

REVISED LEGISLATIVE DIGEST
(Amended in Committee, 6/20/2024)

[Business and Tax Regulations Code - Early Care and Education Commercial Rents Tax Baseline - FYs 2024-2025 and 2025-2026]

Ordinance modifying the baseline funding requirements for early care and education programs in Fiscal Years 2024-2025 and 2025-2026, 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 Board of Supervisors adopted Ordinance No. 176-23, which allowed the City to temporarily modify the baseline requirements for Fiscal Years 2023-2024 and 2024-2025 to credit against the Base Amount interest earned in the Fund.

Amendments to Current Law

Similar to Ordinance No. 176-23, the proposed ordinance would temporarily modify the baseline requirements for Fiscal Years 2024-2025 and 2026-2027 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 Programs without also appropriating separate funds at the level June 2018 Proposition C would have otherwise required.

Background Information

This legislative digest reflects amendments made in the Budget and Appropriations Committee on June 20, 2024. The amendments add additional findings; limit the scope of this ordinance to Fiscal Years 2024-2025 and 2025-2026; limit the amount of funds that the City may credit against the baseline to \$16.6 million in Fiscal Year 2024-2025 and \$16.9 million in Fiscal Year 2025-2026; and provide that the credits will not be applied in any fiscal year where the cash balance in the Babies and Families First Fund is less than \$300 million.

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