

# 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](http://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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SAN FRANCISCO

## 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