

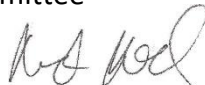
**CITY AND COUNTY OF SAN FRANCISCO**

**BOARD OF SUPERVISORS**

**BUDGET AND LEGISLATIVE ANALYST**

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292  
FAX (415) 252-0461

June 12, 2026

**TO:** Budget and Appropriations Committee  
**FROM:** Budget and Legislative Analyst   
**SUBJECT:** June 18, 2026 Budget and Appropriations Committee Meeting

**TABLE OF CONTENTS**

<b>Item</b>	<b>File</b>	<b>Page</b>
4	26-0118 Business and Tax Regulations Code - Extending Waiver of Permit, License, and Business Registration Fees for Certain Small Businesses .....	1
11 & 12	26-0617 Hearing - Administrative Provisions - Contained in the Proposed Appropriation Ordinance for Departments - FYs 2026-2027 and 2027-2028	
	26-0618 Hearing - Administrative Provisions - Contained in the Proposed Annual Salary Ordinance - FYs 2026-2027 and 2027-2028.....	5
19	26-0599 Business and Tax Regulations Code - Early Care and Education Commercial Rents Tax Baseline - FYs 2026-2027 and 2027-2028.....	7
20	26-0601 Funding Reallocation - Our City, Our Home Fund - Homelessness Gross Receipts Tax - Services to Address Homelessness.....	11

<p><b>Item 4</b> <b>File 26-0118</b></p>	<p><b>Department:</b> Office of the Treasurer-Tax Collector (TTX)</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The original legislation in this File 26-0118 would extend the First Year Free Program by one year through June 2027. However, because the Mayor’s proposed FY 2026-27 – FY 2027-28 budget does not provide funding for the program, the Budget &amp; Finance Committee will consider an amendment to the proposed ordinance.</li> <li>• The proposed amended ordinance would amend the Business Regulations and Tax Code to extend the First Year Free program until the earlier of: June 30, 2027, or all funds appropriated to reimburse departments for the waived fees have been expended.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The First Year Free program waives fees for most new businesses generating less than \$5 million in gross receipts in San Francisco. Businesses are currently automatically enrolled in the First Year Free program immediately upon registering with the Office of the Treasurer and Tax Collector (TTX), provided they meet the eligibility criteria. With the wind down, TTX will coordinate with other City Departments to stop enrolling businesses in First Year Free. The proposed extension would allow businesses that qualified for First Year Free in FY 2025-26 to receive all fee waivers to which they are currently entitled.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• To provide funding for the wind down, OEWD is transferring \$881,000 from the Small Business Assistance Fund, which is funded by Commercial Vacancy Tax revenues and can only be used for small business assistance. According to Amanda Fried, Assistant Treasurer, approximately \$600,000 of the \$881,000 is needed for FY 2025-26 First Year Free fee waivers and \$281,000 is needed for fee waivers in FY 2026-27 for current program participants.</li> </ul> <p style="text-align: center;"><b>Policy Consideration</b></p> <ul style="list-style-type: none"> <li>• According to data provided by TTX, the average business had \$1,120 in fees waived in 2025. Given the cost of labor and real estate in San Francisco, the \$1,120 in fee waivers is unlikely to have a meaningful impact on small business formation but, in the aggregate, does have a meaningful impact on the City’s General Fund, which funded the program at a cost of \$2.5 million in FY 2025-26. The Board of Supervisors should approve the proposed ordinance to wind down the program. As an alternative to First Year Free, the City could consider shifting fee due dates for new small businesses so that they have time to generate sufficient working capital to pay the fees.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed ordinance.</li> </ul>	

**MANDATE STATEMENT**

City Charter Section 2.105 states that all legislative acts shall be by ordinance, approved by a majority of the members of the Board of Supervisors.

**BACKGROUND**

In July 2021, the Board of Supervisors approved an ordinance temporarily waiving first-year permit, license, and business registration fees for certain small businesses as an economic recovery tool from the impact of the COVID-19 pandemic (File 21-0741). Since its initial adoption, the program has returned to the Board each year for extension and approval. In some extensions, the Board has approved minor modifications – primarily expanding business eligibility – which are summarized in Exhibit 1 below.

**Exhibit 1: First Year Free Legislative History and Key Changes**

<b>BOS File</b>	<b>Period</b>	<b>Eligibility</b>
21-0741	11/1/21 – 10/31/22	<ul style="list-style-type: none"> <li>• Less than \$2 million in gross receipts</li> <li>• Non-formula retail business<sup>1</sup></li> <li>• Have a registered business location on the ground floor</li> </ul>
22-0970	11/1/22 – 6/30/23	<ul style="list-style-type: none"> <li>• Less than \$5 million in gross receipts</li> </ul>
23-0664	7/1/23 – 6/30/24	<ul style="list-style-type: none"> <li>• Less than \$5 million in gross receipts</li> </ul>
24-0126	7/1/24 – 6/30/25	<ul style="list-style-type: none"> <li>• Less than \$5 million in gross receipts</li> </ul>
25-0259	7/1/25 – 6/30/26	<ul style="list-style-type: none"> <li>• Less than \$5 million in gross receipts</li> </ul>

Source: BOS Files noted above.

The current program waives or refunds all first-year fees except those related to Shared Spaces (Administrative Code 94A). It applies to businesses with \$5 million or less in San Francisco gross receipts and requires that businesses operate from a location registered for commercial use. Home-based businesses and short-term rentals remain ineligible.

The original legislation in this File 26-0118 would extend the First Year Free Program by one year through June 2027. However, because the Mayor’s proposed FY 2026-27 – FY 2027-28 budget does not provide funding for the program, the Budget & Finance Committee will consider an amendment to the proposed ordinance to extend the program for one year or until all funds appropriated to reimburse departments for waived fees have been expended.

<sup>1</sup> Formula retail businesses have 11 or more establishments with standardized features, per Planning Code Section 303.1.

**DETAILS OF PROPOSED LEGISLATION**

The proposed ordinance would amend the Business Regulations and Tax Code to extend the First Year Free program until the earlier of: June 30, 2027, or all funds appropriated to reimburse departments for the waived fees have been expended.

The extension would allow businesses that qualified for First Year Free in FY 2025-26 to receive all fee waivers to which they are currently entitled. First Year Free waives Department of Building Inspection fees, however many of those fees only come due after permits are approved, so there can be up to a year delay between when a business files for a building permit and when they would receive a fee waiver under the First Year Free program.

**Program Administration**

The program employs two full-time permanent positions to administer its operations: one 4310 Commercial Division Assistant Supervisor and one 1634 Principal Account Clerk. In the FY 2025-26 – FY 2026-27 budget process, these positions moved from the First Year Free project to TTX’s General Fund for operations.

Businesses are currently automatically enrolled in the First Year Free program immediately upon registering with the Office of the Treasurer and Tax Collector (TTX), provided they meet the eligibility criteria at the time of registration. With the wind down, TTX will coordinate with other City Departments to stop enrolling businesses in First Year Free.

**FISCAL IMPACT**

As noted above, the proposed FY 2026-27 – FY 2027-28 budget does not include funding for the First Year Free program. TTX has spent \$2,406,087 out of the \$2,500,000 budget for First Year Free in FY 2025-26, so only \$90,339 remains available for spending as of June 1, 2026.

To provide funding for the wind down, OEWD is transferring \$881,000 from the Small Business Assistance Fund, which is funded by Commercial Vacancy Tax revenues and can only be used for small business assistance. According to Amanda Fried, Assistant Treasurer, approximately \$600,000 of the \$881,000 is needed for FY 2025-26 First Year Free fee waivers and \$281,000 is needed for fee waivers in FY 2026-27 for current program participants. The \$881,000 from OEWD is carryover funding from unspent FY 2024-25 revenues that were never programmed, so transferring the funding for First Year Free does not impact another small business assistance program.

**Historical Program Cost**

According to data provided from TTX, the First Year Free program has provided over \$7.6 million in fee relief from its inception in November 2021 through December 2025. Total fees generated grew by approximately 23 percent from calendar year 2024 to calendar year 2025. Annual fee relief by department is shown in Exhibit 2 below.

**Exhibit 2: Annual Fee Relief by Department (by Calendar Year)**

Department	2021 (2 Months)	2022	2023	2024	2025	Total
CPC	-	\$7,102	\$26,214	\$79,461	\$130,033	\$242,810
DBI	-	456,574	797,379	1,128,884	1,438,513	3,821,350
DPH	3,829	148,560	222,541	269,812	296,639	941,381
DPW	-	5,793	20,578	90,473	79,805	196,649
ENT	3,042	22,366	23,365	125,776	91,034	265,583
FIR	-	-	-	-	20,118	20,118
POL	-	816	15,374	10,705	5,518	32,413
TTX	6,489	303,697	577,882	538,763	704,790	2,131,621
<b>Total</b>	<b>\$13,360</b>	<b>\$944,908</b>	<b>\$1,683,333</b>	<b>\$2,243,874</b>	<b>\$2,766,450</b>	<b>\$7,651,925</b>

Source: TTX

**POLICY CONSIDERATION**

The First Year Free program was originally established in response to the COVID-19 pandemic as a means of alleviating the financial hardships felt by small businesses due to pandemic-related disruptions. While originally designed as a form of emergency pandemic relief, the program’s stated goals have shifted towards an incentive program for businesses to form and expand by reducing the financial burden of start-up fees during first-year operations. According to data provided by TTX, the average business had \$1,120 in fees waived in 2025. Given the cost of labor and real estate in San Francisco, the \$1,120 in fee waivers is unlikely to have a meaningful impact on small business formation but, in the aggregate, does have a meaningful impact on the City’s General Fund, which funded the program at a cost of \$2.5 million in FY 2025-26. The Board of Supervisors should approve the proposed ordinance to wind down the program. As an alternative to First Year Free, the City could consider shifting the due dates of fees for small businesses so that they have time to generate sufficient working capital to pay the fees.

**RECOMMENDATION**

Approve the proposed ordinance.

<p><b>Items 11 &amp; 12</b> <b>Files 26-0617 &amp; 26-0618</b></p>	<p><b>Departments:</b> Mayor; Controller</p>
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**MANDATE STATEMENT/DETAILS OF PROPOSED LEGISLATION**

**File 26-0617: Administrative Provisions of the Annual Appropriation Ordinance**

The proposed FY 2026-27 and FY 2027-28 Annual Appropriation Ordinance (AAO) contains the administrative provisions governing the appropriation ordinance. The proposed AAO for FY 2026-27 and FY 2027-28 contain the following significant changes to the administrative provisions:

Section 11.11 Hotel Tax- Special Situations

The proposed ordinance removes Section 11.11, which had authorized the Controller to make interfund transfers or other adjustments necessary to administer the 1994 Lease Revenue and San Francisco Redevelopment Agency Hotel Tax Revenue Bond issuances. According to Michelle Allersma, Director of the Controller’s Office Budget and Analysis Division (BAD), these bond issuances have been retired and Section 11.11 is therefore no longer necessary.

Section 11.27 Behavioral Health Services Act (BHSA) Implementation

The proposed ordinance adds Section 11.27, which establishes a local Behavioral Health Services Fund (BHSF). It also authorizes the Controller to transfer funds, including fund balance, and appropriation authority, between and within accounts related to former Mental Health Services Act funds and the new BHSF to comply with BHSA requirements.

The State is transitioning the Mental Health Services Fund to the Behavioral Health Services Fund effective July 1, 2026. State Welfare and Institutions Code Section 5893 requires counties to establish a local BHSF in which to allocate BHSA subventions and to spend funds consistent with their Three-Year Integrated Plan and related updates.

Section 12.10 Closure of Special Funds, Projects, and Accounts

The proposed ordinance adds language to Section 12.10 that would create a process for the Controller’s Office to conduct narrower reviews and closures of funds with no expenditure activity in the previous two fiscal years. According to Director Allersma, the new language would allow the Controller’s Office to conduct more frequent reviews as time allows rather than very infrequently. Further, Director Allersma noted that it is considered best practice to close inactive projects and funds on an ongoing basis. The timing of the reviews would be dependent on the availability of staff resources.

The new language states that the Controller shall submit a report to the Board of Supervisors and the Mayor from time to time identifying funds that have no expenditure activity for the past two fiscal years and were enacted at least four years before the date of the report. The language further states that the Controller shall notify the department responsible for administering the fund, if any, and that the funds identified by the Controller shall be repealed 90 days after the date of the Controller’s report. Additionally, the language states that the City Attorney is

authorized to cause the removal from the Municipal Code references to funds that have been repealed under Section 12.10.

### Section 32.2- Emergency Housing Revenue Risk Reserve

The proposed ordinance creates a new Emergency Housing Revenue Risk Reserve (the proposed legislation includes a typographical error which refers to this reserve as the Emergency Housing Revenue Risk Reserve) to be funded with \$98 million of unappropriated Homelessness Gross Receipts Tax revenue in the Our City Our Home Fund (Administrative Code Section 10-100-164). The purpose of the new reserve is to provide a contingency to manage revenue risks related to potential reductions in federal and state funding for the Continuum of Care, Emergency Housing Vouchers, Housing Choice Vouchers, and other programs that support stable housing for individuals experiencing, or at risk of experiencing, homelessness.

### **File 26-0618: Administrative Provisions of the Annual Salary Ordinance**

The proposed FY 2026-27 and FY 2027-28 Annual Salary Ordinance (ASO) contains the administrative provisions governing the salary ordinance. The changes to the proposed ASO for FY 2026-27 and FY 2027-28 are related to updating compensation provisions to account for changes in inflation, specifically for stipends to employees permanently assigned to Hetch Hetchy and Camp Mather and for moving expenses for new employees in the Manager IV classification or higher (Manager V or higher for SFMTA).

## **RECOMMENDATIONS**

1. Amend Section 32.2 to rename the Emergency Housing Revenue Risk Revenue Reserve to the Emergency Housing Revenue Risk Reserve to remove a typographical error in the proposed Annual Appropriation Ordinance.
2. Approve the administrative provisions of the Annual Appropriation Ordinance, as amended, and the administrative provisions of the Annual Salary Ordinance as proposed, when considering approval of the Mayor's proposed FY 2026-27 and FY 2027-28 budget.

<p><b>Item 19</b> <b>File 26-0599</b></p>	<p><b>Department:</b> Early Childhood (DEC)</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed ordinance would allow the City to use interest earned in the Babies and Families First Fund to reduce early care and education baseline spending requirements by up to \$16.9 million in FY 2026-27 and \$16.65 million in FY 2027-28. The credits would not be applied if the fund balance is below \$300 million.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• Approved by voters in June 2018, Proposition C created a tax on commercial rents. Of the revenues, 15 percent is transferred to the General Fund and 85 percent is deposited into the Babies and Families First Fund and must be spent on early care and education. Proposition C also requires the City to maintain a baseline level of early care and education spending, based on funding levels in FY 2017-18 and adjusted annually unless the City projects a certain General Fund deficit.</li> <li>• In 2023, 2024, and 2025 the Board of Supervisors approved ordinances that allowed interest earned within the Babies and Families First Fund to reduce baseline appropriation requirements through FY 2026-27.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The primary fiscal impact of the proposed ordinance is to reduce early care and education baseline appropriations by the amount of interest earned on the Babies and Families First fund balance. In FY 2027-26, the baseline appropriation requirement is reduced from \$96.4 million to \$79.5 million and in FY 2027-28, the baseline appropriation requirement is reduced from \$95.4 million to \$78.8 million.</li> <li>• The proposed FY 2026-27 – FY 2027-28 budget assumes the adjusted baseline appropriation requirement is in place and the appropriations exceed the adjusted requirements. Baseline early care and education appropriations are \$86.9 million in FY 2026-27 and \$86.8 million in FY 2027-28.</li> <li>• The spending funded by Public Education &amp; Enrichment (PEEF) funding (88%), the Children’s Fund (5%), and the General Fund (7%).</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approval of the proposed ordinance is a policy matter for the Board of Supervisors.</li> </ul>	

## MANDATE STATEMENT

Charter Section 2.105 requires that legislative acts in San Francisco be by ordinance, subject to approval by a majority of the Board of Supervisors.

Business and Tax Regulations Code Section 2113 states that amendments to or repeal of Article 21 of the Business and Tax Regulations Code are subject to Board of Supervisors approval by ordinance without voter approval.

## BACKGROUND

### Commercial Rents Tax

The Early Care and Education Commercial Rents Tax was authorized by the voters in June 2018 with the passage of Proposition C and went into effect on January 1, 2019. The validity of the tax was litigated and resolved in the City's favor. The law is codified in Article 21 of the Business and Tax Regulation Code.

The commercial rents tax applies to businesses leasing commercial space that are subject to the City's gross receipts tax and is in addition to gross receipts or payroll taxes paid by non-residential businesses in the City. Of the revenues, 15 percent is transferred to the General Fund and 85 percent is deposited into the Babies and Families First Fund and must be spent on early care and education.

### Early Care & Education Baseline Spending Requirement

Proposition C (June 2018) also requires the City to maintain a baseline level of early care and education appropriations, based on funding levels in FY 2017-18 and adjusting annually by the percent change in the City's aggregate discretionary revenues. Baseline appropriations are funded by the General Fund, the Public Education and Enrichment Fund, and the Children and Youth Fund. The City may suspend growth in the early care and education baseline funding if the City's projected budget deficit at the time of the Joint Report of the Five-Year Financial Plan exceeds \$200 million, adjusted annually by the percent change in the City's aggregate discretionary revenues. Growth in the baseline spending requirement was suspended in FY 2023-24 due to the projected deficit in 2023 and, due to ongoing large projected deficits, the baseline spending amount has remained at the FY 2022-23 level (\$93.8 million) through FY 2025-26.

According to the December 2025 Joint Report, the deficit trigger for the early care and education baseline is \$230.8 million. Because the March 2026 Update to the Joint Report projected the City's General Fund deficit at \$168.5 million for FY 2026-27, the baseline spending requirement for early care and education increases from \$93.8 million in FY 2025-26 to \$96.4 million in FY 2026-27 and \$95.4 million in FY 2027-28.

### Prior Board Actions

In July 2023, the Board of Supervisors approved an ordinance that modified the early care and education baseline funding requirement in FY 2023-24 and FY 2024-25 in two ways (File 23-0661).

The ordinance allowed up to \$20 million in interest earned on fund balance in FY 2023-24 and up to \$10 million in FY 2024-25 as a credit against early care and education baseline appropriation. The General Fund savings were used to fund nutrition assistance programs provided by the Human Services Agency. The 2023 ordinance also suspended growth in early care and education baseline appropriation amount in FY 2024-25.

In June 2024, the Board of Supervisors approved an ordinance that allowed interest earned in the Babies and Families First Fund to reduce early care and education baseline spending requirements by up to \$16.6 million in FY 2024-25 and up to 16.9 million in FY 2025-26, so long as the fund balance was above \$300 million (File 24-0604).

In June 2025, the Board of Supervisors approved an ordinance that allowed interest earned in the Babies and Families First Fund to reduce early care and education baseline spending requirements by up to \$16.9 million in FY 2025-26 and up to 16.9 million in FY 2026-27, so long as the fund balance was above \$300 million (File 25-0597).

**DETAILS OF PROPOSED LEGISLATION**

The proposed ordinance would allow the City to use interest earned in the Babies and Families First Fund to reduce early care and education baseline appropriation requirements by up to \$16.9 million in FY 2026-27 and \$16.65 million in FY 2027-28. The credits would not be applied if the fund balance is below \$300 million.

**FISCAL IMPACT**

Exhibit 1 below shows the proposed change in the early care and education baseline spending requirement.

**Exhibit 1: Proposed Changes in Early Care & Education Baseline Spending**

<b>ECE Baseline</b>	<b>FY 2026-27</b>	<b>FY 2027-28</b>
Baseline Spending Requirement	96,400,000	95,400,000
Proposed Credit from Interest	(16,900,000)	(16,650,000)
Proposed Baseline Spending Requirement	79,500,000	78,750,000
Mayor’s Proposed Budget for Baseline Spending	86,952,825	86,844,132

Source: Proposed Ordinance, Proposed FY 2026-27 – FY 2027-28 Budget

The primary fiscal impact of the proposed ordinance is to reduce early care and education baseline spending by the amount of interest earned on the Babies and Families First fund balance. The interest earned is appropriated in the Mayor’s proposed budget for DEC.

The proposed FY 2026-27 – FY 2027-28 budget assumes the adjusted baseline spending requirement and funds that spending primarily with Public Education & Enrichment (PEEF) funding (88%), the Children’s Fund (5%), and the General Fund (7%). Baseline spending is budgeted in DEC, DCYF, and HSA.

**Fund Balance**

We estimate that the Babies & Families First Fund will have a fund balance of approximately \$448.6 million starting July 1, 2026. This large fund balance is the source of the interest revenue being used to offset baseline spending that would otherwise have to be funded by the General Fund. The balance is primarily due to an accumulation of funding from a hold on spending during litigation regarding the validity of the tax (which was resolved in the City's favor in 2020). As of this writing, \$399.5 million is on Mayor and Budget & Finance Committee reserve, in particular: \$168.5 million is on Mayor's reserve and \$231 million is on Budget & Finance Committee reserve. The Budget & Finance Committee reserve has been in place since 2020 pending a credible spending plan from DEC. Monies in the Babies and Families First Fund may only be used for early care and education programs.

**RECOMMENDATION**

Approval of the proposed ordinance is a policy matter for the Board of Supervisors.

<b>Item 20</b> <b>File 26-0601</b>	<b>Department:</b> Homelessness & Supportive Housing (HSH)
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**EXECUTIVE SUMMARY**

**Legislative Objectives**

- The proposed ordinance would suspend the 12 percent spending cap on the use of Homelessness Gross Receipts tax revenues to fund short-term rental subsidies in FY 2027-28, the second year of the proposed budget.
- Approval of the proposed ordinance requires at least eight votes from Board of Supervisors, per Article 28 of the Business Tax and Regulations Code.

**Key Points**

- The Homelessness Gross Receipts Tax Revenue measure set funding allocations by program (housing, shelter, prevention, and mental health), by population (families and youth), and limits the amount of rental subsidies at 12 percent of housing spending. In 2023, 2024, and 2025, the Board of Supervisors approved adjustments to these spending requirements, including suspending the cap on rental subsidies for FY 2025-26 and FY 2026-27.
- Because the subsidies are for at least two years, subsidies starting in FY 2026-27 would require funding in FY 2027-28. To accommodate 800 new rental subsidies and to fund ongoing subsidies from the current fiscal year, the Mayor’s Office is proposing to suspend the cap on rental subsidies in FY 2027-28. The 800 new rental subsidies include 350 slots for families, 250 slots for adults, and 200 slots for youth.
- In FY 2024-25, 35 percent of HSH’s Homelessness Gross Receipts Tax revenues allocated to housing was used for short-term rental subsidies. In the proposed budget for FY 2025-26 and FY 2026-27, the figures are 25 percent and 33 percent, respectively.

**Fiscal Impact**

- To fund the 800 new rental subsidies, HSH is budgeting \$33.6 million in FY 2026-27 and \$47.5 million in FY 2027-28. The subsidies are funded by new Homelessness Gross Receipts Tax revenues.

**Recommendation**

- Approval of the proposed ordinance is a policy matter for the Board of Supervisors.

**MANDATE STATEMENT**

Charter Section 2.105 requires that legislative acts be accomplished by ordinance, subject to approval by a majority of the Board of Supervisors.

Business and Tax Regulations Code Section 2811 states that amendments to the Homeless Gross Receipts Tax are subject to Board of Supervisors approval by a two-thirds vote. Such amendments may only be to further the purpose of the tax.

**BACKGROUND**

The Homelessness Gross Receipts Tax was authorized by voters in November 2018 with the passage of Proposition C and became effective in January 2019. The tax added between 0.175% to 0.69%, depending on the businesses type, to the gross receipts tax on businesses earning over \$50 million in a given year. The tax was adjusted by Proposition M (November 2024), which lowered the eligibility threshold from \$50 million to \$25 million in annual gross receipts and adjusted the tax rate to 0.164% to 1.64%, depending on the type of business and annual revenues in San Francisco.

In general, under current law, expenditures of Homelessness Gross Receipts Tax revenues must be spent in the following manner:

- At least 50 percent on permanent housing
  - Of which, at least 20 percent must be spent on transitional aged youth (TAY), defined as underage 30
  - Of which, at least 25 percent must be spent on family housing
  - Of which, the remaining portion must be spent on general housing, serving all populations
  - Of which, no more than 12 percent can be spent on short-term (less than five-year) rental subsidies
- Up to 10 percent on shelter and hygiene programs
- Up to 15 percent on prevention programs
- At least 25 percent on mental health services

**Prior Board Actions**

In July 2023, the Board of Supervisors approved an ordinance (File 23-0657) that allowed use of up to \$16,360,000 in interest earnings from the Homelessness Gross Receipts Tax fund to fund programming outside of the spending requirements outlined above. The programming amounts in FY 2023-24 were \$4.6 million for prevention and \$1.34 million for shelter. The 2023 ordinance also provided a waiver for the 12 percent cap on short-term rental subsidies for FY 2023-24 and FY 2024-25.

In July 2024, the Board of Supervisors approved an ordinance that allowed use of up to \$16,676,000 in interest earnings for shelter and rapid rehousing for families (File 24-0607).

In June 2025, the Board of Supervisors approved an ordinance to make the following changes to the programmatic allocation requirements for Homelessness Gross Receipt Tax revenue, interest, and unappropriated fund balance for FY 2025-26 and FY 2026-27: (1) Reallocate \$34,777,000 in interest revenue and unencumbered fund balance that would otherwise be spent on housing and prevention programs to shelter programs; (2) Suspend the 12 percent spending cap on short-term rental subsidies; and (3) Suspend all programmatic allocation requirements for up to \$19,100,000 in new homeless gross receipt tax revenues and interest earned on fund balance if such revenues are above the levels appropriated in FY 2025-26 and FY 2026-27, subject to future appropriation action.

### DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would suspend the 12 percent spending cap on the use of Homelessness Gross Receipts tax revenues to fund short-term rental subsidies in FY 2027-28, the second year of the proposed budget.

Approval of the proposed ordinance requires at least eight votes from Board of Supervisors, per Article 28 of the Business Tax and Regulations Code.

As detailed below, the Mayor's proposed FY 2026-27 – FY 2027-28 budget for HSH provides funding for 800 new time-limited housing subsidy slots. Because the subsidies are for at least two years, subsidies starting in FY 2026-27 would require funding in FY 2027-28. To accommodate the proposed increase in funding and to fund ongoing subsidies in the current fiscal year, the Mayor's Office is proposing to suspend the cap on rental subsidies in FY 2027-28 (the cap is already suspended in FY 2026-27).

#### Rental Subsidy Programs

HSH's Rapid Rehousing program provides time-limited rental subsidies to assist people exiting homelessness. The subsidies are for two years for adults and up to five years for families. As of May 28, 2026 HSH was funding 2,925 slots of Rapid Rehousing rental subsidies, of which 1,673 were for adults, 749 were for families and 503 were for transitional aged youth (TAY)<sup>1</sup>. Rapid Rehousing subsidies gradually decrease as the tenant stabilizes and finds housing outside of the homelessness response system. Tenants live in private-market units and access supportive services, including case management and housing retention. The Mayor's proposed FY 2026-27 – FY 2027-28 budget for HSH includes 200 new Rapid Rehousing slots for TAY, 200 new Rapid Rehousing slots for families and 150 new Rapid Rehousing slots for adults.

HSH also has 60 ongoing and 70 one-time shallow subsidies for families that provide a lesser subsidy amount for households with higher incomes and who need less intensive support

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<sup>1</sup> Not all of these slots are considered available. As of May 2026, HSH had over 1,700 active (filled or available for referrals) Rapid Rehousing slots for all populations.

services. The Mayor’s proposed FY 2026-27-FY 2027-28 budget for HSH includes 100 new shallow subsidies for families.

HSH also funds 110 ongoing rental subsidies for families to allow them to move from living in an SRO to a more appropriate living space, a program administered by the Mayor’s Office of Housing and Community Development (MOHCD). The Mayor’s proposed FY 2026-27 – FY 2027-28 budget for HSH includes approximately 50 new time-limited slots for families to exit from SROs.

Finally, the Mayor’s proposed FY 2026-27- FY2027-28 proposed budget includes new funding for the Moving On 2.0 program that provides a rental subsidy for households ready to exit permanent supportive housing (PSH), opening their PSH unit for those who need it. HSH is still determining the policy framework for the program, including duration of subsidy. The proposed budget includes 100 new Moving On 2.0 slots for adults and dedicates a portion of the 400 Rapid Rehousing slots for Families and TAY for Moving On 2.0 for these populations.

In FY 2024-25, 35 percent of HSH’s Homelessness Gross Receipts Tax revenues allocated to housing was used for short-term rental subsidies. In the proposed budget for FY 2025-26 and FY 2026-27, the figures are 25 percent and 33 percent, respectively.

**FISCAL IMPACT**

Exhibit 1 below shows HSH’s proposed funding for 800 new rental subsidies. The subsidies are funded by new Homelessness Gross Receipts Tax revenues in the Mayor’s proposed FY 2026-27 – FY 2027-28 budget.

**Exhibit 1: HSH Rental Subsidy Budget**

<b>Subsidy Type</b>	<b>FY 2026-27</b>	<b>FY 2027-28</b>	<b>Two-Year Total</b>
150 new slots of Adult Rapid Rehousing	\$3,400,000	\$7,600,000	\$11,500,000
100 new slots of Moving On 2.0	\$2,900,000	\$7,100,000	\$10,000,000
200 new slots of TAY Rapid Rehousing	\$9,500,000	\$9,500,000	\$19,000,000
200 new slots of Family Rapid Rehousing	\$7,100,000	\$20,000,000	\$27,100,000
100 new slots of Family Shallow Subsidies	\$7,400,000	\$0	\$7,400,000
50 subsidies for families exiting SROs	\$3,300,000	\$3,300,000	\$6,600,000
<b>Total</b>	<b>\$33,600,000</b>	<b>\$47,500,000</b>	<b>\$81,600,000</b>

Source: HSH

**RECOMMENDATION**

Approval of the proposed ordinance is a policy matter for the Board of Supervisors.