



First Year Free Report to the Board of Supervisors

June 10, 2024

In July 2021, the Board of Supervisors and the Mayor passed the First Year Free program to support and revive San Francisco small businesses as the City recovers from the pandemic. The First Year Free program offers relief to small business owners by waiving first-year permit, license, and business registration fees for certain small businesses. In November 2022, the Board of Supervisors extended the program through June 30, 2023, increased the gross receipts threshold to qualify, expanded the type of businesses that qualify, and made businesses retroactively eligible under the extended provisions. The Board of Supervisors further extended, and the Mayor approved the program through June 30, 2024. As part of this extension, home-based businesses and short-term residential rentals were removed from eligibility.

This report provides an overview of the program, describes the implementation process, and then outlines the impact of the program in 2023 and cumulatively for the period between November 1, 2021 and December 31, 2023.

Program Overview:

Supervisor Ronen introduced First Year Free to make it easier for small businesses to open in San Francisco. The legislation was passed unanimously by the Board of Supervisors in the summer of 2021, with the support of Mayor Breed.

Initially, First Year Free waived first-year permit, license, and business registration fees for certain new small businesses and existing small businesses with new locations. To qualify, a new business or a new location of an existing business must commence business between November 1, 2021, and October 31, 2022, and meet the following requirements:

- Estimated or actual San Francisco gross receipts of \$2,000,000 or less
- A location that is ground floor commercial
- A location that is non-formula retail

Effective November 1, 2022, the program was extended to June 30, 2023, and the eligibility rules were retroactively broadened to:

- Increase the maximum gross receipts for a business to qualify for the tax and fee waiver from \$2,000,000 to \$5,000,000; and
- Remove the requirement that the business must be located on the ground floor.

Following the passage of the ordinance, hundreds of businesses became retroactively eligible for First Year Free based on these broader rules. The Office of the Treasurer & Tax Collector reached out to businesses that became eligible under the revised criteria, invited them to participate in First Year Free, and issued refunds when applicable. This work is ongoing, and refunds continue to be issued by various departments.

In July 2023, the program was extended through June 30, 2024, and the eligibility rules remained mostly the same, except:

- Qualifying new business or a new location of an existing business must commence business between July 1, 2023, and June 30, 2024; and

- To remove home-based businesses and short-term residential rentals from eligibility.

Program Utilization:

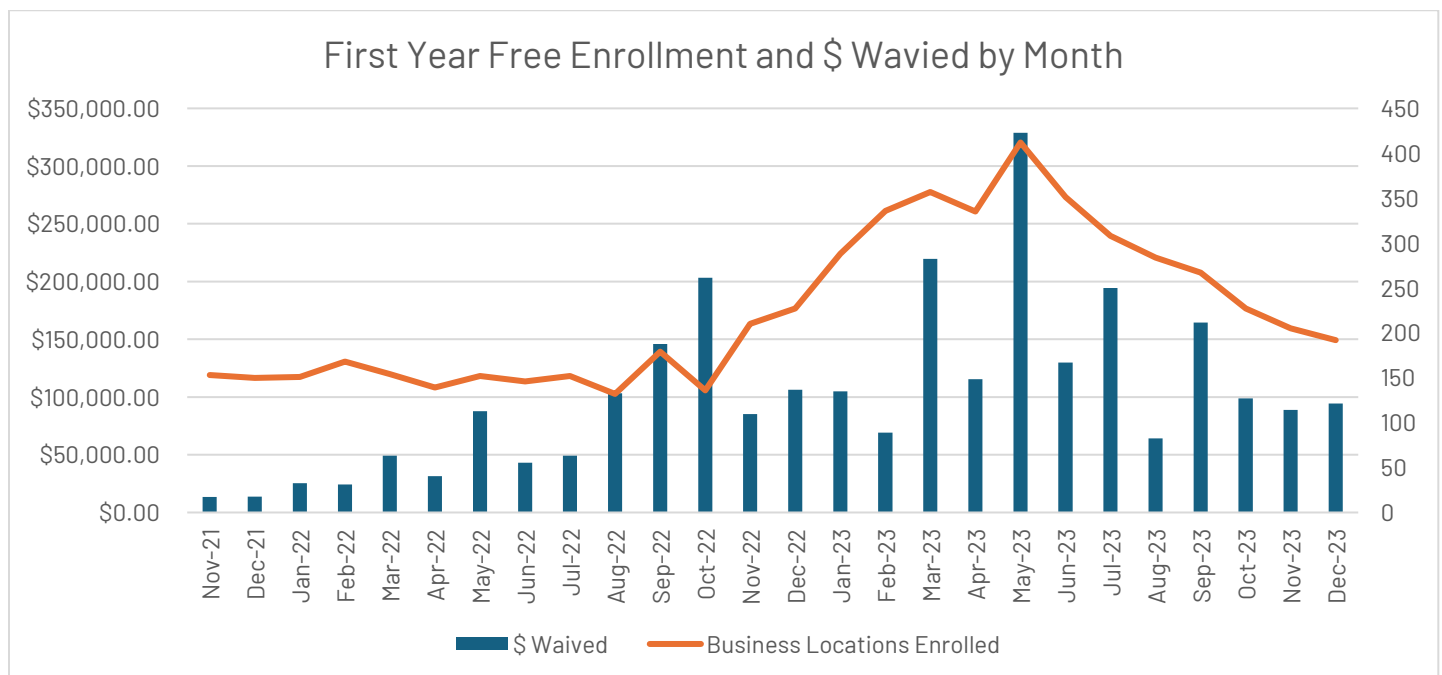
In calendar year 2023, 3,628 small business locations were enrolled in First Year Free, and the City waived \$1,684,456 in business registration, application, permit and license fees. Of the 3,628 enrolled businesses, 2,339 were new businesses, and 1,289 were new locations of existing businesses.

In the period covering November 1, 2021, to December 31, 2023, 5,965 small business locations were enrolled in First Year Free, and the City waived \$2,656,540 in business registration, application, permit and license fees. Of the 5,965 enrolled businesses, 3,797 were new businesses, and 2,168 were new locations of existing businesses. This is a major increase when compared to the interim report covering the first four months of the program (11/1/21 – 2/28/22), where 504 small business locations were enrolled in First Year Free, and the City waived \$76,857.01.

First Year Free Enrollment

| | Number | Total \$ Waived |
|-------------------------------|--------|-----------------|
| 1/1/2023 – 12/31/2023 | | |
| Business Locations | 3,628 | \$1,684,456 |
| 11/1/2021 – 12/31/2023 | | |
| Business Locations | 5,965 | \$2,656,540 |

The data below shows that a significant portion of increased program participation occurred after extension and broadening of the program eligibility in November 2022. In 2023, the Program reached its highest number of enrollments in May.

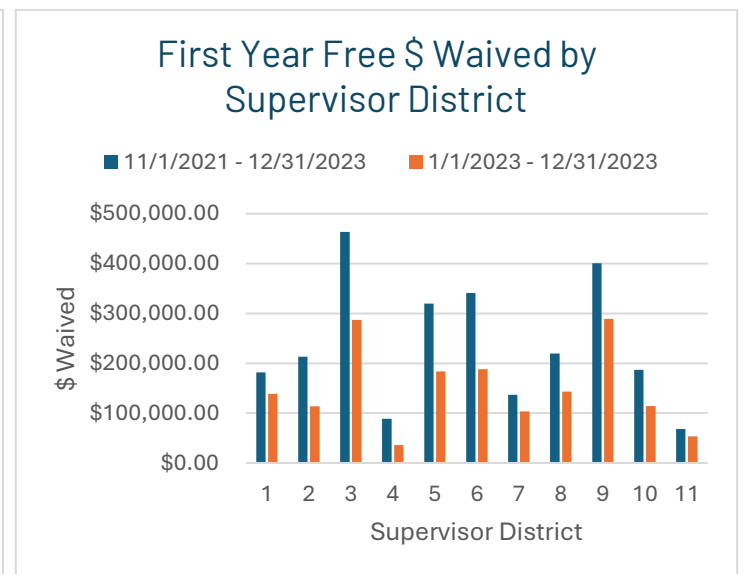
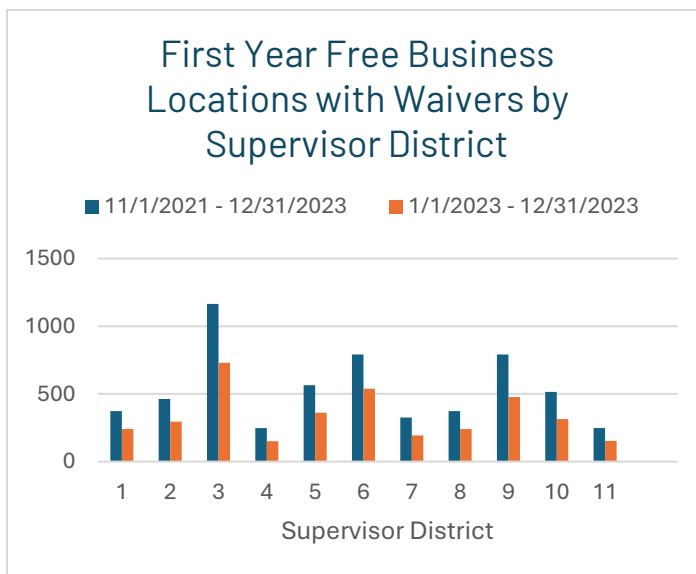


Businesses enrolled in First Year Free have fees waived for several different types of permits and licenses issued by various departments. The following table outlines the top four dollar amounts waived by each issuing department cumulatively and for the calendar year 2023.

First Year Free Fee Waivers by Type / Department

| | Total Number of Fees Waived | Total Dollar Amount Waived |
|-------------------------------|-----------------------------|----------------------------|
| 1/1/2023 – 12/31/2023 | | |
| DBI ¹ | 1,108 | \$797,072 |
| TTX – Unified License | 600 | \$307,481 |
| TTX – Business Registration | 2,608 | \$270,401 |
| DPH | 539 | \$222,541 |
| 11/1/2021 – 12/31/2023 | | |
| DBI | 1,758 | \$1,253,647 |
| TTX – Unified License | 903 | \$468,265 |
| TTX – Business Registration | 4,054 | \$426,775 |
| DPH | 938 | \$381,772 |

Cumulatively, the largest number of new business locations enrolled and received waivers continue to be in District 3, while Districts 3 and 9 had the highest dollar amount waived in the amount of \$463,611 and \$400,905, respectively. While District 3 remained the largest number of enrollments with waivers in 2023, District 9 and District 3 had the highest dollar amount waived in the amount of \$289,252 and \$286,696, respectively.



Food services businesses continue to benefit the most from First Year Free. The DPH Food Permit is the most common fee waived aside from the business registration fee. Since the Program initiated, nearly 50% of all application, permit and license fees waived were for food services businesses, totaling to \$1,306,836. Although DBI has had a high amount of fees waived for food services historically, in calendar year 2023 we saw this amount decrease. In 2023, 35% of fees waived by DBI were for food services businesses, and 42% cumulatively. More than half of the dollars waived for DBI fees were for food services. This reflects the high regulatory burden on

¹ Department of Building Inspection issue permits and bills on behalf of other departments.

restaurants, and the increased likelihood that a new restaurant will make physical changes to a space what will trigger DBI costs.

Food Services Fee Waivers Through First Year Free
11/1/2021 – 12/31/2023

| | % Fees Waived by Food Services |
|-------------------------------|--------------------------------|
| 1/1/2023 – 12/31/2023 | |
| All Agencies | 44% |
| DPH | 71% |
| DBI | 35% |
| TTX – Unified License | 65% |
| 11/1/2021 – 12/31/2023 | |
| All Agencies | 49% |
| DPH | 69% |
| DBI | 43% |
| TTX – Unified License | 70% |

Program Extension:

First Year Free has benefitted from strong support from the Board of Supervisors and the Mayor, including funds appropriated from the general fund to backfill departments' budgets. According to the Budget and Legislative Analyst (BLA) Report dated March 15, 2024, the available balance for the First Year Free program is approximately \$3 million. This balance is sufficient to fund the program in Fiscal Year 2024-25. The Ordinance passed by the Board of Supervisors on April 2, 2024, further extends the program. The legislation will do the following:

Changes

- Extend the program through June 30, 2025.

Continues to:

- Waive the cost of initial registration fees, initial license fees, first-year permit, and other applicable fees for qualifying new businesses and new locations of existing businesses that have been filed on or after July 1, 2023, and during the one-year period.
- Allow new businesses or locations to qualify if they have \$5 million or less in San Francisco gross receipts.
- Apply to all commercial businesses, except home-based businesses and short-term residential rentals.
- Require repayment if a business that originally qualified for a fee waiver has more than \$15 million in San Francisco gross receipts in the calendar year of or in any of the three calendar years following.