



FIRST YEAR *FREE*

Interim Report to the Board of Supervisors

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.

This report provides an overview of the program, describes the implementation process, and then outlines the impact of the program through February 28th, 2022. Lastly, the report ends with lessons learned and recommendations to the Board to guide the future of the First Year Free Program.



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.

“Right now, opening a restaurant in San Francisco requires about 20 different permits. A retail could require about 11. Each of these permits comes with a fee and right from the start, a new business must register for a permit that comes with a fee, every single time. I want this to be a message to new, small businesses; **we value your contributions, and we recognize the obstacles before you, and we are here to make it easier for you to open up in this great city.**”

- SUPERVISOR RONEN

First Year Free waives 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

The program waives business registration fees as well as first-year application, inspection, permit, and license fees related to the qualifying location. The program does not waive costs related to penalties, impact fees, or fees charged by entities other than the City and County of San Francisco (e.g. state surcharges, for example for Hazardous Waste Materials permit or fingerprinting). Businesses who participate in First Year Free may have fees waived from the following departments:

- Department of Building Inspection (DBI)
- Department of Public Works (DPW)
- Department of Public Health (DPH)
- Entertainment Commission (ENT)
- Office of Cannabis

- Office of the Treasurer & Tax Collector (TTX)
- Planning Department (CPC)
- Public Utilities Commission (SFPUC)
- San Francisco Fire Department (SFFD)
- San Francisco Police Department (SFPD)

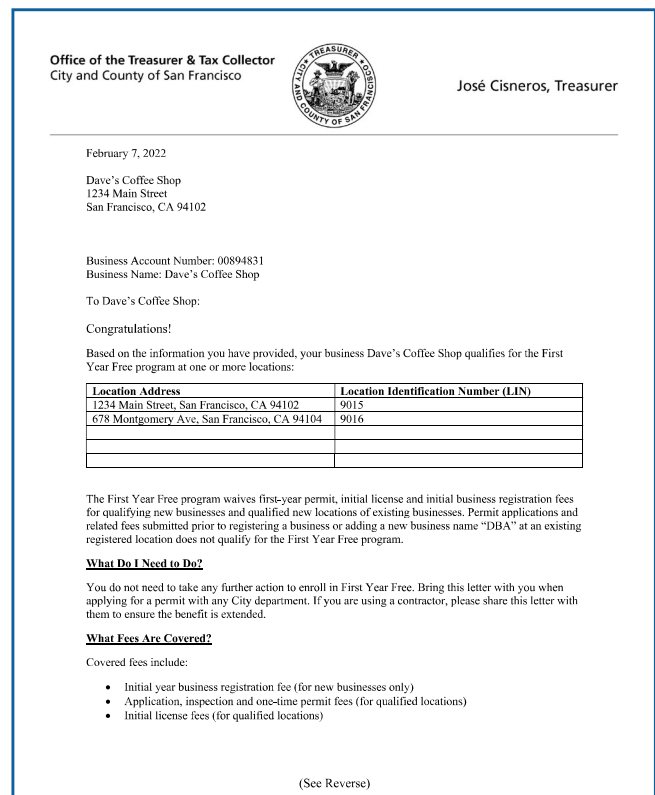
The First Year Free program has three main steps:

1. A business is screened for First Year Free eligibility when registering as a new business, or adding a location to an existing business
2. Permitting departments confirms businesses' enrollment in First Year Free and waives fees, and
3. Permitting departments bill TTX for waived fees.

San Francisco's Business and Tax Regulations generally require that every person engaging in business within the City register for a business license. Because of this requirement, TTX is often the first department that an aspiring entrepreneur engages with on the road to opening a business. Taking advantage of this captive audience, TTX added information about First Year Free into its existing business processes – for new businesses, screening was done when a business applied for a Business Registration Certificate ("[New Business Registration](#)"), and for existing businesses it was done when they added a location using the "[Account Update](#)" application. TTX's process to enroll in First Year Free is as follows:

- New Business Registration and Account Update applications gather necessary information to determine if a business is eligible for First Year Free;
- If business meets criteria, a First Year Free page pops up with details on the program, offering the terms and conditions, and allows business to opt in;
- Once a business opts in, they are enrolled automatically and immediately receive an email welcoming them to the program and a letter in the mail shortly thereafter;
- For new businesses, the business registration fee is waived.

Once a business is enrolled in First Year Free, they can begin to apply for permits and licenses with various City departments. If a business is applying for a DPH Food Permit, or for 30-day review under Prop H, First Year Free status is automatically verified with no further action. For other applications, businesses can either bring the email or letter provided by TTX, or the permitting department can use TTX's lookup tool to check the business's enrollment status. Assuming the business is enrolled in First Year Free, the permit or license fee is waived on the spot, and the permitting process continues its standard path, except fee-free.



Sample Welcome Email

To facilitate accounting and reimbursement, the permitting department must note in their system that the permit was waived due to First Year Free. At the end of the month, departments' accounting teams provide an invoice to TTX with all the fees that were waived due to First Year Free including

details like permit type, business LIN, business address etc. The TTX accounting team uses this invoice for reconciliation purposes and transfers the amount waived from the General Fund to the permitting department.

There are some instances where a business location is deemed qualified for First Year Free, but later billed for a permit or license fee. For example, if a business applied for a permit prior

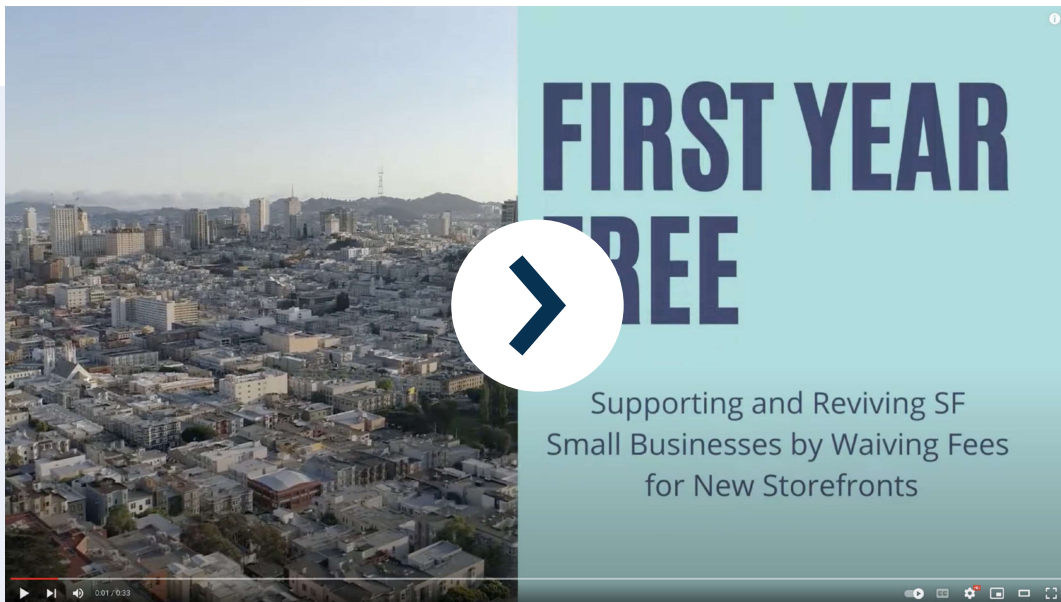
to the start of the program, or before registering a new business (or adding a new location), the related permit fees are not waived, even if the location later becomes eligible for First Year Free. Likewise, if upon review by TTX, the business is determined ineligible for First Year Free (e.g., not ground floor commercial, not in San Francisco, or if the business isn't new), TTX will bill the business for any fees initially waived.

BUSINESS OUTREACH

To raise awareness of the program, TTX created an outreach campaign including fliers, a [short video](#), a newsletter, and social media content. These materials were translated into Spanish, Chinese and Filipino for accessibility and featured different neighborhoods such as the Mission, Chinatown, and the Bayview to highlight the diversity of the city.

TTX staff also presented at meetings attended by current small business owners, aspiring entrepreneurs, and professionals that serve the small

business community, such as the Small Business Commission, DBI's Public Advisory Forum, the San Francisco Economic Alliance quarterly meeting, and a webinar with San Francisco Small Business Development Center entitled "Start Your Business in San Francisco." Other participating departments shared outreach materials with their own networks – for example, the Permit Center featured the fliers on the television screens in its lobby, and the Mayor and several members of the Board of Supervisors shared information in newsletters and on social media.



INTERIM RESULTS

From November 1, 2021, to February 28th, 2022, 504 small business locations were enrolled in First Year Free, and the City waived \$76,857.01 in business registration, application, permit and license fees.

Of the 504 enrolled businesses, 285 were new businesses, and 219 were new locations of existing businesses. 56% of businesses had their business registration fees waived, while only 14% got application, permit or licenses fees waived from other departments.¹

Businesses enrolled in First Year Free have fees waived for several different types of permits issued by various departments. The following table outlines the total number of permits and total dollar amounts waived by the issuing department. The majority of eligible new businesses were in District 6. Although District 6 had the highest number of enrollments, Districts 4 and 2 had the highest dollar amount waived in the amount of \$11,871.68 and \$11,066.92, respectively.

FIRST YEAR FREE ENROLLMENT

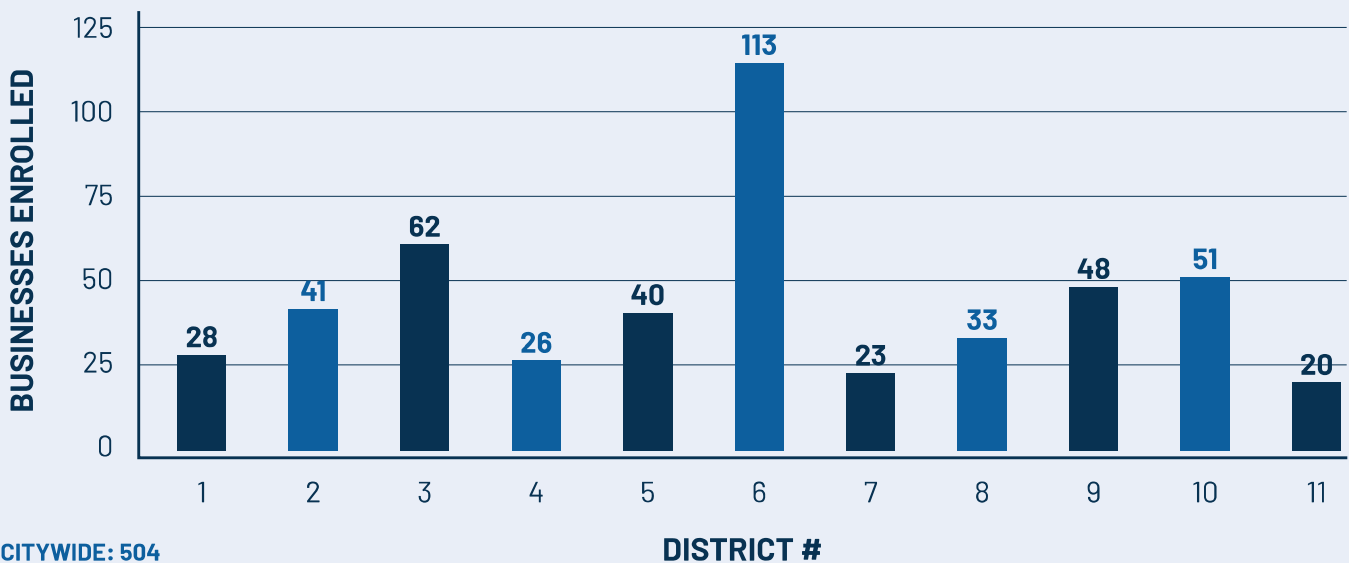
504
Business Locations

\$76,857
Total \$ Waived

FIRST YEAR FREE FEE WAIVERS BY TYPE / DEPARTMENT

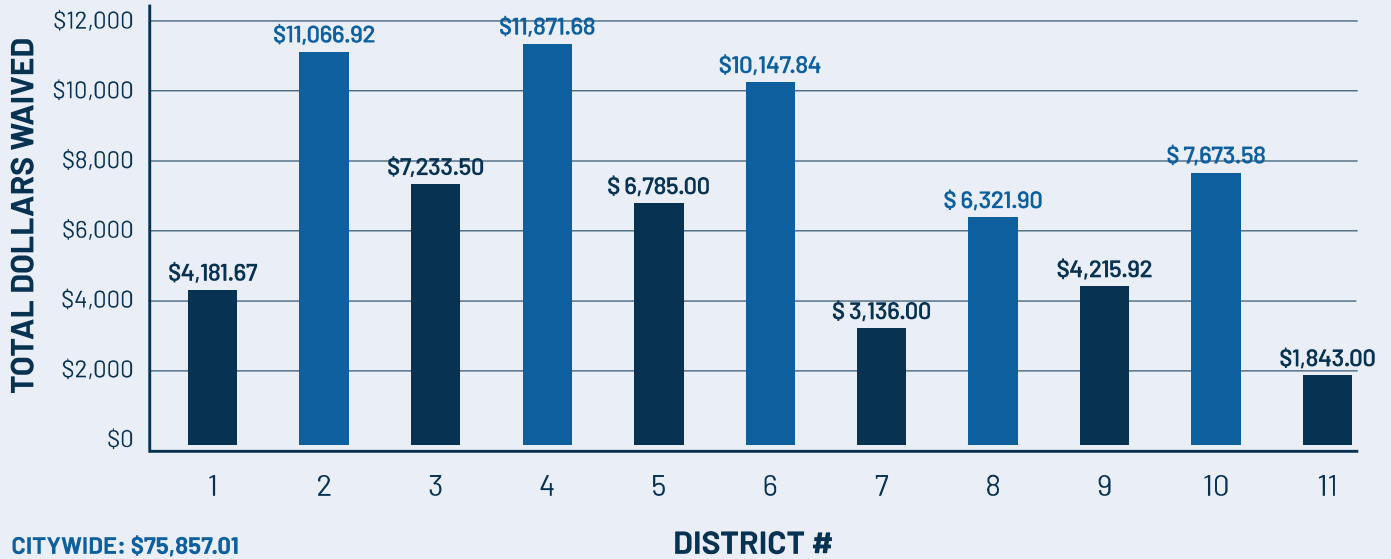
	TOTAL NUMBER OF WAIVED LICENSES/ PERMITS	TOTAL DOLLAR AMOUNT WAIVED
TTX BUSINESS REGISTRATION	280	\$34,544
DPH	56	\$26,154
DBI	3	\$10,836
ENT	3	\$5,324

FIRST YEAR FREE BUSINESS LOCATION BY SUPERVISOR DISTRICT



¹ Department of Building Inspection permits include multiple department fees.

FIRST YEAR FREE \$ WAIVED BY SUPERVISOR DISTRICT

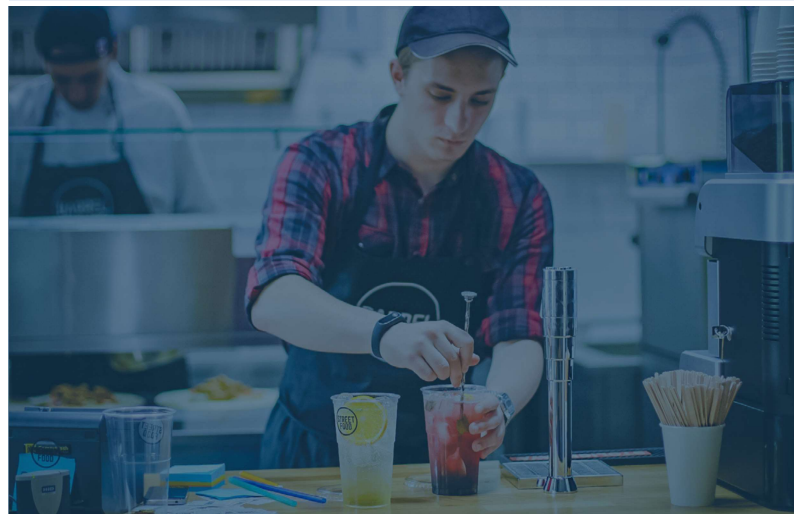


Food services businesses have so far benefited the most from First Year Free. The DPH Food Permit is the most common fee waived aside from business registration fee. Two thirds of all application, permit and license fees waived were for food services businesses (both in terms of numbers of permits and dollar value). More than 93% of the dollars waived by DBI (including those collected by DBI for other departments) 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 permit costs.

The next most frequent business type was retail. 57 First Year Free locations are retail stores. Most retail stores don't require regulatory permits to operate. This is reflected in the First Year Free data, where only 9% of these businesses have applied for a permit with any department since they started.

FOOD SERVICES FEE WAIVERS THROUGH FIRST YEAR FREE

	% FEES WAIVED BY FOOD SERVICES BUSINESSES (#)	% FEES WAIVED BY FOOD SERVICES BUSINESSES (\$)
ALL AGENCIES	66%	64%
DPH	68%	65%
DBI	71%	93%





LESSONS LEARNED AND RECOMMENDATIONS

First Year Free benefitted from strong support from the Board of Supervisors and the Mayor, including funds appropriated from the general fund to backfill departments' budgets. The program strengths include:

Utilizing existing infrastructure to reduce red-tape. Businesses did not have to know about the program or submit a separate application to enroll; businesses were able to learn about the program and enroll automatically through TTX's existing business process flow.

Leveraging technology to ease enrollment and reporting. First Year Free leveraged technology and data systems to enroll businesses and to share information across departments.

Collaboration across departments. While TTX assisted with the initial launch of the program, permitting departments were valued partners who spent time and energy updated technology systems, training staff, and supporting businesses. For example, DBI made significant updates to its Permit Tracking System (PTS) to facilitate First Year Free, and the Small Business Commission and Permit Center staff quickly escalated areas of concern for individual businesses throughout the process.

Coordination across programs. First Year Free exists within a robust ecosystem of other small business supports including Proposition H and the Small Business Recovery Act and numerous grant and loan programs. To the maximum extent possible, First Year Free coordinated with other supportive programs, for example, sharing data about businesses and enrollment between First Year Free and Planning to support implementation of the Small Business Recovery Act.

After only a few months, businesses are benefiting from First Year Free, but it may be too early to estimate the full benefits of the program. There are many businesses who qualify for First Year Free but haven't yet gotten any permit costs waived. There are a few reasons this could be happening:

1. Many eligible storefront commercial businesses don't require additional permits or licenses to operate and aren't making physical changes to the building. These businesses will still get Business Registration fees waived (if the business is newly registered).
2. The business is still in the permit application process and will incur costs that will be covered by First Year Free if charged before October 31, 2022.
3. Businesses or City Staff are confused about

First Year Free and aren't fully utilizing the benefit.

To understand these issues more completely, TTX recommends partnering with the Office of Small Business to survey all businesses qualified for First Year Free to understand where they are in their opening journey, troubleshoot any issues they are experiencing, and facilitate compliance throughout all participating departments. Before considering whether to make First Year Free permanent, we recommend returning to the Board in September 2022 to provide results from this survey, and more months of data on usage of the program.

In addition, to make the remainder of this pilot phase more impactful, we recommend that the Board consider amending the legislation to extend the time period for First Year Free to cover costs for businesses that started between 11/1/2021 and 10/31/2022 to have their permit fees for anything submitted before 10/31/22 waived, regardless of when the cost is billed. This would ensure that businesses who start their permitting journey during the first year of the program are able to have the costs waived even if the permitting process extends beyond 10/31/2022.

With more information and data, other options the Board may wish to consider are:

1. Focusing First Year Free benefits on restaurants, and waiving the first year of permit and license costs for new restaurants (including permits for tenant improvements);
2. Expanding First Year Free benefits to businesses with up to \$5 million in Gross Receipts to broaden the number of businesses who will qualify / benefit;
3. Making First Year Free permanent and invest time and resources in ensuring that all permitting systems capture business data (specifically the BAN and LIN) at the onset of the permitting journey to better track a business' experience across departments and understand process times.

We look forward to continuing to serve small businesses through the First Year Free program and returning to the Board with more complete data about the program.

FOR QUESTIONS OR COMMENTS ABOUT THE FIRST YEAR FREE PROGRAM, PLEASE CONTACT:

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