

CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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June 13, 2023

TO: Budget and Appropriations Committee

FROM: Budget and Legislative Analyst



SUBJECT: June 15, 2023 Special Budget and Appropriations Committee Meeting

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<p>Item 14 File 23-0661</p>	<p>Department: Early Childhood (DEC)</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed ordinance would reduce the Early Care and Education baseline funding requirements by \$20,000,000 in FY 2023-24 and by \$10,000,000 in FY 2004-25 and suspend the increase in the baseline funding requirements in FY 2024-25. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • Early Care and Education Commercial Rents Tax proceeds cannot be expended unless City appropriations in any given year exceed the baseline amount as established by Proposition C passed in 2018. 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 changes in aggregate City discretionary revenues. The required baseline funding in FY 2022-23 was \$91.1 million. According to the Controller’s FY 2023-24 & FY 2024-25 Revenue Letter, baseline growth for FY 2023-24 was suspended due to the City’s projected deficit of \$290.9 million that year. • The Department reports that its budget includes new commercial rent tax revenues and related revenues, such that the proposed baseline reduction will not result in a decrease to early care and education programs and services relative to FY 2022-23 levels. Total DEC spending in FY 2022-23 is projected to be \$282.5 million based on current expenditure rates; the proposed FY 2023-24 DEC budget is \$324.5 million. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The proposed ordinance will reduce General Fund support of early childcare and education programs in the Department of Early Childhood. Funding for those programs would be shifted to commercial rent tax revenue. • If the Board does not approve the proposed ordinance, General Fund baseline spending requirements for early education services will be \$20 million higher than budgeted in FY 2023-24 and \$10 million more than budgeted in FY 2024-25. Meeting those requirements would require re-allocation of General Fund monies to early child care programs. • In addition, if the proposed ordinance is not approved, the baseline requirement for FY 2024-25 would increase to \$97.1 million, according to the Controller’s Revenue Letter. • General Fund support of food access programs in the Human Services Agency is increasing \$20,999,899 in FY 2023-24 and \$11,027,103 in FY 2024-25 to replace one-time funding and prior year fund balances used in FY 2022-23 <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approval of the proposed ordinance is a policy matter for the Board of Supervisors. 	

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

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 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 businesses in the City.¹

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 changes in aggregate City discretionary revenues.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance modifies the provisions of the Business and Tax Regulations Code by reducing the General Fund baseline funding requirement by \$20,000,000 in FY 2023-24 and by \$10,000,000 in FY 2024-25 to \$73.2 million and \$83.2 million, respectively.

Baseline Growth

The proposed ordinance would also suspend any growth in the baseline amount in FY 2024-25 which would otherwise be adjusted by the Controller’s determination of the increase in discretionary revenue.

The required baseline funding in FY 2022-23 was \$91.1 million. According to the Controller’s FY 2023-24 & FY 2024-25 Revenue Letter, baseline growth for FY 2023-24 was suspended due to the City’s projected deficit of \$290.9 million that year.²

FISCAL IMPACT

The Mayor’s Proposed Budget for FY 2023-24 and FY 2024-25 reduces the Department of Early Childhood (Department) General Fund appropriations to Community Based Organization services

¹ According to the Treasurer-Tax Collector’s Office, the gross receipts filing threshold was \$2,090,000 in 2022. Residential real estate providers are exempt.

² According to the March 2023 Joint Report

by over \$20.0 million in FY 2023-24 and \$10.0 million in FY 2024-25 and shifts funding for those services to the Early Care and Education Fund.

The Department reports that its budget includes new commercial rent tax revenues and related revenues, such that the proposed baseline reduction will not result in a decrease to early care and education programs and services relative to FY 2022-23 levels. Total DEC spending in FY 2022-23 is projected to be \$282.5 million based on current expenditure rates; the proposed FY 2023-24 DEC budget is \$324.5 million.

Other Funding

The Department reports that it will use \$10.3 million of fund balance,³ \$21.7 million in interest earnings over the proposed two year budget, allocate \$160 million of the \$399.5 million balance on reserve to support the following investments:

- \$70 million for facility capacity expansion.
- \$30 million for workforce development.
- \$60 million for Early Educator grant reserve.

Current Requirements

If the Board does not approve the proposed ordinance, General Fund baseline spending requirements for early education services will be \$20 million higher than budgeted in FY 2023-24 and \$10 million more than budgeted in FY 2024-25. Meeting those requirements would require re-allocation of General Fund monies to early childcare programs.

In addition, if the proposed ordinance is not approved, the baseline requirement for FY 2024-25 would increase to \$97.1 million, according to the Controller's Revenue Letter.

Re-Allocation of Funding to Food Programs

The Mayor's Office reports that the General Fund spending otherwise required absent the proposed ordinance of \$20.0 million in FY 2023-24 and \$10.0 million in FY 2024-25 are being shifted to fund food access programs managed by the Human Services Agency.

In FY 2022-23, these food programs are funded by the General Fund using \$17.0 million in FY 2022-23 appropriations as well as \$14.0 million in prior year carryforward balances at a total cost of \$30.95 million primarily in the Disability & Aging Community Programs Division and uses temporary employees to manage the program. The Mayor's Proposed Budget for FY 2023-24 funds food access programs at \$20.0 million, not including \$999,899 for five (5.0 FTE) new positions, including one 0923 Manager II position and four 1823 Senior Administrative Analyst positions, one of which is assigned to the Contracts Division. Total FY 2024-25 proposed funding

³ The Department is projecting a year-end fund balance of \$37 million in the Public Education Enrichment Special Revenue Fund (PEEF), one-third of allocated to early care and education programs. Further, there is \$399.5 million on reserve and an additional projected ending fund balance of \$54.2 million in the Commercial Rents Tax Special Revenue Fund.

is \$11,027,103, of which \$10,000,000 is for community-based organization services and \$1,027,103 is for increased staffing.

RECOMMENDATION

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