



Office of the City Manager

WORKSESSION  
January 16, 2018

To: Honorable Mayor and Members of the City Council  
From: Dee Williams-Ridley, City Manager  
Submitted by: Jordan Klein, Economic Development Manager  
Subject: Economic Development Worksession: Small Business Support

SUMMARY

Small businesses are critical to our local economy and help to define Berkeley's identity. They enhance economic opportunities and self-sufficiency for business owners and employees; provide critical goods and services; and make essential contributions to community vitality and neighborhood character. In addition, the fiscal impact of businesses to the City of Berkeley is substantial; roughly a quarter of the City's general fund revenues are generated by business-related taxes.

In April 2017, Council referred to the City Manager the development of a package of programs and policies to support the establishment and sustainability of small, locally owned businesses. Subsequently, Office of Economic Development (OED) staff conducted outreach to small businesses in Berkeley to ensure that any new programs and policies are directly relevant. Staff analyzed existing small business services, and researched programs and policies in other communities.

In this worksession report, staff will provide Council with findings about the issues and trends that are impacting the profitability and sustainability of small businesses in Berkeley; summarize existing services for small businesses and refinements to OED's 2018-19 work plan to improve the City's support for small businesses; and share our initial analysis of other programs and policies for Council's future consideration.

CURRENT SITUATION AND ITS EFFECTS

***Berkeley's Small Businesses 'By the Numbers'***

OED staff profiled small businesses in Berkeley using a variety of data sources, including the Bureau of Labor Statistics' Quarterly Census of Employment and Wages for Q4 2016; the City of Berkeley's business license database; the City's FY2018&19 Budget; OED's database of ground floor commercial spaces (updated roughly twice per year since 2008); reports from MuniServices on Berkeley's sales tax revenues; and websites such as Crunchbase, LinkedIn, and those of Berkeley's startup incubators and accelerators. Note that OED's datasets for this project largely exclude home-based sole proprietorships—i.e., firms with no employees—which warrant a separate study.

Our key findings include the following:

**There are over 5,000 small businesses (defined as firms with 50 or fewer employees) located in Berkeley.** Although Berkeley's Finance Department issues approximately 13,000 business licenses annually, this includes property owners that collect rental income in the City, as well as firms based outside of Berkeley that are required to obtain a business license in order to perform work in Berkeley (e.g., contractors). 97% of employers in Berkeley have 50 or fewer employees, and only 62 firms (1%) employ more than 100 people (see Attachment 1). 70% of employers (3,602) have fewer than 5 employees. Approximately 41% of total jobs in Berkeley, or 26,665 of 65,561, are attributed to the City's small businesses.

**Small businesses in Berkeley are diverse by sector, type and ownership demographics.** In addition to the restaurants, retail, and personal services businesses that we commonly associate with 'small businesses', firms with 50 or fewer employers are represented across a wide range of industry sectors in Berkeley (see Attachment 2). The City is also host to a wide variety of sole proprietorships including a diverse set of home-based businesses. In addition to this diversity by business sector and type, the demographic backgrounds of Berkeley's business owners also contribute to the City's economic diversity: 37% of active businesses in Berkeley identify as minority- or female-owned.

**Roughly two thirds of small businesses in Berkeley are 'locally' owned.** Sixty-five percent of small businesses in Berkeley report their primary mailing address within Berkeley or elsewhere in the East Bay. By employment, small businesses with local mailing addresses employ a total of 20,209 people, or roughly 76% of the jobs attributable to the City's small businesses, whereas the remainder are with firms headquartered elsewhere in California and out of state.

**Most 'startups' in Berkeley are also 'small businesses'.** Berkeley is home to approximately 250 startups in innovation and technology sectors. While the vast majority have fewer than 50 employees, they are distinct from other small businesses because of their focus on rapid growth and scalability, unconstrained by geography. In Berkeley today, 45% of these firms are in software, nearly a quarter (24%) in biotech (including medical devices, healthcare and life sciences), and 16% in clean tech (including renewable energy, energy efficiency, energy storage, and clean transportation). Twenty percent of these firms have at least one female founder.

**Retail in commercial districts, as a share of total square footage, has declined, even as vacancy rates have largely remained stable or declined.** The percentage of ground floor commercial square footage occupied by retail uses decreased from 44.8% in 2015 to 40.5% in 2017 (see Attachment 3). During the same period, the overall vacancy rate decreased from 5.9% to 4.6%. As retail has declined, ground floor commercial spaces have been increasingly occupied by office uses, personal services,

and other non-retail uses (including non-conforming uses, leased spaces and pending development projects).

**Commercial districts are increasingly reliant on food and beverage services as a driver of sales and food traffic.** Historically, the City of Berkeley has enjoyed a robust food and beverage sector, with high sales tax revenues as compared to other Bay Area and California cities. Over the past seven years, food and beverage sales have steadily increased as retail has largely remained flat or decreased (see Attachment 4). By square footage, food and beverage tops retail in only one commercial district (Downtown), but by sales tax collected, food and beverage outpaces retail in five of Berkeley's nine commercial districts.

**Leasing rates for office spaces have increased in recent years.** Although OED does not currently have access to a reliable data source for rent levels for ground floor spaces in commercial districts, local brokerage firms report that office rents in Berkeley have increased by 15 to 20% over the past two years.

### ***OED Outreach and Research***

In fall 2017 OED set out to gather input from small business owners and managers in Berkeley. The purpose of this outreach was to gather information about the issues and trends affecting small businesses, and input on how the City should expand policies and programs to better assist and serve small businesses and entrepreneurs. The outreach methodology consisted of the following:

- **Surveys.** OED partnered with Buy Local Berkeley to conduct a survey of small business owners and managers in summer 2017; 91 responses were submitted. In addition, staff reviewed four surveys of small businesses in Berkeley that have been conducted over the past three years by various partner agencies including the Berkeley Chamber, Bay Area Organization of Black-Owned Businesses, Telegraph Business Improvement District, and City of Berkeley's Planning Department.
- **Interviews.** From July through December 2017, staff conducted 34 one-on-one interviews with small business owners in Berkeley, including businesses in each Council district, a variety of business types and sizes, businesses ranging from less than a year old to five decades, businesses owned by women and by people of color, and worker-owned cooperatives. See Attachment 5 for a complete list of interviewees.
- **Small business forum.** On December 6, 2017, OED hosted a meeting with owners and managers of small businesses in Berkeley to share information and gather feedback. Approximately 45 people attended, representing 40 unique businesses. The meeting participants engaged in small group discussions and open dialogue, and their feedback was recorded.

In addition to the outreach activities and quantitative research outlined above, OED staff conducted a wide range of other research activities. This included review of relevant literature, publications and news media related to small business issues; consultation with business services staff at nonprofit organizations and other municipalities, and with small business advocates in Berkeley; analysis of other municipalities' small business services and policies; and direct observation of conditions in Berkeley.

### ***Findings: Issues and Trends Affecting Small Businesses***

Most of the issues and trends cited by small businesses fall into three broad categories: *engaging with the City*, *neighborhood conditions*, and *costs of doing business*. Two other frequently cited issues defy that taxonomy: *competition from the Internet and larger stores* and *Berkeley's reputation as a place to do business*. Some issues and trends are relevant to particular business types and industries, while others were more universally cited.

#### ***Engaging with the City***

Many small business owners reported that their overall experience of engaging with the City of Berkeley is a negative one, and hinders their sustainability and profitability. One restaurant owner who had a particularly difficult time opening his business told us, "it was a disappointment for me. I would have expected a lot more support, but the City made me feel unwanted." The specific issues around engagement with the City include:

- **Permitting and licensing processes** are time consuming and difficult to navigate, particularly for businesses seeking initial establishment or expansion. This was the most frequently cited issue, mentioned in nearly half of the one-on-one interviews conducted by staff, in surveys and at the small business forum. A number of distinct municipal functions contribute to businesses' experience of this issue:
  - **Zoning Review.** Businesses seeking to establish a new use in a particular location are often, by way of the rules established in the City's zoning ordinance, subject to a review process that can take from four to six months (for an Administrative Use Permit) or six to twelve months (for a Use Permit). In many cases, the business is paying rent on their prospective space while they wait for approval, resulting in sizeable increases to their startup costs, in addition to the uncertain outcome of the process. In some cases, special rules (e.g., related to parking requirements, or restrictions on particular uses in particular neighborhoods) that are not initially clear to a prospective business will ultimately make it cost prohibitive or even impossible to open the business in the desired location.
  - **Building Permit Review.** Building permits are reviewed by staff in multiple departments prior to their issuance. While that review is coordinated

internally by staff at the Permit Service Center, clients' experience of that process can be disjointed. The timelines for permit review are not clearly communicated to clients, tend to be longer than in other municipalities, and sometimes result in inconsistent information. In addition, over the past several years the thriving economy and housing market has generated an unprecedented volume of permit applications, resulting in longer review periods for all clients (including small businesses).

- *Business License Application and Renewal.* Berkeley's Business License Application is longer and more complicated than those of neighboring jurisdictions. In addition, the application and renewal processes cannot be completed over the Internet.
- *Other Special Permits* or review processes managed by various departments and divisions (e.g., Public Works, Fire, Police, Public Health) are sometimes required in order to establish or expand a business.
- **Accessing information and communication** about City functions, public safety, neighborhood conditions, and other issues is often challenging for businesses. Small business owners reported to OED staff that they "don't know who to call" to discuss or report issues, or to request assistance. This challenge is exacerbated by the City's website, which is difficult to navigate and in need of a refresh. Although 3-1-1 is available as a single point of entry to access City services, many businesses are unaware of that resource, while others felt frustrated by the lack of clear or timely follow-up resulting from calls to the customer service line.
- **Insufficient opportunities for engagement and advocacy.** A number of interviewees and small business forum participants indicated a feeling that the perspective and needs of small business owners is underrepresented at City commissions and in the City's public processes and legislative review.

### *Neighborhood Conditions*

Neighborhood conditions define the local environment for shopping, working, and travel, and directly impact small businesses on a daily basis. These factors can be particularly frustrating for businesses as they often fall completely outside their zone of control.

Specific issues include:

- **Illegal street behavior** was identified as a critical issue in every small business survey, in many interviews, and at the small business forum, cited by all types of businesses. Some respondents identified this issue generally as 'homelessness', but most cited specific behaviors in commercial districts such as public urination and defecation, encampments and belongings impeding sidewalk accessibility, and harassment of customers and patrons. Business owners report that these behaviors impact shoppers' and patrons' experience of the commercial district,

discouraging them from patronizing Berkeley businesses and impacting sales. In addition, business owners noted how regular encounters with these behaviors affect their own mental health and that of their employees.

- **Neighborhood cleanliness and commercial district conditions**, including trash collection, sidewalk and pavement quality, lighting, streetscapes, and public safety, were cited by a third of the business owners we interviewed, as well as in surveys and at the small business forum.
- **Parking and accessibility** was the issue most frequently cited in the survey conducted by the Berkeley Chamber, and was mentioned by nearly a third of OED interviewees. Some business owners reflected concern about their customers' ability to secure parking, while many focused more on their employees' access.
- **Vacant commercial spaces** were cited by some neighborhood-serving businesses as having an adverse impact on their district, contributing to neighborhood blight, diminishing foot traffic and the appearance of disinvestment.
- A few business owners noted that the **impact of construction and development** projects can be extremely disruptive. A poorly timed project, or a project that forces a business to relocate temporarily or permanently, could result in a business's closure.

### *Costs of Doing Business*

Many businesses reported that their costs have been steadily increasing, without a corresponding increase in revenues, threatening the basic viability of their businesses. While price increases can sometimes offset increasing costs, they are sometimes prohibited by wholesalers or suppliers; they also tend to drive down sales volume, resulting in little or no net increase in total revenues. The specific issues in this category include the following:

- **Labor costs** have increased for Berkeley small businesses, due in part to local legislation (e.g., minimum wage and sick leave). This issue was cited by nearly a quarter of interviewees, and particularly by restaurants and retailers. One retailer, when asked about his most significant business challenges, said "minimum wage, far and away. We used to employ young people from Berkeley High; that will never happen again. \$15/hour might put me out of business."
- **Commercial rent increases** were cited by a number of business owners as a key threat, directly impacting a business's profitability and sustainability.
- Many businesses reported that **finding available real estate** is becoming increasingly difficult, time consuming and costly. The owner of an indoor play

space business lamented the difficulty of finding an affordable space to establish a family friendly atmosphere.

- **Housing costs and availability**, an issue that is impacting the entire Bay Area, is affecting small businesses in Berkeley. Business owners noted that their employees are increasingly finding it difficult to secure housing locally, and often must commute significant distances. A worker-owner from a local cooperative food service business believes their “biggest challenge is housing...it’s too expensive to live in Berkeley and people can’t BART in during the middle of the night [to arrive at work in time for their hours].”

### *Competition from the Internet and Larger Stores*

When asked about business challenges, many of Berkeley’s small businesses had a one-word answer: “Amazon.” Described as the “elephant in the room”, online sales were mentioned by nearly one-third (32%) of the businesses interviewed. It was cited as a particular challenge for independent retailers. An owner of a local music store explained how Amazon presents a challenge for local businesses, even though it serves as an additional sales channel: “When I place items on Amazon, the business loses money because of the percentage we have pay out to Amazon.”

While e-commerce presently accounts for only 9% of overall retail sales across America,<sup>1</sup> some analysts expect online shopping to account for 17% of total retail sales by 2022.<sup>2</sup> Consumers’ switch to online shopping has likely contributed to the decline in Berkeley of ground floor occupancy by retail stores.

Some retailers also mentioned bigger stores or chains as a significant source of competition. An owner of an independent electronics retailer reported that, in addition to competing with online retailers, their store’s annual revenues have been significantly impacted by some Emeryville shopping centers that have free surface level parking and greater economies of scale. A local independent grocer lamented the price pressure that the larger grocery stores put on smaller purveyors with less space to display inventory.

### *Berkeley’s Reputation as a Place to do Business*

Many small businesses owners indicated that they, their peers, and their customers perceive Berkeley to be generally adverse to businesses. This reputation may stem in part from Berkeley’s regulations related to zoning, labor and business practices. Some businesses and contractors are unwilling to do business in Berkeley due to local regulations and burdensome public review. Some business owners noted also that

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<sup>1</sup> US Census Bureau, Quarterly Retail E-Commerce Sales, Q3 2017

[https://www.census.gov/retail/mrts/www/data/pdf/ec\\_current.pdf](https://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf)

<sup>2</sup> Forrester Data, Online Retail Forecast, 2017 to 2022

<https://www.digitalcommerce360.com/2017/08/09/e-commerce-grow-17-us-retail-sales-2022/>

Berkeley's history, and reputation as a bastion for leftist politics and progressive values, leads many to the inaccurate conclusion that the majority of Berkeley citizens, elected officials and employees are dismissive of small businesses' value to the community, and even hostile to their very existence.

*Other issues* that were noted by more than one business but did not rise to the top include succession planning and planning for retirement, energy reliability, public transit access for staff, fundraising and access to financing, and opportunities to pilot products and technology locally.

### ***Existing Services for Berkeley's Small Businesses***

Small businesses in Berkeley can currently take advantage of a variety of services offered by the Office of Economic Development and partner agencies. These include the following:

- OED staff members provide **direct assistance and case management** to small businesses to help them identify prospective sites in Berkeley, understand zoning and other regulations, navigate the permitting process, access City resources and regulatory staff, engage with neighboring businesses and stakeholders, analyze their business plan, participate in civic projects, etc. Four members of OED's business services team provide this type of client support, with each staff member offering various expertise relating to particular service types, industry sectors, and neighborhoods. Staff estimates that we serve, on average, between 25 and 50 unique clients per week.

A number of nonprofit organizations also provide client services to small businesses in Berkeley. These include Alameda County Small Business Development Center (counseling, expansion planning, loan application preparation, workshops), East Bay Community Law Center (legal establishment, contract review, lease negotiations), Working Solutions (financing, counseling), Kiva US (microfinance), Project Equity (succession planning, conversion to worker ownership), Renaissance Entrepreneurship Center (business planning, workshops), and many other programs at UC Berkeley and local incubators and accelerators. OED staff members leverage these services through referrals and periodic consultations.

- OED's **Revolving Loan Fund** offers loans to businesses with interest rates and terms that are below market, available for use in funding business expansion, fixed assets, equipment, working capital, and real estate. OED staff also advises small businesses in accessing other financing tools such as commercial loans or via nonprofit lenders (e.g., Working Solutions, Opportunity Fund, Kiva).
- There are about a dozen **commercial district associations**<sup>3</sup> across Berkeley that support small businesses and work to enhance their shopping environment.



They range widely in size and formality, from small, all-volunteer groups that meet irregularly, to legal entities with organizational by-laws and monthly meetings, to large organizations with paid staff and sustainable and sizable budgets. Their services vary by district, but often include marketing and branding, special events, holiday decorations, supplemental cleaning services, public art and other capital projects, and small business advocacy.

- A number of **other business networks** in Berkeley provide specialized services to businesses, or serve specific industry sectors. These include the Berkeley Chamber (marketing, advocacy, networking, events), Buy Local Berkeley (marketing Berkeley's independently-owned stores), Women Entrepreneurs in Berkeley, Berkeley Startup Cluster (startups in innovation sectors), Berkeley-Emeryville BIO (biotech and other life science companies), and West Berkeley Design Loop (design and construction businesses). For more information on these business networks see Attachment 6.
- OED promotes **sustainable business practices in collaboration with the Alameda County Green Business Program**. By providing technical assistance and certification<sup>4</sup>, the program helps businesses gain a marketing edge with environmentally conscious consumers; improve employee health, morale and productivity; minimize their environmental impact; and decrease operating costs. The process for certification helps businesses implement industry-specific steps to reduce greenhouse gas emissions and hazardous waste, improve energy efficiency, conserve water, and divert solid waste from the landfill.
- **Workforce development organizations**, with support from OED, build connections between Berkeley's employers and local education and training providers. Staff engages companies to post Berkeley job openings or internships at UC Berkeley, Berkeley City College, Berkeley High School, the North Cities One Stop Career Center, or other industry-specific job training programs such as those offered by the Bread Project, Rising Sun Energy Center or Inter-City Services. OED assists companies on site tours, engaging with local high school or college students, and contributing to STEM education and training.
- OED provides **data collection, reporting and analysis** on Berkeley economic conditions and trends, business occupancy, commercial vacancy, demographics, and other tools that support small businesses' and advocates' activities related to locational decisions, marketing, and research. In addition to OED's regular economic reports to Council,<sup>5</sup> OED staff is sometimes able to provide ad hoc

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<sup>3</sup> A list of active associations is available at OED's website at: [https://www.cityofberkeley.info/City\\_Manager/Economic\\_Development/Business\\_District\\_Associations.aspx](https://www.cityofberkeley.info/City_Manager/Economic_Development/Business_District_Associations.aspx)

<sup>4</sup> More than 130 Berkeley businesses have been certified across 13 industries.

<sup>5</sup> OED reports are available at our website: <https://www.cityofberkeley.info/oed/reports/>

reporting services in response to a particular request from a small business client. In addition, the [www.locateinberkeley.com](http://www.locateinberkeley.com) website, administered by an OED vendor, provides free information about available commercial real estate.

### ***Cross-Departmental Efforts to Address Broad Issues***

Many of the issues cited by small businesses relate to global challenges faced not only by the City of Berkeley, but also by comparable municipalities across the region and the country. And these broader issues, such as the housing crisis, illegal street behavior, and customer service challenges, affect not only small businesses, but the entire Berkeley community. There are a number of initiatives underway engaging staff across multiple departments, as well as elected officials, to address these issues. While none of these issues can be solved overnight, the City's cumulative efforts can improve small businesses' experience of local government.

- **Major initiatives to improve customer service.** Many improvements to the City's systems for data management, permitting, licensing, and other essential services for small businesses are currently underway. These include improvements to Accela (the permits and business license database), the Zoning Ordinance Revision Project (ZORP), implementation of the Enterprise Resource Management Application (ERMA) (an overhaul of the City's finance systems), redesign of the City's website, and implementation of a number of the permitting process improvements recommended in the 'Zucker Report'.<sup>6</sup> Staff is confident that these major projects will, with time, improve customer services for small businesses (along with the City's other constituents).
- Council and staff have collaborated to develop and fund the **Pathways Project**, the **Berkeley Hub**, and other programs to serve Berkeley's homeless population with **transitional housing and supportive services**.
- Council and staff have collaborated to develop and fund the implementation of a **Housing Action Plan**, a series of programs and policies designed to increase access to housing in Berkeley, especially housing that is affordable for low- and moderate-income people.
- The City Council Ad Hoc Committee on Homelessness is working with advocates and stakeholders to develop **City policies for encampments and street behavior** that will reduce the direct impacts of negative street behavior on small businesses, commercial districts and other public spaces.

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<sup>6</sup> The Planning & Development Department engaged Zucker Systems to assess the department's services related to zoning, permitting, plan check, etc. The complete report is available at [https://www.cityofberkeley.info/Clerk/City\\_Council/2017/06\\_June/Documents/2017-06-27\\_WS\\_Item\\_01\\_Improving\\_Planning.aspx](https://www.cityofberkeley.info/Clerk/City_Council/2017/06_June/Documents/2017-06-27_WS_Item_01_Improving_Planning.aspx)

- **Parking Supply and Management.** The Center Street Garage will reopen in spring 2018, adding 720 spaces to Downtown Berkeley (an increase of 300 spots over the former garage). In addition, staff is working towards expansion of Go Berkeley, the City's demand-responsive parking management system that is designed to make it easier to find a parking spot, to additional neighborhoods.

### ***OED's 2018-19 Work Plan***

OED staff, in consultation with the City Manager and other City departments, have identified a number of projects to be implemented over the next 3 to 18 months that relate to the issues and trends identified through our recent small business outreach. These refinements to OED's work plan are specifically designed to improve the City's services for small businesses. These projects can be implemented with existing staff and budget resources, and they correspond directly with the strategic priorities identified in the City's draft strategic plan.

#### **1. Improve OED's outreach and communications with local small businesses.**

The biggest barrier to small businesses' access to support services is lack of awareness. Outreach and communications activities are essential not only for customer service; they also help counter Berkeley's reputation as a place that is unfriendly to business.

Staff is currently revising OED's website to update information about the services offered by our team, provide accurate and up-to-date information in response to frequently asked questions, and make it easier for clients to connect with appropriate staff. In 2018, we will also explore new tools and channels for communicating regularly with Berkeley businesses via e-mail, social media, events, physical mailers, and by leveraging the communications channels of our commercial district associations and business networks.

#### **2. Increase support for businesses navigating the permitting process.** The direct provision of assistance and case management for small businesses has long been a core function of OED. In 2018 our unit will dedicate significant staff time to increasing its capacity in this area through the following activities:

- Shadow staff at the Permit Service Center, in inspection units, and in other key roles related to regulation and customer services for small businesses to build knowledge base and identify common 'pain points'.
- Develop and enhance communications tools related to Berkeley's business permitting and regulation processes.
- Identify opportunities for cross-departmental process improvements that correspond with the Planning Department's existing efforts to improve its processes and systems.

#### **3. Recommend modifications to the zoning ordinance to support small businesses and prioritize desired uses.** The zoning ordinance, as noted

above, often serves as a barrier and a deterrent to small business development. Examples include outdated and burdensome parking requirements for food services businesses (regardless of transit accessibility), lack of accommodation for businesses with ‘hybrid’ business models, and high discretionary review requirements for desired uses. When asked how the City can improve its services for small businesses, in interviews, surveys and at the small business forum, respondents consistently cited “streamline permitting and zoning” as their top choice.

A team of staff from OED and Planning & Development will analyze these issues and will, by June 2018, recommend to Council specific modifications to the zoning ordinance to remove barriers for desired small business uses and facilitate business establishment and expansion.

4. **Pilot new small business assistance and retention programs.** OED has one-time funding available<sup>7</sup> to pilot programs to support existing small businesses at risk of displacement or closure. OED will release a request for proposals in spring 2018 to recruit nonprofit partners to implement new programming. Specific services could include enhancing businesses’ operations and marketing, succession planning, real estate planning, conversion to worker-owned cooperatives, façade improvements, or other technical or capital assistance. OED hopes to serve between 10 and 20 businesses over two years through this new programming.
5. **Increase the impact of Buy Local Berkeley.** OED will work with the current Buy Local Berkeley network director, other Berkeley business organizations, and marketing and retail shopping experts to define and implement an updated strategy for the initiative. OED and partners will aim to increase the relevance and reach of Buy Local Berkeley’s ongoing and holiday-specific marketing campaigns, increase efforts to educate the public about opportunities to shop locally (and the corresponding benefits), and facilitate best practice sharing across Berkeley’s locally-owned and independently operated stores.

### ***Other Programs and Policies***

A number of other programs and policies, identified in the April 2017 Council referral (see Attachment 7), staff research, or outreach to small businesses, would require staff to conduct additional review, outreach, and/or budget analysis before making a recommendation to Council.

- **Establish a One-Stop / Small Business Assistance Center.** The Permit Service Center (PSC) does provide ‘one-stop’ functionality, as it allows project

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<sup>7</sup> Carryover funds from FY2017 salary savings resulting from multiple vacant positions within OED during the year; allocated by Council at the 12/5/2017 regular meeting (item A).

applicants to access, in one location, a variety of staff responsible for different phases of project review. The PSC continues to refine these services; recently, staff established regular hours of availability for a building inspector to provide consultation to applicants.

As noted above, OED has specific plans to collaborate with the Planning Department to improve communications and tools for small businesses, increase support for navigating the permitting process, and recommend modifications to the zoning ordinance to support small businesses. Whether dedicated staffing at the PSC (or another location) is warranted is a question that requires further consideration. The PSC serves, on average, 4 to 5 small business clients per day. A full-time, dedicated staffer therefore may not be an efficient use of limited resources.

- **Support for small businesses and nonprofits impacted by construction and development projects.** For public infrastructure construction projects, commercial districts have a moratorium in place during the holiday shopping season (late November to mid-January). OED staff partners with Public Works staff and commercial district leaders to communicate to small businesses regarding project timelines.

Other municipalities have found success with enhanced communication and group marketing campaigns, providing sign upgrades, offering directions and dedicated parking to patrons of impacted merchants, tailoring discounts to construction workers associated with the project, and grants for façade improvements or utility rebates.<sup>8</sup> Council could consider allocating funding for this type of programming in the next budget cycle, or as part of capital budgeting in the future. Council could also refer to the Planning Commission the establishment of standards for development projects' mitigations of construction impacts on small businesses. Note, however, that the added development costs could reduce projects' capacity for affordable housing or other community benefits, and could contribute to a slight increase in local housing costs.

- **Taxes or fees on vacant storefronts, buildings and empty lots.** OED staff, through our regular inventory of ground-floor commercial spaces, observed 427 distinct spaces that were vacant at some point during the period from 2011 to spring 2017. Of those, 128 (or 30%) were vacant for two years or longer. These vacancies impact their neighboring small businesses by contributing to neighborhood blight, worsening the shopping environment and reducing foot traffic.

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<sup>8</sup> See Neighborhood Economic Development Corporation's efforts in Mesa, Arizona: [http://www.eastvalleytribune.com/local/mesa/mesa-s-main-street-businesses-ready-for-light-rail-construction/article\\_6a8e94e2-b11d-11e2-a35e-0019bb2963f4.html](http://www.eastvalleytribune.com/local/mesa/mesa-s-main-street-businesses-ready-for-light-rail-construction/article_6a8e94e2-b11d-11e2-a35e-0019bb2963f4.html)

A number of other municipalities in California and nationwide have adopted a Vacant Building Registration Ordinance (VBRO) and program, requiring the owners of vacant property to register their property annually, comply with certain maintenance regulations, and pay an annual fee. However, these fees are typically less than \$800 per year (with CA Proposition 218 limiting the City's ability to adopt higher fees), which is not high enough to motivate a property owner to take action to lease or sell their property. Staff is not pursuing the establishment of a VBRO at this time.

Staff is researching potential additions to Berkeley Municipal Code chapter 12.92 (Anti-Blight) to enhance the City's ability to compel property owners to mitigate the impacts of vacant properties. Additionally, Council could refer a ballot measure to Berkeley voters to establish a tax on vacant storefronts, which could be set at a level that is high enough to disincentive property owners from taking no action on their vacant property.

- **Establish a Legacy Business program.** The City and County of San Francisco's Legacy Business Program supports businesses and non-profits in operation for more than 30 years by granting special recognition for their significant impact on the history or culture of their neighborhood. Owners (and landlords) of legacy businesses must agree to maintain the historic name and craft of their businesses, and in exchange receive grants to offset labor and real estate-related expenses.

San Francisco's Legacy Business Program is administered by one full-time employee in their Office of Economic & Workforce Development who is wholly dedicated to the program. Grants to legacy businesses are between \$10,000 and \$40,000 per business; in the program's initial year, grant funding totaled \$404,000. Although OED does not have the staff capacity or budget resources to implement this programing, staff will consider adoption of some of the program practices (e.g., business recognition).

- **Expand local purchasing requirements for the City and UC.** In January 2017 Council adopted a budget referral to "analyze the City's use of local, small, emerging enterprises and other enterprises with barriers to access in City construction, architecture, engineering, professional services, goods and other services contracts."<sup>9</sup> The item was subsequently funded in the Mayor's supplemental budget recommendations in June 2017. The study will be implemented by Finance staff during the current budget cycle, and could inform policy recommendations related to expanding local purchasing requirements.

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<sup>9</sup> See Council item adopted 1/24/17: [https://www.cityofberkeley.info/uploadedFiles/Council\\_3/Level\\_3\\_-\\_General/BINDEX.pdf](https://www.cityofberkeley.info/uploadedFiles/Council_3/Level_3_-_General/BINDEX.pdf)

OED will also support events that increase local businesses' awareness of the opportunities to become a vendor to the City and UC Berkeley.

- **Expand or Strengthen the Revolving Loan Fund.** Staff is currently piloting the transition of the loan application process to a web-based platform, as well as a new loan underwriting model that increasingly leverages the expertise of members of the Loan Administration Board. If demand for the program increases and the capital base is exhausted, staff or the Loan Administration Board may recommend that Council allocate additional resources for lending capital, or otherwise expand or strengthen the program.
- **Establish a Small Business Commission.** Some business owners and advocates have suggested, and Council has discussed, the establishment of a new City Commission to examine and advise Council on policies and programs impacting small businesses. Three existing commissions, as well as a number of business district associations and advocacy groups, serve this function already. Staff estimates that the creation of a new Commission would require between one third and one half of a staff position to support the Commission as secretary. Unless new resources are dedicated to such a position, it would divert resources from small business services and other existing economic development programs and priorities.
- **Dedicated support for worker-owned cooperatives.** OED staff has engaged with representatives from a number of Bay Area organizations that support and advocate for businesses structured as worker-owned cooperatives. Staff hopes to partner with these advocates on a data analysis project in 2018 to identify businesses that may be interested in conversion to worker ownership. In addition, these organizations will be invited to respond to our upcoming RFP to pilot new small business retention services.

During the current budget cycle, OED's new programs and policies to support small businesses will consist primarily of the five projects described above in the section entitled ***OED's 2018-19 Work Plan***. These projects are most relevant to the identified needs of small businesses and their indicated preferences, OED's existing staff and budget capacity, and the City of Berkeley's draft strategic plan. As staffing allows, OED staff will conduct additional research and engage the small business community and other City departments regarding the other programs and policies described above.

#### BACKGROUND

Small businesses are critical to our local economy and help to define Berkeley's identity. There are roughly 5,000 small businesses in Berkeley that enhance economic opportunities and self-sufficiency for business owners and employees; provide critical goods and services; and make essential contributions to community vitality and neighborhood character. In addition, the fiscal impact of businesses to the City of

Berkeley is substantial; roughly a quarter of the City's general fund revenues are generated by business-related taxes.

The mission of the Office of Economic Development is to assist businesses, entrepreneurs, artists and community organizations to access resources, feel welcome in Berkeley, and thrive.

In April 2017 City Council referred to the City Manager the development of a package of policies and programs to support the establishment of new, and sustainability of existing, small and/or locally owned businesses (see Attachment 7).

From July through December 2017, OED staff conducted quantitative and qualitative research to observe and analyze small businesses in Berkeley; conducted outreach to small businesses including surveys, interviews, and a small business forum; reviewed best practices in services for small businesses offered by nonprofit organizations and other municipalities around the region and the country; and consulted with staff in other City departments to identify challenges in serving small businesses and opportunities for collaboration.

#### ENVIRONMENTAL SUSTAINABILITY

Small businesses often contribute to sustainable transportation and consumer behavior by providing opportunities to shop in neighborhood commercial districts that are accessible by foot, bicycle and transit. In addition, many of the City's environmental sustainability goals are inextricably tied to the overall health of the City's economy. Staff believes that the continued pursuit of environmental sustainability goals, as well as the programs and public policies that encourage that pursuit, represents a core economic strength for Berkeley and a competitive advantage of the City and the region.

#### POSSIBLE FUTURE ACTION

Staff will likely make recommendations to Council to take actions related to the implementation of the activities listed above in the section entitled ***OED's 2018-19 Work Plan***. Possible actions include authorization of an RFP and contract(s) to pilot new small business retention services, and referrals to the Planning Commission of modifications to the zoning ordinance that support small business development.

#### FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

The future actions noted above can be implemented with existing budget resources allocated through the annual budget process, and existing staff resources. Small businesses are important contributors to General Fund revenues through sales tax, business license tax, and property tax. To the extent that the new policies and programs that are implemented have positive impact in encouraging the development and expansion of small businesses in Berkeley, the fiscal impacts would be beneficial, but are difficult to estimate.

#### CONTACT PERSON

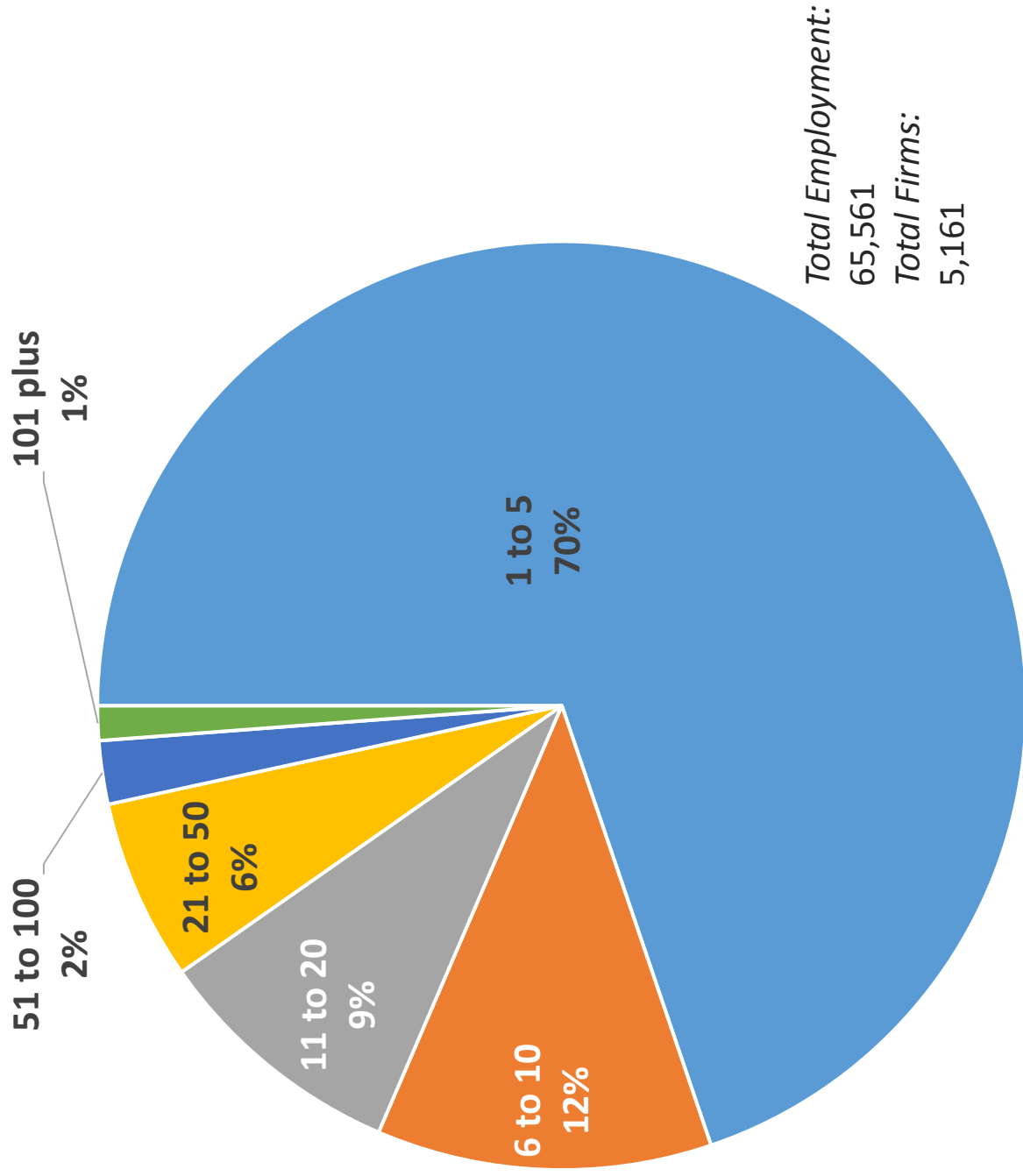


Jordan Klein, Economic Development Manager, (510) 981-7534

**Attachments:**

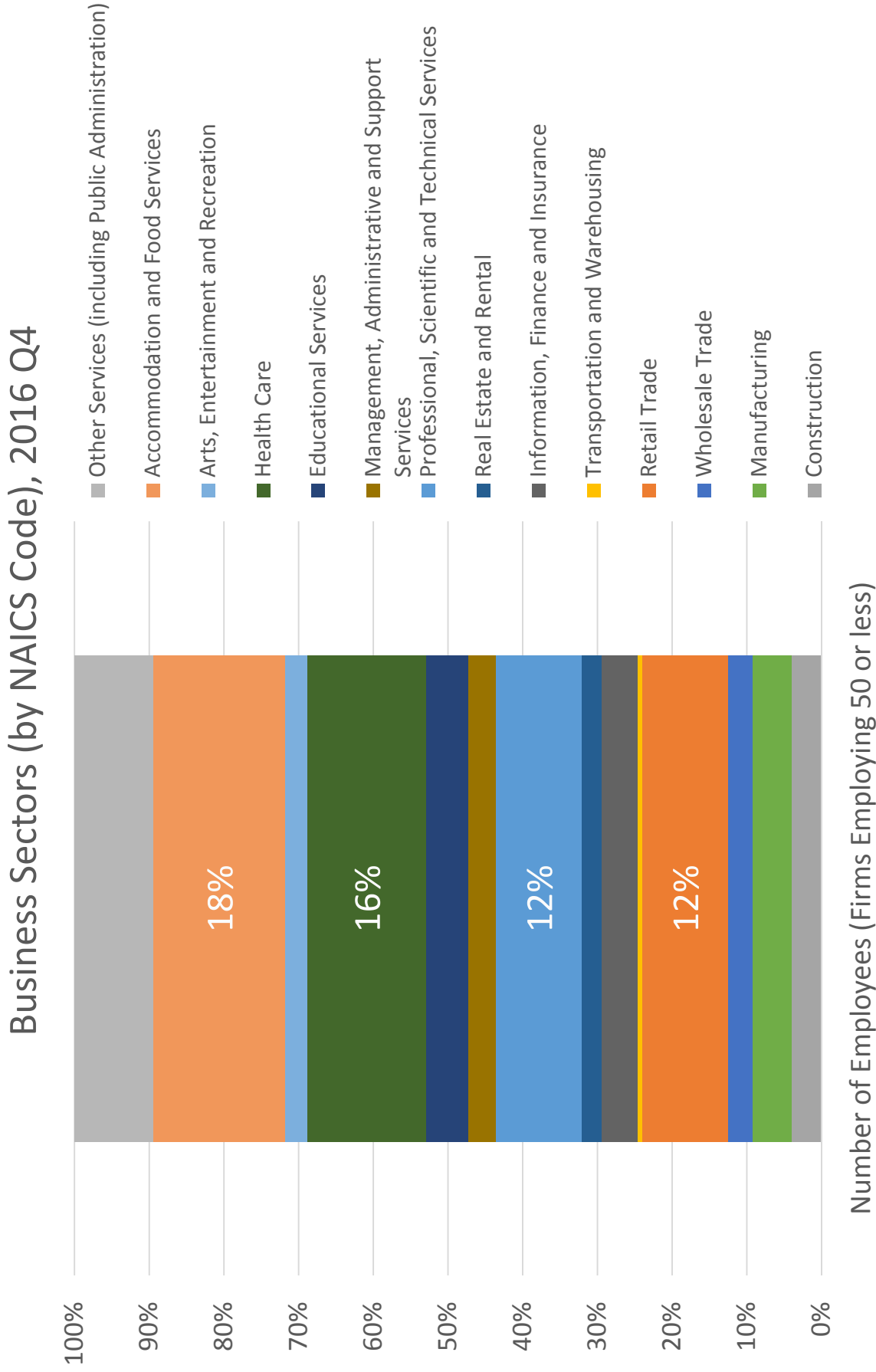
- 1: Employers in Berkeley by Number of Employees
- 2: Employment in Berkeley's Small Businesses, by Industry
- 3: Citywide Ground Floor Commercial Uses by Industry
- 4: Sales Tax Revenue by Business Category 2010-2017
- 5: Interview Participants (Conducted Fall 2017)
- 6: Berkeley Business Networks
- 7: April 25, 2017 Council Referral: Small Business Support Package

# Attachment 1: Employers in Berkeley by Number of Employees



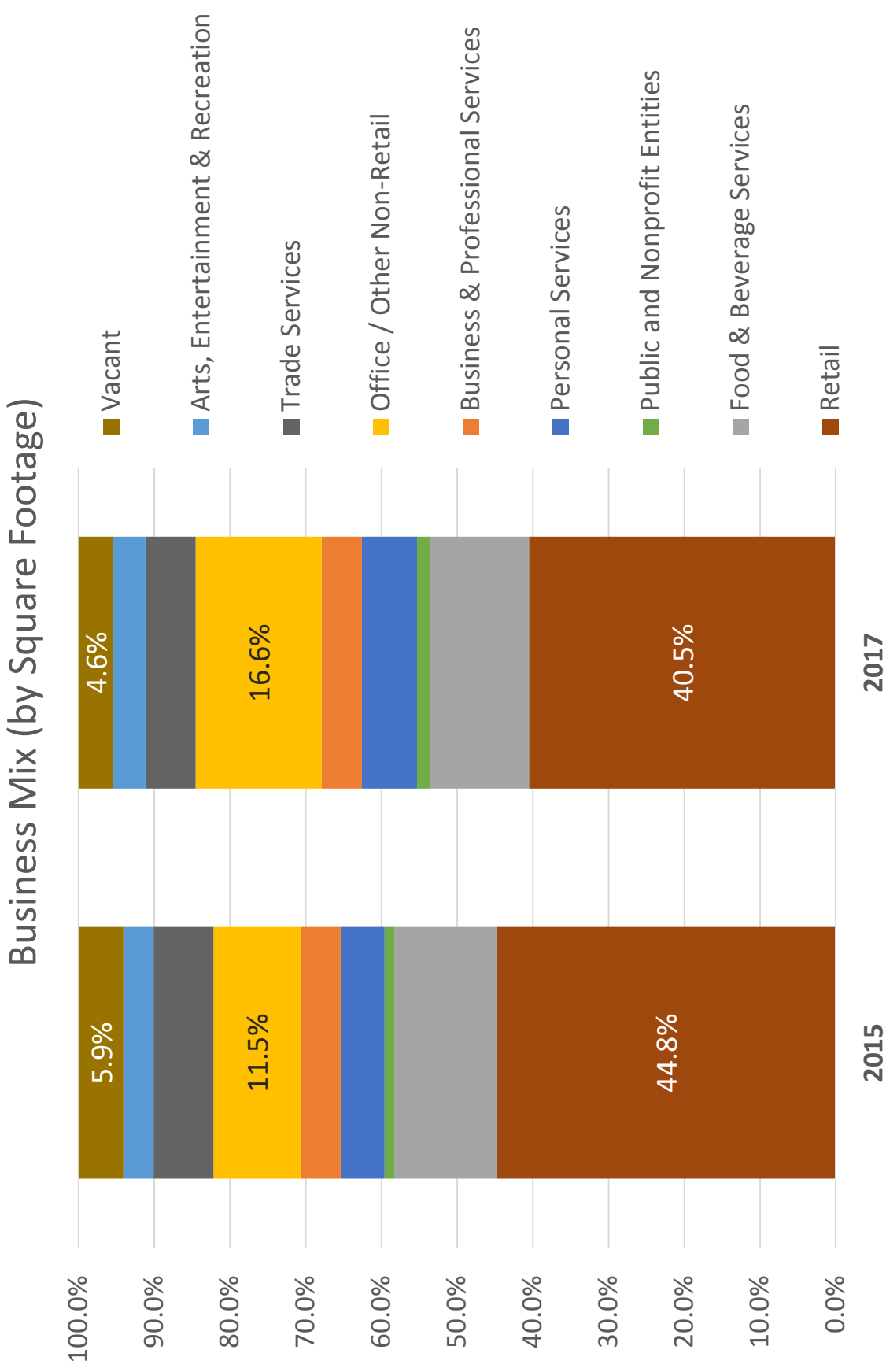
Source: U.S. Bureau of Labor Statistics, Quarterly Census of Wages and Employment, Q4 2016

# Attachment 2: Employment in Berkeley's Small Businesses, by Industry



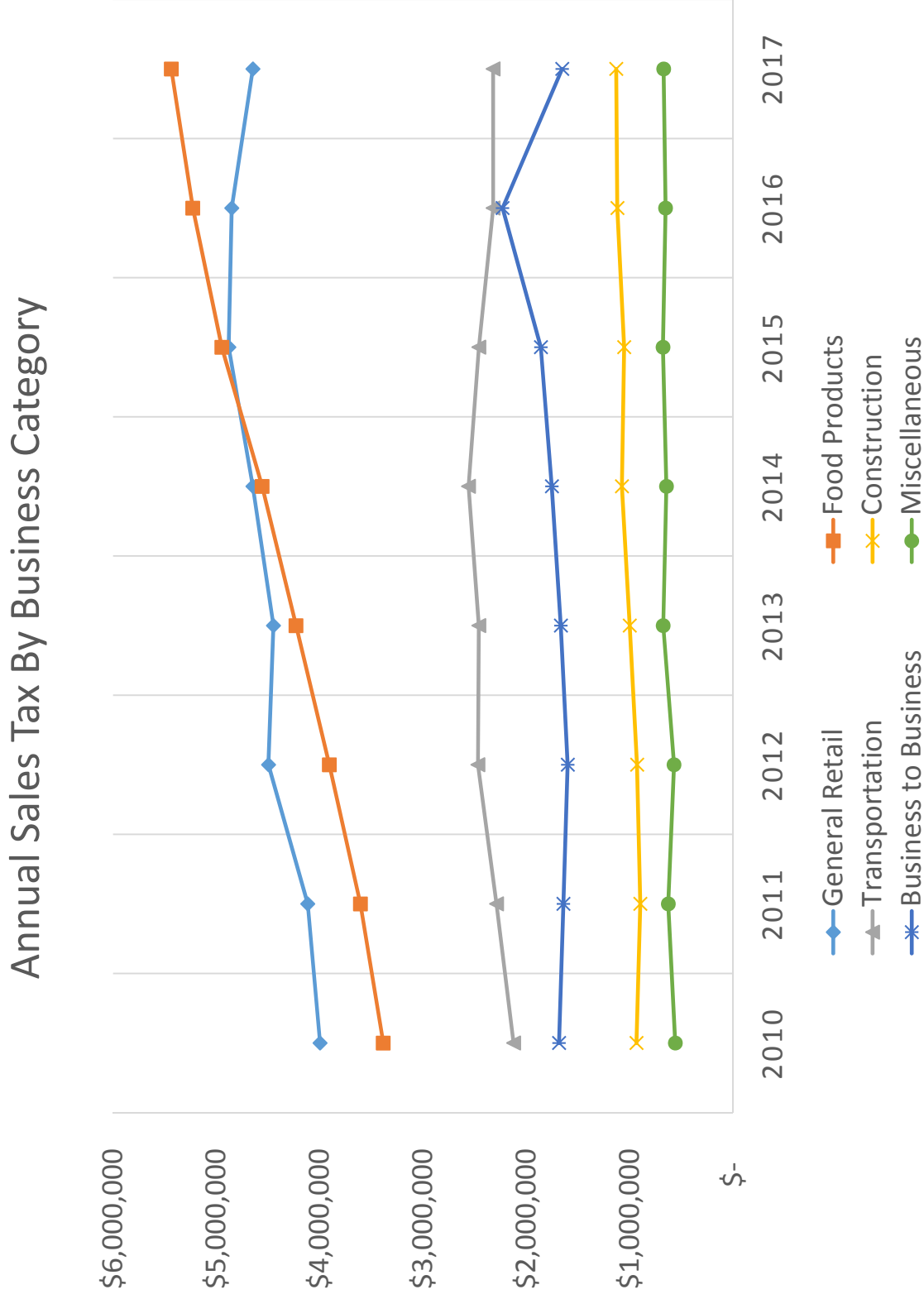
Source: U.S. Bureau of Labor Statistics, Quarterly Census of Wages and Employment, Q4 2016

# Attachment 3: Citywide Ground Floor Commercial Uses by Industry



Source: City of Berkeley, Office of Economic Development (OED)

# Attachment 4: Sales Tax Revenue by Business Category 2010-2017



Source: MuniServices, 2017 Q2 (reported October 2017)

## Attachment 5: Interview Participants (Conducted Fall 2017)

<b>Interviewee</b>	<b>Title</b>	<b>Business</b>
Achille Massoma, Tyrone Schieszler, Rez Asfaw	Founder, CTO, Intern	Kinshapes
Amy Hamilton	Owner / Founder	Relish
Amy Thomas	Owner	Pegasus Books
Andrew Bestwick, Reed McBride	Director of Engineering, Chief of Staff	Rigetti Computing
Anne Leyhe	Owner / Co-Founder	Mrs. Dalloway's
Anthony Torrano	Gallery Coordinator	Acci Gallery
Cathy Goldsmith	Worker / Owner	The Cheese Board
Dan Knapp, Mary Lou Van Deventer	Founders/Owners	Urban Ore
Daryn Singh	General Manager	Kathmandu Market and Deli
Doris Moskowitz	Owner	Moe's Books
Dorothee Mitriani	Owner / Founder	La Note
Ellen Lasher	Co-Owner	Lasher's Electronics
Gary Gendel	Owner / Founder	Sweet Dreams
Gezish Mengistu	Owner	Lemat Restaurant
Heather Haxo- Phillips	Owner	Adeline Yoga
James Hayes	Worker/ Barista	Victory Point Cafe
Jason Bellet	CEO / Co-Founder	Eko Devices
Jennifer Millar	Owner / Founder	Sweet Adeline's
Jess McCarter	Co-Owner	Easy Creole
Jesus Mendez	Owner/Founder	Mi Tierra Foods
Joel Armin-Hoiland	Director of Development	All Power Labs, Inc.
John Paluska	Owner/Founder	Cornal
Jules Kliott	Owner / Director	Lacis
Kullika Chomvong	Co-Founder	Sugarlogix
Martin Bourque	Executive Director	Ecology Center
Massimo Covello	Director of Operations / Chef	PIQ
Maulin Chokshi	President	Bombay Jewelry Company
Michael McCutcheon	Founder	McCutcheon Construction Inc.
Rachel Haurwitz, Barbara, Cindy	Owner / Founder; Chief Legal Officer, Head of HR	Caribou Biosciences
Ray Chiu	Co-Founder / CEO	BiInspira
Ryan Pandya	Co-Founder/ CEO	Perfect Day Foods
Sandy Simon	Owner	Trax Gallery
Tim Alley	Owner/Program Director	Rain or Shine
William Katechis	Owner	Berkeley Music Exchange

## Attachment 6: Berkeley Business Networks

The City of Berkeley supports a number of local business networks that assist businesses citywide, as well as groups that serve specific types of businesses — by industry, commercial district, and ownership.

Each of these groups is described below.



The **Berkeley Chamber** is a non-profit membership organization that works to advance opportunities for member businesses and improve the business climate in Berkeley by helping local businesses to make connections with potential customers and suppliers; stay abreast of relevant City laws, regulations and infrastructure improvements; influence policy; and find community partners.

More information about this group can be found at [www.berkeleychamber.com](http://www.berkeleychamber.com).

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**Buy Local Berkeley**, which receives the majority of its financing and strategic support from OED, provides marketing and technical assistance to small local businesses. While the workplan and structure for 2018 and beyond are currently being updated to reflect increased competition from online retailers and new local business network priorities, the organization’s primary member benefits and activities have historically included:

- Promotion of local companies and events at Berkeley’s brick-and-mortar stores through online advertising in *Berkeleyside* and the *East Bay Express*, social media channels such as Twitter and Facebook, community events, the Chinook Book mobile coupon app, and the Buy Local Berkeley website
- Educating the general public about the importance of shopping at local, independently-owned stores through online advertising and community events
- Supporting business-to-business networking and information-sharing through informal mixers
- Training on fundraising, staffing, marketing and other basic business skills
- Advertising discounts with media partners
- An annual holiday campaign which includes tips for local businesses to participate in Small Business Saturday and coupons for “Creating your holidays in Berkeley”



More information about this group can be found at [www.buylocalberkeley.org](http://www.buylocalberkeley.org).

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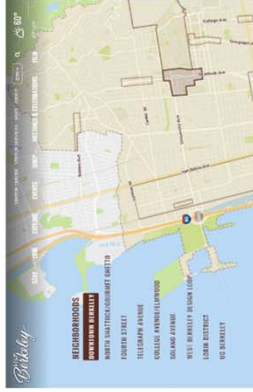
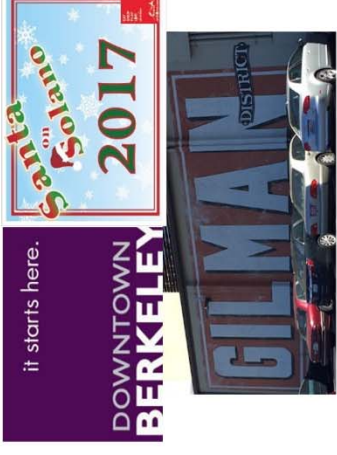
## Attachment 6: Berkeley Business Networks

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Berkeley's **commercial district associations** support local businesses and work to enhance the neighborhood shopping environment. Their services vary by district, but often include marketing and branding, special events, holiday decorations, small business advocacy, and supplemental cleaning services, streetscape improvements, public art and other capital projects to improve neighborhood conditions.

More information about these groups can be found at [www.cityofberkeley.info/City\\_Manager/Economic\\_Development/Business\\_District\\_Associations.aspx](http://www.cityofberkeley.info/City_Manager/Economic_Development/Business_District_Associations.aspx).

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**Visit Berkeley**, formerly the Berkeley Convention & Visitors Bureau and Film Office, cultivates and promotes Berkeley as a desirable destination for meetings, conventions, tour groups, and leisure travel. The site also includes a great map to find Berkeley's shopping districts.

More information about this group can be found at [www.visitberkeley.com](http://www.visitberkeley.com).

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The **Berkeley Startup Cluster** strives to make Berkeley a *more vibrant, accessible and equitable place for startups to launch and grow*. In partnership with UC Berkeley, Lawrence Berkeley National Lab, the Downtown Berkeley Association, and the Berkeley Chamber of Commerce, OED facilitates network activities that support Berkeley's small, early stage, high-growth innovation businesses ("startups"). These include:



- Supporting and promoting Berkeley's founders, incubators, accelerators and co-working spaces through a regular newsletter distributed to 4,000+ recipients, a website, social media channels such as Facebook and Twitter, one-to-one targeted assistance, marketing and event promotion.



## Attachment 6: Berkeley Business Networks

- Hosting and supporting events that connect Berkeley entrepreneurs, community organizations & elected officials, such as the Chamber Visionary Awards and Chamber Visionary Labs which enable the broader Berkeley community to learn about and engage with local founders and entrepreneurs.
- Maintaining [www.LocateinBerkeley.com](http://www.LocateinBerkeley.com) to help startups identify available office space or manufacturing facilities once they have outgrown their spaces on campus, at the Lab, at their home office, or in Berkeley incubator or accelerator.
- Identifying opportunities for technologies developed by Berkeley entrepreneurs or innovators to pilot products and services that address local problems, e.g. air quality or carbon emissions reduction, so they can demonstrate proof of concept and refine their service models.
- Educating Berkeley startups about ways to post jobs, hire local residents, volunteer, or donate funds to mission-aligned local community organizations or causes, e.g. how to hire an intern from Berkeley City College, participate in the CSU-East Bay STEM Center Career Awareness Day, speak on a panel at the Berkeley Unified School District College and Career Summit, etc.

More information about this group can be found at [www.berkeleystartupcluster.com](http://www.berkeleystartupcluster.com).

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**Women Entrepreneurs of Berkeley (WEB)**, which receives funding and strategic support from OED, *helps connect innovative women at different stages of their careers with the resources and networks they need to accelerate their businesses*. Beginning in 2018, the network (launched initially by OED), will be hosted as a subgroup within the Berkeley Chamber. Membership will be open to: women who have started a company in Berkeley, women who have a significant ownership position or decision-making power in a Berkeley-based company, *intrapreneurs* (who are leading innovative programs or initiatives within Berkeley-based companies), and female Berkeley residents that meet any of the previous three criteria.

Programming falls along three tracks: *Connect – Learn – Lead*.

- **Connect:** WEB hosts structured networking mixers open to the community and member-only informal gatherings at women-owned businesses. Members use these forums to share ideas, learn about available resources, promote their businesses, work through challenges, encourage each other and find partners, staff, and advisors.
- **Learn:** WEB publishes regular newsletters that feature news about Berkeley’s women entrepreneurs and information about upcoming awards competitions, funding opportunities, application deadlines, events, and other resources for women entrepreneurs or women owned businesses. The Berkeley Chamber’s Sunrise Speaker Series also offers a dedicated slot for women to learn about pre-selected topics, such as “finding a business mentor” or “options for financing” and the website includes a calendar of relevant events.



WOMEN ENTREPRENEURS OF  
**berkeley**

CONNECT • LEARN • LEAD

## Attachment 6: Berkeley Business Networks

- *Lead:* WEB provides opportunities for Berkeley women entrepreneurs to give back to the community and act as role models for younger women in Berkeley. For example, with OED's leadership, WEB has created a new partnership with the Berkeley High School Bridge program<sup>1</sup> and will host bi-annual "salons" in which women entrepreneurs of color share their personal career challenges and aspirations with the underserved students who participate in the program.

More information about this group can be found at [www.wberkeley.com](http://www.wberkeley.com).

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The **Bay Area Organization of Black Owned Businesses (BAOBOB)** is a membership organization committed to connecting, promoting, informing and representing Black owned and led businesses and non-profits throughout the Bay Area. BAOBOB is a program of Cowrie Village, an organization committed to working for the economic empowerment of Black people, their offspring and their allies in the inner city.

More information about this group can be found at [www.baobobdirectory.com](http://www.baobobdirectory.com).

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The **Berkeley–Emeryville Bio Cluster** helps market Berkeley and Emeryville bioscience companies and coordinate networking events for industry professionals. It collaborates closes with:

- the **Bay Area Biomedical Manufacturing Network** which offers biomedical manufacturing business assistance, technology transfer and education and training,
- **Biocom** which works on behalf of its nearly 1000 members to drive public policy, build a network of industry leaders, increase access to capital, introduce cutting-edge workforce development and STEM education programs, and create value-driven purchasing programs, and
- the **East Bay Bioscience Network** which aims to bring together professionals working in the pharmaceutical and biotech industries by providing networking opportunities in the East Bay, from Alameda to Livermore.

More information about these groups can be found at [www.berkeley-emeryvillebio.com](http://www.berkeley-emeryvillebio.com), [www.biomedmfg.org](http://www.biomedmfg.org), [www.biocom.org](http://www.biocom.org), and [www.meetup.com/East-Bay-Bio-Network/](http://www.meetup.com/East-Bay-Bio-Network/).

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<sup>1</sup> Originated in 2010 as part of the 2020 City of Berkeley and BUSD Vision for Equity, BHS Bridge is designed to help students successfully transition to Berkeley High, support them during their four years in high school, and maintain eligibility to attend a four-year college or university when they graduate. The program is voluntary and intended for students who have the desire to succeed academically but who can benefit from extra support and guidance.



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CONSENT CALENDAR

April 25, 2017

To: Honorable Mayor and Members of the City Council  
From: Councilmember Sophie Hahn & Mayor Jesse Arreguin  
Subject: Small Business Support Package

RECOMMENDATION

Refer to the City Manager the development of a package of policies and programs to support the establishment of new, and sustainability of existing small and/or locally owned businesses. Measures to explore, evaluate and report back on as part of the package include, *but are not limited to*:

1. A program to provide financial and other forms of support to small/locally owned businesses and not-for-profits impacted by development projects, either due to direct displacement or to direct or indirect business interference or interruption;
2. A program to reach out to, work with, help develop and attract small/local businesses to establish themselves in Berkeley and to assist existing small/local businesses to remain in Berkeley;
3. Taxes and/or fees on vacant storefronts, buildings and/or empty lots;
4. A One-Stop Small/Local Business Advocacy Center to coordinate, facilitate and expedite permitting, licensing, payment of taxes and fees, inspections, access to city resources, and all other City of Berkeley-related matters, and to provide information about other services available to small businesses;
5. Streamlining of zoning, permitting and licensing requirements and processes for small/local businesses and not-for-profits, to reduce associated costs and delays, and, where appropriate, provide less onerous levels of review;
6. Strengthening and/or expanding the City of Berkeley's Revolving Loan Fund program, including identification of barriers to accessing such loans and potential improvements to Revolving Loan Fund processes, and exploration of additional sources of income for the Fund;
7. Further expanding Buy-Local preferences and policies for the City of Berkeley, establishment and/or monitoring/enforcement of the Buy Local preference included in Section V(D) the City of Berkeley's May 2005 "2020 LRDP Settlement Agreement" with UC Berkeley, and identification of other opportunities to negotiate Buy-Local agreements with large purchasers in Berkeley, including Development projects; and
8. Exploration of a Legacy Business-type program for Berkeley, inspired by San Francisco's Legacy Business program, to identify, support and retain long-time local businesses.

### FINANCIAL IMPLICATIONS

Staff time to explore measures and report back to Council a recommended package of programs and policies to implement or fund.

### BACKGROUND

Small businesses are the backbone of Berkeley's commercial health, and represent a significant portion of Berkeley's good-paying jobs. Small businesses also contribute to the distinct character that Berkeley is known for, and are considered by many to be preferable to big box and chain retailers.

A number of initiatives to support small businesses have come before the City Council in the past several years (see Attachments), including the recommendation to create a Small Business Office from then-Councilmember Arreguin<sup>1</sup>, but significant action has not yet been taken to create a comprehensive set of policies and programs aimed at supporting this important and highly valued business sector. The recommendations put forth here are intended to address a variety of needs and challenges that small businesses face, and to establish programs and policies for the City to provide additional support and resources to the small business community.

### ENVIRONMENTAL SUSTAINABILITY

No environmental impacts

### CONTACT PERSON

Councilmember Sophie Hahn, Council District 5, 510-981-7150

### ATTACHMENTS

1. Small Business Development Package, Councilmember Arreguin, 2016
2. Vacancy Registration Fee Item, Councilmember Arreguin, 2014
3. Berkeley Small Business Item, Councilmember Arreguin, Oct 29, 2013
4. Settlement between the City of Berkeley and University of California - Berkeley, 2005

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<sup>1</sup> [http://records.cityofberkeley.info/Agenda/Documents/ViewDocument/7\\_7\\_2016%3B%20CLK%20-%20Report%20\(Public\)%3B%20DISTRICT%204%3B%20%3B%20SPECIAL%3B%20SMALL%20BUSINESS.pdf?meetingId=236&documentType=Agenda&itemId=2574&publishId=6600&isSection=false](http://records.cityofberkeley.info/Agenda/Documents/ViewDocument/7_7_2016%3B%20CLK%20-%20Report%20(Public)%3B%20DISTRICT%204%3B%20%3B%20SPECIAL%3B%20SMALL%20BUSINESS.pdf?meetingId=236&documentType=Agenda&itemId=2574&publishId=6600&isSection=false)