



Office of the City Manager

INFORMATION CALENDAR
May 31, 2022

To: Honorable Mayor and Members of the City Council
 From: Dee Williams-Ridley, City Manager
 Submitted by: Eleanor Hollander, Economic Development Manager
 Subject: Referral Response: Further Supporting Worker Cooperatives

INTRODUCTION

This report responds to a referral adopted by City Council on February 9, 2016 to develop policies and programs to support worker cooperatives.¹ This report provides additional information to the previous referral response on the same topic which was provided to the City Council on February 26, 2019, entitled *Referral Response: Supporting Worker Cooperatives*.² This report reviews the City's current activities to assist worker cooperatives as outlined in the original 2016 referral and 2019 referral response, and suggests additional strategies to expand efforts for cooperative conversion going forward. The program summary and recommendations for implementation were provided to the Land Use, Housing & Economic Development Policy Committee during the April 21, 2022 Small Business Listening Session (Attachment 1).

SUMMARY

A number of worker cooperatives are located in Berkeley are an integral part of the community's fabric, and many others are demonstrating transition to cooperative ownership's effectiveness as a succession planning approach for local serving businesses. The Office of Economic Development (OED), in coordination with community partners, and other City departments, have developed new programs and analyzed potential policies that support worker cooperatives. These include: providing technical assistance for succession planning and worker cooperatives conversions, revising the Revolving Loan Fund (RLF) lending criteria, reviewing the business tax and land use incentives for cooperative conversion, and developing educational materials for businesses considering conversion to a cooperative model.

Rather than developing a Worker Cooperative Ordinance for Council consideration, this report suggests continuing the work by creating a 'worker cooperative preference' in city

¹ [Supporting Worker Cooperatives and Referral to City Manager to Develop a Worker Cooperative Ordinance](#), Item 27, Berkeley City Council Meeting, February 9, 2016.

² [Referral Response: Supporting Worker Cooperatives](#), Item 22, Berkeley City Council Meeting, February 19, 2019.

procurement and contracting, and providing additional loan funds and technical assistance resources for businesses to convert to worker cooperatives, is the most effective strategy to support cooperative conversion in Berkeley at this time.

In January of 2019, OED retained Project Equity, a nonprofit organization that is dedicated to advancing worker cooperatives, to provide technical aid to businesses looking to transition to a worker-ownership model. Project Equity has taken a multi-phased approach to supporting Berkeley businesses interested in the worker cooperative ownership model. In researching the desire for cooperative conversion in Berkeley, Project Equity identified that 1,200 of Berkeley's businesses may need succession planning over the next 15 years. Currently, 23 businesses in Berkeley have explored succession planning in consultation with Project Equity. Of those 23 businesses, 4 firms (17%) have or are currently transitioning to worker ownership. A summary of Project Equity's work to date is included as Attachment 1.

CURRENT SITUATION AND ITS EFFECTS

This report responds to referral # PRJ-001-3072 that originally appeared on the agenda of the January 12, 2016 Council meeting (continued to February 9, 2016) and was sponsored by then Councilmember (now Mayor) Arreguin. The referral, *Supporting Worker Cooperatives and Referral to City Manager to Develop a Worker Cooperative Ordinance*, adopted a Resolution to support worker cooperatives, and referred to the City Manager to develop a Worker Cooperative Ordinance, that was to include:

1. Revising the City's existing Buy Local contracting preference³ and adding a worker cooperative preference;
2. Revising the business license permit application to include cooperatives;
3. Incentivizing existing businesses to convert to cooperatives;
4. Creating business tax and land use incentives, and
5. Developing educational materials.

Progress to date:

1. Revising the existing Buy Local contracting preference and adding a worker cooperative preference

To better support worker cooperatives with a lack of access to capital, a *Worker Cooperative Preference in Procurement and Contracting* was implemented by the City's Finance Department and Berkeley's local vendor preference program has been revised and expanded. Starting January 1, 2022, the City provides a 5% bidding preference for goods up to \$100,000, for non-professional services up to \$250,000 and up to five additional points for scoring professional services Requests for Qualifications (RFQ) responses. This preference is available to all Berkeley vendors, including worker cooperatives that submit bids to provide goods, equipment, and non-professional services to the City.

³ City of Berkeley, [Local Vendor Preferences](#), 2022.

2. Revising the business permit application to include cooperatives

Staff has responded to this by revising the business license permit application to allow any new business applicant to register as a worker cooperative.⁴

3. Incentivizing existing businesses to convert to cooperatives

Two factors have been shown to increase successful conversion to cooperatives in Berkeley - increased technical assistance and improved access to capital.

OED currently provides technical assistance and support to all types of businesses and organizations, including worker owned cooperatives. As a direct result of this referral, first, OED worked to increase staff capacity and knowledge of issues that specifically impact worker owned cooperatives in order to provide helpful, targeted technical assistance to those curious about cooperative conversion. Second, Project Equity, a non-profit cooperative conversion consultant retained by OED, conducted a business retention data study in the city that provided a better understanding of which Berkeley businesses are at risk of closure and may be candidates for conversion to worker ownership. The team then performed broad outreach and direct engagement to educate business owners about the worker cooperative model. Through OED's partnership and contract with Project Equity, the team was able to subsidize the cost of working with (up to) four Berkeley businesses to transition to worker ownership, including the development of a feasibility study and transition plan for each client. To date, this work has produced impressive results; for example, *The Local Butcher Shop* participated in the Project Equity program and publicly announced their transition to a worker owned cooperative in October of 2021.⁵ This allowed the business to continue and offered the chance for loyal employees to become worker-owners.

Technical Assistance

Project Equity also assists with "Individual Action Planning" for business owners, which may include the development of a business plan, securing financing, hiring employees, understanding business taxes, organizational development, marketing, and customer analysis. Project Equity offered their suite of services to prospective clients, through door-to-door outreach (prior to COVID-19), mailings, and email blasts, social media ads, and targeted ads in *Berkeleyside*, online local media. In the first half of 2021, the Project Equity-led *Berkeleyside* display campaign had 488,944 visual impressions and 644 'click-throughs' indicating elevated interest among readers.

Access to Capital

OED administers the federally-funded Revolving Loan Fund (RLF) and worked with the city's Loan Administration Board to revise the RLF's lending criteria to make the fund

⁴ City of Berkeley, [New Business License Application](#), revised January 1, 2022.

⁵ *Berkeleyside*, [The Local Butcher founders are turning over the successful shop to their workers](#), October 21, 2021.

more accessible to worker cooperatives. The RLF now better supports worker cooperatives by; (1) enabling the use of loan capital for conversion to worker ownership, and (2) allowing a group of principals to produce 10% of the loan collateral equity for an existing cooperative (or a business converting to a cooperative) or 20% for a startup cooperative. The change to the RLF Administrative Plan included the creation or retention of worker-owned jobs as selection criteria and added a new goal of the RLF to allocate a minimum of 10% of the loan portfolio to worker cooperatives or businesses converting to worker ownership. These changes help support worker cooperatives' access to RLF funding by removing the requirement a personal guarantee for the loan application process, thereby lifting a large barrier to capital for worker cooperatives.

4. Creating a business tax and land use incentives

Based on feedback from clients, stakeholders and new businesses, one of the most effective approaches to incentivize support for worker owned cooperatives involves assisting businesses in navigating the permitting process. For existing businesses interested in conversion to worker owned cooperatives, ongoing technical support from organizations like Project Equity and their technical partner, the Sustainable Economies Law Center, will continue to be effective. At this time, staff doesn't recommend modifications to the business license tax structure or land use incentives as a strategy to support worker owned cooperatives. Instead, staff recommends the continuation of robust technical assistance programs both in house (led by OED's business services team) and with outside consultants, including Project Equity and their partners, to best help cooperative businesses navigate the permitting process successfully.

5. Develop educational materials

In addition to the targeted outreach and engagement, Project Equity prepared a communications plan, outreach and educational materials for economic development professionals and regulators, and led trainings for City staff on the worker cooperative model. The Sustainable Economies Law Center (SELC), subcontracted through Project Equity, provided legal assistance and lease negotiation expertise for existing cooperative business owners. SELC created videos and printed educational materials to support businesses with legal assistance for cooperative conversion, through the Resilient Communities Legal Café program.⁶

Throughout the pandemic, the team held regular 'Legal Cafes' and online webinars for Berkeley business owners interested in transitioning to worker owned cooperatives. Legal Cafés offer direct legal support to individuals and groups who are working to create new solutions or succession plans and have legal questions about worker cooperatives. Particular attention was paid to succession planning for business owners who are wishing to retire and may want to sell their business to their employees.

⁶ Sustainable Economies Law Center (SELC), [Legal Café Program Schedule](#), 2022.

BACKGROUND

Worker cooperatives are demonstrated to be valuable assets for local economies and communities. Owned and run by employees, these businesses typically provide higher wages, benefits, professional development, job security, and upward mobility for low to moderate income people.⁷ When businesses are owned by workers, they are also demonstrated to increase local reinvestment and have demonstrable positive impact on business retention.⁸ Based on the report completed by Project Equity and presented at the LUHED Policy Committee's [Small Business Listening Session](#) of April 21, 2022 continued technical assistance programs are recommended to better assist in supporting worker cooperatives in Berkeley (Attachment 1).⁹

ENVIRONMENTAL SUSTAINABILITY AND CLIMATE IMPACTS

There are no identified environmental costs or opportunities associated with the subject of this report.

POSSIBLE FUTURE ACTION

Staff recommends that the most effective tool to incentivizing cooperative conversions is to continue to provide high quality technical assistance directly to Berkeley's business owners. To the end, staff will work to use existing resources to augment the technical support and educational programming provided by Project Equity and their partners. In the near future, staff is planning to leverage remaining federal American Rescue Plan Act (ARPA) funding designated to support pandemic impacted small businesses with an augmented contract with Project Equity for technical assistance. Possible additional future actions may also include developing a more tailored local worker cooperative preference in the City's standard procurement and contracting practices.

FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

Staff will continue to implement the programs described above with existing resources.

CONTACT PERSON

Kieron Slaughter, Office of Economic Development, (510) 981-2490.

Attachment:

1. Land Use Housing and Economic Development (LUHED) Policy Committee, Small Business Listening Session Presentation, *Business Succession Planning: Providing Technical Assistance for Worker Cooperative Conversions*, April 21, 2022.

⁷ Fast Company, [More U.S. businesses are becoming worker co-ops: Here's why](#), May 21, 2018.

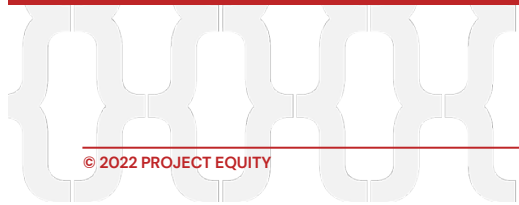
⁸ Democracy at Work, [Creating Better Jobs and a Fairer Economy with Worker Cooperatives](#), 2014.

⁹ City of Berkeley, [Land Use Housing and Economic Development Policy Committee Agenda & Minutes](#), Item 3, April 21, 2022.

Berkeley as a national model for business retention through employee ownership

Project Equity presentation to City of Berkeley
Land Use, Housing & Economic Development Committee

April 21, 2022



{ Project Equity }

Agenda



Employee ownership and its benefits



Overview of Project Equity's engagement with City



How our process works & accomplishments



Recommendations & discussion of how to continue the momentum

{ Project Equity }

What is employee ownership?



A proven business structure in which a broad base of employees owns the business where they work

Benefits of employee ownership



Benefits to businesses

- Higher productivity and growth
- Lower employee turnover
- Improved longevity, lasting legacy



Benefits to workers

- Better pay and benefits
- Assets and business ownership
- Voice in key decisions



Benefits to communities

- Increased local spending
- Heightened civic engagement
- Community wealth building

Overview (more detail on slides to come)

2018-19

- One-year contract
- Small business support package
- Data analysis & awareness raising
- National press highlighting Berkeley's investment

2020-22

- Two-year contract
- Included subcontract to the Sustainable Economies Law Center for educational events and materials and legal work
- Continued demand for employee ownership technical assistance
- 5 Berkeley businesses completed or on track to transition to employee ownership

Succession planning is needed to retain Berkeley's independently-owned businesses

1,200 businesses in **Berkeley** are over **20** years old.



They account for **\$1.6B** or **60%** of small business revenue.



These businesses employ **1** in **3** workers.



HALF of all business owners in the US are looking to transition out in the next **5** years, yet, up to **85%** have no succession plan in place. **ONE-THIRD** plan to simply close their doors.

As their owners retire, how do we keep these businesses and jobs in Berkeley?

Statistics according to Barlow Research Associates and Securian Research.

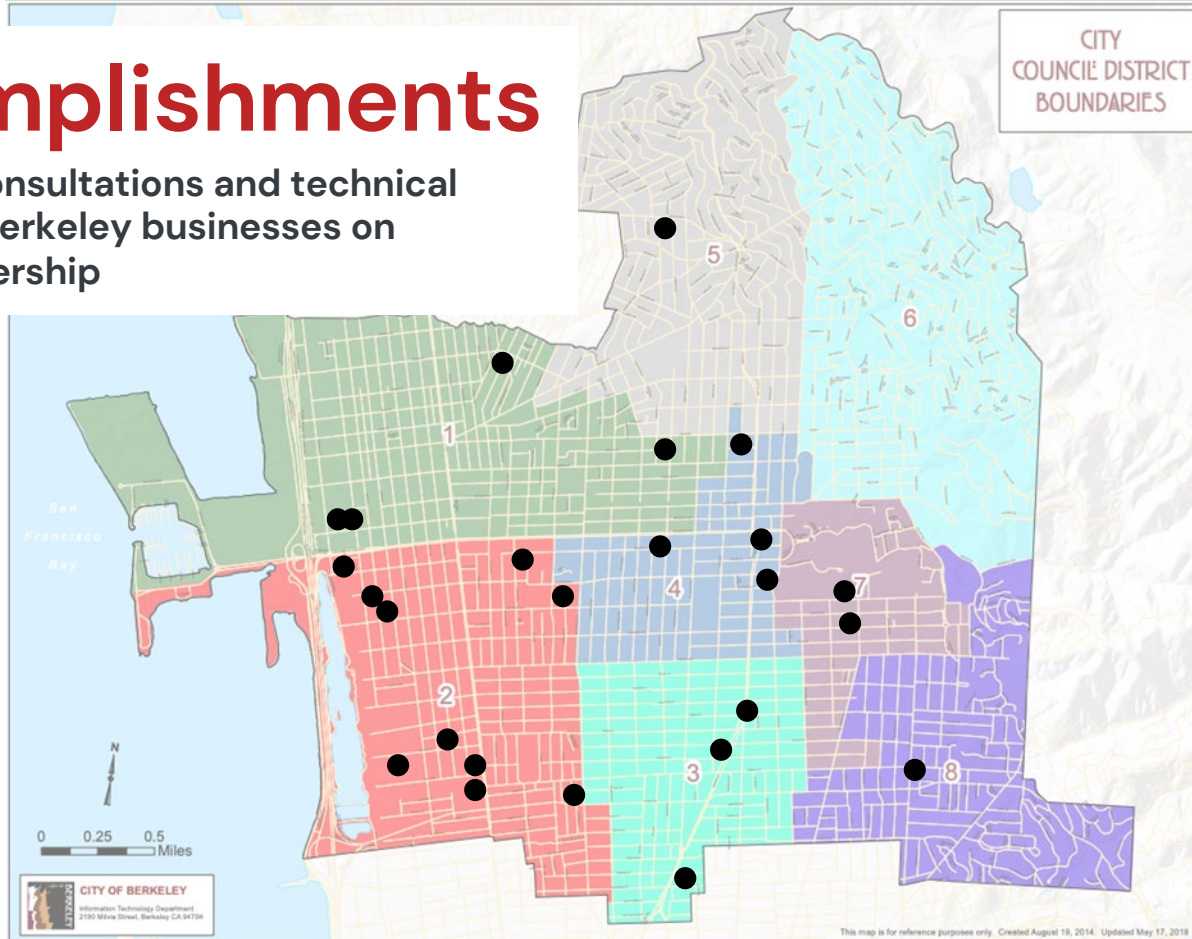


project
{EQUITY}

© 2019 Multiplier on behalf of our program, Project Equity

Accomplishments

One-on-one consultations and technical assistance to Berkeley businesses on employee ownership



Accomplishments

One-on-one consultations and technical assistance to Berkeley businesses on employee ownership

Accommodation and food services

- Restaurant diner
- Butcher shop
- Artisanal chocolate retail business
- Cafe and classical record shop

Other services

- Window cleaning and gutter-washing business
- Plumbing and heating business
- Inspection and material testing service business

Manufacturing

- Pasta making business
- Ghee-making business
- Organic nut butter manufacturing business
- Laboratory glassware manufacturing business
- Modular office privacy booth manufacturing business

Arts, entertainment and recreation

- Gallery and framing business
- Yoga, dance, and movement service business

Professional services

- Architect and contracting business
- Law firm
- Social and environmentally conscious business consulting
- Landscape architecture firm
- Technology services company
- Translation, interpretation, and transcription service business

Retail and wholesale trade

- Windchime retail business
- Garden center and nursery
- Guitar retail and repair business
- Men's clothing and shoe retailer
- Urban farm and biodiesel station

{ Project Equity }

Adams & Chittenden Scientific Glass

“When it came time for us to think about succession, the thought of finding someone to buy us out—given our distinct manufacturing niche—seemed improbable.”



Adams & Chittenden Scientific Glass manufactures laboratory glassware and glass tools for scientific and industrial uses. The business began in Berkeley, CA in 1993.

The Local Butcher Shop

“Selling to the employees and sustaining the legacy—without having to change our employee structure, change any farmers or ranchers, and continue to keep our community serviced with well-sourced meat—was a no-brainer.”

– *Monica Rocchino, former owner*



The Local Butcher opened in Berkeley, CA in 2011 and provides seasonal, locally-sourced, sustainably-raised, fresh meat from trained chefs and butchers.

Project Equity's Transition Process

STEP 1 EXPLORATION

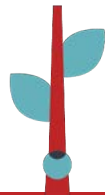
Are you curious to learn how employee ownership can fit your needs?



Free consultations
Nearly 30 businesses
across many sectors

STEP 2 FEASIBILITY

Is employee ownership a solution for you and your business?



3-4 months
8 Berkeley
businesses

STEP 3 TRANSITION

How will the sale be structured, and the employee-owned business function?



9-15 months
5 Berkeley
businesses

{ CLOSING THE SALE }

Are all the i's dotted and the t's crossed?

STEP 4 THRIVE

How do the employee-owned business and its owners flourish?



2 years
5 Berkeley
businesses

Accomplishments

Employee ownership transitions



ADAMS & CHITTENDEN
SCIENTIFIC GLASS COOP



THE LOCAL

BUTCHER & MARKET

Alternative
TECHNOLOGIES

Completing soon



Re-opened as
Oceanview Diner

Announcing soon
Local garden center in
North Berkeley

Accomplishments

Webinars & educational events

- Employee ownership 101 for Berkeley small business owners | January 2022
- Employee ownership 101 for Berkeley small business owners | December 2021
- Employee Ownership Strategy: Unlocking the benefits for you and your employees | February 2021
- Berkeley Business Retention Information Session | September 2019
- Berkeley Business Success Forum | June 2019



Accomplishments

Webinars & educational events

- Online legal cafes
 - February 2022
 - November 2021
 - February 2021
 - May 2020
- Webinars
 - Subchapter T & how money Flows through a cooperative – March 2021
 - Raising Cooperative Capital – February 2021
 - Teach-in: California Entity Formation Options – Jan 2021
 - Coop Entity Formation for Entrepreneurs – April 2020
- Videos
 - [Subchapter T & How Money Flows Through a Cooperative](#)
 - [Introduction to Cooperative Governance and Management](#)
- Legal representation to worker cooperative clients



Sustainable
Economies
Law Center

Accomplishments

Berkeley local & national press as model for innovation

San Francisco Chronicle

BIZ & TECH

Employee ownership may help businesses stay open as Boomers retire



Marissa Lang

Feb. 17, 2017 | Updated: Feb. 19, 2017 12:04 p.m.



edible EAST BAY

Berkeleyside

THE DAILY CALIFORNIAN

HUFFPOST

IMPACT

This City Has A Radical Plan To Get Rid Of Bosses

As the baby boomers retire, Berkeley, California, wants them to sell their businesses to their workers.



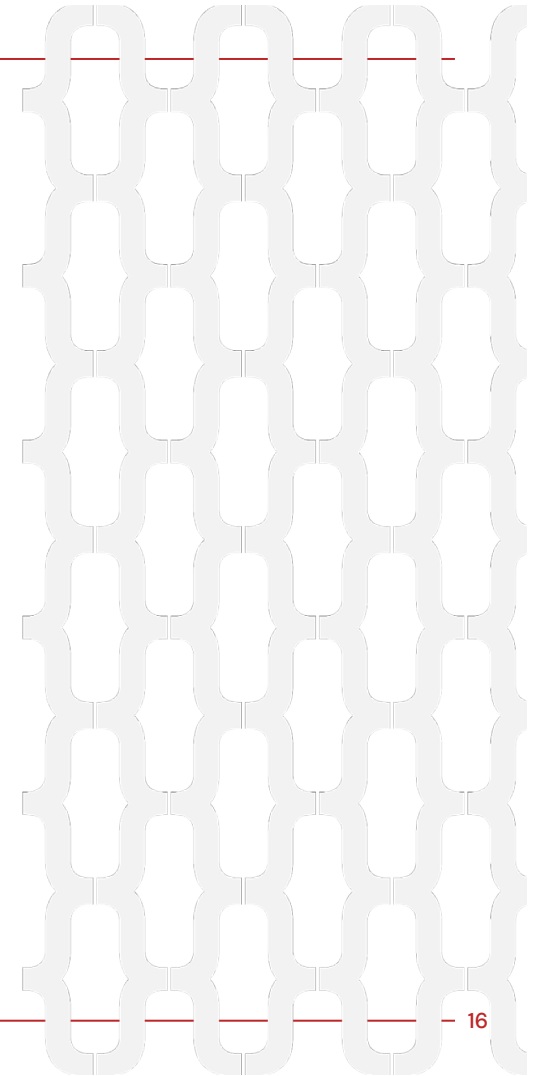
By Robert Raymond

May. 2, 2019, 05:45 AM EDT | Updated May. 3, 2019

How do we build on this momentum?

We want your feedback on how we can help ensure this work continues. Here are our recommendations:

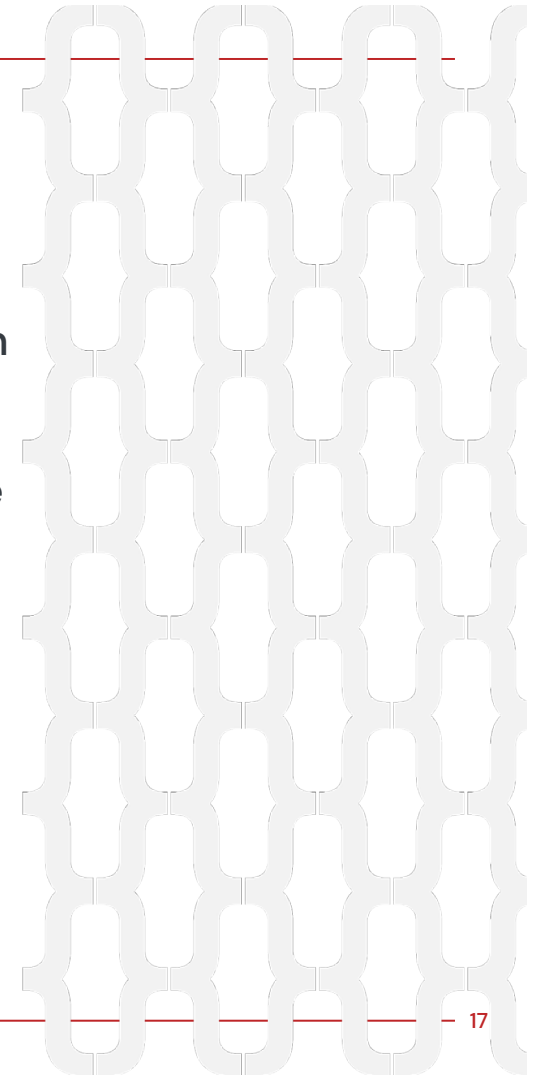
- ✓ Continued engagement with Project Equity for education and technical assistance (2 years, \$50,000 total)
- ✓ Project Equity continues as on-call advisor to businesses in Berkeley that want to transition
- ✓ We also develop and help implement strategies to institutionalize / embed employee ownership within City services (let's hear some ideas on this – next slide!)



DISCUSSION

How might we

- Measure business retention risk and business retention on an ongoing basis?
- Enable the OED team to find out within 3 clicks of a mouse if a specific business is 20+ years old?
- Ensure that all business-facing City employees know how and when to bring up business succession and employee ownership and who to refer them to speak with?
- Support Berkeley businesses on an ongoing basis to explore, assess, and execute an employee ownership succession?





Questions & discussion

Thank you!

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{ Project Equity }

project-equity.org