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 Charites 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 to the sunsetting 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.

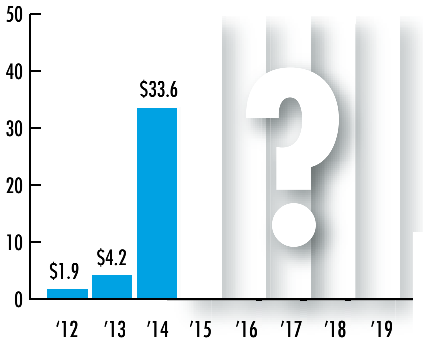
Zendesk was the first and only company to get the credit in 2012, the others got it the next year. But the CBAs that Zendesk, Twitter and Yammer signed in December 2014 will carry them through 2018, the end of their tax break eligibility.

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. ■

Lost payroll tax revenue from Twitter tax break

(In millions)



Graphic: Lise Stampfli