



First Year Free

2022-23 Report to the Board of Supervisors

June 14, 2023

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.

This report provides an overview of the program, describes the implementation process, and then outlines the impact of the program through April 30, 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.

Program Utilization:

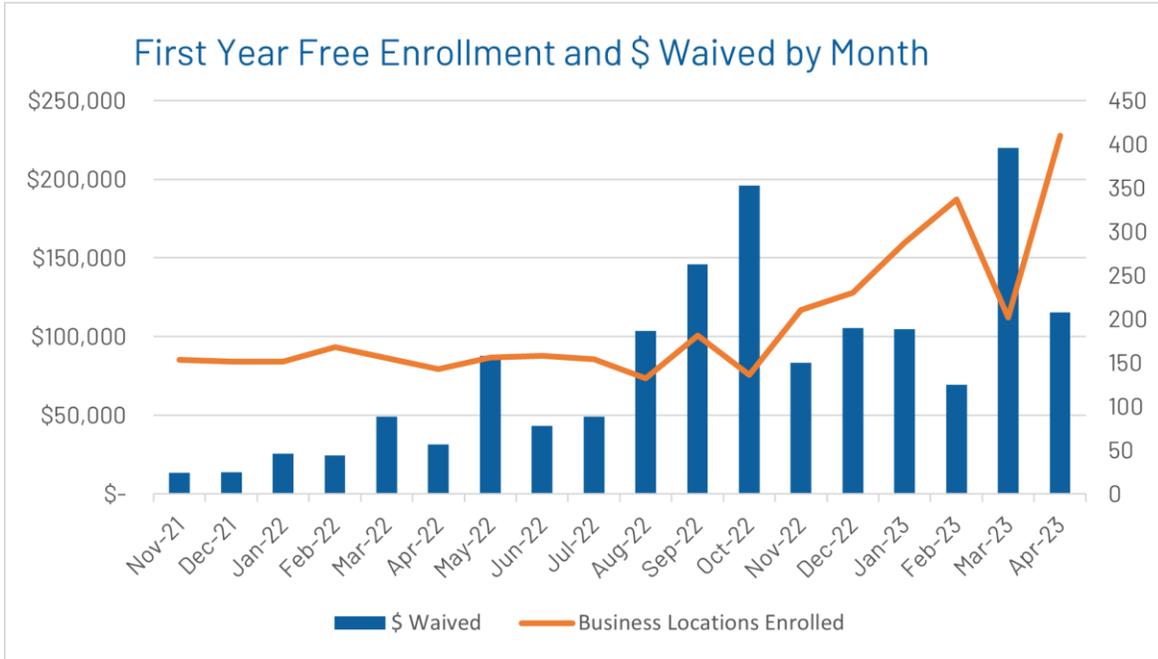
In the period covering November 1, 2021 to April 30, 2023, 3,639 small business locations were enrolled in First Year Free, and the City waived \$1,481,603 in business registration, application, permit and license fees. Of the 3,639 enrolled businesses, 2,341 were new businesses, and 1,298 were new locations 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

11/1/2021 – 4/30/2023

	Number	Total \$ Waived
Business Locations	3,639	\$1,481,603

The data show that a significant portion of increased program participation occurred after extension and broadening of the program eligibility, with 48% of enrollments and 47% of the fees waived occurring in the six months after the November 2022 extension.



First Year Free Fee Waivers by Type / Department

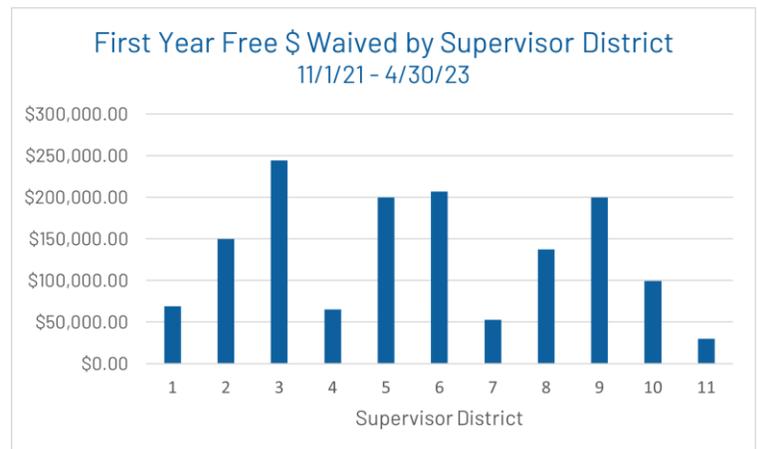
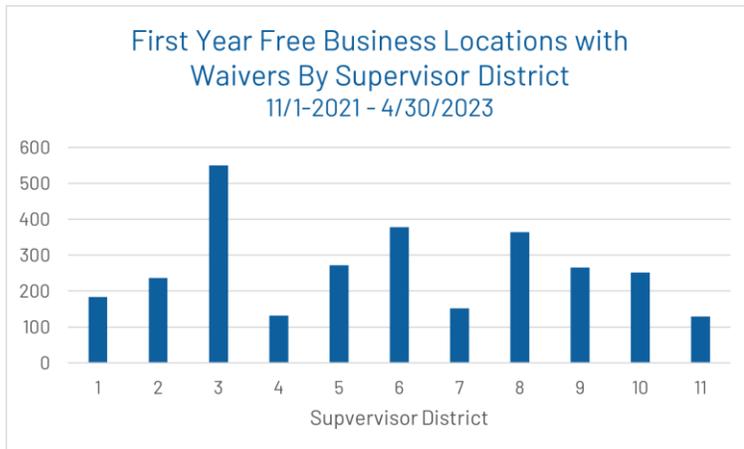
11/1/2021 – 4/30/2023

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 department¹.

	Total Number of Fees Waived	Total Dollar Amount Waived
DBI	136	\$698,401
TTX Business Registration	2337	\$270,878
DPH	543	\$235,233
TTX – Unified License	401	\$223,975

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

The largest number of new businesses locations enrolled and received waivers were in District 3, while Districts 3 and 6 had the highest dollar amount waived in the amount of \$244,145.96 and \$207,043.38, respectively.



Food services businesses have so far benefitted the most from First Year Free. The DPH Food Permit is the most common fee waived aside from the business registration fee. Nearly 56% of all application, permit and license fees waived were for food services businesses, totaling \$823,723. More than half of the dollars waived for DBI fees were for food services businesses. This reflects the high regulatory burden on restaurants, and the increased likelihood that a new restaurant will make physical changes to a space that will trigger DBI costs.

Food Services Fee Waivers Through First Year Free
11/1/2021 - 4/30/2023

	% Fees Waived by Food Services Businesses (\$)
All Agencies	56%
DPH	69%
DBI	52%
TTX - Unified License	76%

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. The draft ordinance and budget proposal before the Board of Supervisors would further extend and codify the program. The legislation would do the following:

Changes

- Remove program eligibility for home-based businesses and short-term residential rentals.
- Extend the program for five years to June 2028.

Continues

- 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.

- Allow new businesses or locations to qualify if they have \$5 million or less in San Francisco gross receipts.
- Apply to all commercial businesses.
- 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.