

CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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June 9, 2025

TO: Budget and Appropriations Committee

FROM: Budget and Legislative Analyst



SUBJECT: June 11, 2025 Rescheduled Budget and Appropriations Committee Meeting

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Item 10 File 25-0259	Department: Office of the Treasurer-Tax Collector (TTX)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> The proposed ordinance would amend the Business Regulations and Tax Code to extend the First Year Free program by one year through June 2026. The proposed ordinance makes no other changes to the program. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> The First Year Free program was first approved by the Board of Supervisors in July 2021 in response to the economic impact of the COVID-19 pandemic on the City's small businesses. Authorized in 12-month increments, the program has undergone modest eligibility expansions and, if approved, this will be its fourth extension by the Board. The program covers all first-year, City-issued fees for most businesses with \$5 million or less in gross receipts. The program is administered by the Treasurer-Tax Collector's office and has granted fee waivers to over 10,000 businesses since 2021. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> The mayor's proposed budget for FY 2025-26 – FY 2026-27 includes \$2.5 million in FY 2025-26 for the First Year Free program. These funds are used to reimburse departments for lost revenue and for the two positions at TTX that administer the program. This level of funding is similar to actual spending on the program in FY 2024-25. No funding is budgeted for FY 2026-27. <p style="text-align: center;">Policy Consideration</p> <ul style="list-style-type: none"> The First Year Free program was originally established in response to the COVID-19 pandemic as a means of alleviating the financial hardships felt by small businesses due to pandemic-related disruptions. While originally designed as a form of emergency pandemic relief, the program's stated goals have shifted towards an incentive program for small businesses to form and expand by reducing the financial burden of start-up fees during first-year operations. According to data provided by TTX, approximately half of all fee waivers in 2024 were for food service businesses and the average fee waiver is \$420. We recommend the Board request summary data on First Year Free beneficiaries to evaluate how well the program is targeting businesses of different sizes. This information would enable the Board to compare the impact of this program with other small business support initiatives and to evaluate the fiscal impact of restricting the eligibility requirements of this program in future years. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> Approval of the proposed ordinance is a policy matter for the Board of Supervisors. 	

MANDATE STATEMENT

City Charter Section 2.105 states that all legislative acts shall be by ordinance, approved by a majority of the members of the Board of Supervisors.

BACKGROUND**Program History**

In July 2021, the Board of Supervisors approved an ordinance (File 21-0741) temporarily waiving first-year permit, license, and business registration fees for certain small businesses as an economic recovery tool from the impact of the COVID-19 pandemic. Since its initial adoption, the program has returned to the Board each year for extension and approval. With each annual extension, the Board has approved minor modifications—primarily expanding business eligibility—which are summarized in Exhibit 1 below.

Exhibit 1: Legislative History and Key Changes

BOS File	Period	Eligibility	Legislative Action
21-0741	11/1/21 - 10/31/22	<ul style="list-style-type: none"> • Less than \$2 million in gross receipts • Non-formula retail business* • Have a registered business location on the ground floor 	<ul style="list-style-type: none"> • Ordinance waiving and refunding new or relocated business fees
22-0970	11/1/22 - 6/30/23	<ul style="list-style-type: none"> • Less than \$2 million in gross receipts 	<ul style="list-style-type: none"> • Ordinance extending program from File 21-0741
23-0664	7/1/23 – 6/30/24	<ul style="list-style-type: none"> • Less than \$5 million in gross receipts 	<ul style="list-style-type: none"> • Ordinance amending the Business and Tax Regulations Code to waive and refund new or relocated business fees
24-0126	7/1/24 – 6/30/25	<ul style="list-style-type: none"> • Less than \$5 million in gross receipts 	<ul style="list-style-type: none"> • Ordinance amending the Business and Tax Regulations Code to extend the program for another year

Source: Board of Supervisors

* Formula retail businesses are businesses that have eleven or more establishments with standardized features, per Section 303.1 of the Planning Code.

The current program waives or refunds all first-year fees except those related to Shared Spaces (Administrative Code 94A). It applies to businesses with \$5 million or less in San Francisco gross receipts and requires that businesses operate from a location registered for commercial use. Home-based businesses and short-term rentals remain ineligible.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend the Business Regulations and Tax Code to extend the First Year Free program by one year through June 2026. The proposed ordinance makes no other changes to the program.

Program Administration

According to Amanda Fried, the Treasurer-Tax Collector's Office Chief of Policy and Communications, the program employs two full-time Permanent Civil Service staff to administer its operations: one 4310 Commercial Division Assistant Supervisor and one 1634 Principal Account Clerk. TTX reports this staffing level is sufficient to effectively manage the program and the Department has no immediate plans to add staff to the program.

Businesses are automatically enrolled in the First Year Free program immediately upon registering with the Office of the Treasurer and Tax Collector, provided they meet the eligibility criteria at the time of registration. According to publicly available data from the Department, just over 10,000 businesses have enrolled in the First Year Free program since its inception in 2021.

Reporting Requirements

Per the Business Tax and Regulations Code,¹ the Tax Collector is required to collect specific information on all Qualified Businesses receiving fee waivers. This includes the business's Supervisor district, business activity codes as defined under the North American Industry Classification System (NAICS), and the total amount of fees waived. The Department is also required to submit an annual report to the Board of Supervisors by April 15 of each year the legislation remains in effect, detailing this information for the preceding calendar year.

FISCAL IMPACT

The mayor's proposed budget for FY 2025-26 – FY 2026-27 includes \$2.5 million in FY 2025-26 for the First Year Free program. These funds are used to reimburse departments for lost revenue and for the two positions at TTX that administer the program. This level of funding is similar to actual spending on the program in FY 2024-25. No funding is budgeted for FY 2026-27.

Historical Program Cost

According to data provided from the Treasurer-Tax Collector's Office, the First Year Free program has provided over \$3.8 million in fee relief since its inception in November 2021 through June 2024. Total fees generated grew by 14.8 percent between FYs 2022-23 and 2023-24. Based on actual spending data as of May 30, 2025, we estimate total fee relief of \$2.1 million in FY 2024-25.

¹ Article 2, SEC.76.3, subsection (i).

Exhibit 1: Fee Relief by Department

FY	DBI	TTX	DPH	ENT	CPC	DPW	POL	Total
2021-22*	\$88,160	\$103,498	\$79,434	\$9,670	\$4,568	\$2,569	\$816	\$288,715
2022-23	\$868,781	\$529,267	\$192,842	\$21,987	\$23,945	\$10,698	\$2,454	\$1,649,974
2023-24	\$938,721	\$557,173	\$238,756	\$83,719	\$31,747	\$22,244	\$21,912	\$1,894,272
Total	\$1,895,662	\$1,189,938	\$511,032	\$115,376	\$60,260	\$35,511	\$25,182	\$3,832,961

Source: TTX

* Partial Fiscal Year

POLICY CONSIDERATION

The First Year Free program was originally established in response to the COVID-19 pandemic as a means of alleviating the financial hardships felt by small businesses due to pandemic-related disruptions. Since its launch, the program has expanded eligibility by raising the gross receipts threshold by \$3 million and making relief available to all business types, with the exception of home-based establishments and short-term rentals. While originally designed as a form of emergency pandemic relief, the program's stated goals have shifted towards an incentive program for small businesses to form and expand by reducing the financial burden of start-up fees during first-year operations. According to data provided by TTX, approximately half of all fee waivers in 2024 were for food service businesses and the average fee waiver is \$420.

In addition to the annual program reporting requirements listed in the Code, we recommend the Board request that future annual reports include summary data on businesses by gross receipts business registration fee categories to evaluate how well the program is targeting businesses of different sizes. This information would enable the Board to compare the impact of this program with other small business support initiatives and to evaluate the fiscal impact of restricting the eligibility requirements of this program in future years.

RECOMMENDATION

Approval of this ordinance is a policy matter for the Board of Supervisors.

Items 15 and 16 Files 25-0625 & 25-0626	Department: Controller
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MANDATE STATEMENT/DETAILS OF PROPOSED LEGISLATION

File 25-0625: Administrative Provisions of the Annual Appropriation Ordinance

The proposed FY 2025-26 and FY 2026-27 Annual Appropriation Ordinance (AAO) contains the administrative provisions governing the appropriation ordinance. The proposed AAO for FY 2025-26 and FY 2026-27 contain the following significant changes to the administrative provisions:

Section 12.16- City Attorney Gifts and Grants for Federal Response

The proposed ordinance adds Section 12.16, which authorizes the City Attorney to accept and expend gifts or grants of funds and gifts of in-kind services, including but not limited to in-kind outside counsel services and expert consultant or witness services, to support the City Attorney's legal advice, advocacy, and litigation in preparation for or response to policies, actions, threats, and other decisions by the federal government. The City Attorney shall report all such grants and gifts to the Controller and the Mayor's Budget Office, in addition to any other applicable reporting requirements in the Administrative Code and the Campaign and Governmental Conduct Code. Approval of this section would remove Board of Supervisors approval for such accept and expenditures above the current \$10,000 limit.

According to Michelle Allersma, Director of the Controller's Office Budget and Analysis Division (BAD) and Jon Givner, Chief Assistant City Attorney, this section is being added to allow the City Attorney to quickly accept and expend any contributions of services or time made toward their office's efforts to respond to presidential executive orders, federal agency policies and actions, and other changes to federal rules, regulations, and processes that would harm the City's interests including its ability to secure federal revenue. Further, Chief Assistant City Attorney Givner has noted that the City Attorney's Office believes it may receive gifts in excess of the \$10,000 limit¹ in Admin Code Sec 10.100-305 and would like to be able to deploy them immediately given the need to respond quickly as federal policies and actions develop and change (e.g. file lawsuits, submit comments to regulations, seek injunctive relief, etc.). The Board approved a behested payment waiver authorizing the City Attorney to solicit funds for these purposes (subject to reporting requirements) in Board File 25-0047 (Enactment # 56-25).

¹ Administrative Code Section 10.100-305 requires Board of Supervisors approval by resolution to accept and expend any gift of cash or goods of a market value greater than \$10,000.

Section 14(d)- Film, Grants & Arts Agency (FGAA)

The proposed ordinance adds Section 14(d), which would create the Film, Grants & Arts Agency (FGAA), whose formal name would be determined at a later date and would be considered one entity for budget purposes and for disbursement of funds. Within the FGAA there would be two departments and one division of the General Services Agency: (1) the Arts Commission department, led by the Director of Cultural Affairs under its Commission, (2) the Film Commission department, led by the Executive Director under its Commission, and (3) Grants for the Arts ("GFTA"), under the Director. This budgetary structure would not affect the legal status or structure of the two departments or GFTA. The Human Resources Director and the Controller would be authorized to transfer employees, positions, and funding to effectuate the transfer of the program from one department or division to the other. The consolidated agency will be reorganized for purposes of determining employee seniority, position transfers, budgetary authority, and transfers or reappropriation of funds.

The section provides that the Director of the Agency would be appointed by the Mayor and would ensure that the departments and division within the Agency coordinate with each other to improve delivery of services to and for artists and the arts, increase administrative efficiencies and eliminate duplication of efforts. To this end, they may share staff and facilities. The section states that this coordination is not intended to diminish the authority of the two commissions—the Arts Commission and the Film Commission—over matters under their respective jurisdictions.

According to Chief Assistant City Attorney Givner, the Board of Supervisors would not need to adopt any legislation for this agency to be created as proposed. Further, Chief Assistant City Attorney Givner noted that the Board could make policy decisions to adopt ordinances assigning new or different powers and duties to the departments and divisions in the Agency, though the Board could not by ordinance eliminate or modify the Arts Commission's Charter-authorized powers and duties.

Section 14(e)- Agency for Human Rights

The proposed ordinance adds Section 14(e), which would create an Agency for Human Rights that would be considered one entity for budget purposes and for disbursement of funds. The Agency would consist of two departments: (1) the Human Rights Commission, led by the Executive Director under its Commission, and (2) the Department on the Status of Women, led by the Director under the Commission on the Status of Women. The proposed budgetary structure would not affect the legal status or structure of the two departments. The Human Resources Director and the Controller would be authorized to transfer employees, positions, and funding to effectuate the transfer of the program from one department or division to the other. The consolidated agency would be reorganized for purposes of determining employee seniority, position transfers, budgetary authority, and transfers or reappropriation of funds.

The Executive Director of the Human Rights Commission would lead the Agency for Human Rights. The Executive Director would ensure that the departments within the Agency coordinate with each other to improve delivery of services, increase administrative efficiencies, and eliminate duplication of efforts. To this end, they may share staff and facilities. The section states

that this coordination is not intended to diminish the authority of the two commissions—the Human Rights Commission and the Commission on the Status of Women—over matters under their respective jurisdictions. The section also stipulates that neither the Executive Director of the Human Rights Commission nor the Director of the Department on the Status of Women would receive additional compensation by virtue of their role in the Agency.

According to Chief Assistant City Attorney Givner, the Board of Supervisors would not need to adopt any legislation for this agency to be created as proposed. Further, Chief Assistant City Attorney Givner noted that the Board could make policy decisions to adopt ordinances assigning new or different powers and duties to the departments and divisions in the Agency, though the Board could not by ordinance eliminate or modify either department’s Charter-authorized powers and duties.

Section 26.2- Assessment Appeals System

The proposed ordinance adds Section 26.2, which would authorize and direct the Controller to apply any operating balances from the Assessment Appeals Board of the Board of Supervisors to the Assessment Appeals project through FY 2029-30.

According to Controller’s Office Budget and Analysis Division Director Allersma, the Board of Supervisors seeks the ability to fund upgrades to its Assessment Appeals system, for which it did not request COIT funding but rather seeks to fund through operational savings. Further, Director Allersma states that this section would enable any operating surplus to be appropriated for the project.

Section 32.3- Federal and State Revenue Risk Reserve

The proposed ordinance revises and repurposes the Fiscal Cliff Reserve, created in FY 2021-22 from FY 2020-21 designated fund balance, into the Federal and State Revenue Risk Reserve. The Fiscal Cliff Reserve was established for the purpose of managing revenue shortfalls following the spend down of federal and state stimulus funds and other one-time sources used to balance the FY 2021-22 and FY 2022-23 budget. The Fiscal Cliff Reserve was amended in the FY 2024-25 Annual Appropriation Ordinance to include the purpose of managing business tax revenue shortfalls.

The ordinance would assign FY 2024-25 ending balances of the Fiscal Cliff Reserve and the revenue escheated to the General Fund from City Option Medical Reimbursement Accounts to a budget contingency reserve for the purpose of managing revenue shortfalls related to changes in federal funding. The ordinance also prevents these revenues from being included in the calculations of deposits to the Budget Stabilization Reserve described in Administrative Code Section 10.60(c).

File 25-0626: Administrative Provisions of the Annual Salary Ordinance

The proposed FY 2025-26 and FY 2026-27 Annual Salary Ordinance (ASO) contains the administrative provisions governing the salary ordinance. The changes to the proposed ASO for FY 2025-26 and FY 2026-27 are related to updating compensation provisions to account for

changes in inflation, specifically for stipends to employees permanently assigned to Hetch Hetchy and Camp Mather and for moving expenses for new employees in the Manager IV classification or higher (Manager V or higher for SFMTA). In addition, the following section is proposed as an addition:

Section 2.6- Fire Chief Residence

The proposed ordinance adds Section 2.6, which relates to a historic commitment by the City to maintain a residence at 870 Bush Street for the Fire Chief.² The proposed section formally authorizes the Fire Chief to use residential areas in the building as a personal residence, subject to the terms of a lease between the Chief and the Real Estate Division. According to Controller's Office Budget and Analysis Division Director Allersma, the basis for adding this section is that the current Chief is the first in several years who intends to reside there. For this to occur, the Real Estate Division and the Fire Chief would need to sign a lease agreement laying out the terms of residence. According to Director Allersma, there are no apparent additional costs to this potential lease because the City currently maintains the building.

RECOMMENDATIONS

1. Consider: (a) seeking out information on the funds and in-kind services that would be subject to delegated authority under Section 12.16 through either a closed session of the Board of Supervisors or a Board committee on an annual basis or an annual confidential memo from the City Attorney; and (b) adding a sunset date for the proposed Section 12.16 of January 20, 2029.
2. Approval of Section 14(d) and 14(e) is a policy matter for the Board of Supervisors as authorizes the restructuring of multiple City departments and functions, including for 14(d): Arts Commission, Film Commission, and Grants for the Arts; and for 14(e): Human Rights Commission and Department on the Status of Women.
3. Approve the remainder of the administrative provisions of the Annual Appropriation Ordinance and Annual Salary Ordinance when considering approval of the Mayor's proposed FY 2025-26 and FY 2026-27 budget.

² According to Chief Assistant City Attorney Givner, City law does not require 870 Bush Street to be used as the Fire Chief's residence, but it has been used for that purpose since roughly 1919, and Board resolutions in 1919 and 1921 anticipated that the property would be used as the Fire Chief's residence.