

Member, Board of Supervisors  
District 7



City and County of San Francisco

## NORMAN YEE

February 27, 2018

RE: Request for Consideration on the “Additional Tax on Commercial Rents Mostly for Child Care and Education” Approved Digest

Dear Committee Members Packard, Anderson, and Patterson:

Thank you for your time and diligence in crafting the language of the “Additional Tax on Commercial Rents Mostly for Child Care and Education” digest. I am writing to respectfully request for re-consideration some additional points of clarification:

**1. Correcting The Proposal language regarding who would be subject to the commercial rent tax increase.**

In the current Proposal, “businesses” are the only actors identified as being subject to paying the tax and I would recommend expanding The Proposal to include “businesses and corporations.” The definition of a corporation is a company or group authorized to act as a single authority and tend to be much larger, or owners of numerous properties. A vast majority of corporations would be subject to this tax while there are many businesses whose gross receipts will be under \$1 million and thus exempt from the increased tax. It is more accurate to include corporations.

**2. Clarifying in The Proposal the programs that the revenue raised by the increase in commercial rent tax would fund.**

The terminology contained in The Proposal in regards to what the Proposition would fund is “child care”, where I would clarify that the revenue raised would fund “quality early education programs”.

“Child care” is an unclear in terms of quality of program. It is critical that voters understand that funds would only be eligible to programs who have been rated high quality on San Francisco’s quality rating and improvement system (QRIS). San Francisco’s QRIS is based on teacher and administrator qualifications, program environment, teacher-child interactions, ratio, and child observation. I recommend replacing child care and education with “quality early care and education” because funds would only be administered to programs that are high quality and support and ensure optimal child development and improved outcomes for children.

**3. Revise language in A “YES” Vote Means to clarify the intent of the Proposition expand quality early education programs within the City by raising the commercial rent tax rate on specific taxable commercial spaces.**

I would like to recommend the following revision for clarity:

A “YES” Vote Means: If you vote “yes,” you want to fund quality early care and education for babies and toddlers [for children ages 0 to 5] and for other public purposes by imposing a 1% increase in the gross receipts tax on revenues that a business or corporation receives from the lease of warehouse space in the City, and a 3.5% increase in the gross receipts tax on revenues that a business or corporation receives from the lease of certain other commercial spaces in the City.

As previously stated, the intent of this Proposition is to expand the quality early education programs within the City by increasing the commercial rent tax on specific commercial spaces within the City.

Sincerely,



Norman Yee  
Supervisor, District 7



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### TRACKED CHANGES – APPROVED DIGEST

**The Way It Is Now:** The City collects a gross receipts tax on many businesses **and corporations** operating in San Francisco. That tax is generally based on the total gross revenue a business **and corporation** receives in San Francisco. Those revenues include rents from leasing commercial property, such as office buildings, warehouses and other industrial buildings, and retail spaces.

For gross revenues between zero and five million dollars, the maximum rate for the City's gross receipts tax applicable to commercial rents is 0.285%. For gross revenues above five million dollars, the maximum rate for the City's gross receipts tax applicable to commercial rents is 0.3%. Beginning in 2021, for gross revenues over \$25 million, the maximum rate for the City's gross receipts tax applicable to commercial rents will be 0.325%.

Businesses **and corporations** with \$1 million dollars or less in total gross revenues within San Francisco are generally exempt from the gross receipts tax. Certain other businesses **and corporations**, including certain non-profit organizations, banks, and insurance companies, are also exempt.

~~The State Median Income ("SMI") is a level of income based on all incomes earned within the State of California. Half of all households in the state have incomes above this level and half have incomes below it. The Area Median Income ("AMI") is a level of income based on all incomes earned within San Francisco. Half of all households in San Francisco have incomes above this level and half have incomes below it.~~

**The Proposal:** Proposition \_\_\_\_ would, in addition to the existing gross receipts tax, impose a new gross receipts tax of:

- 1% on the revenues a business **or corporation** receives from the lease of warehouse space in the City; and
- 3.5% on the revenues a business **or corporation** receives from the lease of other commercial spaces in the City.

This additional tax would generally not apply to businesses **or corporations** exempt from the existing gross receipts tax. It also would not apply to revenues received from leases to businesses engaged in:

- Production, Distribution or Repair (PDR) uses. PDR uses include a variety of business-related uses such as industrial, automotive, storage and wholesale. They also include uses by small businesses such as furniture makers, recording studios, auto repair shops, plumbing supply stores, art studios and lumber yards.
- The retail sale of goods and services directly to consumers; or
- Arts activities or entertainment activities.

This additional tax would also not apply to revenues received from certain non-profits.

The State Median Income (“SMI”) is a level of income based on all incomes earned within the State of California. Half of all households in the state have incomes above this level and half have incomes below it. The Area Median Income (“AMI”) is a level of income based on all incomes earned within San Francisco. Half of all households in San Francisco have incomes above this level and half have incomes below it.

The City would use 85% of the funds from this additional tax for:

- ~~child care and education~~ **Quality early care and education** for children from newborns through age five whose parents earn 85% or less of the SMI;
- ~~child care and education~~ **Quality early care and education** for children from newborns through age three whose parents earn 200% or less of the AMI;
- Investment in services that support the physical, emotional and cognitive development of children from newborns through age five; and
- Increased compensation for people who provide ~~child care and education~~ **quality early care and education** for children from newborns through age five.

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The City could use the remaining 15% of funds collected from this additional tax for any public purpose.

**A "YES" Vote Means:** If you vote "yes," you want to impose a new gross receipts tax of 1% on the revenues a business receives from the lease of warehouse space in the City, and 3.5% on the revenues a business receives from the lease of certain other commercial spaces in the City, mostly to fund child care and education for young children, and for other public purposes. **fund quality early care and education for babies and toddlers for children ages 0 to 5 and for other public purposes by imposing a 1% increase in the gross receipts tax on revenues that a business or corporation receives from the lease of warehouse space in the City, and a 3.5% increase in the gross receipts tax on revenues that a business or corporation receives from the lease of certain other commercial spaces in the City.**

**A "NO" Vote Means:** If you vote "no," you do not want to make these changes.