

## LEGISLATIVE DIGEST

[Initiative Ordinance - Business and Tax Regulations and Administrative Codes - Commercial Rents Tax - Early Child Care and Education]

**Motion ordering submitted to the voters, at an election to be held on June 5, 2018, an Ordinance amending the Business and Tax Regulations Code and Administrative Code to impose an additional tax on the gross receipts from the lease of commercial space in the City, in the amount of 1% for warehouses and 3.5% for other commercial uses, to fund the Babies and Families First Fund for quality early care and education for children from birth through five years of age and the General Fund; exempting from the additional tax rents from industrial, artist, non-formula retail, nonprofit, and government uses; increasing the City's appropriations limit by the amount collected under the new tax for four years from June 5, 2018; and affirming the Planning Department's determination under the California Environmental Quality Act.**

### Existing Law

Businesses that receive rent or other amounts from the lease of real property in the City currently pay a gross receipts tax under Article 12-A-1 of the Business and Tax Regulations Code. The maximum rates are 0.285% of such gross receipts for gross receipts between \$0 and \$5,000,000, and 0.3% of such gross receipts for gross receipts above \$5,000,000. The maximum rate for businesses with over \$25,000,000 in gross receipts will be 0.325% beginning in tax year 2021.

Businesses with \$1,000,000 or less in total gross receipts within the City (whether from commercial rents or any other line of business), adjusted for inflation, are generally exempt from the gross receipts tax in Article 12-A-1. Certain other businesses (e.g., certain non-profits, banks, insurance companies, etc.) are also exempt.

### Amendments to Current Law

Effective January 1, 2019, this ordinance would impose an additional gross receipts tax on businesses that receive rent or other amounts from the lease of commercial space (i.e., non-residential real estate) in the City. The rate would be 1% for gross receipts from warehouse uses, and 3.5% for all other commercial rents. The additional tax would not apply to gross receipts from the lease of any portion of a building or structure used for industrial, arts, or non-formula retail uses, even though the existing gross receipts tax applies to receipts from these uses. And, amounts received from non-profits exempt from federal and state income tax, and from federal, state, and local governments, would be excluded from this additional tax, but not from the existing gross receipts tax.

As with the existing gross receipts tax, businesses with \$1,000,000 or less in total gross receipts within the City (whether from commercial rents or any other line of business),

adjusted for inflation, would be exempt from this additional tax. Certain other businesses exempt from the existing gross receipts tax (e.g., certain non-profits, banks, insurance companies, etc.) would also be exempt from this additional tax.

The additional tax would establish and fund the Babies and Families First Fund (Fund). After administrative costs of the tax, fifteen percent would be dedicated to the General Fund. The remainder would be dedicated to funding quality early care and education for children under six years of age. The Fund's expenditures would be administered by the City's Office of Early Care and Education (OECE), for four purposes: 1) quality early care and education for children under the age of six in San Francisco families at 85% or less of State Median Income (SMI); 2) quality early care and education for children under the age of four in San Francisco families earning up to 200% of the Area Median Income (AMI); 3) investment in services that support the physical, emotional, and cognitive development of children under the age of six; 4) increasing compensation (including but not limited to wages, benefits, and training) of care professionals and staff in order to improve the quality and availability of early care and education for children under the age of six.

This ordinance would also increase the City's appropriations limit under Article XIII B by the amounts collected from the additional tax, for four years from June 5, 2018.

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