

LEGISLATIVE DIGEST

[Business and Tax Regulations Code - Early Care and Education Commercial Rents Tax Baseline - FYs 2026-2027 and 2027-2028]

Ordinance modifying the baseline funding requirements for early care and education programs in Fiscal Years (FYs) 2026-2027 and 2027-2028, to enable the City to use the interest earned from the Early Care and Education Commercial Rents Tax for those baseline programs.

Existing Law

In June 2018, the voters approved Proposition C, which imposed a new tax on the gross receipts from the lease of commercial space in properties in the City. The ballot measure required the City to spend 85% of the revenues from the tax to fund quality early care and education for young children through the City's Babies and Families First Fund. When the voters adopted Proposition C, the City already provided funding to early care and education programs. Proposition C referred to that funding as the "Base Amount" of money to pay for "Baseline Programs." Proposition C added to that existing funding for Baseline Programs. The ballot measure stated that in any given fiscal year, the City can spend tax revenues only if it has also appropriated separate funds for Baseline Programs in an amount equal to at least the Base Amount (subject to some adjustments by the City Controller).

Since the passage of Proposition C, the City has collected interest on the tax revenues in the Babies and Families First Fund. Like the revenues from the tax, that interest must be used to pay for early care and education programs.

Proposition C authorized the Board of Supervisors to amend the measure by ordinance in the future. In July 2023, the City enacted Ordinance No. 176-23, which temporarily modified the baseline requirements for Fiscal Years 2023-2024 and 2024-2025 to credit against the Base Amount interest earned in the Babies and Families First Fund. In June 2024, the City enacted Ordinance No. 198-24, extending the modification for one additional fiscal year. In August 2025, the City enacted Ordinance No. 131-25, extending the modification for one additional fiscal year.

Amendments to Current Law

Similar to Ordinance Nos. 175-23, 198-24, and 131-25, the proposed ordinance would supersede Ordinance No. 131-25 as to the requirements for Fiscal Year 2026-2027, and extend the temporarily modification of the baseline requirements for Fiscal Year 2027-2028 to credit against the Base Amount interest earned in the Babies and Families First Fund. This modification would allow the City to appropriate funds from the tax to support Baseline

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Programs without also appropriating separate funds at the level June 2018 Proposition C would have otherwise required.