." The tax would not apply to commercial office parcels that are less than 25,000 square feet. The tax would be collected each year with regular property taxes.

Revenue from the tax could only be used for specified purposes. First, eligible children would be able to attend early care and education and childcare and development programs offered by participating family childcare providers ("providers") and early learning and care centers ("centers"), as defined in the ordinance, at no cost. Eligible children are defined as between the ages of 2.5 and 5 years, with a parent, legal guardian, foster parent, or legal caregiver who resides or is employed within the boundaries of the South San Francisco Unified School District ("School District").

Centers and providers that are paid with revenue from the tax for eligible children to attend must be located within the boundaries of the School District and must compensate teachers and staff members who are providing early care education to eligible children in amounts determined through a process described in the ordinance. Funding from the tax would pay for up to 10 hours of care and learning for eligible children each day. Participating centers and providers would have to offer half-day and full-day schedules and year-round and school-year schedules.

Second, revenue from the tax could be used for "establishment or improvement of infrastructure for eligible Centers and Providers, including lease, purchase, development, maintenance, or improvement of facilities, as well as shared administrative, human resource services, and employee benefits."

Third, tax revenue could be used for the administrative costs of the City that are necessary to implement the tax, not to exceed 10 percent of each year's tax revenue.

Fourth, revenue from the tax could be used to pay stipends to members of an oversight committee to be established pursuant to the ordinance. The oversight committee's role would be to monitor the implementation of the ordinance; review financial information relevant to the tax; conduct regular public hearings on the program and report public input; evaluate the program; and advise regarding the compensation levels for teachers and staff noted above.

The ordinance calls for an "administrative organization," which may be a non-profit entity or the City's Parks and Recreation Department, to administer aspects of the ordinance.

STRATEGICECONOMICS

MEMORANDUM

To: Mike Futrell, City Manager, City of South San Francisco

Christina Fernandez, Assistant to the City Manager, City of South San Francisco

From: Derek Braun, Principal

Chris Holcomb, Associate

Date: August 3rd, 2022

Project: Childcare Parcel Tax Ballot Measure Analysis

Subject: Findings and Conclusions of Analysis

Executive Summary

The "Early Care and Education for All" coalition has qualified a ballot initiative petition for a ballot measure that would levy a tax on certain commercial parcels in order to fund early childcare programs for South San Francisco residents. The parcel tax would levy a $2.50 annual charge per square foot of land area on parcels with "commercial office" uses, exempting parcels under 25,000 square feet of land area (approximately one-half acre). The ballot measure requires a simple majority vote of city residents to pass.[1]

The City of South San Francisco retained Strategic Economics to evaluate the potential revenue that the proposed parcel tax could generate, and to analyze the impacts of the parcel tax on businesses and property owners. The ballot initiative describes the parcel tax as applying to parcels "developed and used by a business entity primarily for operations or services that are professional, scientific, or technical in nature." In coordination with City staff, Strategic Economics interpreted these parcels to consist of those with office, biotechnology, or R&D land use codes in the City's parcel dataset. However, the actual application of the tax may vary depending on the City's determination of administrative implementation rules that would be determined if voters approve the parcel tax measure.

PARCEL TAX REVENUE ESTIMATE

The parcel tax would generate an estimated $55.9 million in annual revenue if implemented today, potentially increasing to at least $68.2 million in annual revenue upon completion of planned and proposed development projects. The lower or "base" estimate includes 105 parcels with existing office, biotechnology, or R&D land uses identified in the City's parcel dataset, as well as four parcels associated with recently completed development projects that were not yet updated in the dataset.

[1] "South San Francisco Early Care for All Parcel Tax Act," Ballot Initiative Petition, December 17, 2021.

The "future" estimate includes an additional 35 parcels that would likely transition to one of these three uses upon completion of planned and proposed development projects.

PARCEL TAX BUSINESS IMPACTS

Because the parcel tax would be levied based on land area rather than building area, less intensely-developed properties—often consisting of low-rise and older buildings—and their tenants will bear a significantly greater cost burden relative to rents, property value, and other operating costs. Properties developed with larger buildings relative to their land area—i.e., with high floor area ratios (FARs)[2]—would be better positioned to absorb the parcel tax cost because the cost would be spread across a larger productive building area relative to the property size. In contrast, properties with low FARs would absorb a higher cost per square foot of building area.

The parcel tax would directly increase operating costs for businesses that own their properties. The parcel tax would become an added operating cost for businesses that own the properties at which the business is located. While operating costs vary across buildings, Strategic Economics estimated that annual operating costs would increase approximately six percent for a typical recently built life science building in South San Francisco.

Businesses that lease their buildings would also pay higher operating costs, whether directly or due to property owners seeking to increase rents. Business tenants in "triple net" (NNN) leases would be directly responsible for paying the parcel tax. Tenants in full service (FS) leases, which are essentially "all-inclusive," would likely experience rent increases over time as property owners seek to pass along the additional cost of the parcel tax.

Businesses paying relatively low rents would pay a greater share of their rent on the parcel tax, compared to higher-rent tenants. These lower-rent spaces are typically found in older buildings and less intensely developed properties that would also incur the highest parcel tax costs per square foot of built area. For tenants paying lower rents, the cost of the parcel tax that they would pay would reflect a higher percentage of their overall rent, compared to tenants in higher-rent buildings. For example, Strategic Economics found that the cost of the parcel tax for life science tenants paying high-end rents would equate to five percent of their rent, while the cost for life science tenants paying low-end rents would equate to eight percent of rent.

While South San Francisco remains the Bay Area's premiere biotech business location, the parcel tax will increase operating costs for businesses and may influence business location decisions over time—especially for businesses located at less intensely developed properties. South San Francisco continues to be one of the most desirable locations in the Bay Area for biotech and life science firms. However, strong demand for life science space and limited inventory of available space are resulting in increased development activity both within and outside of South San Francisco. Over time, businesses will likely have more location options and will incorporate the additional costs of the parcel tax as one of many factors in their location decisions.

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[2] A property's floor-area ratio, or FAR, is calculated by dividing its gross building area square feet by its square feet of land area. More intensely developed properties have higher FARs.

IMPACT ON DEVELOPMENT FEASIBILITY AND POTENTIAL COMMUNITY BENEFITS CONTRIBUTIONS

The parcel tax would have implications for the financial feasibility of new commercial development, as well as the potential for the City to obtain voluntary community benefits contributions from future development projects in exchange for FAR "bonuses." As part of the City's ongoing General Plan update and zoning update process, the City may potentially implement an expanded community benefits program based on FAR bonuses. The parcel tax creates an additional operating cost that would reduce net revenue for a development project and potentially impact community benefits contributions. Strategic Economics modeled the impact of the parcel tax on the financial feasibility—i.e., whether a developer would pursue a project given potential costs, revenues, and alternative investment opportunities—for a prototypical life science development project at a 2.0 FAR, which would require use of an FAR bonus.

Overall, the parcel tax will have relatively minor but measurable effects of slowing development activity, increasing the intensity of future development project proposals, and reducing opportunities for other community benefits contributions. The introduction of the parcel tax would cause a small increase in operating costs for any future development project, with the impact per square foot of building area varying depending on the FAR of the development project. Since the cost for the parcel tax is low per building square foot for higher-FAR projects, the parcel tax creates an incentive for developers to increase the intensity of future projects. The parcel tax impact on operating costs would also require projects to achieve slightly higher rents to offset these costs, potentially slowing development activity while waiting for growth in tenant demand to drive rents higher. The capacity of developers to provide additional community benefits contributions would also be reduced. However, all of these effects are likely to be relatively modest since recent development activity suggests most development projects are likely to be built at high intensities, thus reducing the cost of the parcel tax per square foot of building area.

At the same time, the parcel tax is likely to accelerate property owner interest in redeveloping older buildings on less intensely developed sites, due to the same factors favoring increased development intensity. Older buildings are associated with lower FARs and may be correlated to lower achievable rents unless significant reinvestment has already occurred. The high cost impacts of the parcel tax per square foot of these buildings will create incentive for accelerated redevelopment to a higher intensity use.

IMPACT ON COMMUNITY FACILITIES DISTRICT (CFD) IMPLEMENTATION

It is likely that implementing a CFD would be more challenging if the parcel tax is adopted. The City of South San Francisco is in the process of seeking to implement a community facilities district (CFD) for commercial parcels east of Highway 101 and generally north of North Access Road. If building owners vote to approve the CFD formation, they would annually pay an assessment of $1.00 per gross building square foot, which would be used to fund public improvements within the district. Most parcels subject to the parcel tax—approximately 87 percent in the Base Estimate—would also fall within the proposed CFD boundaries. The CFD and the parcel tax combined would equate to a higher increase in operating costs, and the potential business impacts could be more pronounced.

COMPARISON OF TOTAL PROPERTY TAXES AND ASSESSMENTS IN SOUTH SAN FRANCISCO AND OTHER COMMUNITIES

Within South San Francisco, property owners with relatively less valuable land and buildings would experience the largest proportional increases in property tax costs associated with the parcel tax,

creating incentives to pursue redevelopment and intensification of uses at these properties. Strategic Economics sampled six recently sold office and life science properties in South San Francisco to examine the parcel tax's relative impact on overall taxes and assessments. Since the parcel tax is levied based on land area rather than property value, lower value properties will experience a large increase in their overall taxes relative to their property values—nearly doubling the overall tax rate for especially low-value properties, while higher value properties experience a minimal increase in overall tax rate. These increased operating costs will create an incentive for owners of lower value properties to pursue reinvestment and redevelopment of these properties in favor of higher value uses (such as replacing a single-story R&D building with a multistory life science building).

Although the impact of the parcel tax will vary depending on intensity of development at a given parcel, the introduction of the parcel tax will increase overall taxes and fees at many properties in South San Francisco to a level exceeding that found at comparable sites sampled in four nearby communities. Current annual total taxes and assessments at the six sampled South San Francisco properties equaled approximately 1.1 percent of assessed value. This is on the low end of the range of property taxes and assessments found at comparable properties in nearby communities: the total property taxes paid at four sampled office and life science properties in San Carlos, San Francisco, Foster City, and East Palo Alto ranged from approximately 1.1 percent to 1.4 percent. However, with the addition of the parcel tax, overall taxes and fees at five of the South San Francisco sites would increase to 1.2 to 1.6 percent of assessed value, and 2.4 percent at the sixth site.

Although numerous factors influence the location decisions of companies, businesses will consider the higher overall cost of taxes and assessments in South San Francisco when making location and relocation decisions. The parcel tax impact on overall tax rate will vary significantly from parcel to parcel, with a greater increase on tax rate for parcels with low FARs and low assessed values. Businesses and property owners will factor these additional tax costs into their location and investment decisions, based on a combination of these costs and how well a given property meets their other business needs or investment goals.

Introduction

The “Early Care and Education for All” coalition gathered sufficient signatures to qualify a ballot initiative that would create a parcel tax to be levied on properties in South San Francisco with “commercial office” land uses and a parcel land area of at least 25,000 square feet (or roughly 0.57 acres). The parcel tax, if approved, would charge $2.50 per square foot of land, and revenues would fund early childcare programs for South San Francisco residents.[3]

The ballot initiative specifies that the parcel tax would apply to parcels with uses that are primarily focused on professional, scientific, or technical operations. The tax would not apply to warehousing, industrial, or retail activities. In coordination with City staff, Strategic Economics interpreted that the parcel tax would likely apply to parcels with office, R&D, and biotechnology/life science buildings. However, the actual application of the tax may vary depending on the City’s determination of administrative implementation rules upon passage of the parcel tax measure.

The City of South San Francisco retained Strategic Economics to evaluate the potential revenue the City could generate if the proposed parcel tax is approved by voters, and to identify potential business and property impacts of the tax. This memorandum, composed of five sections, describes:

1) The potential annual revenue that the parcel tax could generate, calculated as a Base Estimate and Future Estimate
2) The business impacts of the parcel tax, including analysis of the variation in the parcel tax’s different cost impacts depending on building characteristics, and whether a business owns or rents their space/property
3) The implications of the parcel tax on the financial feasibility of future development activity and the ability of future development projects to contribute voluntary community benefits
4) The impacts of the parcel tax on overall tax and assessments costs for a sample of parcels in South San Francisco, and comparison of these parcels to comparable parcels in other cities
5) The implications of the parcel tax on the formation of a Community Facilities District (CFD) east of Highway 101

POLICY CONTEXT OF PARCEL TAXES IN CALIFORNIA

A parcel tax is a tax on parcels of land. Under California law, taxes on property may not be charged on an *ad valorem* basis (i.e., based on assessed value) except for the statewide base one percent rate plus voter-approved taxes for repayment of bonded debts. The “uniformity” or property taxation provision in the California constitution states that a parcel tax must be uniformly applied to property owners. In 2019, a California appellate court decision determined that jurisdictions could implement parcel taxes that treat properties differently based on land use and size.[4] Parcel taxes may be levied by counties, cities, school districts, and special districts. Revenues are commonly used for school operations and emergency medical and fire services, but there are a variety of other examples, including parcel taxes for green infrastructure, road improvements, and transportation services.

This parcel tax is considered a “special tax” that requires a simple majority of resident voter approval to pass. Multiple recent California rulings held that special taxes proposed through a ballot initiative process only require a simple majority of the vote for passage, as opposed to the two-thirds voter

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[3] “South San Francisco Early Care for All Parcel Tax Act,” Ballot Initiative Petition, December 17, 2021.
[4] Dannis, Woliver, and Kelly, “Per-Square Foot Parcel Taxes Upheld By Court Of Appeal” February 6, 2019, https://www.dwkesq.com/per-square-foot-parcel-taxes-upheld-by-court-of-appeal/

approval required for special taxes placed on the ballot by a city council or county board of supervisors.[5]

Parcel taxes are generally well received by voters. As of 2015, approximately 10 percent of cities and school districts in California had imposed some type of parcel tax.[6] From 2003 to 2020, about 56 percent of proposed parcel taxes were approved across the state.[7]

This parcel tax would be distinct from most existing Bay Area parcel taxes because: 1) it would be levied only on certain commercial properties; and 2) the "$2.50 per square foot" rate is generally higher than other parcel taxes that apply to all parcels regardless of use.[8]

Parcel Tax Revenue Estimate

METHODOLOGY

Strategic Economics used data provided by the City of South San Francisco to compile two different estimates of the total annual revenue that the parcel tax would generate. The first estimate, described as the "Base Estimate," included all parcels within the city limits that are currently classified by the City as having a "high-level land use" of "Office, R&D, or Biotech," as well as four parcels associated with recently completed development projects that were not yet reflected in the City's parcel data. The second estimate, described as the "Future Estimate," also included parcels associated with planned and proposed development projects consisting of office or biotech/R&D uses.

Once this list of parcels was compiled, Strategic Economics multiplied the total land area of each parcel by $2.50 to estimate the potential total revenue for each scenario.

FINDINGS AND CONCLUSIONS

Figure 1 below shows the locations of the parcels included in the Base Estimate and Future Estimate, while Figure 2 shows the number of parcels, square feet, and approximate total revenue for the two estimates.

The parcel tax would generate an estimated $55.9 million in annual revenue if implemented today, potentially increasing to at least $68.2 million in annual revenue upon completion of planned development projects. In total, 109 parcels were included in the Base Estimate, and an additional 35 parcels were included only in the Future Estimate because they do not currently reflect existing biotech, office, or R&D land uses but will do so upon completion of planned development projects.

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[5] Colantuono, Michael, "Simple majority approval of special taxes is now the rule," CHW California Public Law Report, June 4, 2021.https://www.californiapubliclawreport.com/2021/06/simple-majority-approval-of-special-taxes-is-now-the-rule/

[6] Sonstelie, Jon "Parcel Taxes as a Local Revenue Source in California," Public Policy Institute of California, 2015, https://www.ppic.org/wp-content/uploads/content/pubs/report/R_415JSR.pdf

[7] Ballotpedia, "Parcel Tax Elections in California." https://ballotpedia.org/Parcel_tax_elections_in_California

[8] For example, in a 2019 report, "Regional Transportation Measure Revenue Estimates", Strategic Economics found that parcel taxes in the region tended to charge less than $100 per parcel. Other parcel tax proposals since 2019 include Alameda Unified School Districts' Measure A, at $0.26 per square foot, and San Francisco's "Fair Wages for Educators Act", at $288 per parcel.

FIGURE 1. PARCELS INCLUDED IN BASE AND FUTURE PARCEL TAX REVENUE ESTIMATES

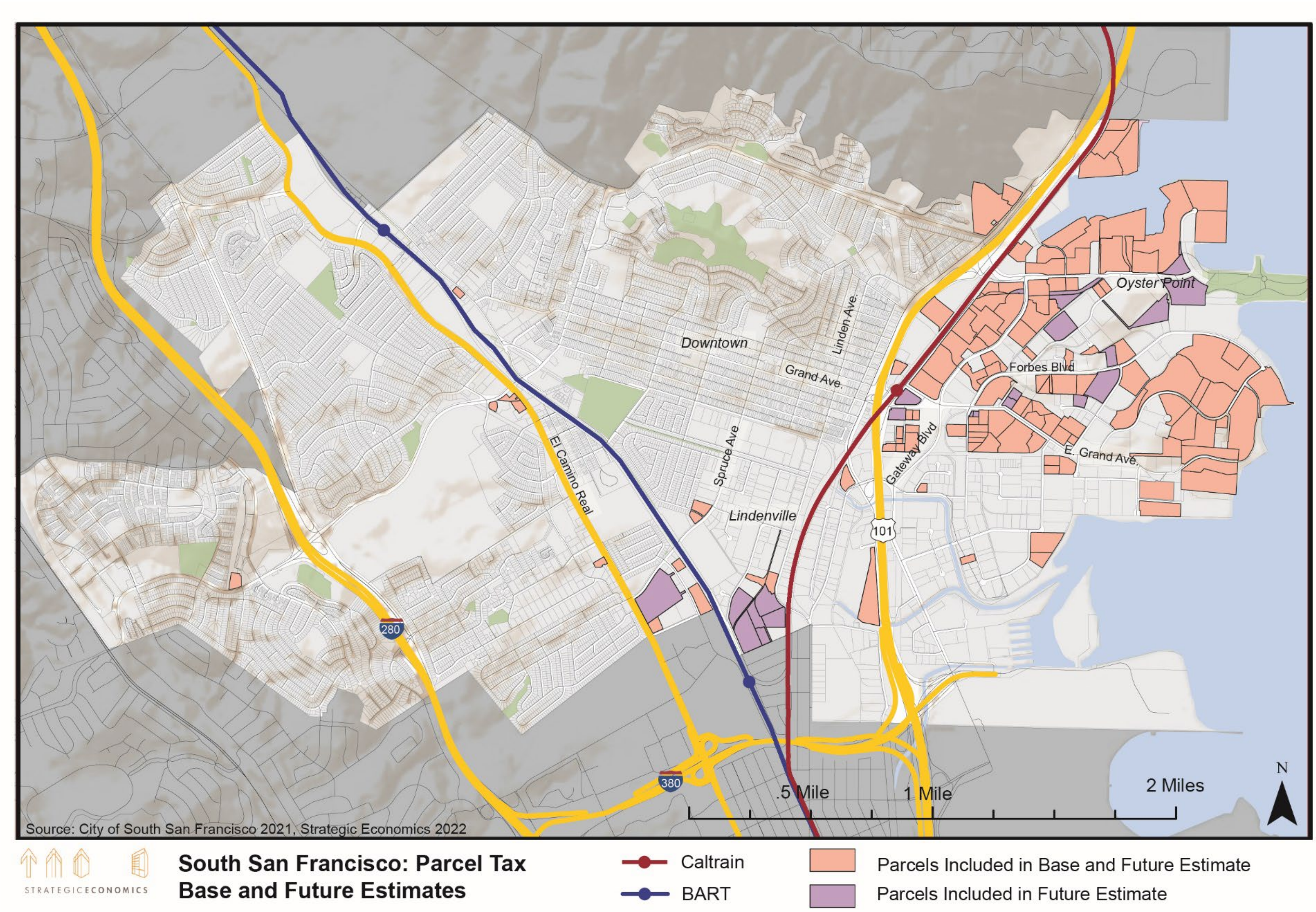


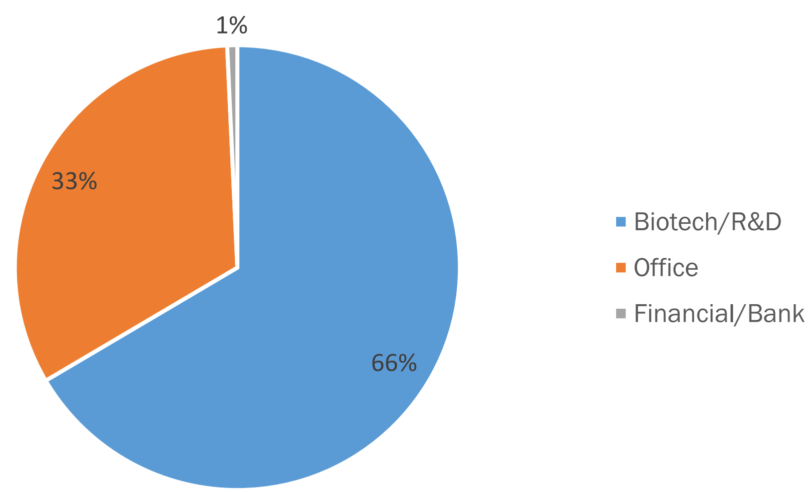
FIGURE 2. BASE AND FUTURE ESTIMATE OF PROJECTED ANNUAL REVENUE GENERATED BY PARCEL TAX

	Base Estimate (a)	Future Estimate (b)
Parcels	109	144
Land Sq. Ft.	22,358,978	27,280,859
Parcel Tax Per Land Sq. Ft.	$2.50	$2.50
Total Annual Revenue	$55,897,444	$68,202,147

Notes:
(a) Includes parcels associated with existing Biotech, Office, and R&D uses
(b) Includes parcels associated with existing, under construction, and planned Biotech, Office, and R&D uses
Source: City of South San Francisco, 2022; Strategic Economics, 2022.

Biotech and R&D parcels would generate the greatest share of the parcel tax revenue. Approximately two-thirds of land area associated with parcels in the Base Estimate is attributed to Biotech and R&D uses, while approximately one-third is attributed to office uses, shown below in Figure 3. One percent is associated with banks or other financial institutions.

FIGURE 3: PARCEL TAX VALUE CONTRIBUTION BY LAND USE FOR PARCELS INCLUDED IN BASE ESTIMATE



Source: City of South San Francisco, 2022; Strategic Economics, 2022.

Impact of the Parcel Tax on Businesses

The parcel tax will impact businesses in South San Francisco differently depending on the characteristics of the property a business occupies, whether a business owns or leases its location, and on the business's lease structure. This section examines the characteristics of properties that would be subject to the tax in order to provide insights about the impact of the parcel tax on businesses. Some findings were informed by adaptation of an existing financial feasibility analysis of a life science development prototype; Strategic Economics completed that analysis in late-2021 for the City of South San Francisco in order to inform the zoning update being completed by the City as part of its General Plan Update process.

In order to assess the impacts of the parcel tax on businesses, Strategic Economics compiled data on building square footage for each of the parcels in the Base and Future Estimates. In many cases, large existing and planned development projects overlap multiple parcel boundaries. Additionally, larger developments include other parcels that contain supporting amenities (such as parking, recreation space, or retail). In order to more accurately assess the characteristics of development sites in South San Francisco, Strategic Economics aggregated parcels and their buildings into sites, on a parcel-by-parcel basis. As a result of this process, the 144 parcels identified in the Future Estimate were consolidated into 101 distinct sites. These sites formed the basis of the parcel characteristics analysis described in this section.

DEVELOPMENT INTENSITY AND BUILDING AGE FOR PROPERTIES SUBJECT TO THE PARCEL TAX

The parcel tax will create a relatively higher cost burden for less intensely developed properties. The parcel tax is based on the square footage of land for each parcel. Therefore, more intensely developed properties would pay less tax per square foot of building area than less intensely developed sites. As shown below in Figure 4, the owner of a 200,000 square foot property would pay $500,000 annually regardless of the size of any buildings on the property. Therefore, if this property were developed at a .5 FAR with a 100,000 square foot building, the owner would pay $5.00 per built square foot. In contrast, a 400,000 square foot building on the same parcel would pay just $1.25 per built square foot.

FIGURE 4: EXAMPLE SITE FAR AND PARCEL TAX IMPLICATIONS FOR A 200,000 SF PARCEL

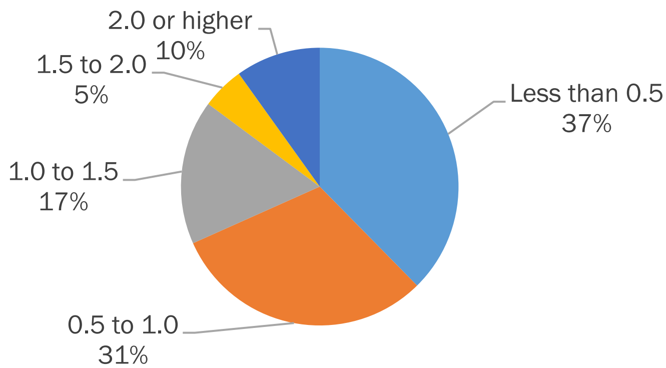
Building Sq. Ft.	FAR	Parcel Tax	Tax per Sq. Ft.
100,000	0.5	$500,000	$ 5.00
200,000	1.0	$500,000	$ 2.50
300,000	1.5	$500,000	$ 1.67
400,000	2.0	$500,000	$ 1.25

.Source: Strategic Economics, 2022

Businesses located at properties built at a lower development intensity—typically consisting of older buildings—would incur the greatest costs associated with the parcel tax. The parcel tax would cost over $5.00 per square foot of building area annually for the 37 percent of sites that have FARs lower than "0.5" (Figure 5). These sites tend to be properties built before 2000 (Figure 6). Because of the lower development intensity of these older properties, the analysis found that properties built before 2000 have a median FAR of 0.43, which corresponds to a median parcel tax cost of $5.85 per square foot of building area.

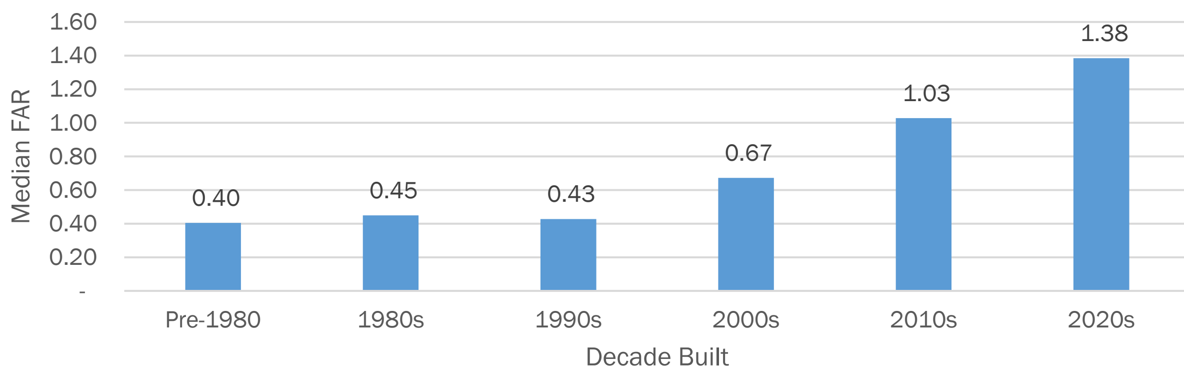
The parcel tax cost burden will generally be lower for businesses located in buildings that were completed more recently and built at a higher development intensity. Properties built since 2000 have higher FARs (Figure 6). The median FAR of parcels built since 2000 is 1.0; thus, the median property built since 2000 would pay approximately $2.50 in parcel tax per square foot of building area. As shown in Figure 6, planned development projects and development projects completed since 2020 have an even higher FAR, and thus would pay the least on a per square foot of building area basis.

FIGURE 5: DISTRIBUTION OF SITES SUBJECT TO PARCEL TAX, BY FAR (INCLUDING PROPOSED DEVELOPMENT PROJECTS IN THE "FUTURE ESTIMATE")



Note: This figure includes all properties included in the Base Estimate and Future Estimate.
Source: CoStar, 2022; Strategic Economics, 2022.

FIGURE 6: MEDIAN FAR BY DECADE BUILT FOR SITES SUBJECT TO PARCEL TAX (INCLUDING PROPOSED DEVELOPMENT PROJECTS IN THE "FUTURE ESTIMATE")



Notes: Five sites were excluded because they did not have year-built data. FAR was estimated for sites in the "2020s" category based on development project data; of the 28 sites in this group, 25 are proposed or under construction but not yet completed. In cases where new development is proposed on a site, this figure uses the expected FAR upon project completion and expected date of project completion.
Source: CoStar, 2022; Strategic Economics, 2022.

PARCEL TAX IMPACT ON OPERATING COSTS FOR BUSINESS OWNERS

The parcel tax will create an additional operating cost that will ultimately be paid by property and business owners, although the impacts of the parcel tax will vary depending on whether a business owns or leases its location. The following findings assess the varying impacts of the increase in operating costs on businesses that own their property (as well as other property owners) and businesses that lease their space.

OPERATING COST INCREASES FOR BUSINESSES THAT OWN THEIR BUILDING/PROPERTY

Businesses that own their own property would directly shoulder the additional operating cost associated with the parcel tax; for example, analysis of a life science development prototype indicates

the parcel tax could result in a six percent increase in annual operating costs. While operating costs vary across buildings, Strategic Economics modeled the increase in operating cost for a life science development prototype to estimate the potential increase in costs, as shown in Figure 7 below. This prototype was the development type deemed most feasible in Strategic Economics' work for the South San Francisco General Plan in 2021, which was based on an eight-story life science building on a 6-acre parcel with a 2.0 FAR. Based on this development prototype, a business that owned this building and property would pay an additional six percent increase in their current operating costs toward the additional parcel tax, based on an annual $655,000 parcel tax payment and annual operating expenses of approximately $11.4m.

FIGURE 7: ESTIMATED INCREASE IN OWNER OPERATING COSTS WITH PARCEL TAX, 8-STORY LIFE SCIENCE PROTOTYPE

	Operating Cost Assumptions
Parcel Size (sf)	262,231
Parcel Size (acres)	6.0
Building Area (gsf)	521,748
Rentable Office Area (nsf)	468,923
Operating Expenses	$11,400,000
Parcel Tax	$655,000
Parcel Tax as % of Operating Expenses	**5.8%**

Note: Operating expenses before the parcel tax were estimated to be 30 percent of market-rate rents. This assumption, and the assumed rent, were both informed by interviews with developers, conducted in Strategic Economics 2021 General Plan analysis.
Source: Strategic Economics, 2021.

RENTAL OR OPERATING COST IMPACTS FOR BUSINESSES LEASING SPACE

Businesses that lease their space would also incur additional costs as a result of the parcel tax, but the mechanism for property owners to pass along these costs to businesses will depend on an individual business's lease structure. Businesses in triple net (NNN) leases would be directly responsible for paying the new parcel tax. In South San Francisco, tenants in R&D/biotechnology spaces are typically in triple net leases, in which the rent covers just the space, and the tenant is directly responsible to pay separately for utilities, taxes, and operating costs. In contrast, business tenants in "full service" (FS) leases, which are all-inclusive, would not be responsible for paying the parcel tax since the property owner would pay. However, these property owners would likely seek to recuperate the costs of the parcel tax by increasing rents for the businesses that lease their space.

Businesses paying relatively low rents would pay a greater share of their rent toward the parcel tax compared to higher-rent tenants. Strategic Economics estimated three price points that reflect current market rents for High-end, Average, and Low-end market rents for both office and life science spaces.

- High-end rents were based on research completed by Strategic Economics as part of the financial feasibility analysis conducted for the South San Francisco General Plan in 2021.[9]
- Average rents were based on Colliers' "2021 Q4 Market Report for the San Francisco Peninsula."

[9] To arrive at these assumptions, Strategic Economics interviewed local developers and brokers, synthesized Costar rent data for new projects, and reviewed broker reports.

- Low-end rents were estimated by identifying the discount associated with older buildings compared to average market rents, using CoStar data.[10]

This difference in rents, when combined with differences in development intensity, could create large differences in rent impacts for individual businesses in South San Francisco. Strategic Economics estimated the amount of parcel tax that businesses would pay annually per rentable square foot of building area at four different levels of FAR. These calculations relied on an assumed efficiency ratio of 85 percent—corresponding to the share of gross building square footage that is leasable as office or R&D space. When combined with the annual rent differences described above, this comparison was used to estimate the new cost of the parcel tax as a share of annual rent, by building FAR and property type. The final estimated parcel taxes as shares of annual rent are shown in Figure 8.

For example, the parcel tax cost for R&D/biotech firms paying "low-end" rents would increase costs by six percent of existing rent if the business is in a 1.0 FAR building, versus an increase of nearly 25 percent if the business is in a 0.25 FAR building. In comparison, R&D/biotech firms paying "high-end" rents would pay an additional four percent of their rent for the parcel tax in 1.0 FAR buildings and 15 percent of their rents in 0.25 FAR buildings. This pattern is more pronounced for office tenants, who generally pay lower rents in South San Francisco.

FIGURE 8: ILLUSTRATIVE EXAMPLES OF PARCEL TAX COST AS A SHARE OF TENANT RENT, BASED ON VARIATIONS IN TYPICAL RENTS AND PROPERTY FAR

		Property FAR			
		0.25	0.5	1.0	2.0
Parcel Tax per Rentable Sq. Ft. of Building Area		$11.76	$5.88	$2.94	$1.47
Property Types	**Annual Rent/Sq. Ft. of Building Area**	**Parcel Tax as Share of Rent 0.25 FAR**	**0.5 FAR**	**1.0 FAR**	**2.0 FAR**
Office (Full Service)					
High-end	$51.00	23.1%	11.5%	5.8%	2.9%
Average	$46.68	25.2%	12.6%	6.3%	3.2%
Low-end	$33.08	35.6%	17.8%	8.9%	4.4%
R&D/Biotech (Triple Net)					
High-end	$78.00	15.1%	7.5%	3.8%	1.9%
Average	$58.44	20.1%	10.1%	5.0%	2.5%
Low-end	$48.00	24.5%	12.3%	6.1%	3.1%

Notes: Parcel tax share of rent by FAR is calculated assuming that only 85% of the total square footage of the building is leasable space (due to the need for common areas in each building). This explains why a 1.0 FAR building is shown to pay $2.94 in parcel tax per rentable square foot even though the gross square feet of the building would match the size of the parcel.
Sources: Colliers, 2021; CoStar, 2022; Strategic Economics, 2022.

Furthermore, lower-rent spaces are typically located in older, lower-FAR buildings that will also incur the highest parcel tax costs per square foot of built area. Businesses in low-rent spaces are likely to be in properties that have FARs less than "0.5" and built before the year 2000.

Ultimately, increased operating costs for businesses in triple net leases and likely rent increases for businesses in full service gross leases will impact the overall operating costs and location decisions

[10] Strategic Economics identified the difference between average pre-pandemic (2019) rents for office and R&D parcels and older buildings of each type. For office properties, the year built cutoff for an "old" designation was 1980. For R&D, it was 1990. These years were chosen based on the current distribution of properties in South San Francisco with available rent data in CoStar. Using this methodology, Low-end office rents were priced at 71 percent of 2021 Average prices, and Low-end R&D properties were priced at 82 percent of 2021 Average prices.

of current and future businesses in South San Francisco, especially for businesses that can only afford lower-cost space. Businesses that require affordable rents typically operate at thinner profit margins and are more vulnerable to fluctuations in operating costs. These firms may look more favorably at locations in other cities if the parcel tax were implemented, given these potential cost increases.

CONCLUSION: IMPACT OF THE PARCEL TAX ON BUSINESSES

While South San Francisco remains the Bay Area's premiere biotech business location, the parcel tax will increase operating costs for businesses and may influence business location decisions over time—especially for businesses located at less intensely developed properties. Strong demand for life science space and limited inventory of available space are resulting in increased development activity both within and outside of South San Francisco. Over time, businesses will likely have more location options outside of South San Francisco and will incorporate the additional costs of the parcel tax as one of many factors in their location decisions. The parcel tax will have an especially strong impact on the costs and location decisions for businesses located at less intensely developed properties (at which the tax cost will be higher per square foot of building area) and lower rent properties (at which the parcel tax will increases costs more significantly relative to the existing rent).

Impact on Development Feasibility and Potential for Community Benefits Contributions

The parcel tax would have implications for the financial feasibility of new commercial development, as well as the potential for the City to obtain voluntary community benefits contributions from future development projects in exchange for FAR "bonuses." As part of the City's ongoing General Plan update and zoning update, the City may potentially implement an expanded community benefits program based on FAR bonuses. The parcel tax creates an additional operating cost that would reduce net revenue for a development project and potentially impact community benefits contributions.

Strategic Economics modeled the parcel tax's impact on the financial feasibility of a life sciences development prototype developed for a previous analysis completed for the City in late-2021 to support the South San Francisco General Plan update and zoning code update process. The prototype, at a "2.0" FAR on a six-acre parcel, reflects a scenario in which a developer would be awarded an FAR bonus in exchange for providing additional community benefits. Strategic Economics used a static pro forma model to estimate development costs and revenues to identify an annual yield-on-cost (YOC), which equals a project's annual net operating income divided by the total development cost, including land. For life science projects to be feasible, they generally need to achieve a YOC of 5.25 percent in today's market. below shows a summary of the impacts of the parcel tax on the financial feasibility of the prototype, and the rent increase required to maintain the project's feasibility.

IMPACT ON DEVELOPMENT FEASIBILITY

The life science development prototype would become less likely to be built upon incorporation of the parcel tax as an added operating cost, with the prototype becoming "marginally feasible" rather than "feasible" unless rents increase by 1.7 percent. With the parcel tax considered an added operating cost, the YOC for the development prototype would decrease from 5.25 to 5.15 percent, making it marginally feasible based on the range of required rates of return cited by local developers in interviews. For the project to maintain the "feasible" YOC, the developer would need to achieve $6.61 per square foot in monthly rent, a 1.7 percent increase. If developers are not able to attract tenants at higher rents required to cover the cost of the parcel tax, developers may be less likely to complete projects in South San Francisco until achievable rents increase, which could reduce the supply of available space for new, expanding, or relocating businesses.

FIGURE 9: NEW RENT REQUIRED TO MAINTAIN FEASIBILITY FOR LIFE SCIENCE DEVELOPMENT

	No Parcel Tax	With-Tax, No Rent Change	With-Tax, Rent Adjusted
Rent Assumption	$6.50/Sq.Ft.	$6.50/Sq. Ft.	$6.61/Sq. Ft.
Total Net Operating Income (in millions)	$32.5	$31.9	$32.5
Total Development Costs (in millions)	$619.6	$619.6	$619.6
Yield-on-Cost	5.25%	5.15%	5.25%
Feasibility Outlook	Feasible	Marginally Feasible	Feasible

Source: Strategic Economics, 2022

IMPACT ON POTENTIAL COMMUNITY BENEFITS CONTRIBUTIONS

The parcel tax would reduce the opportunity for the City of South San Francisco to obtain voluntary community benefits in exchange for development "bonuses." The community benefits contribution is typically determined by identifying the value uplift associated with allowing additional development intensity for the project; this value uplift consists of the residual land value of the project, minus the cost to acquire land. With an FAR development bonus, the value uplift is higher than it would be without the bonus, because the net revenue for the higher-FAR project is greater.

For the life science development prototype discussed above, the additional operating cost associated with the parcel tax would reduce the value uplift by approximately 20 percent, if the rents were to stay constant. While the estimated value uplift is highly sensitive to market conditions and would vary project by project, this rough estimate signals that the parcel tax could have significant impacts on the potential community benefits contributions that the City could obtain in exchange for granting bonus FAR to developers of future projects.

CONCLUSION: IMPACT ON DEVELOPMENT FEASIBILITY AND POTENTIAL FOR COMMUNITY BENEFITS CONTRIBUTIONS

The introduction of the parcel tax would cause a small increase in operating costs for any future development project, with the impact per square foot of building area varying depending on the FAR of the development project. Since the cost for the parcel tax is low per building square foot for higher-FAR projects, the parcel tax creates an incentive for developers to increase the intensity of future projects. The parcel tax impact on operating costs would also require projects to achieve slightly higher rents to offset these costs, potentially slowing development activity while waiting for growth in tenant demand to drive rents higher. The capacity of developers to provide additional community benefits contributions would also be reduced. However, all of these effects are likely to be relatively modest since recent development activity suggests most development projects are likely to be built at high intensities, thus reducing the cost of the parcel tax per square foot of building area.

At the same time, the parcel tax is likely to accelerate property owner interest in redeveloping older buildings on less intensely developed sites, due to the same factors favoring increased development intensity. Older buildings are associated with lower FARs and may be correlated to lower achievable rents unless significant reinvestment has already occurred. The high cost impacts of the parcel tax per square foot of these buildings will create incentive for accelerated redevelopment to a higher intensity use.

Parcel Tax Cost Impacts in South San Francisco Versus Comparable Sites in Nearby Communities

Strategic Economics examined the effect of the parcel tax on the overall cost of annual taxes and assessments for a sample of six properties in South San Francisco, and then compared these costs against the total costs of taxes and assessments for four comparable office or life science properties in nearby communities. The analysis of properties in South San Francisco explores factors that drive disparities in the parcel tax's impacts on raising those properties' overall tax and assessment rates. The comparison to properties in other cities examines whether total taxes and assessments in South San Francisco will remain comparable to competing communities.

IMPACT OF PARCEL TAX ON CURRENT SOUTH SAN FRANCISCO PROPERTY TAXES AND ASSESSMENTS

South San Francisco properties with relatively lower value land and buildings would experience the largest proportional increases in property tax costs associated with the parcel tax. Since the parcel tax is levied based on land area rather than property value, lower value properties will experience a large increase in their overall taxes relative to their property values—potentially doubling the overall tax rate for especially low-value properties, while higher value properties experience a minimal increase in overall tax rate. This is shown by Figure 10, which summarizes property taxes and assessed values for six recently sold properties in South San Francisco.[11]

The amount of parcel tax relative to the market value of the property varies significantly depending on each property's characteristics. For properties in high value areas with relatively intense development, such as Parcel One in the table, the parcel tax could represent less than 0.1 percent of the property's market value. On the other hand, for an older building on less desirable land with a smaller FAR, such as the parcel exemplified by Parcel Six, the addition of a parcel tax could more than double the property's total tax rate. In these circumstances, the total property tax costs would rise to well over two percent of property value--the point at which property taxes and assessments are generally considered to adversely impact demand, value and economic usefulness of a property.

The parcel tax will create additional incentive for property owners to pursue redevelopment and intensification of uses at relatively low value and less intensely developed properties. The relatively large increase in tax and assessment costs for lower value and less intensely developed properties will create an incentive for these property owners pursue reinvestment and redevelopment of these properties in favor of higher value uses (such as replacing a single-story R&D building with a multi-story life science building).

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[11] Each of the properties included in the table was sold within the past four years, meaning that assessed values for each property should more closely represent the current market value of the property compared to properties that have not been sold or reassessed recently.

FIGURE 10: COMPARISON OF TOTAL TAX COST WITH AND WITHOUT THE CHILDCARE PARCEL TAX FOR SIX EXAMPLE PARCELS IN SOUTH SAN FRANCISCO

Variable	Units	Parcel 1	Parcel 2	Parcel 3	Parcel 4	Parcel 5	Parcel 6
Decade Built	decade	2010s	2000s	2010s	2000s	2000s	1980s
Last Sale Date (a)	year	2020	2020	2019	2020	2018	2021
Site FAR	building sf divided by parcel sf	2.8	0.7	1.0	0.5	0.5	0.4
Approximate Parcel Size	sf land	125,000	105,000	290,000	650,000	85,000	250,000
Assessed Value (b)	per sf land	$3,438	$836	$823	$663	$530	$195
Taxes per Square Foot of Land							
Existing Taxes and Assessments (c)	per sf land	$38.84	$8.98	$9.17	$7.48	$5.83	$2.10
New Childcare Parcel Tax	per sf land	$2.50	$2.50	$2.50	$2.50	$2.50	$2.50
New Combined Taxes and Fees (d)	per sf land	$41.34	$11.48	$11.67	$9.98	$8.33	$4.60
Taxes as Share of Assessed Value							
Existing Taxes and Assessments	% of assessed value	1.13%	1.07%	1.11%	1.13%	1.10%	1.08%
New Childcare Parcel Tax	% of assessed value	0.07%	0.30%	0.30%	0.38%	0.47%	1.28%
Combined Total Taxes and Fees (d)	**% of assessed value**	**1.20%**	**1.37%**	**1.42%**	**1.51%**	**1.57%**	**2.36%**

Source: County of San Mateo Tax Collector, 2022; Strategic Economics, 2022.
Notes:
(a). Only includes properties sold since 2018. This ensures that assessed values are similar to current market values since properties are reassessed upon change in ownership.
(b). Assessed value of property. Only the value of land and improvements ("secured" property) were included in calculations for the purpose of this figure.
(c). The proposed childcare parcel tax is not included in the total here.
(d). Sum of the existing taxes and assessments as well as the proposed childcare parcel tax.
The purpose of this figure is to demonstrate the variety of ways in which the parcel tax could impact tax amounts for Office, Biotech, or R&D parcels in South San Francisco, based on property value and development intensity. The figure also allows for comparison of tax rates between parcels in South San Francisco and those in nearby communities, as explained further in Figures 11 and 12.

SOUTH SAN FRANCISCO PROPERTY TAXES AND ASSESSMENTS VERSUS SITES IN NEARBY COMMUNITIES

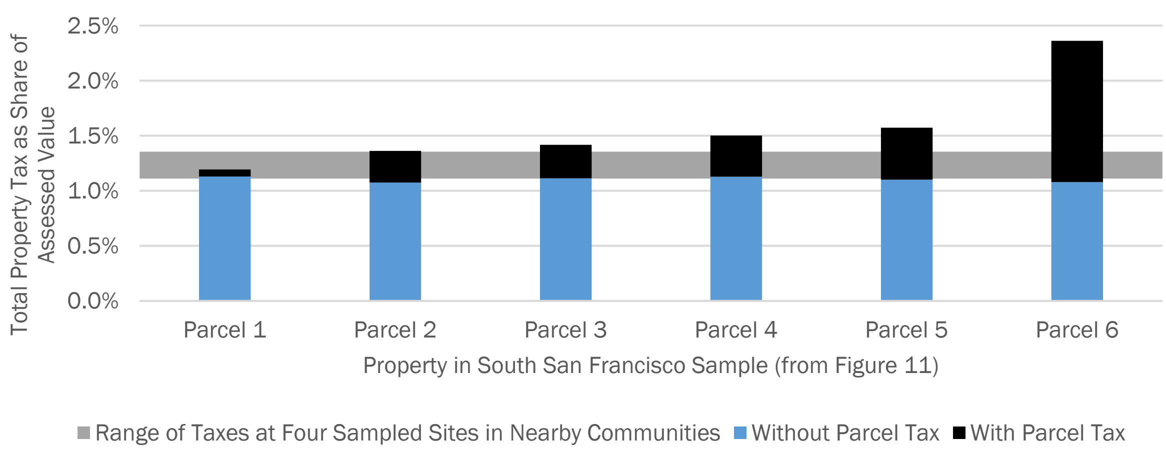
Although the impact of the parcel tax will vary depending on intensity of development at a given parcel, the introduction of the parcel tax will increase overall taxes and fees at many properties in South San Francisco to a level exceeding that found at comparable sites sampled in four nearby communities. Current annual total taxes and assessments at the six sampled South San Francisco properties equaled approximately 1.1 percent of assessed value. This is on the low end of the range of property taxes and assessments found at comparable properties in nearby communities. The total property taxes paid at four sampled office and life science properties in San Carlos, San Francisco, Foster City, and East Palo Alto ranged from approximately 1.1 percent to 1.4 percent, as shown in Figure 11. However, with the addition of the parcel tax, overall taxes and fees at five of the South San Francisco sites would increase to 1.2 to 1.6 percent of assessed value, and 2.4 percent at the sixth site (as shown in Figure 10 and Figure 12). Although numerous factors influence the location decisions of companies, businesses will consider the higher overall cost of taxes and assessments in South San Francisco when making location and relocation decisions.

FIGURE 11: TOTAL TAX COST AS A PERCENTAGE OF ASSESSED VALUE FOR OFFICE/LIFE SCIENCE PARCELS IN NEARBY COMMUNITIES, FOR COMPARISON TO THE SIX SOUTH SAN FRANCISCO PARCELS

Variable	Units	2100 University Ave	333 Lakeside Dr	835 Industrial Rd	1800 Owens St
City	city	East Palo Alto	Foster City	San Carlos	San Francisco
Parcel ID	assessor ID #	063-321-440	094-904-330	046-140-200	8727-008
Property Use	industry and tenant	Office (Amazon)	Biotech (Gilead)	Biotech (Atreca)	Biotech (Icona - Labs
Last Sale Date	year	2016	2003	2021	2021
Taxes per Square Foot of Land					
Assessed Value	per sf land	$2,773	$111	$604	$5,680
Existing Taxes and Assessments (b)	per sf land	$37.71	$1.30	$6.70	$71.57
Taxes as Share of Assessed Value	**% of assessed value**	**1.36%**	**1.17%**	**1.11%**	**1.26%**

Sources: County of San Mateo Tax Collector, 2022; Treasurer and Tax Collector, City and County of San Francisco, 2022; Strategic Economics, 2022.
Notes:
(a). Assessed value of property. Only the value of land and improvements are included in calculations for the purpose of this figure.
(b). Taxes in East Palo Alto include that City's "Measure HH" parcel tax, which is assessed at a rate of $2.50 per building square foot (versus $2.50 per square foot of land area in the proposed South San Francisco childcare parcel tax).
The purpose of this table is to show total existing tax amounts, as a share of assessed value, for parcels with similar industry uses in example communities near South San Francisco. The Taxes as Share of Assessed Value can be compared to similar rows in Figure 10 – both with and without the parcel tax. This comparison is also shown in Figure 12.

FIGURE 12: PROPERTY TAX COSTS AS A SHARE OF ASSESSED VALUE FOR THE SIX SOUTH SAN FRANCISCO PARCELS (WITH AND WITHOUT THE CHILDCARE PARCEL TAX) COMPARED TO THE TAX COST RANGE FOR THE FOUR EXAMPLE PARCELS IN NEARBY COMMUNITIES



Sources: County of San Mateo Tax Collector, 2022; Treasurer and Tax Collector, City and County of San Francisco, 2022; Strategic Economics, 2022.

CONCLUSION: PARCEL TAX COST IMPACTS IN SOUTH SAN FRANCISCO VERSUS COMPARABLE SITES IN NEARBY COMMUNITIES

Based on the illustrative properties sampled for analysis, the parcel tax would increase South San Francisco's total tax cost from a low overall rate to a relatively high rate compared to the comparable parcels in nearby cities (as shown in Figure 12). The effect will be especially strong for relatively low-value parcels, such as Parcel 6. The parcel tax impact on overall tax rate will vary significantly from parcel to parcel, with a greater increase on tax rate for parcels with low FARs and low assessed values. Businesses and property owners will factor these additional tax costs into their location and investment decisions, based on a combination of these costs and how well a given property meets their other business needs or investment goals.

Implications for Community Facilities District Formation

The City of South San Francisco is considering forming a community facilities district (CFD) that would assess a $1 per gross building square foot annual fee to all commercial properties east of Highway 101 and generally north of North Access Road, as shown in Figure 12. This fee would be used for infrastructure and maintenance, such as new street connections, safety improvements, and bicycle or pedestrian access to transit within the district boundaries.[12] Property owners associated with at least two-thirds of the land area in the district must vote for the CFD in order for it to be implemented.

Most properties that would be subject to the parcel tax are also within the proposed CFD boundaries. Approximately 87 percent of the parcels in the Base Estimate and 80 percent of parcels in the Future Estimate would be within this CFD.

It is likely that implementing the CFD would be more challenging if the parcel tax is adopted. The combination of the parcel tax and assessment from the CFD would result in added operating costs between roughly $2.00 to $6.00 depending on building FAR.

For most properties that would be subject to both costs, the parcel tax cost would be significantly higher than the CFD assessment. Ninety-two percent of sites that would be subject to both costs would pay less per square foot for the CFD assessment than parcel tax.

Properties with FARs less than "0.5" or less would pay five times more for costs associated with the parcel tax than the CFD assessment. As shown in Figure 11, a business at a parcel with an FAR of .5 or below will pay $5.00 per square foot of building area annually for the parcel tax, which constitutes 83 percent of the combined cost of the CFD and parcel tax. These property owners may be the least likely to vote for the CFD because they would experience the most significant cost increases from the parcel tax relative to their building rent or ownership costs. In contrast, a business at a more intensely developed site—such as a newer multistory life science building built at an FAR of 1.5—would only pay $1.67 per square foot of building area annually for the parcel tax, meaning the parcel tax would only constitute 63 percent of the combined parcel tax and CFD cost.

If the CFD is not implemented, the City will be less able to fund public improvements that enhance South San Francisco's ability to retain and attract businesses in high-tech sectors that drive the City's economy. The area East of Highway 101 is South San Francisco's hub for life science and biotechnology firms. The infrastructure investments that the CFD could fund are critical for supporting

[12] City of South San Francisco. Preliminary Term Sheet for Industrial Area CFD. 2019.

non-automobile commute trips as the area continues to grow, and can provide enhanced access to housing and amenities frequently sought by workers.

FIGURE 13: COMBINED ANNUAL PARCEL TAX AND CFD FEE FOR A 200,000 SQUARE FOOT PARCEL

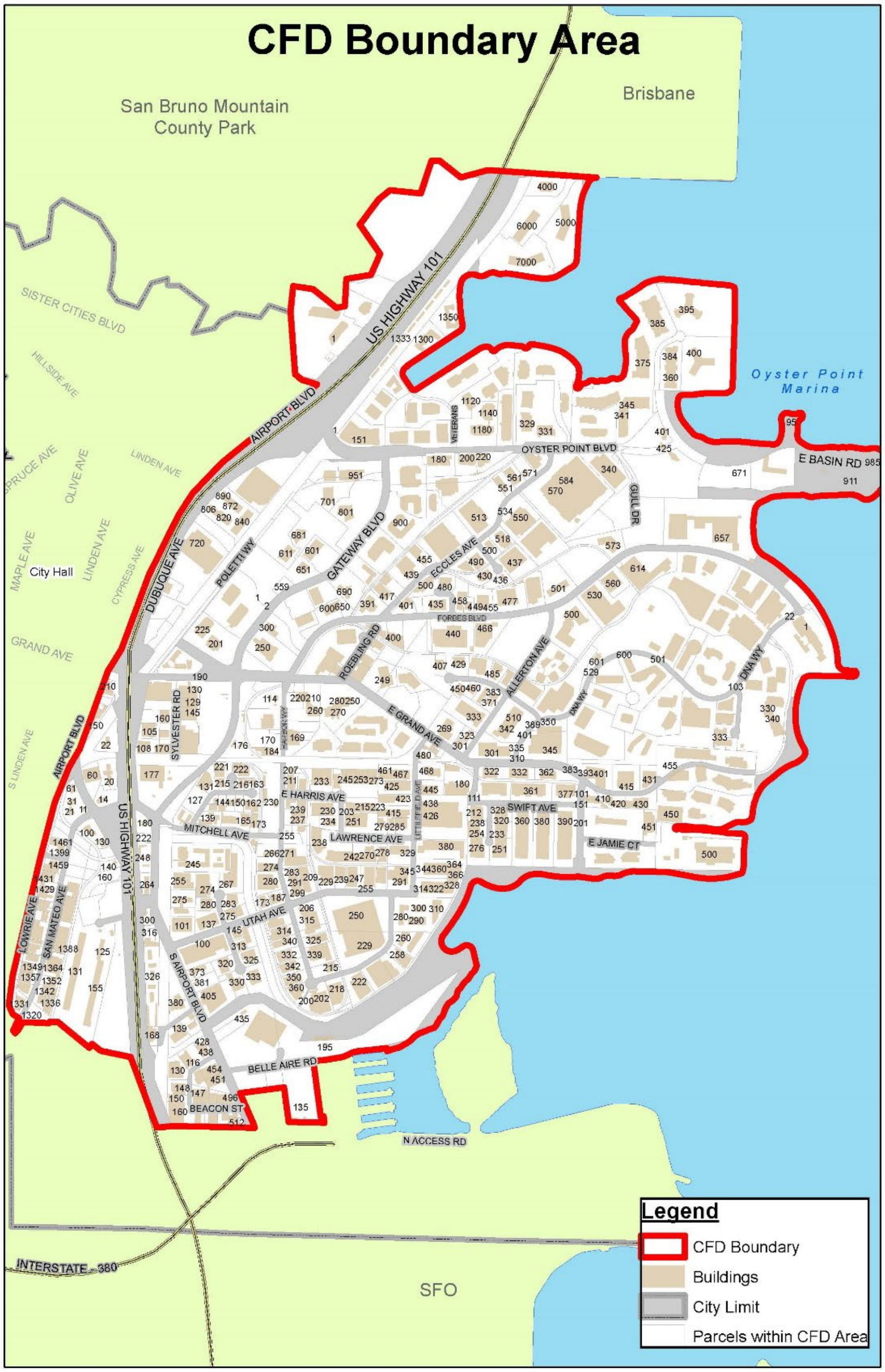
Building Sq. Ft.	FAR	Parcel Tax	CFD Fee	Parcel Tax Per Building Sq. Ft.	CFD Fee Per Building Sq. Ft.	Combined Tax & Fee Per Building Sq. Ft.
100,000	0.5	$500,000	$100,000	$5.00	$1.00	$6.00
200,000	1	$500,000	$200,000	$2.50	$1.00	$3.50
300,000	1.5	$500,000	$300,000	$1.67	$1.00	$2.67
400,000	2	$500,000	$400,000	$1.25	$1.00	$2.25

Source: Strategic Economics, 2022.

CONCLUSION: IMPLICATIONS FOR COMMUNITY FACILITIES DISTRICT FORMATION

Implementing the CFD would be more challenging if the parcel tax is adopted, due to the resulting increase in added operating costs for property owners and businesses in the area. If the CFD is not implemented, the City will be less able to fund public improvements that enhance South San Francisco's ability to retain and attract businesses in high-tech sectors that drive the City's economy. The area East of Highway 101 is South San Francisco's hub for life science and biotechnology firms. The infrastructure investments that the CFD could fund are critical for supporting non-automobile commute trips as the area continues to grow, and can provide enhanced access to housing and amenities frequently sought by workers.

FIGURE 14: PROPOSED CFD BOUNDARY



Source: City of South San Francisco, 2022.

Technical Appendix: Methodology and Source Notes

METHODOLOGY FOR IDENTIFYING PARCELS SUBJECT TO THE PARCEL TAX

Strategic Economics carried out an iterative process to identify all present and near-term future parcels likely to be subject to the childcare parcel tax. These parcels were compiled into two estimates. The first estimate, described as the "Base Estimate," reflects the existing office and biotech/R&D land uses of parcels throughout the city. The second estimate, described as the "Future Estimate," also includes parcels that are currently associated with another type of use, but have active or planned development projects consisting of office or biotech/R&D buildings.

The ballot initiative describes the parcel tax as applying to parcels "developed and used by a business entity primarily for operations or services that are professional, scientific, or technical in nature." In coordination with City staff and the City's legal counsel, Strategic Economics interpreted these parcels to consist of those with office, biotechnology, or R&D land use codes in the City's parcel dataset.

These groups of parcels were identified in three steps. First, Strategic Economics filtered an up to date shapefile of South San Francisco parcels, provided by the City of South San Francisco in January of 2021, to identify all properties with a "High Land-Use" of Office, R&D, or Biotech throughout South San Francisco. Once these properties were identified, this list was filtered to exclude any properties that were less than 25,000 square feet in size.

Secondly, the City of South San Francisco provided Strategic Economics with a list of active office and life science development projects within the city; this list was utilized to identify additional parcels for both the Base and Future Estimates. Strategic Economics then consulted developer websites and project plans in order to identify each of the parcels that were associated with every project on the list. In cases where a future development project included multiple parcels, all such parcels were included as part of the revenue estimates regardless of individual parcel size. This decision was made in order to capture the effects of any future parcel changes that might be presumed to occur as part of the planned development process; in other words, since all parcels were part of the same development project, they were all presumed to be part of a larger future parcel with office or R&D use. The only exception to this policy was in cases where a non-office or R&D use—such as a parking garage or retail location—was planned for a distinct parcel within the project site. These parcels were not included as part of the Base or Future Estimate.

Lastly, Strategic Economics compared this list of development project parcels to the list of South San Francisco parcels with a current designation of Office, Biotech, and R&D—as described in step one. For development projects that were not taking place on parcels that would already be subject to the parcel tax, Strategic Economics used records from the City of South San Francisco and development websites to sort each project based on overall completion status. The results of this analysis can be seen in Figure 15. All projects that were deemed to be currently completed were added together with the list of parcels with current Office, Biotech, and R&D land uses to form the Base Estimate. All projects that were entitled, under construction, under review, or anticipated were categorized as part of the Future Estimate.

FIGURE 15: LIST OF OFFICE AND BIOTECH DEVELOPMENT PROJECTS IN SOUTH SAN FRANCISCO, BY STATUS

Address	Status	Square Feet	Tax Value
201 Haskins Way	Completed	285,999	$285,999
350 Oyster Point Blvd	Completed	442,569	$1,106,424
1000 Gateway	Completed	153,742	$384,356
475 ECCLES AVE	Entitled	262,176	$655,441
850-900 Gateway Blvd	Entitled	278,512	$696,280
465 CABOT RD	Entitled	71,397	$178,493
180 EL CAMINO REAL	Entitled	642,555	$1,606,386
379 Oyster Point Parcel 1	Under Construction	153,468	$383,669
493 FORBES BLVD	Under Construction	97,696	$244,240
494 FORBES BLVD	Under Construction	327,993	$819,984
328 ROEBLING RD	Under Construction	48,598	$121,495
233 EAST GRAND AVE	Under Construction	48,493	$121,232
379 Oyster Point Parcel 2	Under Construction	149,059	$372,648
101 Gull Dr	Under Review	169,468	$423,670
121 EAST GRAND AVE	Under Review	122,802	$307,004
100 EAST GRAND AVE	Under Review	92,288	$230,719
325 SOUTH MAPLE AVE	Under Review	224,170	$560,426
240 DOLLAR AVE	Under Review	165,084	$412,709
160 SOUTH LINDEN AVE	Under Review	231,595	$578,987
120 East Grand Ave	Under Review	168,063	$420,156
440-460 Forbes Blvd	Under Review	500,451	$1,251,128
54 TANFORAN AVE	Under Review	129,453	$323,632
30 TANFORAN AVE	Under Review	318,042	$795,106
50 TANFORAN AVE	Under Review	74,456	$186,139
580 Dubuque Ave	Under Review	76,609	$191,523
101 Terminal	Anticipated	434,553	$1,086,382
Sylvester/Associated Rd	Anticipated	208,100	$520,250

Sources: (City of South San Francisco 2022, Strategic Economics 2022)
Notes:
The 379 Oyster Point project consists of multiple parcels and phases of development. Each was treated as a separate parcel because different phases will be completed at different times.

METHODOLOGY FOR COMPILING PROPERTY DATA APPLIED IN THE BUSINESS IMPACTS ANALYSIS

In order to assess the impacts of the parcel tax on businesses, Strategic Economics compiled data on building square footage for each of the parcels in the Base and Future Estimates. The primary source for this information was CoStar, which maintains records for the locations and sizes of most office, R&D, and flex properties in South San Francisco. This list of properties was mapped against the parcels identified in the revenue estimates in order to estimate the total square footage of building space associated with each individual site. The data from CoStar also included information about when each existing building was constructed, the property's most recent sale date, and prevailing rents per square foot of these properties. Therefore, by merging this data with the list of parcels in the Base Estimate, Strategic Economics was able to identify further details about each parcel's existing use.

However, unlike in the case of the parcel tax revenue estimates, business impacts are dependent on the overall business revenue that can be generated on each site. The distinction between parcels is not as relevant for a business owner's purpose, therefore, as the overall ratio of building square footage to land area that would be subject to the parcel tax. This is particularly true for future development projects that span multiple parcels—many of which are not included in the Base Estimate but are included in the Future Estimate. Therefore, to more accurately assess the characteristics of development sites in South San Francisco, Strategic Economics aggregated all parcels in the Future Estimate and their buildings into sites, on a parcel-by-parcel basis. As a result of this process, the 144 parcels identified in the Future Estimate (which also included the 109 parcels identified for the Base Estimate) were consolidated into 101 distinct sites. These sites were used to calculate the Floor Area Ratio (FAR) for each property in South San Francisco currently being used for Office or Biotech purposes.

In cases where future development was planned, Strategic Economics identified the total planned building square footage from data provided by the City, development plans, or CoStar's records of planned developments. If a planned development was set to replace an existing building, Strategic Economics updated the decade built for that site to correspond to the date of planned completion (instead of the year of the existing building) and update the building square footage and FAR according to the future development size. Thus, the analysis of FAR as shown in the memo reflects what is known about the conditions under the circumstances of the Future Estimate, rather than focusing exclusively on the Base Estimate.

METHODOLOGY FOR THE SITE-LEVEL PROPERTY TAX AND ASSESSMENT ANALYSIS AND COMPARISON TO NEARBY CITIES

As a complement to the business impacts analysis, Strategic Economics analyzed the tax expenses that owners of office and biotech properties would incur with the addition of a parcel tax in South San Francisco, contextualizing these findings with the current tax rates and the total taxes present for comparable properties in nearby communities.

This analysis was completed using actual property tax assessments from the San Mateo County Tax Collector and the City and County of San Francisco Tax Collector. Six parcels in South San Francisco were chosen from among the parcels in the Base Estimate, filtering for properties of various sizes that had been sold in 2018 or later. In order to understand the implications of a parcel tax for business decisions, it was important that the analysis be conducted based on the market value of these properties, rather than using an assessed value that might not reflect true market conditions because of limitations in annual allowable assessed value increases due to California's Proposition 13. By restricting the sample to recently-sold properties, Strategic Economics ensured that the assessed value information in the tax documents would more closely reflect each property's true market value (because property values are re-assessed each time a property exchanges hands). Note that the six parcels are not specifically identified in this memo in order to maintain privacy for the property owners and businesses.

In order to identify comparable properties in nearby cities, Strategic Economics identified properties that are currently being used for biotech uses or high-value office uses and located in communities compete with South San Francisco for life science businesses and investment. The purpose of this comparison was to identify the costs of current property taxes and assessments in these communities, as a function of the total assessed value of the property. In this scenario, Strategic Economics did not restrict the sample to recently sold properties, although three of the four selected properties were sold within the past six years.

For the South San Francisco properties, Strategic Economics analyzed total assessed value per square foot of land because the parcel tax would be assessed on a per square foot of land basis. This allows for direct comparison between the value of the property and the total amount that the childcare parcel tax would represent, as a share of property value. These values were also presented in the Nearby Community property tax table for the sake of comparison. However, the primary purpose of that table was to highlight the existing taxes and assessments in those communities.

4. Parcels Included in Base Estimate by Strategic Economics, from City Parcel Data as of January 2022

APN	SITE_ADD	LUFULL	SqFtParcelLandArea	SqFtX$2.50 tax amount	Acres of parcel land
007650180	1 TOWER PLACE	Office: Multi Story	642093.8054	$1,605,234.51	14.74050445
007650190	2 TOWER PLACE	Biotech	127197.1	$317,992.75	2.920055298
010401270	975 EL CAMINO REAL	Financial	43716.30125	$109,290.75	1.003592197
010430040	1131 MISSION RD	Professional Building	34487.68885	$86,219.22	0.791731561
013145420	359 EL CAMINO REAL	Office: Multi Story	39637.00485	$99,092.51	0.909944063
013260010	91 WESTBOROUGH BLVD	Office: Multi Story	31420.97425	$78,552.44	0.7213292
013260060	955 EL CAMINO REAL	Financial	52159.94815	$130,399.87	1.197432433
014134190	220 SOUTH SPRUCE AVE	Office: Multi Story	90387.2978	$225,968.24	2.075015137
014150270	230 SOUTH SPRUCE AVE	Office: Single Story	43619.33515	$109,048.34	1.001366153
014183290	150 EL CAMINO REAL	Financial	67649.43605	$169,123.59	1.553023569
014184110	1487 HUNTINGTON AVE	Office: Single Story	47998.19305	$119,995.48	1.1018913
014241050	150 SOUTH LINDEN AVE	Office: Single Story	88596.50765	$221,491.27	2.033904087
015010220	395 OYSTER POINT BLVD	Office: Multi Story	558134.7955	$1,395,336.99	12.81306309
015010290	400 OYSTER POINT BLVD	Office: Multi Story	456220.016	$1,140,550.04	10.47341233
015010500	347 OYSTER POINT BLVD	Biotech	252957.3485	$632,393.37	5.807124892
015010510	345 OYSTER POINT BLVD	Biotech	83364.98255	$208,412.46	1.913804316
015010520	341 OYSTER POINT BLVD	Biotech	589685.9894	$1,474,214.97	13.53738173
015010560	6000 SHORELINE CT	Office: Multi Story	295337.4181	$738,343.55	6.78004131
015010570	7000 SHORELINE CT	Biotech	403467.7906	$1,008,669.48	9.262383023
015010580	5000 SHORELINE CT	Office: Multi Story	383755.0386	$959,387.60	8.809838697
015010610	4000 SHORELINE CT	Office: Multi Story	104560.8552	$261,402.14	2.400396543
015010620	329 OYSTER POINT BLVD	Biotech	384448.1384	$961,120.35	8.825750141
015010700	1170 VETERANS BLVD	Biotech	311341.5886	$778,353.97	7.147447979
015010710	1130 VETERANS BLVD	Biotech	306627.3656	$766,568.41	7.039223877
015010730	1100 VETERANS BLVD	Biotech	248857.4879	$622,143.72	5.713004667
015010860	111 Oyster Point Blvd	Biotech	139004.9521	$347,512.38	3.191127367
015010890	151 Oyster Point Blvd	Biotech	160939.1193	$402,347.80	3.694668573
015010900	131 Oyster Point Blvd	Biotech	235747.663	$589,369.16	5.412043296
015010910	385 Oyster Point Blvd	Office: Single Story	995011.3854	$2,487,528.46	22.84240968
015021030	800 DUBUQUE AVE	Office: Multi Story	256124.0896	$640,310.22	5.879823555
015023290	700 GATEWAY BLVD	Biotech	196551.9914	$491,379.98	4.51223089
015023350	600 GATEWAY BLVD	Biotech	114473.551	$286,183.88	2.627961637
015023360	650 GATEWAY BLVD	R & D Flex	94532.77	$236,331.93	2.170182464
015023370	630 GATEWAY BLVD	Biotech	131231.0044	$328,077.51	3.01266137
015023380	200 OYSTER POINT BLVD	Office: Multi Story	76159.46345	$190,398.66	1.748387697
015023440	180 OYSTER POINT BLVD	Office: Multi Story	110493.859	$276,234.65	2.536600114
015023450	750 Gateway Blvd	Biotech	298266.8603	$745,667.15	6.847292318
015023480	1000 Gateway Blvd	Biotech	153742.2486	$384,355.62	3.529450494
015023490	800 Gateway Blvd	Biotech	130104.7503	$325,261.88	2.986806031
015024180	1 CORPORATE DR	Biotech	363162.8117	$907,907.03	8.337104324
015024240	201 GATEWAY BLVD	Biotech	253664.6124	$634,161.53	5.823361502
015024360	701 GATEWAY BLVD	Office: Multi Story	303765.8347	$759,414.59	6.973531905
015024380	611 GATEWAY BLVD	Office: Multi Story	225428.2071	$563,570.52	5.175140238
015024390	681 GATEWAY BLVD	Office: Multi Story	128707.6849	$321,769.21	2.954733693
015024450	801 GATEWAY BLVD	Office: Multi Story	178825.555	$447,063.89	4.105286279
015024460	801 GATEWAY BLVD	Office: Multi Story	33359.22205	$83,398.06	0.765825424
015024470	951 GATEWAY BLVD	Biotech	67028.17475	$167,570.44	1.538761315
015024480	901 GATEWAY BLVD	Biotech	103733.6926	$259,334.23	2.381407427
015024510	601 GATEWAY BLVD	Office: Multi Story	321638.5447	$804,096.36	7.383834509
015024520	651 GATEWAY BLVD	Office: Multi Story	277627.7078	$694,069.27	6.373480676
015032020	170 HARBOR WAY	Biotech	106409.9658	$266,024.91	2.442846452
015041300	317 ROEBLING AVE	R & D Flex	292760.2868	$731,900.72	6.720878279
015042020	210 EAST GRAND AVE	Biotech	66816.26275	$167,040.66	1.533896465
015042050	169 & 175 Harbor Way	Biotech	41623.2244	$104,058.06	0.955541572
015042070	169 HARBOR WAY	Biotech	35609.46	$89,023.65	0.817483986
015042110	220 GRAND BLVD	Biotech	65435.7286	$163,589.32	1.502203635
015042150	175 HARBOR WAY	Biotech	53986.5479	$134,966.37	1.239365561
015042180	115 HARBOR WAY	Biotech	44634.37115	$111,585.93	1.024668266

APN	SITE_ADD	LUFULL	SqFtParcelLandArea	SqFtX$2.50 tax amount	Acres of parcel land
015042200	230 EAST GRAND AVE	Biotech	238804.5654	$597,011.41	5.4822204
015042210	240 GRAND AVE	Biotech	137694.4736	$344,236.18	3.1610428
015042220	250 EAST GRAND AVE	Biotech	398064.5107	$995,161.28	9.138340288
015042230	280 EAST GRAND AVE	Biotech	112487.9456	$281,219.86	2.582378226
015050640	285 EAST GRAND AVE	Biotech	110576.1409	$276,440.35	2.538489054
015050680	321 ALLERTON AVE	Office: Single Story	31044.6899	$77,611.72	0.712690865
015050690	333 ALLERTON AVE	Biotech	152649.2549	$381,623.14	3.504358711
015050780	249 GRAND AVE	R & D Flex	96832.80135	$242,082.00	2.22298413
015050790	249 GRAND AVE	R & D Flex	39316.5915	$98,291.48	0.902588356
015050800	GRAND AVE	Office: Multi Story	109797.8665	$274,494.67	2.52062226
015050810	GRAND AVE	Biotech	125781.2239	$314,453.06	2.887551125
015050820	GRAND AVE	Office: Multi Story	79916.2119	$199,790.53	1.83463112
015052090	425 GRANDVIEW DR	Biotech	258185.1179	$645,462.79	5.927138445
015063180	100 KIMBALL WAY	Biotech	117858.7841	$294,646.96	2.705676206
015063220	468 LITTLEFIELD AVE	R & D Flex	70408.432	$176,021.08	1.616361654
015063230	442 LITTLEFIELD AVE	Biotech	60243.4955	$150,608.74	1.383005888
015071250	425 ECCLES AVE	R & D Flex	42131.5264	$105,328.82	0.967210627
015072440	460 CARLTON CT	R & D Flex	60387.3612	$150,968.40	1.386308603
015081110	571 ECCLES AVE	Biotech	44193.19405	$110,482.99	1.014540193
015081120	561 ECCLES AVE	Biotech	48412.557	$121,031.39	1.111403826
015082090	436 ROZZI PL	Office: Multi Story	41736.65755	$104,341.64	0.95814565
015082190	501 FORBES BLVD	Office: Multi Story	157287.739	$393,219.35	3.610844081
015092280	390 POINT SAN BRUNO BLVD	Biotech	733235.2425	$1,833,088.11	16.83283231
015101090	470 EAST GRAND AVE	Biotech	292194.2944	$730,485.74	6.70788483
015102250	400 JAMIE CT	Biotech	267994.4891	$669,986.22	6.15233152
015102460	620 E Grand Ave	Biotech	524466.6222	$1,311,166.56	12.04014509
015102470	475 E Grand Ave	Biotech	278410.9444	$696,027.36	6.391461387
015113180	124 AIRPORT BLVD	Office: Multi Story	100714.5887	$251,786.47	2.31209806
015123560	139 MITCHELL AVE	Office: Multi Story	34393.4647	$85,983.66	0.789568464
015143040	320 HARBOR WAY	Biotech	48675.628	$121,689.07	1.117443129
015154160	260 LITTLEFIELD AVE	R & D Flex	101375.928	$253,439.82	2.327280383
015154170	280 UTAH AVE	R & D Flex	265765.4427	$664,413.61	6.101159453
015210140	500 FORBES BLVD	Biotech	296354.2712	$740,885.68	6.803385138
015232480	700 FORBES BLVD	Biotech	198585.1998	$496,463.00	4.55890712
015232500	22 DNA Way	Biotech	1015051.267	$2,537,628.17	23.3024639
015240270	1511 GRANDVIEW DR	Indoor Recreation	114874.8631	$287,187.16	2.637174531
015240280	1531 GRANDVIEW DR	Biotech	435013.0846	$1,087,532.71	9.986566223
015240290	350 Dna Way	Office: Multi Story	86617.37495	$216,543.44	1.98846927
015240290	350 Dna Way	Office: Multi Story	713386.3728	$1,783,465.93	16.37716314
015250120	1776 GRANDVIEW DR	Biotech	52788.56765	$131,971.42	1.211863609
015250340	1000 GRANDVIEW DR	Biotech	262789.9977	$656,974.99	6.03285236
015250390	383 EAST GRAND AVE	R & D Flex	202995.478	$507,488.69	4.66015358
015250430	1600 GRANDVIEW DR	Biotech	307496.0533	$768,740.13	7.059166283
015250440	1500 GRANDVIEW DR	Biotech	282248.801	$705,622.00	6.479566804
015260030	1 DNA WAY	Biotech	469708.4643	$1,174,271.16	10.78306573
091661150	2400 WESTBOROUGH BLVD	Professional Building	78038.8422	$195,097.11	1.791532469
102310130	1435 HUNTINGTON AVE	Office: Multi Story	166655.8755	$416,639.69	3.825907762

5. Recent Development Projects Added to Base Estimate by Strategic Economics

	FID	OBJECTID	APN	SBE_NO	PERIMETEI	SITE_ADD	LUFULL	SqFtParcelLandArea	SqFtX$2.50 tax amount	Acres of parcel land
	0	40885	15102230		2265	201 HASKINS WAY	Warehouse	285999.2829	714998.2071	1787495.518
New in July		0	015010950		2869	350 Oyster Point	Open Space	442569.4617	1106423.654	10.16003746
		37690	015042190		378		Parking Lot	7548.8004	18872.001	0.173297305
		37695	015042160		489	208 EAST GRAND AVE	Vacant Land	14893.9077	37234.76925	0.341918441

6. Brion Economics Financial Analysis of the Proposed Early Learning and Care Parcel Tax Analysis, 7/25/22

Brion Economics
INCORPORATED

TECHNICAL MEMORANDUM

To:	Sharon Ranals, Assistant City Manager, and Greg Mediati, Director of Parks and Recreation, South San Francisco
From:	Joanne Brion, BEI; with Kathleen White, South San Francisco
Subject:	Financial Analysis of the Proposed Early Learning and Care Parcel Tax Analysis-FINAL DRAFT; BEI 2571
Date:	July 25, 2022 (updated from July 11th version)

Introduction

The proposed Early Learning and Care Parcel Tax Initiative (herein Initiative) has qualified for the November 2022 South San Francisco ballot. The City has retained Brion Economics, Inc. to assist in the analysis of the financial and other impacts of the Initiative so that the City Council can consider the impacts of a new parcel tax in the City. To do this work, BEI has made certain assumptions about the initiative's directives. The Initiative is very unclear on many points and issues, and further clarification is needed if the Initiative passes. Kathleen White, who recently prepared the City's Child Care Master Plan (CCMP) for the City, has assisted in the effort of interpreting the Initiative. There are 31 questions that are "asked" and "answered" in the Approach and Assumptions section, which were required to conduct the analysis. Many more additional questions are raised that relate to the implementation of the Initiative, should it pass. These questions are important to consider as there are many unanswered issues, particularly regarding the prioritization of funds, should there not be enough to fund all aspects of the Initiative's directives or mandates.

The analysis is organized into four sections: 1. Summary of Findings; 2. Financial Impacts; 3. Approach and Assumptions; and Appendix A: Other Questions and Issues.

1. Summary of Findings

Table S-1 summarizes the financial analysis of the proposed Initiative. The analysis is presented in constant 2022 dollars. Note that the demand for preschool spaces and the costs associated with resident and employee demand in the future scenario may be higher; this analysis assumes the same costs for both scenarios.

- **Estimated Parcel Tax Revenue**: Based on information developed by Strategic Economics for the City, we assume the parcel tax would generate a total of $55.9M currently and $68.2M when projects in the pipeline are completed.
- **Administrative Costs**: The estimate of annual administrative costs is about $5.6M under current conditions and $6.8M under future conditions.
- **Net Revenue Available**: An estimated $50.3M would be available for free tuition, wage enhancements, and infrastructure. Under the scenario with current projects that will be completed in the near future, this figure is $61.4M.
- **Children Served**: An estimated 1,462 children 2.5 to 5 years old are expected to require preschool and be served in this analysis.[1] This includes children needing licensed care, and children in the Daly City and San Bruno pockets of the South San Francisco Unified School District (SSFUSD) boundaries. It also includes children of parents that live and work in SSF.
- **Average Tuition Cost of Preschool**: The weighted average full-time monthly cost of preschool in South San Francisco is $1,341, based on current data.
- **Resident Preschool Tuition Remission Costs**: The estimated cost of serving children 2.5 to 5 years old is about $23.9M per year.
- **Preschool Staff Wage Enhancements**: Based on an average current wage of $20.21 per hour, and a total of 379 ELC staff in the City, the total cost of wage enhancements is estimated at $17.5M per year. A base minimum wage in the City of $15.80 per hour is used, and wages are scaled up 10% by each staff level.
- **Non-Resident Employee Tuition Remission:** The cost of providing free child care or tuition remission to non-resident employees that work in the City but live outside the City (called non-resident workers) is $19.6M. This is a conservative estimate.
- **Total ELC Initiative Costs:** The cost of meeting the free tuition, wage enhancement, and administration cost of the Initiative is estimated to be $61.0M, or about $10.7M more than the estimated available funds under current conditions.

[1] Adjusted for children in TK, Kindergarten, and receiving child care subsidies.

Table S-1
Summary of ELC Parcel Tax Analysis
Early Care and Education for All Parcel Tax Initiative Analysis

Item	Current Estimates	Maximum Estimates	Notes
Estimated Parcel Tax Revenue	**$55,897,444**	**$68,202,147**	See Table 1
Administrative Costs	$5,589,744	$6,820,215	See Table 1
Net Parcel Tax Revenues for Program Costs	**$50,307,700**	**$61,381,932**	See Table 1
RESIDENT PRESCHOOLER FREE TUITION ANALYSIS			
Average FT Monthly Preschool Tuition	$1,341	$1,341	See Table 4
Estimated Preschool Age Children	2,440	2,440	See Table 2
Preschool Children Needing Licensed Care	1,332	1,332	See Table 4
Preschool Children in Subsidized Care	(418)	(418)	See Table 4
Plus Children in SSFSUD San Bruno/Daly City	130	130	See Table 4
Children Needing Free Tuition	1,462	1,462	See Table 4
Parent Co-Payment Fees	$395,606	395,606	See Table 4
Preschool Tuition Remission	**$23,917,716**	**23,917,716**	See Table 4
CHILD CARE STAFF WAGE ENHANCEMENT ANALYSIS			
Estimated Preschool Staff (1)	379	379	See Table 6
Average Currently Hourly Wage	$20.21	$20.21	Derived
Proposed Wage at 230% of Min. Wage	$36.34	$36.34	See Table 7
Current Estimated Wages	$15,941,677	15,941,677	See Table 7
Child Care Wage Enhancements	**$17,492,554**	**$17,492,554**	See Table 7
Percent Increase in Child Care Staff Wages	110%	110%	Derived
NON-RESIDENT EMPLOYEE PRESCHOOLER ANALYSIS			
Estimated Non-Residents Working in SSF	40,672	40,672	See Table 8
Estimated Non-Residents Needing Preschool	1,220	1,220	See Table 8
Average FT Monthly Preschool Tuition	$1,341	$1,341	See Table 3
Non-Resident Employee Tuition Remission Cost (2)	**$19,630,985**	**$19,630,985**	See Table 8
Total Estimated Costs of ELC Parcel Tax Program	**$61,041,255**	**$61,041,255**	Derived
Surplus / (Shortfall)	**($10,733,555)**	**$340,677**	Derived
Percent Shortage	-21%	1%	
Supply and Demand for Child Care Spaces			
Current Supply	2,482	2,482	See Table 2
Current Demand - Resident & Non Resident Workers	2,970	2,970	See Tables 2 and 7
Surplus or Shortage of Preschool Spaces	**(488)**	**(488)**	
Percent Shortage	-20%	-20%	

(1) Assumes no new employees are required over existing conditions.
(2) Non-Resident employee demand will likely be higher than current practice, if it is free.
Sources; CCMP-2022; Strategic Economics; Brion Economics, Inc.

- **Available Funding for Infrastructure:** Given the funding shortfall shown in **Table S-1**, no funding is assumed for infrastructure or new child care spaces. Under future conditions there is a slight surplus of $340,700.
- **Current Supply and Demand of Preschool Spaces:** There are currently 2,482 preschool spaces available in the City. The demand or need for preschool spaces estimated in this analysis is 1,750 from residents and 1,220 from non-resident workers. This leaves a current shortage of 488 preschool spaces or a 20% shortfall. This shortage may increase over time as demand increases with the news that free preschool is available in the City.

2. Financial Analysis

This section describes the analysis that was prepared to estimate the possible uses of the Parcel Tax revenue and analyzes the Initiative as closely as possible to its intent. **Section 3** describes the approach and assumptions in more detail and explains why certain approaches were taken. The analysis uses available child care data from the City's recently completed Child Care Master Plan (2022)[2] and data available to BEI from other current child care projects in San Mateo County and the state. No new or original data was gathered for this effort given the timeframe of the study.

There are several limiting factors or situations that affect this analysis including the following:

- BEI assumes the Oversight Committee costs are included in the Fund's Administrative Cost estimate.
- BEI does not see a required inflation factor for the parcel tax amount (i.e., $2.50 per sqft of land), and thus over time, total revenues will be less than actual costs of child care and wages and fund less activity. The current and future conditions assume constant 2022 dollars.
- BEI does not set any priority between Free Tuition for residents and non-resident employees, or wage enhancements.
- The analysis is prepared in constant 2022 dollars.
- No new staff, child care demand, or wage enhancements are assumed between the two scenarios although demand is likely to increase.
- Data is not available on how many unlicensed care providers exist in the City and the analysis does not assume any funding goes to this category of provider.

[2] Prepared by Kathleen White, see https://www.ssf.net/departments/parks-recreation/recreation-division/childcareplan

- The analysis presumes that licensed providers[3] are the focus of the Initiative's efforts in order to ensure quality care.

Estimated Parcel Tax Revenue

This analysis uses Strategic Economics' (SE) estimate of potential revenue to be generated by the Initiative for this analysis.[4] BEI is familiar with their work, reviewed the analysis, and believes that this is a valid estimate of potential revenues. The analysis excludes parcels under 25,000 sqft. The Initiative proposed to levy a non-ad valorem[5] parcel tax of $2.50 per sqft of land, on 105 parcels with office, biotechnology, or R&D land uses identified in the City's parcel dataset, as well as three parcels associated with recently completed developments that were not yet updated in the dataset. The maximum estimate includes an additional 19 parcels associated with planned development projects that would likely transition to one of these three uses once completed.

The 109 parcels that are over 25,000 sqft in size would generate $55.9M currently and there are 144 parcels over 25,000 sqft that would generate $68.2M, as shown in **Table 1**.[6] These estimates are based on the use of the City's actual parcel database and have been reviewed by the City. BEI has not prepared an independent analysis or estimate of potential revenues.

Administrative costs cannot exceed 10% of the parcel tax revenues. **Table 1** estimates this maximum funding amount for administrative costs. As shown, there could be $5.6M under current conditions and $6.8M under SE's future estimate. Subtracting these potential administrative costs leaves $50.3M under current conditions, and $61.4M under maximum conditions, available to fund the Initiative's mandates.

[3] The Initiative language refers to family child care homes as "providers." This analysis refers to all child care entities as "providers," including center-based, family child care homes, and school age programs.
[4] See "Childcare Parcel Tax Ballot Measure Analysis" prepared for South San Francisco, by Strategic Economics, February 7, 2022.
[5] A non-ad valorem assessment is a special assessment or service charge which is not based on the value of the property.
[6] Based on updated estimates by Strategic Economics on July 22, 2022.

Table 1
Base and Future Estimates of Projected Annual Revenue Generated by Parcel Tax
Early Care and Education for All Parcel Tax Initiative Analysis

Item	Current or Base Estimate (1)	Future Estimate (2)
Parcels	109	144
Land Sq. Ft.	22,358,978	27,280,859
Parcel Tax Per Land Sq. Ft.	$2.50	$2.50
Total Annual Revenue	**$55,897,444**	**$68,202,147**
City's Funding for Admin. at 10%	$5,589,744	$6,820,215
Min. Remaining Revenue	**$50,307,700**	**$61,381,932**

Data updated by Strategic Economics, July 22, 2022.

(1) Includes parcels associated with existing Biotech, Office, and R&D uses.

(2) Includes parcels associated with existing, under construction, and planned Biotech, Office, and R&D uses.

Source: City of South San Francisco, 2022; Strategic Economics, Feb. 2022; Brion Economics, Inc.

Estimated Preschool Children and Supply of Preschool Spaces

Table 2 estimates the number of children in the City and South San Francisco Unified School District (SSFUSD) that are used in the analysis. These estimates are based on currently available data including population projections from ABAG's Projections 2040 and American Community Survey (ACS) 2018. Currently, there are a total of 2,440 children ages 2.5 to 5 years old in the City.[7] The analysis assumes that not all preschool-age children will use or need a preschool space, which is standard practice in child care Needs Assessments. The analysis assumes that 90% of 2.5-year-olds will use a preschool space and 95% of 3-year-olds will use a preschool space. For 4-year-olds, we assume that 58% will use a preschool space, based on the estimate that 160 4-year-olds are in TK currently.[8] For 5-year-olds, the analysis assumes that 25% will use a preschool space and the remainder will be in Kindergarten at SSFUSD. The Initiative explicitly states that the parcel tax funding shall not supplant state and federal funding, and we have assumed that children attending TK and Kindergarten are not funded for preschool under the

[7] 50% of 2-year-olds are assumed to equal children 2.5 years old. Note that preschool-age children are normally considered 2 to 4-year-olds; this analysis uses the definition of preschool-age children included in the Initiative.
[8] TK or Transitional Kindergarten estimates from the City's Child Care Master Plan – 2022.

Initiative's guidelines. Hence, as shown in **Table 2**, there is a total of 1,750 children living in the City that would likely use and quality for free preschool tuition.

Table 2 also summarizes the currently available child care preschool spaces available through Family Child Care Homes (FCCHs) and center-based providers, both of which are licensed or license-exempt.[9] The analysis does not include any unlicensed providers as this data is not readily available, and unlicensed care would not meet any definition of quality preschool in the profession. As shown, there are 272 estimated preschool spaces associated with FCCHs, based on licensing requirements. The actual number likely varies as FCCHs have some flexibility in how many children they serve in each age group. There are a total of 2,210 center-based licensed preschool spaces based on data from the CCMP-2022. These include spaces by private providers, non-profits, the City, the school district, and other types of providers. It should be noted that the Initiative calls FCCHs owners "providers" but for this analysis, providers mean all types of licensed entities, including for-profit and not-for-profit, and employer-based providers such as Genentech. It is estimated that there is currently a surplus of preschool-age spaces of about 732 in the City. The CCMP and other studies prepared by BEI for the City find that there is not a significant shortage of preschool spaces. Many of these spaces are likely to serve employees that commute into the City for work. Based on the estimates of demand from non-resident workers, below, there will likely be a shortage of available preschool spaces in the City, unless additional supply is provided.

Estimated Average Preschool Tuition Costs

In order to estimate the cost of free tuition for all preschool-age children of residents and non-resident employees, the analysis needs to consider the average cost of preschool care. Based on average cost data by type of provider from the CCMP, we estimate the weighted average preschool tuition for the analysis. The analysis uses this estimate to quantify the cost of free tuition as shown in **Table 3**. This is considered a baseline cost for the analysis. It is assumed that current conditions and tuition rates will need to be determined and applied equally across all providers and that providers will not be reimbursed for any tuition that is above this rate.[10] Otherwise, providers can increase tuition costs to any level they want and expect to be reimbursed. BEI suggests that the maximum reimbursement rates set by the State for preschool be used as a baseline as well.

[9] License-Exempt care includes programs run by school districts, etc. Licensed means Licensed and License-Exempt in this study.

[10] The Initiative is silent on inflation and normal cost increases for tuition and wages.

Table 2
Estimate of Children 2.5 to 5 Years Old and Current Supply and Demand for Child Care Spaces
Early Care and Education for All Parcel Tax Initiative Analysis

Item	2022 Estimate (1)	Percent Distribution	Percent Served	Total Served 2022	Notes
Estimate of Preschool Age Children					
2.5 years old (2)	438	18%	90%	394	not all children will use licensed care
3 years old	1,040	43%	95%	988	not all children will use licensed care
4 years old	380	16%	58%	222	42% or 158 assumed to be in TK
5 years old	581	24%	25%	145	75% are in kindergarten
Total Children	2,440	100%	72%	1,750	
Adjusted Preschool Need				**1,750**	
Supply of Preschool Spaces in SSF (3)					
Family Child Care Home Spaces	272				From BEI
Center Based Child Care Spaces	2,210				from CCMP - 2022
Total Preschool Spaces Available	**2,482**				
Estimated Surplus or (Shortfall) of Preschool Spaces				**732**	Derived

(1) 2020 U.S. Census; ABAG Projections 2040 (Oct 21); American Community Survey 2018.
(2) Assumes 50% of 2 year olds are 2.5 years old.
(3) This analysis does not include estimates of non-licensed care including Friends Family and Neighbors (FFNs), or Nannies as data on these types of care is not readily available.
Sources: American Community Survey 2018; ABAG Projections 2040 (Oct 21); Brion Economics, Inc.

Table 3 shows that the average full-time preschool tuition is $1,359 per month, and for FCCH preschool spaces it is slightly less or $1,195 per month for full-time care. The weighted average cost of care comes out to be $1,341 per preschool-age child. This figure is used to estimate free tuition costs. The current maximum reimbursement monthly rates (established by the State) for San Mateo County for preschool are $1,641 per full-time preschool center-based space, and $1,419 for an FCCH preschool-age full-time space. Part-time rates are less, of course. This analysis assumes all children require full-time care. The actual cost of free tuition or tuition remission will depend on the mix of full-time and part-time children using care.

Table 3
Estimated Average Cost of Child Care in SSF
Early Care and Education for All Parcel Tax Initiative Analysis

Item	Amount	Notes
Average Center Preschool FT Monthly Fee	$1,359	CCMP - 2022 -Center Based Care, 2019 data
Average FCCH Preschool FT Monthly Fee	$1,195	CCMP - 2022 - Family Child Care Home, 2019 data
Current Center Based Preschool Spaces	2,210	From BEI, 2022 - See Table 3
Current FCCH Preschool Spaces	272	From BEI, 2022; based on licensing rates - See Table 3
Total Supply of Preschool Spaces	2,482	From BEI, 2022 - See Table 3
Wt. Average FT Monthly Fee	**$1,341**	Derived

Sources: CCMP 2022, City of South San Francisco; Brion Economics, Inc.

Estimated Free Tuition Costs for Resident Children

Table 4 estimates the cost of free tuition or tuition remission possibly available to families with children within the boundaries of SSFUSD. The number of children receiving child care subsidies is subtracted first from the total number of children estimated to need preschool from **Table 2**. Currently, there are 418 preschool-age children receiving some type of subsidy for care in the City. The net number of children requiring tuition remission is estimated at 1,332 in total. Another 130 preschool-age children that live in the San Bruno and Daly City pockets of SSFSUD are added to this figure as they are potentially eligible for free care. The total number of children possibly requiring tuition remission is estimated at 1,462 as shown. The average monthly cost of care of $1,341 is applied to the total number of children for a total monthly tuition remission cost of $1.96M per month. On an annual basis, this comes to $23.5M per year. We estimate that families that have a co-pay for their subsidized care (from General Child Care and Alternative Payment subsidy programs) would be eligible for another $395k in tuition remission. This brings the total cost of free tuition to $23.9M, in constant 2022 dollars.

Table 4
Estimated Annual Tuition for Free Preschool Children
Early Care and Education for All Parcel Tax Initiative Analysis

Item	Amount	Notes
Total Children Needing Licensed Care	1,750	see Table 3
Minus Children in Subsidized Care (1)	(418)	from CCMP 2022, page 50.
Eligible Preschool Children in SSF	1,332	Derived
Plus Children in SSFSUD San Bruno/Daly City	130	children that live outside SSF but in SSFUSD boundary
Total Children Eligible	**1,462**	
Average cost of Preschool Per Month	$1,341	See Table 3; from CCMP-2022.
Total Monthly Preschool Tuition Remission Cost	$1,960,176	Derived
Annual Tuition Remission Cost	**$23,522,109**	Derived
Family Fees for Subsidized Care Remission	$395,606	CCMP - 2022 Data
Total Tuition Remission Cost	**$23,917,716**	

(1) Some families in subsidized care are assessed parents fees based on their income; the fees vary based on household income and family. These fees would need to be reimbursed to parents.

Sources: CCMP 2022, City of South San Francisco; Brion Economics, Inc.

Estimated Preschool Workforce

The next step in the analysis is to estimate the preschool workforce in the City, and the wage enhancement costs. **Table 5** shows the teacher-to-child ratios required by California's Community Care Licensing Division. These ratios are used to estimate the total workforce currently in the City. There are two statutes dictating teacher ratios. One is Title 22, and the other is Title 5. Title 22 covers all child care center based providers not offering subsidies. Title 5 has slightly higher standards, or requirements, for subsidized children. As shown, the required number of teachers or caregivers for FCCHs can vary depending on how many children by age group they serve.

Table 5
Teacher Staffing Assumptions
Early Care and Education for All Parcel Tax Initiative Analysis

Title	Age Groups	Adults Per	# of Children	Notes
Title 22/Child Care Centers				
	Infants (1)	1	4	
	Preschool	1	12	
	School Age	1	15	
Title 5/Subsidized Care				
	Infants (1)	1	3	or 4 children in 0-3 classrooms
	Preschool	1	8	
	School Age	1	14	
Small Family Child Care Homes (2)				Normally 6 or 8 spaces each
	Infants (1)	1	4	
	All Children	1	6	May include up to 3 infants
	Or	1	8	May include up to 2 infants and must include at least 2 children over the age of six
Family Child Care Homes (2)				Normally 12 or 14 spaces each
	12 Space Homes	2	12	May include up to 4 infants
	14 Spaces Homes	2	14	May include up to 3 infants and must include at least 2 children over the age of six

(1) Infants are considered to be children under the age of 2.
(2) Provider's own children under the age of 10 must be included in adult to child ratio.
Sources: Community Care Licensing Division - Title 22 and Title 5, DSS; CCMP 2022, City of South San Francisco; Brion Economics, Inc.

Table 6 estimates the preschool teacher workforce in the City. It includes FCCH owners, directors of child care programs or providers, and support staff and aides. Applying the teacher ratios from **Table 5** to the estimated supply of preschool providers and the number of spaces (proxy for the number of children) results in an estimate of 379 staff or workers. Teachers are estimated at 289, directors at 30, and support staff/aides at 60 workers. This estimate is approximate, and each provider may have circumstances that warrant different staffing levels. License-exempt preschool providers may have lower teacher-to-child ratios. This figure of 379 workers is then used to estimate possible wage enhancements.

Table 6
Estimate of ELC Teaching and Other Staff
Early Care and Education for All Parcel Tax Initiative Analysis

Item	Small FCCHs Spaces	Large FCCHS Spaces	Preschool Spaces (1)	Subsidized Preschool Spaces	Totals	Notes
No of Spaces	96	174	1,729	481	2,480	FCCH spaces are for all age groups
No. of Providers	21	32	17	13	83	Provider Count from BEI and CCMP-2022
Number of Teachers Required (1)	**21**	**64**	**144**	**60**	**289**	
Estimated Directors	na	na	17	13	30	one per provider except for FCCHs
Aides and Support Staff	na	na	34	26	60	2 per Center Based Provider
Total Staff	**21**	**64**	**195**	**99**	**379**	Approximate staffing levels

(1) Based on Title 22 and Title 5 teacher ratio requirements. See Table 5.
Sources: CCMP 2022, City of South San Francisco; Brion Economics, Inc.

Estimated Wage Enhancement Costs

Table 7 summarizes the estimate of wage enhancement costs based on the directives of the Initiative. The Initiative's main requirement is that staff wages be 230% of the current minimum wage. The current minimum wage in South San Francisco is $15.80, as noted. We apply this base to the teacher aide/support staff category. Current wages are shown in the first column of **Table 7**. These hourly wage rates are based on data from the CCMP, and data from the California Economic Development Department (i.e., for directors). The hourly wage increase is estimated in the second column and assumes a 10% wage differential between each staff level, up to directors.[11] The analysis distributes the workforce by type of teacher and staff, based on typical staffing levels. Actual staffing levels will vary by provider. Current wages are estimated at $15.9M annually for the 379 workers. The wage enhancement is the difference between the current hourly rates and enhancement hourly rates as applied to the number of staff in each category. The total estimated wage enhancement equals $17.5M annually or 110% of current wages. The annual wage cost for the current total preschool workforce is estimated at $33.4M.

[11] This approach may not be reflective of job duties and experience levels, etc. for each level.

Table 7
Estimated Wage Enhancements
Early Care and Education for All Parcel Tax Initiative Analysis

Item	Current Avg. Wage / Hr.	230% of Min. Wage / Hr. (1)	Estimated Wage Increase (2)	Percent Increase	Estimated Staff by Role (3)	Percent Distribution	Estimated Current Wages	Estimated Wage Enhancement	Total Wages with Enhancement
Preschool Workforce									
Teacher Aides & Support Staff	$15.80	$36.34	$20.54	130%	92	24%	$3,023,488	$3,930,534	$6,954,022
Assist./Assoc. Teacher	$17.35	$39.97	$22.62	130%	102	27%	$3,684,735	$4,804,810	$8,489,545
Lead Teachers/Asst. Directors	$20.07	$43.97	$23.90	119%	102	27%	$4,262,400	$5,076,100	$9,338,499
FCCH Owners	$27.11	$48.37	$21.26	78%	53	14%	$2,988,606	$2,343,541	$5,332,148
Directors (4)	$31.77	$53.21	$21.44	67%	30	8%	$1,982,448	$1,337,569	$3,320,017
Total Teachers and EC Staff					**379**	**100%**	**$15,941,677**	**$17,492,554**	**$33,434,231**
Percent Wage Increase								110%	

Note the analysis brings all staff up to the minimum base of 230% of minimum wage and does not project additional pay due to various roles, education, and experience. How this Initiative would put upward pressure on wages beyond this requirement is not possible to estimate.

(1) Minimum wage is South San Francisco is currently $15.80 230% is $36.34 Each level increases 10% above that base.
https://www.ssf.net/departments/city-manager/local-minimum-wage
(2) A 10% mark up for each level is assumed based on the needs of equity with education and experience.
(3) See Table 6 for estimate of total preschool staff.
(4) CA EDD Data - 11-9031 Education and Childcare Administrators, Preschool and Daycare.
https://www.labormarketinfo.edd.ca.gov/data/oes-employment-and-wages.html#OES
Sources: CCMP 2022, City of South San Francisco; CA EDD; Brion Economics, Inc.

Estimated Non-Resident Workers Requiring Preschool and Costs

Table 8 estimates the total number of jobs in the City and the amount of those workers that commute into the City for employment, or non-resident workers. Currently, there are an estimated 47,849 jobs in the City, according to ABAG Projections 2040 (extrapolated for 2022). Of these, about 85% are filled by workers that commute into the City for employment.[12] This includes workers that commute into the City from other cities in San Mateo County and those that commute into the City from outside the County as a whole. The total non-resident workforce is estimated at 40,672. Of these, about 5% typically want child care for children 0 to 5 years old, or a total of 2,034, near their place of work. We assume one 0 – 5 year old child per worker. Typically, 60% of these children ae preschool age. About 1,220 workers are estimated to need a Preschool Space, with one child per employee assumed.

[12] Based on journey to work data for2016-2019, the latest year data is available for this measure from MTC.

Table 8
Estimated Employment in Non-Resident Workers and Free Child Care Costs
Early Care and Education for All Parcel Tax Initiative Analysis

Item	Amount	Notes
Employment Estimate - 2022	47,849	ABAG Projections 2040
Percent Non-Resident (1)	85.0%	from Journey-to-Work data, 2018
Non Resident Workers - 2022	40,672	ABAG Projections 2040 & JTW data
Estimated Demand for Infant/Preschool Care from Non-Resident Workers 0 to 5 year olds	5%	BEI - Needs Assessments
Estimated 0-5 Demand from Non-Resident Workers	**2,034**	Derived
Estimated Preschool Spaces Needed	**1,220**	60% of total above
Average Cost of Preschool per Month	$1,341	Per CCMP, See Table 5
Yearly Tuition Remission Cost per Preschooler	$16,089	Derived
Total Annual Tuition Remission Cost for Non-Resident Employees' Children	**$19,630,985**	Derived

Note: Assumes one child per non-resident employee.

(1) Includes workers that commute into SSF from other cities in the County and from outside the County. Based on Journey to Work Census data, from Shimon Israel, MTC. 7.19.22

Sources: 2019 5-Year American Community Survey Journey-to-Work Data; ABAG Projections 2040 (Oct 21); Brion Economics, Inc.

Table 8 estimates the cost of non-resident child care costs. About 60% of the children estimated are assumed to be of preschool age and required preschool. As shown, 1,220 children of non-resident workers are assumed to require preschool care. Applying the same average tuition cost as for residents, the monthly cost of required care is about $16k per month. Annually this figure is estimated at $19.6M. It is likely that many more non-resident employees will want to take advantage of the free tuition and this cost is likely to be much higher.

3. Approach and Assumptions for Analysis

The following asks various questions and summarizes our approach and assumptions used in the financial analysis of the Initiative.

1. What data source does BEI use for the estimate of children by age?

BEI uses population by age data from ABAG's Projections 2040 for South San Francisco and estimated for 2022. Using recently published projections ensures that our estimates are current. BEI assumes that 50% of 2-year-olds are 2.5 years old for purposes of this analysis. It also adjusts preschool age children for those in Transitional Kindergarten and Kindergarten.

2. What is the definition of Preschool age children in the Initiative?

As stated in the Initiative, early care, and education for all children between the ages of 2.5 and 5 years old who have a parent, legal guardian, foster parent, or authorized caregiver residing or working within the boundaries of the South San Francisco Unified School District qualify as Preschool age children (see page 2 of 10 of the Initiative text).[13]

3. What data should BEI use for estimates of child care spaces or seats by age group?

BEI uses the supply data from the Child Care Master Plan (CCMP). These data seem to be very current compared to data that was just collected by BEI for the County.

4. Are 4- and 5-year-old children in TK and Kindergarten at SSFUSD eligible for Parcel Tax funding?

BEI assumes that these children are not eligible for parcel tax funding because their care is already provided by state funding and state mandates. The Initiative does not talk about supplanting or replacing state or federal funding.

5. How is funding split between Free Tuition and Wage Enhancement?

BEI estimates the required funds to address all possible needs based on the Initiative.

6. Will free tuition funding be provided to the child care provider or parents?

The Initiative suggests that funding be provided to the Provider and that the Provider must provide wage enhancements to receive the tuition reimbursements. It does not address the

[13] Note this definition of parent or parents is used though out this memo and includes of parent, legal guardian, foster parent, or an authorized caregiver under California Family Code Sections 6550 and 6552.

possible situation that there could be insufficient funding to fund both of these costs. BEI is silent on who will receive, track, and verify tuition remission and administrative costs associated with providers implementing the Initiative's requirements. This will need to be addressed by the Administrative Organization and Oversight Committee.

The Initiative language suggests that the providers apply for and receive tuition. There would be additional administrative costs and staff needed, and training for provider staff on how to administer this program. BEI has not estimated this cost.

BEI suggests it would be more efficient for the city to administer all funds, and qualify participants, whether parents or employees.

7. What if there are not enough child care spaces to serve preschool needs?

BEI focuses on the number of children in the 2.5- to 5-year-old age range. BEI assumes revenue is allocated to:

1. Residents first residing in the boundaries of the SSFUSD, and employees working in the SSFUSD boundaries;
2. With low-income residents receiving priority (if there are not enough funds);
3. BEI backs out the number of children currently receiving subsidized care.; and
4. Less parent fees for co-pays on state and federal subsidized spaces.

If there is any funding left after estimating tuition needs and wage enhancement needs, BEI estimates possible revenue available for the development of child care infrastructure.

If there are not enough funds to fund all residents and employees, then some form of means testing would be required to identify low-income parents and employees.

8. Should the analysis assume every parent will want to use a licensed child care space if it is free or assume some parents will still choose not to use licensed care?

Currently, 32% of parents do not use licensed care according to the CCMP (2022). This may be due to a lack of supply, price, or location. BEI assumes that a small percentage of children will not use licensed care for the analysis as some families choose relatives or nannies to care for these children.

There is a need for relatives, friends, nannies, and informal care, due to scheduling needs, lack of available child care for occasions such as nights, weekends, extended hours, multi-age sibling care, children with special needs, and children that need health-related exempt care.

Additionally, SSF families may also utilize care outside of SSF and they may want to stay in a familiar setting or may prefer to have their children near their place of work as opposed to home. It will need to be determined whether parents can use tuition funding outside the City or SSFUSD boundaries.

9. How to determine FCCH eligibility when % of enrollment are infants, preschoolers, and school-age children?

To be conservative, BEI proposes to use state licensing ratios for FCCHs as follows:

1. For Large FCCHs licensed for 14, it is estimated that there are 3 infant, **6 preschool,** and 5 school age spaces;
2. For Large FCCHs licensed for 12, it is estimated that there are 4 infant and **8 preschool** spaces.[14]

10. What is the estimated number of children the in SSFUSD Service Area in Daly City and San Bruno?

The CCMP (2022) estimates that there are 130 children of preschool age in these two areas. This represents about 10% of the total number of children in the two areas according to the CCMP.

11. How many children are TK Eligible in SSFUSD?

As of 2021, there are about 110 in TK, according to the CCMP (2022). This number is estimated to grow by 48 additional children in 2022, to a total of 1658, and will increase annually thereafter. BEI is using the CCMP figure of 158.

12. What is the minimum wage assumption for the analysis and how will it scale up for teachers and other staff?

BEI uses the minimum wage in South San Francisco is $15.80 per hour.[15] BEI assumes 10% pay increase over the minimum level of pay in the analysis. An actual pay scale matrix will need to be created by the City Administrative team.

[14] School age children in these areas, accounting for school district boundaries at J. Serra, Skyline and Monte Verde that are inclusive of SSF resident counts in addition to San Bruno and Daly City areas and include estimates of younger children based on school-grade enrollments.
[15] https://www.ssf.net/departments/city-manager/local-minimum-wage

13. How does BEI estimate the ELC teacher workforce?

BEI uses the Title 22 and Title 5 requirements for teacher ratios from Community Care Licensing Division and information from the CCMP.[16]

BEI does not have estimates of staff associated with informal, unlicensed caregivers and will not include these in the estimates of wage enhancement costs although they may be eligible.

14. Would wage enhancement apply to directors and other support staff?

The Initiative states: [17]

1. *Minimum wage for entry-level positions that is at least 230 percent of South San Francisco's minimum wage;*
2. *Minimum wage increases for **__Center-based teachers, Providers, and Providers' staff__** to achieve parity in compensation with preschool and elementary school teachers in South San Francisco who have commensurate education and experience; and,*
3. *Minimum wage increases of **__Providers and their staff__** that are proportional to the minimum wage increases of Center-employed teachers.*

BEI presumes funding is available for FCCH owners as they are directly involved in providing care, and also center-based directors, and other support staff based on the above language of the Initiative.

15. Will the analysis estimate the cost of providing the following?[18]

1. *Program funds shall provide for each Seat up to ten hours of care and learning per day.*
2. *Centers and Providers shall make options for half-day or full-day schedules, and for year-round or school-year schedules, available for all Seats.*

BEI's analysis assumes all children receive full-time care for tuition remission estimates. In reality, some may choose part-time care. Most child care providers are open for 10 hours per day. Whether parents use 10 hours per day is not possible to estimate.

[16] Title 22 applies to all child care programs and the regulations are enforced by Community Care Licensing. Title 5 requirements are Contract requirements for state-funded programs that are contracted with the California Dept. of Education. In other words, Title 22 applies to everyone. For state funded programs, they have contract requirements that exceed Title 22 requirements.
[17] See page 8 of 10.
[18] Page 6 of 10.

BEI does not estimate the additional costs associated with these two requirements, but to truly estimate these costs we would have to know how many people desire part-time care, year-round care, and care 10 hours per day, in addition to how many days per week.

16. How would the Wage Enhancement be estimated and tracked against actual wages paid?

BEI assumes that each provider would be screened and provide proof of current wages from payroll records and that the difference between actual wages and 230% of the City's current minimum wage would be provided in advance. An audit would occur of actual wages paid and any adjustments based on actuals would be made at the end of a set time period. For instance, if a provider paid a teacher $20 per hour, and 230% of $15.80 is $36.34, then the provider would receive a wage enhancement of $16.34 for that hour worked.

Current average wages will be taken from data collected in the CCMP and the Draft SMC Needs Assessment being prepared by BEI.

17. Will teachers teaching in subsidized programs be eligible for wage enhancements?

For this analysis, BEI assumes they are.

18. Will teachers that work for the City be eligible for wage enhancements?

For this analysis, we assume they would be eligible, and they are included in the estimate of staff based on the number of Child Care Providers and spaces or seats analyzed.

However, this will create pay equity issues relative to other City staff and pay scales and civil codes on pay equity. This will need to be addressed during implementation.

19. What about children aged 6 months to 2.5 years old or Infants and Toddlers?

The analysis will focus on 2.5- to 5-year-olds. <u>Other age groups are not analyzed.</u> Although the Initiative does state that if there are sufficient funds for all 2.5 to 5-year-olds of residents and employees within the SSUSD boundary, 0 to 2.5-year-olds can be served. The analysis also does not estimate any wage enhancements for staff serving infants and toddlers.

20. Are School Age children available for support in the parcel tax?

The Initiative does not appear to cover school age care, either after or before, or during the summer. The analysis also does not estimate any wage enhancements for staff serving school age children.

21. How does BEI prioritize funding in the analysis in terms of Residents and Employees that work in the City?

BEI first prioritizes funding for all residents, employees, and children in the SSFUSD boundaries (discussed above). If there is insufficient funding for this approach, then low-income residents would have priority. Whether low-income employees are on par with low-income residents is not clear.

22. What is the priority between Tuition Remission and Wage Enhancements?

This needs to be determined as the Initiative appears to treat these equally. BEI assumes they are of equal priority.

23. Does BEI assume a total of 10% of funds are used for administration?

Administrative costs are assumed at the 10% rate. Administrative Funding may need to be allocated to providers for implementation costs if they are to qualify and vet parents' eligibility for tuition remission. BEI has not estimated this cost. It is not clear if it would come out of the 10% or net tax funding.

24. How does BEI manage the proposed restriction that City funding cannot be reduced, given that this restriction is likely illegal?

BEI assumes that the City cannot be forced to continue to fund subsidized spaces, but we will assume that current funding stands for this analysis. In the future, this may not be the case. This clause would bind the hands of future councils. The state and federal programs funding continually change the availability of subsidies based on available funding and contract compliance year to year. BEI assumes the City spaces will continue to be funded at their current rate, and that the City can be reimbursed for the full cost of the care per space. This will require an analysis of the City's Child Care budget. We have not estimated the difference between the City's costs and the parent fees charged for City subsidized spaces.

The City Attorney's office needs to address the legality of this requirement of the Initiative.

25. How does BEI treat existing subsidized child care spaces, and are they eligible for Parcel Tax funding? This includes State Preschool, Federal programs, General Child Care, Alternative Payment programs, etc.

BEI does not assume the parcel tax revenues replace or supplant current local, state, and federal subsidies in the analysis. We will assume that these subsidies still occur. These estimated subsidies will be backed out of estimates, but they may vary year to year. However, the issue of assessed Family Fees are estimated. Parents receiving state subsidies are often assessed family fees (their portion) of tuition. This would be a covered expenditure.

26. Will parents be eligible based on a child between 2.5 years and 5 years?

The child care space serving children 2.5- to 5-year-olds is eligible for funding. A parent with a child that is 2.5 to 5 years old and using preschool age child care is eligible for tuition remission. The provider must prove that they are serving residents or employees working in the City (and be located within SSFUSD boundaries). Parents will need to provide proof of their children and addresses.

27. Will parents be able to utilize care outside of the SSF boundary or near their place of employment if employed outside SSF?

BEI assumes the funding cannot be taken out of SSF to providers outside the City. We assume that if there are not enough child care spaces then other uses of the funds could be implemented. Clarification is needed regarding SSF residents using care outside of the City (if schedule, type of care, quality, language, etc. is not available in the City).

It does not seem reasonable to expect providers outside the City to administer the Parcel Tax parameters and qualify parents eligible for tuition remission.

Appendix A: Other Implementation Issues and Questions

This appendix includes questions and issues that will need to be addressed if the Initiative passes. BEI has not addressed these questions and issues in the analysis.

K. White further clarified these questions.[19] Questions posed and answers to questions have the potential to significantly impact fiscal outcomes and financial viability and add to administrative costs..

Child Care Implementation - Family/Parent Eligibility

1. If funds are not sufficient to serve all residents, will there be an eligibility requirement?

[19] Author of the Child Care Master Plan-2022 and City staff.

- State subsidies are reliant on income, family size and employment or school eligibility.

2. Will parents then be screened, and will tuition be reimbursed based on eligibility (low-income) if funds are not sufficient?

    - Language considers all residents in SSF (SSFUSD) equally in terms of eligibility and full funding available to serve all residents.

3. Will parents and providers be jointly paid or jointly verified for tuition costs, or will providers be paid directly, and the administrative process of tracking be up to providers?

4. How will the residence of homeless or housing insecure children/families be managed?

5. Will parents be referred to other subsidies (federal, state, local) based on eligibility first to reduce supplantation?

    - What is the process for referrals? Who will refer? How will approval for subsidy be managed?

Child Care Implementation - Provider Eligibility

6. Will licensed (regulated) child care providers only be considered for tuition subsidy?

    - Language mentions exempt care providers (per Health and Safety code) which would include a broad range of family members, friends, and neighbors (FFN's).
    - Licensing provides regulatory function and investigative responsibilities for violations or complaints.

7. Will tuition remission be available for evening, weekend, and sick care, custodial care (child asleep during the evening, etc.), care by license exempt providers (family, friends, and neighbors)?

    - Clarification is needed as to the required elements of preschool (as described in measure) and the provision of child care (provided in licensed settings and by non-licensed caregivers (FFN's) that are covered under measure.

- "Preschool" implies preparation for school and may consist of curriculum designed to provide socialization, appropriate environments, scheduling, and pre-school readiness.

- "Child care" can provide all of the above elements and may or may not provide developmentally appropriate care, however, unregulated care can be custodial as there are no requirements for specific elements.

- Currently, there are no unlicensed centers providing child care services in SSF as the majority of group care preschool settings need to be licensed, however, unlicensed/exempt individual providers (FFN's) provide care in a parent's homes or the caregivers homes and exemptions allow for services by relatives, neighbors, friends, etc. caring for children from one family, or a group of related children (description of exemptions found in Section #3 of the CCMP). A "preschool" curriculum is not required.

- Licensed care must comply with minimal health and safety standards (including fingerprinting, educational requirements for center staff, physical environment standards, etc.) and is regulated by Community Care Licensing. Complaints are filed with Community Care Licensing and Child Protective Services as needed.

- Exempt care (FFN's) has no external standards for care or monitoring. There is no agency "in-between" the City and the caregiver to monitor care. Complaints would be filed with law enforcement directly, and/or Child Protective Services.

8. Will costs be reimbursed or paid up-front?

9. How will provider eligibility, appropriateness, quality, and priority be determined?

10. How will providers be selected for wage enhancements?

    - What administrative functions will be performed by providers to comply with wage enhancement expectations? Will technical assistance and support be provided?

11. Will providers be able to recoup additional administrative costs related to tracking tuition and wage enhancements?

    - Is provider recordkeeping and administration currently a funded activity as part of administrative costs?

12. What quality indicators will be utilized to ensure quality preschool services?

    - Provisions of preschool services as well as benefits stated imply quality settings and services. How will quality be determined?

13. Who will determine provider eligibility?

    - Will all licensed providers in SSF be approved?

    - Will all exempt care individuals be approved? Relatives? Nannies? Neighbors? Friends?

    - Those caring for a child or children and not charging a fee.

    - Will employment taxes, social security be required if exempt care providers are included?

14. How will wage increases of provider portion be documented? Will wage decreases of provider portion be allowed?

15. Will only teachers working with children 2.5 to 5 years be eligible for wage increases?

    - As all child care workforce members in SSF are impacted by insufficient wages for education, experience, job responsibilities, etc., limiting wage enhancements to one segment of the child care community could create a tiered system and staff vacancies in school – age programs.

16. How will impacts on infant/toddler staff, school age staff and support and administrative staff be managed if only preschool staff receive wage increases?

17. How will compaction within ELC program structure be managed (e.g., Directors making less than teachers)?

18. How will represented employees (union) be impacted by wage enhancements outside of job classifications and wage increases available to some members and not others?

    - What are the impacts on the represented workforce?

19. Will there be minimum educational, experience, and quality requirements for staff and/or providers to receive wage enhancements?

- If so, how will this be tracked?

20. Wage enhancements do not imply access to benefits if none are currently offered. Are employee benefits part of the wage enhancement?

21. How will programs utilizing current subsidies (federal, state, city, local) calculate tuition costs?

    - An assumption is made that supplantation of state and federal subsidies will not be encouraged.

    - A further assumption that staff in subsidized programs as well as represented programs will be eligible for wage enhancements.

22. For parents currently receiving subsidies and assessed a family/parent fee, will that portion be reimbursed to the parent or provider?

23. If a lack of child care spaces, schedules, types exist in SSF and all eligible children cannot be served in SSF, will residents be allowed to use care outside of SSF?

24. If parents choose and prefer care outside of SSF will their choices be accommodated?

25. Will licensing violations and findings be shared with administrators of program and will funding be withheld from programs or individuals under-going licensing, health and safety or criminal investigations?

    - What will the process be to manage time-sensitive and confidential data and information?

26. Will the parcel tax revenues be available to preschool providers that are run by religious organizations and provide religious instruction?

    - Currently state and federal subsidy use prohibits subsidies for religious instruction as well as a range of discriminatory enrollment policies and practices.

27. Are wages 230% of existing salaries or 230% of minimum wage?

    - Clarification needed around intent of 230% of wage enhancements

    - Parcel Tax language refers to the development of a “3 tier matrix”. If existing employer salary scale is not compressed into 3 tiers, additional detail is needed.

28. Can parents of 4- and 5-year-old children (TK eligible) opt into private transitional kindergarten and kindergarten when there is a public option available for free?

    - Will the before and after – school costs of transitional kindergarten be reimbursable for 4 and-5-year-old children?

    - School districts in CA are now required to provide TK (phase in through 2025) for some 4-year-old children and all 5-year-old children (dependent on school district funding availability).

Child Care Implementation – Employees Working in SSF

29. If funds are not sufficient to serve all employees (resident priority) then what method will be used to select from employee pool?

    - Low – income priority? Lottery? Employees from assessment area?

    - Screening and selection process will need to be developed.

Child Care Implementation - Facilities

30. If funds are not sufficient to develop facilities needed to serve all priority groups, how will facilities and program expansions be supported?

31. Will out-of-area programs and providers be allowed? Under what conditions?

Economic Impacts

32. Further detail is needed from Strategic Economics on:

- Impacts related to small business operations and development
- Impact on biotech development
- Impact on affordable housing development
- Commercial linkage fees and pass-through fees to tenants

Legal Questions and Impacts

33. Further detail needed from City's Attorney's Office, including:

- Possible costs of contested components in measure and litigation.
- How does the City guard against fraud?

- Possible risks and costs associated with the utilization of unlicensed and unregulated child care and the use of exempt care providers (relatives, neighbors, friends (FFN's), nannies, etc.).
- Possible risks on the utilization of licensed care especially as related to children in care facilities being investigated by licensing agency for licensing violations.
- Stated restrictions on city-funding for child care services.
- Clarification on the use of public funding for religious instruction and/or non-compliance with anti-discrimination policies.

Is the Parcel Tax Aligned with the 2022 Child Care Master Plan?

34. The Parcel Tax as written seeks to address several primary issues identified as key recommendations within the SSF Child Care Master Plan, 2022. Those include:

- Raising workforce salaries and the need for immediate solutions to low wages in child care resulting in significant workforce shortages.
- The need for subsidized child care for all eligible children in SSF.
- The stated long-term benefits of quality programs for young children, including increased school readiness and long-term academic, financial, and, social successes.

35. Areas of misalignment include:

- Priority recommendation in the CCMP for school-age child care spaces and programs, due to significant needs and gaps.
- Wage enhancements and increases needed for all child care staff including those caring for infants and toddlers, school-age children as well as preschoolers and directors, support staff and office staff.
- Subsidies needed for infants and toddlers as infant toddler care is typically more expensive.
- Wage compression for non-wage-enhanced staff may cause additional job loss.
- Recommendations made to ensure that quality programs and services are encouraged.
- Efforts to support exempt care (FFN's) to become licensed and engaged in professional development.
- Priorities for career pathways in SSF linking child care, after-school and other related jobs to careers with children in classrooms, as teachers, counselors, recreation staff, program administrators, lead teachers, etc. Career pathways assume linkages to higher education which are not stated.

7. Early Learning and Education for All Initiative City Council Questions

1. **Does the measure adhere to the SSF Child Care Master Plan (CCMP)?**
   The *Early Learning and Education for All Initiative* as written seeks to address several primary issues identified as key recommendations within the SSF Child Care Master Plan, which was adopted in June of 2022. Those include:
   - Raising workforce salaries and the need for immediate solutions to low wages in child care, which has resulted in significant workforce shortages;
   - The need for subsidized child care for all eligible children in SSF;
   - The stated long-term benefits of quality programs for young children, including increased school readiness and long-term academic, financial, and social successes.

   Areas of misalignment include:
   - Priority recommendation in the CCMP for school-age child care spaces and programs, due to significant needs and gaps;
   - Wage enhancements and increases needed not only for preschool staff, but for all child care staff, including those caring for infants and toddlers and school-age children;
   - Subsidies and expanded slots needed for infants and toddlers as infant toddler care is typically in short supply, and more expensive;
   - Wage compression for non-wage-enhanced staff may cause additional job loss;
   - Recommendations made to ensure that quality programs and services are encouraged;
   - Efforts to support exempt care to become licensed and engaged in professional development;
   - Priorities for career pathways in SSF linking child care, after-school and other related jobs to careers with children in classrooms, as teachers, counselors, recreation staff, program administrators, lead teachers, etc. Career pathways assume linkages to higher education which are not addressed.

2. **Is revenue the only barrier to childcare? Are the other barriers to providing childcare?**
   Barriers to providing childcare include:
   a. Workforce issues (recruitment/retention of qualified teachers/staff);
   b. Lack of infrastructure/facilities and available spaces;
   c. Lack of development pathways for training teachers/staff;
   d. Lower wages for staff lead to "training" at preschool level and moving up to higher grades for higher wages.

3. **If this measure fails, what are the alternatives? How can we collaborate to achieve the spirt of the measure?**
   Recommendations for providing and supporting quality early learning care are laid out in the South San Francisco Childcare Master Plan. Council may choose to direct staff to focus on implementing any of the proposed recommendations.

   An alternative Initiative could be written and sponsored by citizens, or by the City in the future.

4. **Would non-biotech businesses that are tenants of 25,000 Sq. ft lot be affected. I know we do have other industries or businesses that are on lots this size. Would they be taxed?**
   The Early Learning for All initiative requires a special non-ad valorem parcel tax shall be levied annually on the owner of each commercial office parcel within the city, at a rate of $2.50 per square

foot of parcel size, starting with Fiscal year that begins on July 1, 2023. "Commercial office parcel" is defined as any parcel that is developed and used by a business entity primarily for operations or services that are professional, scientific, or technical in nature. Such services or operations include but are not limited to computer programming, data processing, research and development activities, or operation of an internet retailing business. Such services or operations do not include warehousing, industrial, or retail activities.

The Strategic Economics (SE) study preliminarily identified parcels which may be subject to the tax. A list of those parcels is included as part of the staff report. As noted in the summary of SE report, the identification of parcels potentially subject to the tax is preliminary and not a final determination of the status of any existing parcel. If voters approve the initiative, implementation of the tax will require a formal determination of the parcels subject to the tax.

5. **The proponents mention money for teachers. What positions are included in the ballot measure?**

The Early Learning for All initiative requires the Administering Organization to "compensate the teachers and staff members who are providing early care and education to Eligible Children in amounts no less than indicated on the compensation matrix established by the Administrating Organization with input from the Oversight Committee."

Section 4.40.100 under Administration requires minimum wage for entry level positions that is at least 230% of the minimum wage in South San Francisco. Additionally, the initiative requires minimum wage increases for Center-based teachers, providers, and providers' staff to achieve parity in compensation with preschool and elementary school teachers in the city who have commensurate education and experience; and minimum wage increases of providers and their staff that are proportional to the minimum wage increases of center-employed teachers.

The City retained Brion Economics to assist in the analysis of the financial and other impacts of the Initiative. Table 6 estimates the preschool teacher workforce in the city. It includes FCCH owners, directors of childcare programs or providers, and support staff and aides.

Table 6
Estimate of ELC Teaching and Other Staff
Early Care and Education for All Parcel Tax Initiative Analysis

Item	Small FCCHs Spaces	Large FCCHS Spaces	Preschool Spaces (1)	Subsidized Preschool Spaces	Totals	Notes
No of Spaces	96	174	1,729	481	2,480	FCCH spaces are for all age groups
No. of Providers	21	32	17	13	83	Provider Count from BEI and CCMP-2022
Number of Teachers Required (1)	**21**	**64**	**144**	**60**	**289**	
Estimated Directors	na	na	17	13	30	one per provider except for FCCHs
Aides and Support Staff	na	na	34	26	60	2 per Center Based Provider
Total Staff	**21**	**64**	**195**	**99**	**379**	Approximate staffing levels

(1) Based on Title 22 and Title 5 teacher ratio requirements. See Table 5.
Sources: CCMP 2022, City of South San Francisco; Brion Economics, Inc.

Table 7 summarizes the estimate of wage enhancement costs based on the Initiative which requires staff wages be 230% of the minimum wage. The current minimum wage is $15.80. This base is applied to the teacher/aide support staff category.

Table 7
Estimated Wage Enhancements
Early Care and Education for All Parcel Tax Initiative Analysis

Item	Current Avg. Wage / Hr.	230% of Min. Wage / Hr. (1)	Estimated Wage Increase (2)	Percent Increase	Estimated Staff by Role (3)	Percent Distribution	Estimated Current Wages	Estimated Wage Enhancement	Total Wages with Enhancement
Preschool Workforce									
Teacher Aides & Support Staff	$15.80	$36.34	$20.54	130%	92	24%	$3,023,488	$3,930,534	$6,954,022
Assist./Assoc. Teacher	$17.35	$39.97	$22.62	130%	102	27%	$3,684,735	$4,804,810	$8,489,545
Lead Teachers/Asst. Directors	$20.07	$43.97	$23.90	119%	102	27%	$4,262,400	$5,076,100	$9,338,499
FCCH Owners	$27.11	$48.37	$21.26	78%	53	14%	$2,988,606	$2,343,541	$5,332,148
Directors (4)	$31.77	$53.21	$21.44	67%	30	8%	$1,982,448	$1,337,569	$3,320,017
Total Teachers and EC Staff					**379**	**100%**	**$15,941,677**	**$17,492,554**	**$33,434,231**
Percent Wage Increase								110%	

Note the analysis brings all staff up to the minimum base of 230% of minimum wage and does not project additional pay due to various roles, education, and experience. How this Initiative would put upward pressure on wages beyond this requirement is not possible to estimate.
(1) Minimum wage is South San Francisco is currently $15.80 230% is $36.34 Each level increases 10% above that base.
https://www.ssf.net/departments/city-manager/local-minimum-wage
(2) A 10% mark up for each level is assumed based on the needs of equity with education and experience.
(3) See Table 6 for estimate of total preschool staff.
(4) CA EDD Data - 11-9031 Education and Childcare Administrators, Preschool and Daycare.
https://www.labormarketinfo.edd.ca.gov/data/oes-employment-and-wages.html#OES
Sources: CCMP 2022, City of South San Francisco; CA EDD; Brion Economics, Inc.

6. **How does this proposed program compare to those in San Francisco and Portland Oregon? Specifically, revenue sources and process for implementation. Is there a means test?**

Portland:
Staff obtained a copy of the *Preschool for All Plan* developed by Multnomah County in Oregon (FINAL-Preschool-for-All-Plan-July-2020.pdf (multco-web7-psh-files-usw2.s3-us-west-2.amazonaws.com)), and met with Brooke Chilton Timmons, Management Analyst with the Multnomah County Department of Human Services. Multnomah County has a population of approximately 815,000, which includes most of Portland and a number of smaller cities. The Plan evolved from the Ready for Kindergarten Collaborative, which began with a task force in 2012. Over an eight-year period the Task Force, which included parents and community leaders from early learning, healthcare, housing, human services, school districts, higher education, culturally specific organizations, local non-profits, and the business community, developed comprehensive recommendations for the *Preschool for All Plan* prior to the successful passage of a ballot measure in 2020.

The Multnomah program is funded by a marginal income tax on high income earners, with a tiered, progressive approach to income thresholds. The tax is structured to generate an estimated $133 million in 2021, increasing to an estimated $202 million in 2026. The program is designed to ramp up over several years to full capacity by 2026. The County Board of Commissioners has the authority to adjust the tax rate over time as needed to ensure the program is fully funded. Hundreds of public, private, and social sector leaders, community members, and preschool practitioners participated in a coalition to design the program parameters. Since the initiative passed in 2020, the County has spent 2 years working toward service delivery, which will begin in the fall of 2022. All 3- and 4-year-olds are eligible for approximately 5 hours of tuition-free preschool program per day; before and after program care options are available for families below the Multnomah County

Self-Sufficiency Standard; children with developmental delays and disabilities are provided with targeted support; the program offers a mixed delivery model which includes full-day and part-day programming., year-round options, home-based, center-based, and public-school based settings. There is an application process, with children offered seats in participating programs. Priority is given to children who have the least access to preschool. Resources are devoted to outreach to families to inform them of their options, coaching for providers, and assistance to home-based providers. The program addresses workforce development and provides a living wage for participating providers, with a compensation matrix that adjusts wages based on teacher credentialing, education, certification, licensure, special skills such as language, and experience. Lead preschool teachers are to be paid on par with kindergarten teachers.

Program administration is handled through a contract with a non-profit agency in combination with County staff. Positions include application, eligibility, and enrollment specialists, accountants, trauma-informed mental health professionals, outreach specialists, and educational coaches. To grow the number of preschool slots across the county, funding is allocated to support providers who want to improve or expand their facilities. Public oversight and accountability are provided by a 12–15-member Community Advisory Group appointed by the County Board of Commissioners. The Advisory Group includes parents, preschool providers, culturally specific organizations, school districts, early childhood organizations, and other representatives from organizations that work to support children and families in the county.

San Francisco:
Staff interviewed Kathleen White, the consultant retained for the South San Francisco Child Care Master Plan. Kathleen worked closely with several committees involved in designing and implementing San Francisco's program. Some key differences include:

- San Francisco passed Prop C in 2018;
- Measure was tied up in court challenges for approximately 3 years;
- San Francisco is both a City and a County, and has established a large department, the Office of Early Childhood Education, to design and implement programs;
- Leverages federal, state, county, and local funding sources;
- San Francisco is investing in teacher wage increases in City-run programs;
- Addresses children aged 0 – 5, with children under 4 years a priority;
- There is a means test for prioritization of service to lower income families;
- Ensuring and enhancing program quality is addressed;
- Workforce development is a priority;
- Staff training is incentivized.

7. **Sky Woodruff mentioned looking at potential legal issues that might arise if voters approve this new tax. We currently collect monies from developers for child care facilities. How many San Mateo County cities collect fees for this purpose? Does the County collect a fee for child care?**
The Quimby Act and California Fee Mitigation Act allows communities to require developers to dedicate land or pay an in-lieu fee as a condition of approval. Development Impact Fees offset the impact by providing park, recreational facilities, and childcare facilities to serve new residents. The city currently has impact fees for parks, childcare, and public art. Developer impact fees are exclusively for capital improvements serving new development to offset the impact of a particular project or new growth. The City of South San Francisco and San Mateo have childcare impact fees to help fund childcare facilities. The City's current impact fee balance as of January 2022 is

$11,000,000. The City will consider the Master Plan recommendations into consideration for utilization of these funds.

San Mateo County does not collect a fee for childcare.

With regard to legal issues, California courts have established that the voters' power to enact law through initiative is not unlimited. The power of initiative is limited to legislative acts and cannot compel administrative or executive acts. An initiative is subject to invalidation by a court to the extent that it deals with and seeks to direct administrative acts. The distinction between legislative acts and administrative ones can be blurry—and courts may be cautious to invalidate a measure—in part because an initiative may properly include both a broad public purpose and also specific "provisions for ways and means of its accomplishment." That said, courts have drawn a line to find that an initiative amounts to an administrative act when it infringes on "governmental powers properly assigned to the executive department" and that an initiative that "interferes with the City's ability to carry out its day-to-day business is not a proper subject of voter power."

A city is not prohibited, however, from implementing an initiative that directs administrative acts. Rather, an initiative that includes provisions that intrude into areas of city administration are subject to court challenge and potential invalidation, in whole or in part. The court-created tests for deciding this issue are mostly fact-specific and therefore this question cannot be answered except through litigation.

Nevertheless, the proposed childcare parcel tax initiative includes a number of provisions that could be characterized as administrative. Some examples include the requirement that the City Council adopt administrative rules for the implementation of the program and ensuring that childcare providers that receive funding from the tax fully comply with all requirements of the program, including the administrative rules (either directly or through monitoring of a non-profit Administrating Organization). Additionally, the initiative requires the establishment of an oversight committee that must be supported by City staff, including the process for advertising positions and selecting members; monitoring members to ensure compliance with applicable laws, such as taking oaths of office, ethics and other mandated trainings, and disclosures of economic interests; preparation and posting of agendas, keeping of minutes, and providing staff at meetings; and processing stipend payments for members of the committee.

An additional issue relates to the initiative's requirement that the City designate an Administering Organization. The Administering Organization may be a department of the City, or a non-profit entity. The Administrating Organization carries out the administration functions of the program authorized and funded by the initiative.

The initiative properly leaves to the discretion of the City whether one of its own departments will serve as the Administrating Organization. If the City exercises that discretion not to act as the Administering Organization, then the initiative requires the City to contract with a non-profit entity to serve in that role. California courts have not definitively ruled on this issue, but many have suggested that, with some exceptions not applicable here, entering into contracts is an administrative act. In other words, it may be beyond the voters' power, through an initiative, to compel the City to enter into a contract with a non-profit to act as the Administrating Organization. If the City declined to act as the Administering Organization, and it cannot legally be compelled to enter into a contract with a non-profit to perform that role, it is unclear to what extent the program could still be implemented and whether it would be appropriate to continue to levy the tax.

8. How many commuting workers would be eligible for this new program?
According to analysis provided by Brion Economics, approximately 1,220 children of non-resident workers are assumed to require preschool care. The monthly cost of required care is approximately $16,000 per month, about $19,600,000 annually.

Table 8
Estimated Employment in Non-Resident Workers and Free Child Care Costs
Early Care and Education for All Parcel Tax Initiative Analysis

Item	Amount	Notes
Employment Estimate - 2022	47,849	ABAG Projections 2040
Percent Non-Resident (1)	85.0%	from Journey-to-Work data, 2018
Non Resident Workers - 2022	40,672	ABAG Projections 2040 & JTW data
Estimated Demand for Infant/Preschool Care from Non-Resident Workers 0 to 5 year olds	5%	BEI - Needs Assessments
Estimated 0-5 Demand from Non-Resident Workers	**2,034**	Derived
Estimated Preschool Spaces Needed	**1,220**	60% of total above
Average Cost of Preschool per Month	$1,341	Per CCMP, See Table 5
Yearly Tuition Remission Cost per Preschooler	$16,089	Derived
Total Annual Tuition Remission Cost for Non-Resident Employees' Children	**$19,630,985**	Derived

Note: Assumes one child per non-resident employee.

(1) Includes workers that commute into SSF from other cities in the County and from outside the County. Based on Journey to Work Census data, from Shimon Israel, MTC. 7.19.22

Sources: 2019 5-Year American Community Survey Journey-to-Work Data; ABAG Projections 2040 (Oct 21); Brion Economics, Inc.

9. How will city of residence or place of employment be verified?
This has yet to be determined. The ELC Initiative requires the City Council to designate an Administering Organization to administer the program. By July 1, 2024, the City shall require the Administering Organization to receive and review applications from Centers and Providers who wish to participate, monitor program participants' use of funds, prepare and submit quarterly reports to the Oversight Committee and annual reports to City Council describing disbursement of program funds, numbers of children served, and overall effectiveness of the program; and take any additional action needed to implement the program.

10. Please provide the following information.

- Cost to develop 1 square foot of life science Class A
  - $1,115 (includes acquisition costs)

- Cost of leasing 1 square foot of life science Class A annually
    - $6.35 / SF to lease

- Total Annual operating costs of life science Class A including salaries and benefits.
    - This information was not available.

- Current cost of childcare
    - The weighted average full-time monthly cost of preschool in SSF is $1,341, based on current data. Note this is an average of both center-based care, and licensed family day care providers.

Table 3
Estimated Average Cost of Child Care in SSF
Early Care and Education for All Parcel Tax Initiative Analysis

Item	Amount	Notes
Average Center Preschool FT Monthly Fee	$1,359	CCMP - 2022 -Center Based Care, 2019 data
Average FCCH Preschool FT Monthly Fee	$1,195	CCMP - 2022 - Family Child Care Home, 2019 data
Current Center Based Preschool Spaces	2,210	From BEI, 2022 - See Table 3
Current FCCH Preschool Spaces	272	From BEI, 2022; based on licensing rates - See Table 3
Total Supply of Preschool Spaces	2,482	From BEI, 2022 - See Table 3
Wt. Average FT Monthly Fee	**$1,341**	Derived

Sources: CCMP 2022, City of South San Francisco; Brion Economics, Inc.

Brion provided the following information about how this cost was determined.

This was the weighted average for family child care and centers. Family child care providers tend to offer lower prices for preschool children and often offer family discounts, etc.
During the CCMP process, I also looked at advertised rates (when available) as the COVID Pandemic did impact enrollment. While providers in general had fewer children enrolled, and health related requirements increased, tuition in general did not increase, as parents struggled with additional employment limitations and costs. 4C's did not have current updated tuition data, most likely due to their own workforce issues.

Tuition will most likely be increasing this year, as employment stabilizes and vaccines become more available. Additionally, SSF has a significant number of reduced cost or free programs, including state funded, Head Start, and Parks and Recreation. These also bring tuition costs down, as parents are not paying full - cost and in many cases, the tuition is no-cost to families.

Fees are dependent on schedules, exact ages, potty-training, etc., but, for example, in 2021, Temporary Tot Tending was at $995/month, Gateway/YMCA was at $1500/month, Early Years was at $1500/month, All Souls was at $1200/month, Mills Montessori was $1600/month, etc.

Many programs in SSF do not share tuition info online or by phone and request that families contact them with specific information. I feel confident that the weighted average of near

$1400/month was accurate for SSF at the time the data was gathered. The new San Mateo County Needs Assessment will have additional detail on rates.

11. **Current amount spent annually by Genentech and other biotechs specifically on childcare.** This information is proprietary, and although requested, is not available. Brion Economics provided the following response:

    Genentech provides child care on-site for employees and does offer reduced rates depending on income. The child care program is offered through a sub-contract with Bright Horizons. They do not publish rates, as rates are dependent on income and other elements of work-based eligibility. Unless we had specifics on income, ages of children, family needs, etc. we really cannot get a rate easily. It is described as discounted rates, based on family income, but not subsidized, so it is possible that families have a variety of tuition options dependent on their situations. There is also a waiting list.

12. **Benefits to biotech workforce if they have childcare and Pre-K.** While staff cannot speak specifically to benefits of childcare for the biotechnology workforce, studies show that universal preschool has many long-term benefits. According to the Public Policy Institute of California (PPIC), early childhood education narrows the gap in school readiness, and has many other long-term benefits. Students who participated in preschool took more honors classes in middle school and were less likely to repeat a grade. Studies indicate increased rates of high school graduation, college enrollment, higher earnings, reduced rates of welfare use, and a lower rate of contact with the criminal justice system.

    Brion Economics provided the following response:

    Only 4% of companies in the United States provide any child care subsidy and another 4% provide referrals, parent supports and access to child care on or near-site without a subsidy. While some companies in SSF may contract with some specific providers or offer child care tuition benefits through their HR Departments, the information is deep within HR policies. Only Genentech widely advertises their stand-alone child care sites.

    Benefits to employees include tax benefits (up to $5,000 can be excluded from income in 2021), employer loyalty, location of child care, family friendly policies, work-life balance, etc. Benefits to employers include tax deductions for child care benefits provided, ease of recruitment, support for women, reduced turnover, etc. Recent article on employer shifts at: https://www.cnbc.com/2021/07/09/employers-sweeten-child-care-benefits-to-win-over-workers-.html

13. **How could the Initiative Impact the City's ability to pursue other funding streams?** The Gann limit sets an annual appropriation ceiling on the amount of tax proceeds to all California municipalities. In addition to limits of tax proceeds, the Gann limit restricts the amount of money a city can appropriate based on the previous year appropriations plus a per capita personal income (CPI) change and a percent population change. The City uses the California Department of Finance statistics of CPI and percent population change to formulate the Gann Limit for the City for each fiscal year. The City is approximately $70 million below the Gann appropriation limits for FY 2022-23.

As stated earlier, Strategic Economics estimates that the parcel tax would generate approximately $54.7 million in annual revenue if implemented today, and potentially increasing to at least $63.8 million in annual revenue upon completion of planned development projects. If the parcel tax passes, the City's ability to levy additional taxes for other citywide issues such as affordable housing, public safety, parks, roads, and infrastructure will be severely limited. If the City ends a fiscal year exceeding the Gann appropriation limit, the City must return the excess either by reducing taxes or fees within the next two subsequent fiscal years, or would have to seek voter approval to increase the appropriations limit. Such a voter-approved "override" cannot be for more than four years. So, the City would have to seek voter extension of the override every four years until the "pre-override" appropriations limit catches up.

Bond Capacity
Based on the Gann limit, the City has $1.1 billion of bond capacity. The childcare initiative would use $840 million to $980 million of bond capacity leaving only $95 million for other citywide programs. A summary of the estimated bond capacity numbers assuming a 30-year fixed rate structure at 5.00% is provided below:

Scenario	**Annual Revenues**	**Bond Capacity**
GANN Limit	$70,000,000	$1,075,000,000
Base Case	$54,700,000	$841,000,000
Fully Developed	$63,800,000	$981,000,000
Remaining Capacity	$6,200,000	$95,000,000

A parcel tax is considered a qualified special tax and may be imposed by a local government such as a city, county, school district or special district. The tax would be due to San Mateo County no later than July 31st each year to be included in the following fiscal year.

14. Can the left-over funds go to Capital?
Yes. Paraphrased, the permissible uses of tax proceeds include running the childcare program; infrastructure for Centers and Providers; the City's costs to implement the program; and stipends for members of the Oversight Committee. (Section 4.40.080(A).) If the Parks and Recreation Department participates as a Center, then tax proceeds should first be used each year "to maintain or increase the number of early childcare and education Seats offered by the Parks and Recreation Department during the prior enrollment year. No more than 50 percent of each year's Tax revenue shall be used to maintain or increase the number of such Seats." (Section 4.40.090(A)(2).)

Regardless of whether the Parks and Recreation Department participates as a Center, if all Eligible Children who wish to enroll have been provided with Seats using tax proceeds, then any remaining funds may be used to offer Seats to children who are between the ages of six months and 2.5 years and whose parents or guardians live or work within the boundaries of the School District. (Section 4.40.090(A)(3)(a).)

If all qualifying children between the ages of six months and 2.5 years who want to enroll have been provided with a Seat using tax proceeds, then any remaining funds may be used for the authorized purposes of the tax, including for infrastructure for Centers and Providers. This could be further defined in Council-adopted administrative rules. (Section 4.40.100(A)(1).)

15. How much of the funding is discretionary?

As discussed above, the initiative ordinance prioritizes funding free Seats at Centers and Providers for Eligible Children. If there is more than enough funding for that first priority, then the next priority is funding free Seats for children between the ages of six months and 2.5 years whose parents or guardians live or work within the boundaries of the School District. The ordinance also states that, if the Parks and Recreation Department operates a Center, then the first use of funds each year should be to fund its Seats, with up to 50% of each year's tax revenue dedicated to that purpose. Finally, up to 10% of annual tax proceeds may be used for the City's implementation of the tax.

The ordinance also states, however, that the goals are "(1) providing free early care and education for all children between the ages of 2.5 and 5 years old who have a parent, legal guardian, foster parent, or authorized caregiver residing or working in the boundaries of the South San Francisco Unified School District; (2) expanding the infrastructure necessary to provide such early care and education; and (3) increasing the wages of teachers and staff who provide early care and education under this ordinance." (Section 4.40.020(H).) Further, it authorizes the City Council to adopt administrative rules to implement the tax. (Section 4.40.100(A)(1).) The authority for the Council to adopt administrative rules for the implementation of the tax allows for some exercise of discretion in how tax proceeds are spent, as long as the expenditures are consistent with the stated purposes of the initiative and do not directly contradict express requirements of the ordinance that lawfully constrain the administrative actions of the City to implement a ballot initiative.

16. Assuming the City participates in the program to provide preschool programs offered by Parks and Recreation at no cost, and therefore is obligated to pay preschool staff 230% of the minimum wage in South San Francisco, how would this affect wage negotiations with their bargaining unit?

The Human Resources Department provided the following response:

City childcare staff are currently represented by recognized employee unions, and nothing in the proposed legislation would change the City's duty to bargain over wages, hours, terms, and conditions of employment.

The proposed legislation includes a minimum threshold of 230% of minimum wage for entry-level workers, therefore any agreement on wages with our labor unions would need to meet the statutory minimum for covered positions if the City participates in the program as a Provider or Center. However, there is nothing that would prevent a union from bargaining for a higher wage than that which is required by the initiative for the City to be eligible to participate as a Provider or Center. Other fringe benefits would also remain subject to negotiation.

There is some complexity presented by the Oversight Committee's responsibility to develop a wage table and the Council's sole authority to bargain with labor and approve the wage and salary schedule for City employees. See the City Attorney's discussion below regarding various roles related to the compensation matrix. The compensation matrix would not impact Council's authority over bargaining and approval of agreements with employee unions, however it does present a challenge as the compensation matrix will carry significant weight in the bargaining process.

In general, while any new legislation is not in itself subject to bargaining, the impacts, or effects of a law on wages, hours, terms, and conditions of employment are subject to bargaining. For example, if the City needs to restructure positions, job requirements, reporting relationships, salaries, etc. in order to effectuate changes under the law, how we implement those decisions are likely subject to bargaining. The easiest example here is adjusting supervisory positions for compaction – if the City chooses to participate in the program and the teachers receive a significant increase to comply with the minimums in the compensation matrix, the union representing supervisors (Mid-management/Teamsters) will have the right to bargain the effects of that change on supervisors' compensation.

The City Attorney added the following observations:

The Oversight Committee's role regarding the compensation matrix is just to provide input. (4.40.090(A)(1)(b) and 4.40.110(B)(5).) The Administering Organization is responsible for preparing the matrix. (4.40.100(E).) It is not clear in the ordinance who is responsible for approving the matrix, but this could be resolved through the administrative rules that the ordinance requires the City Council to adopt.

The matrix sets minimum compensation for teachers and staff who provide early care and education to eligible children. (4.40.100(E).) The matrix starts with entry-level positions by requiring them to receive at least 230% of the minimum wage. But it must also set "minimum wage increases for Center-based teachers, Providers, and Providers' staff to achieve parity in compensation with preschool and elementary school teachers in South San Francisco who have commensurate education and experience; and . . . minimum wage increases of Providers and their staff that are proportional to the minimum wage increases of Center-employed teachers." So, the matrix would also likely have minimum compensation levels for more experienced teachers and staff, as well.

City employees would only qualify for compensation in accordance with the matrix if the City chooses to operate as a Center or Provider. If the City does not participate, then the matrix will have no effect on employee compensation. (At least not directly. If employees of Providers and Centers are being compensated according to the matrix, then City employees might use that as a basis to bargain for commensurate compensation, even if the City is not participating in the program.)

If the City does participate, then it is reasonable to assume that the matrix will provide the floor for compensation of City employees who provide early care and education to eligible children. As Human Resources notes, the City must still bargain with those employees, so actual compensation might be higher than the minimums in the matrix. There might also be inconsistencies if there are City employees providing childcare programs that are funded by the tax and employees doing the same work but not funded by the tax. The City Council still must approve the MOU with the bargaining unit representing the teachers and staff and with the bargaining unit representing managers who will, as Human Resources notes, want to negotiate over their compensation to address compaction.

17. What is the impact to small child care providers in the neighborhoods? Can they continue to operate? Are there any compliance issues or operating rules that would change how they do business?

In the Impact Report analysis an assumption is made that only licensed small family child care providers would be eligible to participate in the program, otherwise there would be no way to control for quality, residency of participants, liability, fraud, and a host of other factors. Nothing in the Initiative would prohibit unlicensed small family child care providers from continuing to operate on a fee-based model, however these providers might have a difficult time attracting clients if free preschool becomes available. Licensed family care providers would be eligible to participate as a funded provider if they comply with the enhanced wages specified in the Ordinance, and maintain standards required by Licensing.

18. **I would like to see how the addition and expansion of Boys and Girls Club of Peninsula (BGCP) to cover the after-school population will support that need (and heat map). In other words, this initiative would only care for preschool aged children, but I want to be able to address that the subsidies and reduced cost programs that BGCP will provide and serve at the proposed school sites will help to address that need.**
The Early Learning and Education for All Initiative prioritizes providing preschool at no cost to children aged 0 to 5 years. However, no funds are provided for children aged 6 and above for after-school care. The Child Care Master Plan documented the shortage of Before and After School services. The City of South San Francisco currently provides after-school programs for 650 children. City Staff has met with staff from Boys and Girls Club of Peninsula (BGCP) and understand that BGCP is endeavoring to offer free school-site-based after-school programing at various locations in South San Francisco. In the fall of 2022 BGCP will offer after school programming at Sunshine Gardens Elementary and the BGCP Clubhouse on Orange Avenue. BGCP will also offer a college access program after school for high school students at South San Francisco High School.