

In San Francisco, tech investor leads a political makeover

Gerry Shih, Reuters

(Reuters) - One morning in April, Ron Conway, the billionaire technology investor, sat in a conference room on the second floor of San Francisco's City Hall with about 50 representatives from the city's [business](#) [1] community.

On the agenda was a sweeping proposal by Mayor Ed Lee to reform the city's payroll tax, a plan that would favor companies with many employees but little revenue — tech start-ups, namely — while shifting the burden to the real estate and financial industries.

The head of the San Francisco Chamber of Commerce was arguing against the proposal when Conway abruptly cut him off.

"The tech industry is producing all the jobs in this city," Conway snapped, according to four people present, his voice rising as he insisted that old-line businesses "need to get on board."

In the end, they did get on board — and San Francisco voters on November 6 will decide whether to approve the change in the tax code.

Conway's success with the tax initiative demonstrates the profound transformation playing out in San Francisco's business corridors and its halls of power. As start-ups blossom, attracting a wave of entrepreneurs and investment dollars, the tech industry is wielding newfound clout in local politics — largely thanks to Conway, its brash, silver-haired champion.

The shift, local political experts say, harks back to the turn of the last century, when financial institutions like the Bank of [Italy](#) [2] — forebear to present-day Bank of America — gradually eroded the railroad barons' grip over California politics.

Now the tech industry, led by Conway, is beginning to overshadow long-dominant local business lobbies, said Chris Lehane, a political consultant and former adviser in the Clinton White House.

"When you have a new business entity that really hasn't existed in the past and becomes a real player in local politics, that changes the balance a bit," said Lehane, who is based in San Francisco. "People like Ron Conway, he's an angel investor in companies but also an angel supporter of politicians he cares about."

Not everyone in this famously liberal city is enthused about the new tech boom, which is driving up rents and threatening to price out all but the wealthy.

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"As someone who lived through the tech boom in the '90s and watched countless friends and community members get pushed out of their homes, only for the bubble to disintegrate, this is painful to watch," said Gabriel Haaland, political director for the SEIU Local 1021, the largest union in the city. "Those times are here again."

Last month, when San Francisco Magazine published an article bemoaning tech-driven gentrification, traffic on the magazine's website broke all records.

"It touched on an issue that people have been thinking about for a while," said Jon Steinberg, the magazine's editor.

Conway and Lee make no apologies.

"Tech added 13,000 out of the 25,000 new jobs we created the last couple years, which helped us bring the unemployment rate to the third-lowest in the state," Lee, a Democrat, said in an interview. "We have to work with the new jobs creators, and that's what I believe the public wants me to do."

Conway, who made his name in the 1990s by betting on small, early-stage companies and scoring a huge win with Google, says a key goal of a new civic organization he has started, San Francisco Citizens Initiative for Technology & Innovation, is to provide service jobs in tech for long-term residents and the unemployed.

"It would be great if we could create a few hundred jobs in the \$50,000 to \$80,000 income bracket," said Conway. "We're here to improve the living conditions for all of San Francisco. That's the responsibility tech wants to take."

ODD COUPLE

Conway and Lee have an exceptionally close relationship, one that has captivated the city's political set even while attracting accusations of favoritism from the mayor's rivals.

The two make an odd couple. Lee was a publicity-shy city bureaucrat and civil rights lawyer for decades before being named caretaker mayor of this Democratic bastion in 2011 after his predecessor was elected lieutenant governor. Conway, until recently a registered Republican, counts [Tiger Woods](#) [3] and Henry Kissinger among his investors and considers a start-up tour with Ashton Kutcher in tow just another day's work.

In a city that faces chronic budget deficits even as it enjoys a comparatively strong [economy](#) [4], the relationship is symbiotic. Conway taps his access to Lee to promote his companies, from Twitter to Zynga to Airbnb; Lee persuades Conway to rally tech leaders to help fund the police, the schools, the parks.

Their alliance began only last year. As interim mayor, Lee impressed Conway when he pushed through a tax exemption for Twitter, which had considered moving out of the city to avoid the tax bill that would have resulted from an initial public offering.

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San Francisco imposes a 1.5 percent payroll tax on local companies, a levy that applies to any gains in an IPO.

When Lee ran for a full four-year term several months later, Conway formed an independent political action committee on his behalf. He rustled up almost \$700,000 from the likes of entrepreneur Sean Parker; Zynga CEO Mark Pincus; Salesforce CEO Marc Benioff; venture capitalists John Doerr and Tom Byers; and Credit Suisse banker Bill Brady.

He also enlisted Portal A, a video production outfit consisting of three twentysomething hitmakers, to create a YouTube video that featured rapper MC Hammer, Yahoo CEO Marissa Mayer and San Francisco Giants pitcher Brian Wilson dancing on Conway's rooftop. The clip went viral and effectively drowned out ads from Lee's rivals.

A year later, Conway rated the mayor's performance a "9.5 out of 10."

"I have a tremendous respect for Mayor Lee," he said. "He listens to people. He builds consensus, and that's an improvement from the past."

Conway said he and Lee are "too busy with our day jobs" to socialize frequently. Neither likes to publicly discuss their relationship. But when the mayor turned 60 in May, Lee and his family sat down for a three-hour private dinner with Conway and his wife, Gayle, at an Italian restaurant in North Beach, according to the San Francisco Chronicle's gossip columnists.

For Conway — whose calls to the mayor's office are considered the highest priority, City Hall insiders say — no issue facing his portfolio companies is too insignificant for him to get involved. In one instance this year, after social media company Pinterest moved to San Francisco, Conway pressed officials to repaint curbs to allow employee parking near the start-up's offices, according to two people with knowledge of the matter. The city refused; Conway denied that the incident occurred.

While some cities have cracked down on services like Airbnb, which lets residents rent out spare bedrooms and can run afoul of local lodging ordinances, Lee has taken the opposite tack. This year he formed a policy-making group to consider how to regulate and foster such companies, which are part of what's known in Silicon Valley as the "sharing [economy](#) [4]."

The mayor has also urged Conway to help city initiatives. Conway recently contributed \$100,000 toward a campaign to approve bonds to restore the city's parks, and gave \$25,000 to a charity founded by Lee that funds impoverished public schools. When a group of [software](#) [5] developers tried recently to create an app that would improve public bus performance but lacked funds for a pilot program, SF Citi stepped in and cut a check.

Lee said he hoped Conway would fill a void left by recently deceased philanthropists such as Gap Inc founder Don Fisher, real estate mogul Walter Shorenstein and

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private equity investor Warren Hellman.

"The tech guys like Conway usually want to meet presidents and such. You never see them play so deep in local government," said one Democratic fundraiser. "It's unusual."

But the tech world says the headlong plunge into local politics is classic Conway.

"When Ron is passionate about an issue or a company or a person, it's never a secret," said Twitter CEO Dick Costolo. "He's passionate about San Francisco right now, and it's exhibiting itself in the way he helps companies in the city, the way he helps the city. It's fantastic to see."

CHANGING TAX POLICY

Conway says his top priority is passage of the payroll tax reform initiative on November 6.

The measure would tax local businesses based on their gross receipts instead of the size of their payroll, which benefits low-revenue, high-headcount companies like startups. Financial, insurance and real estate companies would see their local taxes rise by 30 percent, while taxes will remain flat for most scientific and technical companies.

Crucially, the measure would also mean that proceeds from an IPO would not be subject to taxes.

Landlords, and to a lesser extent financial services companies, conceded that they had lost their first political fight with the tech industry, but took the long view.

"We knew we were going to be socked in a big way, and we worked early and long and hard with the city for a rate that was fair," said Ken Cleaveland of the Building Owners and Managers Association. "In the end it wasn't in our best interest to fight our tenants."

(Reporting by Gerry Shih; Editing by Jonathan Weber, Douglas Royalty and Dale Hudson)

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