

Tax break for Twitter cost S.F. \$40 million

Latest City Hall report tallies first 3 years of giveaways

By MARK HEDIN

TWITTER'S stock price is tumbling to new lows this year, but its tax savings in San Francisco continue to grow.

The Central Market Street and Tenderloin Exclusion from the city's payroll tax, the so-called Twitter tax break, saved Twitter and five other companies \$33.6 million in 2014, the latest figures available, according to a report by Tax Collector David Augustine. He puts the tax break's cost to the city at these many millions, plus an additional \$6.1 million in previous years, for \$39.8 million total since its March 2011 enactment.

The millions that the city didn't get in 2014 derive from \$2.5 billion in the total payrolls of Twitter, Zendesk, Microsoft's Yammer, Spotify, Zoosk and One Kings Lane.

San Francisco taxed payrolls at 1.5%, a levy the city is phasing out over five years in favor of a gross receipts tax, as per then-Supervisor Ross Mirkarimi's 2012 Proposition E. In the phaseout, the payroll tax rate decreases

each year. Amanda Kahn Fried, policy and legislative manager in the tax collector's office, said that in 2014 the rate was 1.35%.

The city's loss in 2014 is eight times what it missed out on the year before, the October report points out. In 2013, the uncollected tax would have been \$4.2 million. In 2012, the first year the tax exclusion was available, \$1.9 million was forgone.

Payroll taxes boomed in 2014 mainly because Twitter went public in late 2013. Months later, its employees became eligible to cash their stock options, considered compensation and thus previously subject to the payroll tax.

The full cost of the Twitter tax break is a moving target as staffing and share value at the firm fluctuate. Documents Twitter made public in advance of its IPO led to varied guesses based on the number of stock options reported at the time.

The tax break represented a potential \$130 million loss to the city. The Extra calculated in December 2013, in consultation with local CPA Jim McHale, who says he often represents businesses in their dealings with City Hall. "I do a lot of controversy work," he said.

The \$130 million estimate was based on a worst-case scenario but an unlikely occurrence, in which all Twitter's outstanding stock options were cashed in at the price at the time. (tinyurl.com/CCEDec2013.) That was in December, when Twitter was trading at \$56 and climbing. Twitter's stock price quickly soared to \$60 after it went public, but in 2016, it's fallen below \$20.

With McHale, The Extra also determined that each dollar of Twitter's share value represented \$1.9 million of lost city revenue.

The Chronicle, also working with McHale just prior to the November IPO, had pegged the tax break companies' savings at \$56 million, an amount based on employees cashing in their options at \$18.50, midway in the expected IPO price range of \$17 to \$20.

As the legislation was being drafted by

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CENTRAL CITY

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TWITTER TAX BREAK



DIGITAL ILLUSTRATION: LISE STAMPELLI

Twitter alighted on Market Street in 2011, and brought immense change to the neighborhood.

TL getting its due?

5 years after passage, Tenderloin's old guard evaluate law's impact

NEXT MONTH it will be five years since San Francisco passed its most powerful piece of legislation in decades, the Twitter tax break. The Central Market and Tenderloin Payroll Expense Tax Exclusion ordinance is the catalyst that's sparked the resurrection of seven blocks of Market Street, and is gentrifying the entire central city.

The ongoing transformation is far from complete. The ordinance also accelerated Mission District changes and has rippled throughout the city, touching every neighborhood.

Supervisors Jane Kim, David Chiu and six colleagues — taking action after Twitter's letter to the mayor threatening to move out of San Francisco — hastily drafted and passed the tax break and related ordinances. Mayor Lee signed the key one into law the day after passage.

Lee publicly counts the tax break among his greatest achievements, though Kim, who represents the area, seldom mentions her role and didn't respond to repeated requests to add her voice to that of some of her most respected constituents.

How much the tax break cost the city coffers had not been officially stated in substantive form until the tax collector made his annual re-

port to the Board of Supervisors on its financial impact — \$40 million as of 2014 and climbing rapidly.

Given that this stretch of Market Street had dozens of storefronts vacant before the tax break passed, and the entire city has reaped an economic bonanza — in that sense, the ransom S.F. paid Twitter & Co. has been priceless.

On the other hand, the cost of gentrifying the central city and the shredding of its safety net, in human terms is incalculable.

Except for One Kings Lane and Zoosk, the tax break companies all have made significant contributions to the area, with Twitter's \$3 million NeighborNest the single costliest benefit.

Despite the enormity of the Twitter tax break — tens of millions of dollars in public giveaways and many millions more spent benefiting the neighborhood — no news outlet but The Extra regularly reports on how the legislation is playing out since its inception.

Five years is a long enough to put the tax break's impacts into perspective. We asked Tenderloin stakeholders, mostly the folks who were here before the changes, whether they think that the neighborhood has gotten its due. This report reveals mixed feelings and strong views. These quotes are from phone interviews and email answers to questions. The emails were edited to match The Extra's style and for clarity — not for content. Their quotes start on page 4.

— Geoff Link, Editor & Publisher

GOOD NEWS

By MARJORIE BEGGS

KIDS' TEETH The bad news is that by kindergarten more than half of California kids have decayed teeth, according to Children Now. Tooth problems make kids of all ages miss 874,000 days of school every year, and those with tooth pain are four times more likely to do poorly in school. Tooth decay is the most common chronic illness among school-age kids, four times more prevalent than childhood asthma. The good news: University of the Pacific's Arthur A. Dugoni School of Dentistry is hosting its annual "Give Kids a Smile" fair, Feb. 27, 10 a.m.-2 p.m., 155 Fifth St. Youngsters may be drawn by the fair's games, prizes, entertainment, petting zoo, face painting and balloon art, but the sweetener is free dental exams, cleaning, orthodontic evaluations and fluoride treatments — services worth \$100 per child. Kids up to 17, accompanied by a parent, are eligible, no appointment needed. More info: Pediatric Clinic, (415) 929-6550.

HEALTHY FOOD CHOICES Making better dietary choices every day can improve your health. That's the message of four free classes beginning Feb. 1 at the Main Library presented by The Arc San Francisco. The one-hour classes, which can be taken individually or as a series, teach easy alternatives

to some of the most common health mistakes. Each class focuses on one aspect of living a healthier life: alternatives to soda and sugary beverages (Feb. 1), the dangers of fast food (Feb. 8), eating in moderation (Feb. 22), diet and exercise (Feb. 29). The Arc San Francisco, a nonprofit, serves people with developmental disabilities by promoting self-determination, dignity and quality of life. The classes, 11 a.m.-noon in the library's fifth-floor Learning Studio, are open to the public.

SENIOR VITALITY Curry Senior Center launched a one-year pilot, Project Senior Vitality, in 2014 to test whether low-income seniors living alone would benefit physically and reduce their isolation if they used personal wi-fi tracking devices to monitor their health and iPads to access the Internet from their own apartments (tinyurl.com/CCEOct2014). The pilot thrust seven Curry residents into the cyber age with equipment, technology tutors and other supports. Among the many evaluation findings: Participants would have benefited from more in-depth iPad training at the start; women experience social isolation more keenly than men; most valuable in reducing isolation was connecting with family and friends through social media; seniors are likely to have acute or chronic medical problems that reduce their program participation significantly. "We learned so much," says Curry Executive Director David Knego. "Now it's clear which seniors are ready for the training and how best to train them." Besides the original project members invited to participate in Phase 2 of the program, beginning now, Program Coordinator Angela De Martino hopes to add 13 other Curry clients living in several Tenderloin SROs. ■



PHOTO: JON DRAPER

Volunteer dental student *Ibrahim Sayeed* demonstrates best brushing techniques at the "Give Kids a Smile" 2015 fair. About 100 kids attend the annual event, saving parents money in dental treatments and ensuring brighter smiles all around.



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The Knox



Bayanihan House

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The TODCO Single Room Occupancy (SRO) Housing Waiting List is open for the Knox and the Bayanihan House. If your name is currently on any TODCO Housing Waiting List and you would like information on your current status, please call the TODCO Marketing Office at 415-957-0227 on Fridays only.

Building	Size & Amenities	Max/Min Household Income Limits	Rent as of Feb. 1, 2015
The Knox SRO located at 241- 6th St. & Tehama is accepting applications and has an OPEN WAITLIST	SRO – 1 Person or Couple Room size: 10 ½ x 18 (Semi-Private) bathroom 7 x 7 Unit amenities: sink, microwave, refrigerator, 2-burner stove, closet, single bed Building amenities: small gym, library, private lounge, roof top garden, community kitchen, laundry facility, 24 hour staff & surveillance	1 person \$34,600/year 2 person \$39,520/year Minimum income of \$1,374/month	Move-in deposit \$687 Monthly rent \$687 plus utilities
	Hotel Isabel located at 1095 Mission CLOSED WAITLIST	SRO – 1 Person Shared bathroom Unit amenities: sink, microwave, refrigerator, 2- burner stove, closet and single bed	1 person \$34,600/year No minimum income Closed
Bayanihan House (Non-assisted units) located at 88 – 6th St. & Mission. OPEN WAITLIST	SRO – 1 Person or Couple Room single: 10½ x 12, shared bathroom Double occupancy: 12x12, shared bathroom Unit amenities: sink, microwave, refrigerator, 2-burner stove, closet, single bed Building amenities: community kitchen, 24 hour staff & surveillance, laundry facility	1 person \$30,275/year	As of Jan. 1, 2015 Move-in deposit \$607
		Couple \$34,580/year Minimum income of \$889.40/month	Monthly rent \$607 Utilities included

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City's tax break to tech totals \$40 million

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Supervisors Jane Kim and David Chiu, the city budget analyst had valued the tax break at only \$22 million over its six-year lifetime, which perhaps encouraged the supervisors' support.

The issue of luring tech firms to the abandoned storefronts of mid-Market had simmered for months before boiling over early in March 2011 when Twitter wrote to the mayor, threatening to move outside San Francisco if the city didn't make it worth its while to stay. (tinyurl.com/CCEMay2013) The city took the bait, and quickly put its offer into law.

Kim and Chiu ultimately were joined by colleagues Mark Farrell, Malia Cohen, Scott Weiner and Carmen Chu, who added their names as co-sponsors of the Twitter tax break, Section 906.3 of the city's Business and Tax Regulation Code. Also supported by Supervisors Sean Elsbernd and Eric Mar, the board passed the measure 8-3 on April 19, 2011. John Avalos, Mirkarimi and David Campos dissented.

Mayor Lee signed it into law the next day.

Companies with payrolls exceeding \$1 million that claim the exclusion are required to enter into community benefit agreements (CBAs) they negotiate annually with City Administrator Naomi Kelly.

Anticipating gentrification, the ordinance sought to give the neighborhood something in return for the inevitable transformation. It required the tech companies to commit to benefiting the community. But the ordinance didn't specify a value for the benefits.

At the outset, executives at Zendesk and Yammer told The Extra, they understood their companies were to spend about a third of the value of their tax break in givebacks to the community.

Kim and Chiu also introduced a separate ordinance that created the 11-member volunteer Citizens Advisory Committee (CAC) but rendered it toothless. It became Section 906.3-1 of the same code. The board unanimously approved

the measure June 14, 2011, and the mayor signed it six days later.

It says: "Residents of and small business owners within the Central Market Street and Tenderloin Area have a unique understanding of the needs and issues of their community ... are aware of the resources their community can provide to taxpayers wishing to claim the Central Market Street and Tenderloin Area Payroll Expense Tax Exclusion ... are cognizant of how development as a result of the Central Market Street and Tenderloin Area Payroll Expense Tax Exclusion may affect their community and have ideas on ways to mitigate its potentially unwanted effects" and "can provide useful advice to the Mayor, City Administrator and Board of Supervisors on the administration of the Central Market Street and Tenderloin Area Payroll Expense Tax Exclusion."

According to Kim's legislation, the CAC was to weigh each agreement for its benefits, then "provide useful advice" as to whether the neighborhood was getting what it needed.

The city administrator was put in charge of negotiating the agreements, which she did, without consulting the committee. Kelly not only has not solicited the committee's advice, she has snubbed it. In January 2014, she signed all six companies' CBAs, though the CAC endorsed only Zendesk's agreement. (tinyurl.com/CCEFeb2014) The CAC role is "only advisory," former Chair Peter Masiak noted repeatedly at CAC meetings.

Twitter and most of the others have always guarded the amount of their tax savings closely. The tax collector's announced tallies of the cost of the tax break is in aggregate. Asked to apportion 2014's \$33.6 million of lost revenue by company, Fried refused, saying of the report: "Everything outside of the (one-page) report falls within the taxpayer confidentiality laws."

That was the story from Twitter, too. "We can't reveal the amount of the tax break," Colin Crowell, Twitter vice

president of global policy, told this reporter during an interview days after he'd signed his company's 2014 CBA. He was in town for the company's Christmas party — at City Hall, which was drenched in blue lights that night and cost the big blue bird about \$30,000.

In September 2015, just before it announced 336 layoffs, not all of them in San Francisco, Twitter staffing stood at 2,300 in San Francisco and 4,300 worldwide, a spokeswoman emailed The Extra.

The total number of employees in San Francisco at the six CBA firms that claimed the tax exclusion in 2014 was 3,482, according to the tax collector's report. This suggests that Twitter, unsurprisingly, benefited most from the \$33.6 million saved.

Twitter's spokeswoman, though, reverting to her employer's accustomed aloofness, told The Extra she was unable to specify either how many of those layoffs were within San Francisco, or how many employees were working at its Market Street headquarters at any particular time since the company moved there.

Zendesk had 396 employees in San Francisco at the end of September 2014, a spokeswoman told The Extra.

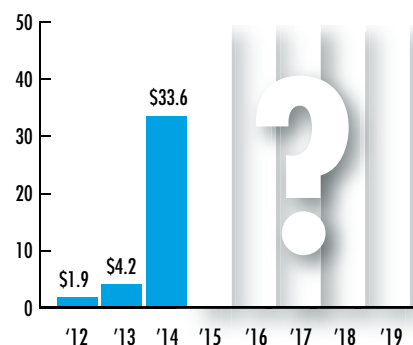
Yammer's spokeswoman said that in 2014 the company had about twice as many workers as the 130 it has now.

Twitter's biggest benefit to the community can be found on the Hayes Street side of Fox Plaza, where its so-called NeighborNest opened last year. Twitter touts it as a "family friendly learning center." It began as a resource for clients of Compass Family Services, with plans to expand its availability to other organizations, which now include Catholic Charities and Hamilton Family Center. In late January, Twitter staff, repeatedly asked for more details, were preoccupied with changes in the company's executive ranks.

The current CBAs for Twitter, Yammer and Zendesk are multiyear agreements that will see them through almost

Lost payroll tax revenue from Twitter tax break

(In millions)



GRAPHIC: LISE STAMPELI

to the sunset of the tax exclusion in May 2019. The law says the companies can claim it for six of the eight years it'll survive on the books.

Zendesk was the first and only company to get the credit in 2012, the others got it the next year. But the CBAs that Zendesk, Twitter and Yammer signed in December 2014 will carry them through 2018, the end of their tax break eligibility.

Along with its update on the Twitter tax break, the tax collector's report also detailed the costs to the city of various other tax breaks to businesses operating anywhere in San Francisco. These include: the Clean Technology Payroll Tax Exclusion, the Stock Based Compensation Payroll Tax Exclusion, the Biotechnology Payroll Expense Tax Exclusion and the Net New Payroll Expense Tax Exclusion.

In 2014, the combined loss to city coffers of those breaks was \$10,764,808 — less than a third of what the six Tenderloin/Mid-Market firms received from the Twitter tax break. For 2015's numbers, check back in the fall. ■

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