Mr. John Arntz                             August 10, 2020
Department of Elections                   
City Hall 1 Dr. Carlton B. Goodlett Place Room 48
San Francisco, CA  94102-4689

RE:  Proposition I – Ordinance to increase real property transfer tax on properties of at least $10,000,000

Dear Mr. Arntz,

The proposed ordinance would increase the real property transfer tax assessed on transfers in excess of $10 million and would, in my opinion, generate significant but volatile additional revenues for government services.

The ordinance would increase the property transfer tax rate on transactions valued between $10 million and less than $25 million from 2.75% to 5.5%, and the rate on transactions valued at $25 million and above from 3% to 6%. Applying these tax rates and current estimated property values to transactions that occurred during the most recent economic cycle (from 2008 to 2020), annual revenue resulting from this proposition would have ranged from a low of $13 million to a high of $346 million, with an average of $196 million. However, doubling the tax rate on these transactions would likely lead to a variety of tax avoidance behaviors that are difficult to project in both form and timing. Changes in sales prices, volume, and transaction form, as well as effects on new construction, could affect both transfer tax and property tax revenues.

While we estimate that the proposed ordinance may result in average additional revenue of $196 million per year, it is important to note this is the City’s most volatile revenue source and estimates based on prior years’ activity may not be predictive of future revenues. The proposed tax measure would further increase the volatility of this source.

Sincerely,

Ben Rosenfield
Controller

FOR
Natasha Mihal

Note: This analysis reflects our understanding of the proposal as of the date shown. At times further information is provided to us which may result in revisions being made to this analysis before the final Controller’s statement appears in the Voter Information Pamphlet.