AMENDING ARTICLE 12-A OF PART III OF THE SAN FRANCISCO MUNICIPAL CODE
(REVENUE AND FINANCE/BUSINESS REGULATIONS) BY AMENDING SECTION 906D
THERETO, PERMITTING GARMENT MANUFACTURERS TO CLAIM 60 PERCENT OF THE
CREDIT PROVIDED BY THIS PROVISION IN THE TAXABLE YEAR THAT CREDITABLE
COSTS AND EXPENSES ARE INCURRED AND 40 PERCENT OF THE CREDIT IN THE
TAXABLE YEAR FOLLOWING SUCH YEAR, AND PROVIDING A DEFINITION OF THE
TERM "GARMENT MANUFACTURER".

Note: Additions are underlined; deletions are in ((double parentheses)).

Be it ordained by the People of the City and County of San Francisco:

Section 1. 12-A of the San Francisco Municipal Code is hereby amended by amending
Section 906D, to read as follows:

SEC. 906D. GARMENT MANUFACTURERS' TAX CREDIT. (a) Purpose. The
purpose of this provision is to retain garment manufacturing jobs within the City and County of
San Francisco by providing an incentive for businesses to strengthen and revitalize their
production and management systems, upgrade the skills and competency of their workers,
and invest in new equipment and technologies. This is part of an overall policy adopted by the
City and County of San Francisco to enhance the ability of small and medium sized
businesses to compete in the global economy, and thereby to retain and expand
manufacturing jobs within the City.

(b) Credit. A credit shall be allowed against this tax for any garment manufacturer
with gross receipts of not more than $5,000,000 annually that, on or after January 1, 1997,

SUPERVISOR TENG
BOARD OF SUPERVISORS
invests in (1) technical equipment for use in the garment manufacturer's business in San Francisco, (2) work reorganization within the garment manufacturer's factory in San Francisco, or (3) training of the garment manufacturer's San Francisco employees.

Each taxpayer claiming the credit shall file with the Tax Collector, on a form prescribed by the Tax Collector, an affidavit attesting to facts establishing his or her entitlement to the tax credit. The affidavit shall be supported by such other documentation as the Tax Collector shall prescribe.

Any taxpayer claiming a credit for employee training shall, prior to commencement of training, obtain preapproval of the training program from the Tax Collector.

(c) **Definitions.** For purposes of this Section, the following definitions shall apply:

(1) "Technical equipment" means any equipment used directly in the process of operating and managing a garment factory, including, but not limited to, cutting room equipment, sewing room equipment, press room equipment, and design room equipment. In addition, "technical equipment" means any equipment used to improve the management and operation of the garment factory, including, but not limited to, general office equipment to upgrade the garment manufacturer's accounting, management, and marketing processes. The term "technical equipment" shall include, but not be limited to, computerized pattern-making equipment, cutting tables, electric cutting knives, single-needle sewing machines, overlock machines, special machines, boilers, irons, steam boards, automatic spreaders, pressing and fusing equipment, steam channels, CAD system and CAM system, computers, and management and operational software.
(2) "Work reorganization" means the conversion within a garment factory from the traditional manufacturing system of progressive bundles to a more productive and efficient system, such as a modular manufacturing system or a unit production system. The costs for which the credit for work reorganization may be taken include, but are not limited to, (A) the costs of constructing or installing new technology; (B) the costs of modifying existing machinery and work spaces, including necessary electrical upgrades; and (C) the costs of accessories and attachments to existing machinery, such as foot pedals, floor mats, incentive boards, rolling bins, and maintenance tools and manuals.

(3) "Employee training" means any training provided to the taxpayer's employees for purposes of upgrading their skills with respect to the garment manufacturing business. "Employee training" includes, but is not limited to, training to operate technical equipment, as defined in paragraph (1), training and improvement in business and other management skills, and learning and incorporating new or improved production methods or technologies in the garment manufacturing process.

(4) "Garment Manufacturer" means a person who utilizes commercial sewing techniques and skills to process fabric into finished articles of clothing or apparel to be worn by human beings.

(d) **Amount of Credit.** (The tax credit shall be a specified percentage, as set forth)) **Except as otherwise provided in subdivisions (e) and (f),** ([of the cost]) the amount of the credit allowed by this Section 906D for the taxable year shall be the sum of (i) 60 percent of the qualified investment in the taxable year (the "First Year's Credit"), and (b) 40 percent of

SUPERVISOR TENG
BOARD OF SUPERVISORS

Page 3
February 16, 1999
the qualified investment in the taxable year immediately preceding such year (the "Second Year's Credit"). For purposes of this Section 906D, the term "qualified investment" means the amount paid or incurred by a garment manufacturer for the purchase or lease of technical equipment for use in the garment manufacturer's business in San Francisco, for work reorganization within the garment manufacturer's factory in San Francisco, and for employee training provided to any employee employed in San Francisco. The credit, including any credit carryover from a prior year, shall not exceed $30,000 per year, and in no event shall the tax credit reduce a taxpayer's tax liability under this Article to less than zero. The tax credit is not transferable.

(e) **((Proration of)) Credit Limitations.** (1) With respect to the credit for the purchase or lease of technical equipment, the ((credit)) First Year's Credit ((provided in this section shall be 60 percent of the costs of)) shall be allowed only if a garment manufacturer places such equipment ((if the equipment remains)) in service in San Francisco during the taxable year and keeps such equipment in service in San Francisco through the end of such taxable year, and the Second Year's Credit shall be allowed only if the garment manufacturer keeps such equipment in service in San Francisco through the end of the taxable year immediately following such taxable year ((for one year following the purchase or lease of the equipment, and an additional 40 percent if the equipment remains in service in San Francisco for a second year following the purchase or lease of the equipment. No credit shall be allowed for equipment that remains in service in San Francisco for less than one year)).

(2) With respect to the credit for work reorganization, the ((credit)) First Year's

SUPERVISOR TENG
BOARD OF SUPERVISORS
Credit ((provided in this section shall be 60 percent of the costs of such work reorganization)) shall be allowed only if a garment manufacturer keeps the factory for which the work reorganization credit is claimed ((remains)) in service in San Francisco ((for one year following commencement of the work reorganization, and an additional 40 percent if the factory remains in service in San Francisco for a second year following commencement of the work reorganization. No credit shall be allowed for work reorganization of a factory that remains in service in San Francisco for less than one year)) through the end of the taxable year within which such work reorganization is completed, and the Second Year's Credit shall be allowed only if the garment manufacturer keeps such factory in service in San Francisco through the end of the taxable year immediately following such taxable year.

(3) With respect to the credit for employee training, the First Year's Credit ((credit provided in this section shall be 60 percent of the costs of employee training for an employee who remains in service in San Francisco for one year following commencement of training, and an additional 40 percent if the employee remains in service in San Francisco for a second year following commencement of training. No credit shall be allowed for employee training of an employee who remains in service in San Francisco for less than one year following the date training commences)) shall be allowed only if and to the extent a garment manufacturer employs the specific individuals for which the employee training credit is claimed in San Francisco through the end of the taxable year within which such training is completed, and the Second Year's Credit shall be allowed only if and to the extent the garment manufacturer employs such individuals in San Francisco through the end of the taxable year immediately following such taxable year.
taxable year immediately following such taxable year.

(f) **Recapture of Credits.** (1) With respect to the credit for the purchase or
lease of technical equipment, the First Year's Credit shall be retroactively disallowed if the
technical equipment for which such credit was claimed is disposed of by the garment
manufacturer or otherwise ceases to be used in such garment manufacturer's business in
San Francisco before the first anniversary of the date upon which the garment manufacturer
placed such equipment in service, and the Second Year's Credit shall be retroactively
disallowed if such technical equipment is disposed of by the garment manufacturer or
otherwise ceases to be used in the garment manufacturer's business in San Francisco before
the second anniversary of the date upon which such equipment was placed in service by the
garment manufacturer.

(2) With respect to the credit for work reorganization, the First Year's Credit shall be
retroactively disallowed if the factory for which such credit was claimed is disposed of or
otherwise ceases to remain in service in San Francisco by the garment manufacturer before
the first anniversary of the date upon which such work reorganization was completed, and the
Second Year's Credit shall be retroactively disallowed if such factory is disposed of or
otherwise ceases to remain in service in San Francisco by the garment manufacturer before
the second anniversary of the date upon which such work reorganization was completed.

(3) With respect to the credit for employee training, the First Year's Credit shall be
retroactively disallowed if and to the extent the specific individuals for which the employee
training credit was claimed cease to be employed in San Francisco by the garment

SUPERVISOR TENG
BOARD OF SUPERVISORS

Page 6
February 16, 1999
manufacturer before the first anniversary of the date upon which such training was completed, and the Second Year's Credit shall be retroactively disallowed if and to the extent such individuals cease to be employed in San Francisco by the garment manufacturer before the second anniversary of the date upon which such training was completed.

(((f)))  (g)  **Carryover.** In the case where the credit allowed by this Section exceeds the tax, the excess may be carried over to reduce the tax in the following years and succeeding years, if necessary, until the credit has been exhausted, for up to three years.

(((g)))  (h)  **Other Credits.** The credit provided in this Section shall be in addition to any other credit under Part III to which the taxpayer is entitled for costs to which this credit applies. The credit provided in this Section shall be taken after any other available credits have been exhausted.

(((h)))  (i)  **Expiration; Carryover of Unused Credit.** The credit provided in this Section shall expire on December 31, 2001, unless the Board of Supervisors extends the credit. Any unused credit may continue to be carried forward, as provided in subdivision (((f))) (g), until the credit has been exhausted, but in no event for more than three years.

APPROVED AS TO FORM:

LOUISE H. RENNE, City Attorney

By:  

GEORGE W. PUTRIS
Deputy City Attorney
Ordinance amending San Francisco Municipal Code, Part III, by amending Section 906D permitting garment manufacturers to claim 60 percent of the credit provided by this provision in the taxable year that creditable costs and expenses are incurred and 40 percent of the credit in the taxable year following such year, and providing a definition of the term "garment manufacturer".

June 1, 1999 Board of Supervisors — PASSED, ON FIRST READING
Ayes: 11 - Ammiano, Becerril, Bierman, Brown, Katz, Kaufman, Leno, Newsom, Teng, Yaki, Yee

June 7, 1999 Board of Supervisors — FINALLY PASSED
Ayes: 9 - Ammiano, Becerril, Brown, Katz, Kaufman, Leno, Newsom, Yaki, Yee
Absent: 2 - Bierman, Teng
I hereby certify that the foregoing Ordinance was FINALLY PASSED on June 7, 1999 by the Board of Supervisors of the City and County of San Francisco.

Jean Lum
Acting Clerk of the Board

JUN 18 1999
Date Approved

Mayor Willie L. Brown Jr.