

# South San Francisco Parcel Tax Analysis

Revenues and Impacts of the "Early Care for All" Parcel Tax

Presentation to the South San Francisco City Council August 10, 2022

#### **About Strategic Economics**

- Berkeley-based land use economics consulting firm
- Founded 1998
- Specialties include:
  - Fiscal & economic impacts
  - Market & development feasibility analysis
  - Economic development
  - Affordable housing studies and policy
  - Public finance
  - Transit-oriented communities

#### Examples of our Work:



- South SF Commercial linkage fee nexus study (affordable housing impact fee)
- South SF Lindenville Specific Plan
- Current nearby projects for San Francisco, Redwood City, East Palo Alto, Mountain View
- "Regional Transportation Measure Revenue Estimates" for the Silicon Valley Community Foundation



#### **Presentation content**

- Parcel Tax Calculation
- Revenue Estimate
- Relationship Between the Parcel Tax and Development Intensity
- Impact on Businesses
- Impact on Property Development
- Impact on Total Tax Rate
- Implications for Forming a Community Facilities District



#### **Parcel tax details**

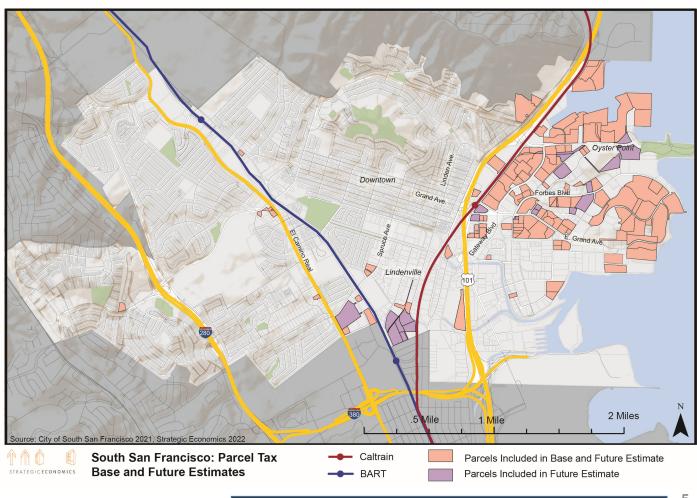
- \$2.50 annual tax per square foot of parcel area
- Applies to properties that:
  - Are at least 25,000 square feet AND
  - Host "professional, scientific, or technical" business operations or services
- Relatively unique features:
  - Application to specific parcels
  - Levied based on land area
  - Higher charge than most parcel taxes in region
- City would determine detailed administrative implementation rules if tax is approved



### Parcels included in revenue estimates

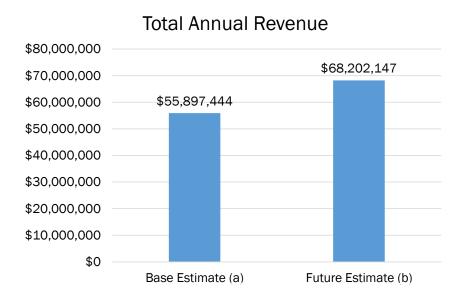
Based primarily on parcels with "Office," "Biotech," and "R&D" Land Uses in the City of South San Francisco parcel database, plus planned and proposed development projects with these uses.

These are preliminary estimates of parcels subject to the parcel tax. Actual identification of parcels will depend on administrative rules adopted if voters approve the ballot measure.





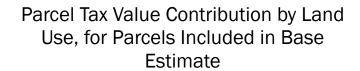
### The parcel tax would raise an estimated \$56 million in annual revenue

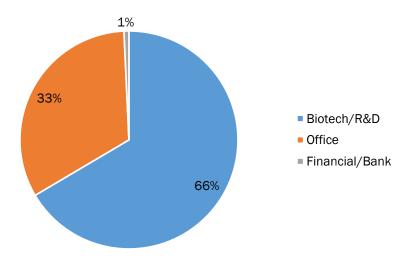


- (a) Includes parcels associated with existing Biotech, Office, and R&D uses
- (b) Include parcels associated with existing, under construction, and planned Biotech, Office, and R&D uses

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







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

### Less intensely built properties pay higher parcel tax costs per square foot of building area

- Critical for understanding variations in parcel tax impacts on different properties / businesses
- Parcel tax is based on land area
- Building space varies relative to land area
  - Expressed as a "floor area ratio," or FAR
- Businesses typically pay leases based on building area, not land area

Example Calculation of FAR and Parcel Tax per Square Foot of Building Area

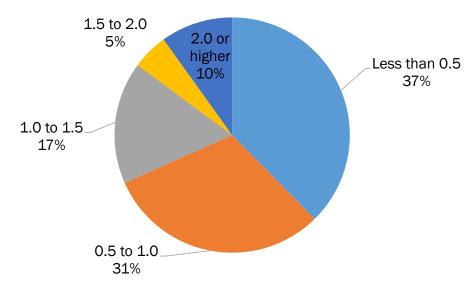
Parcel Sq. Ft.	Building Sq. Ft.	FAR	Parcel Tax	Tax per Sq. Ft. of Building Area
200,000	100,000	0.5	\$500,000	\$5.00
200,000	200,000	1.0	\$500,000	\$2.50
200,000	300,000	1.5	\$500,000	\$1.67
200,000	400,000	2.0	\$500,000	\$1.25

Source: Strategic Economics, 2022.



## Most properties in South San Francisco will pay relatively high taxes per square foot of building area

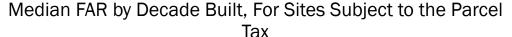
FAR of Sites Subject to the Parcel Tax

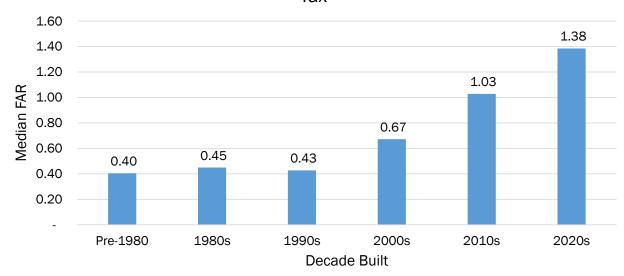


Includes all properties included in the Base Estimate and Future Estimate. Source: CoStar, 2022; Strategic Economics, 2022.



### Older buildings will pay higher parcel taxes per square foot of building area





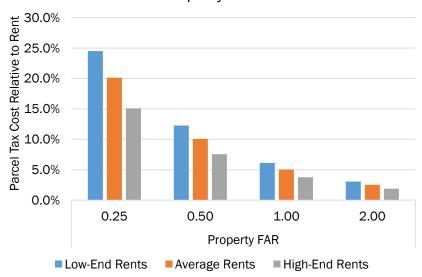
Includes all properties included in the Base Estimate and Future Estimate. Source: CoStar, 2022; Strategic Economics, 2022.



### Parcel tax impacts on businesses will vary depending on current rent and building type

- Increased operating costs for owner-occupied properties and businesses with "triple net" leases
  - 5.8% increase in annual operating costs for an owner-occupied, new life science building
- Pressure to raise rents in "full service gross" leases
- Cost increase will be significant for:
  - Businesses in lower FAR buildings
  - Businesses paying lower rents

Parcel Tax Increase in Tenant Costs Relative to Rent, Based on Typical Rent Range for R&D/Biotech Properties in South SF, by Property FAR



Sources: Colliers, 2021; CoStar, 2022; Strategic Economics, 2022.



## Parcel tax costs will influence business location decisions—primarily for businesses in lower-cost spaces

- Increased operating costs will be a new consideration for business location decisions
- Negative impact primarily for:
  - Cost-sensitive businesses
  - Current businesses in low-cost and less intensely developed properties
- Impact relatively limited for companies in newer and more intensely developed properties
- Increasing competition for life science companies among Peninsula communities
- Parcel tax costs are just one of many business-specific factors in making location decisions



## Development activity will slow slightly, while interest in redeveloping older properties will increase

- Parcel tax cost is relatively low per building square foot for new high-FAR projects
- Pace of development may slow slightly to allow additional rent growth
- Parcel tax reduces remaining value for other community benefits contributions
- Parcel tax will accelerate property owner interest in redeveloping older, low-FAR properties

Annual Rent Required to Maintain Financial Feasibility of Life Science Development Project With and Without Parcel Tax, at 2.0





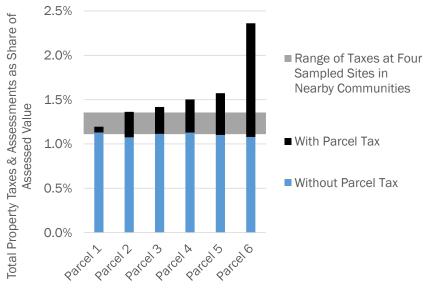
Sources: Strategic Economics, 2022.

## South San Francisco's total tax costs will increase to a level similar to or higher than nearby

communities

- Examined total tax and assessments rate for 6 South SF properties, 4 properties in nearby cities
- South San Francisco total taxes and fees are currently relatively low
- Parcel tax's impact on overall tax rate varies significantly from property to property

Comparison of Total Property Tax & Assessment Rate for Six South San Francisco Parcels Versus Four Sample Sites in Outside Communities



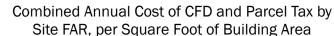
Sampled Properties in South San Francisco

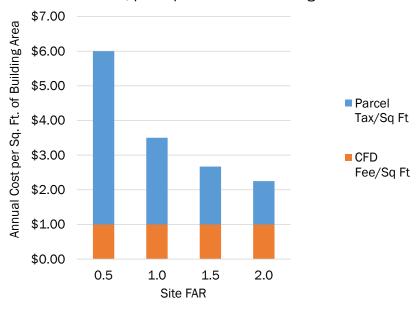
Sources: County of San Mateo Tax Collector, 2022; Treasurer and Tax Collector, City and County of San Francisco, 2022; Strategic Economics, 2022.



## The parcel tax reduces the likelihood of creating a community facilities district to fund infrastructure in the East of 101 area

- CFD would fund infrastructure and mobility improvements in East of 101 area
- Requires 2/3 approval
- 87% of "base estimate" properties are within the proposed CFD area
- Combined CFD and parcel tax cost per building square foot is significant for lower FAR properties





Source: Strategic Economics, 2022.



#### **Key Conclusions**

- The parcel tax would generate \$56 million per year in revenue, increasing to \$68 million upon completion of planned projects
- Businesses consider many factors beyond tax costs when making location and investment decisions
- Parcel tax impacts on business location decisions are strongest and significant for businesses in low-cost and less intensely developed properties
- Parcel tax costs will have a modest impact on slowing development activity, while also encouraging redevelopment of older less intensely developed properties
- South San Francisco will lose any competitive advantages gained from having slightly lower overall tax rates than nearby communities

