



Office of the City Manager

**A**

ACTION CALENDAR  
February 26, 2019  
(Continued from February 19, 2019)

To: Honorable Mayor and Members of the City Council  
From: Dee Williams-Ridley, City Manager  
Submitted by: Jordan Klein, Economic Development Manager  
Subject: Referral Response: 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.<sup>1</sup> The Office of Economic Development, in coordination with community partners and other City departments, has developed new programs and analyzed potential policies that support worker cooperatives, and this report presents progress to date.

CURRENT SITUATION AND ITS EFFECTS

Worker cooperatives are 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. Also, these small businesses provide a diversity of locally owned services. A number of worker cooperatives located in Berkeley have become an integral part of the community's fabric, including The Cheese Board Collective, Biofuel Oasis, and Missing Link Bicycle Cooperative. When businesses are owned by workers, they create higher quality jobs, increase local reinvestment, and have demonstrable positive impact on business retention.<sup>2</sup>

Due to the general lack of familiarity with the cooperative business model, worker cooperatives can face a unique set of challenges, e.g., when obtaining a business license or permits, engaging with regulators, or pursuing financing. Worker cooperatives are at a disadvantage to conventional hierarchical business ownership models when it comes to accessing startup capital. Equity investors and banks tend to be unfamiliar with, and are often unwilling to invest in, cooperatives with multiple owners and unique governance models. According to United for a Fair Economy, "one of the main barriers

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

<sup>2</sup> <https://auspace.athabasca.ca/handle/2149/3133>

to business ownership for people of color is access to start-up capital” and worker cooperatives make business ownership more accessible.<sup>3</sup>

The Office of Economic Development (OED) provides technical assistance and support to all types of businesses and organizations, including worker owned cooperatives. OED has also provided financial support to one of Berkeley’s cooperatives; Biofuel Oasis was awarded, and recently completed repayment of, a loan from the City’s Revolving Loan Fund.

Beginning in January 2019, OED is engaging 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. OED is also working to increase staff capacity and knowledge of issues that specifically impact worker owned cooperatives to provide more targeted assistance going forward.

Project Equity will take a multi-phase approach to support Berkeley businesses interested in the worker cooperative ownership model. First, they’ll conduct a business retention data study, which will provide a better understanding of which of the City’s businesses are at risk of closure and may be candidates for conversion to worker ownership. Second, they’ll perform broad outreach and direct engagement to educate business owners about the worker cooperative model. OED will then subsidize the cost of working with up to four businesses to transition to worker ownership, including a feasibility study and transition plan.

In addition, Project Equity will prepare a communications plan, outreach and intake materials, educational materials for economic development professionals and regulators, and training for City staff on the worker cooperative model. See attachment 1 for a sample of the outreach and education materials Project Equity is deploying in Berkeley. In February 2019, OED and Project Equity will host a free training for staff from the City of Berkeley, neighboring municipalities, and other partners on providing support for worker cooperatives and how traditional businesses can convert to coops. Particular attention will be paid to succession planning for business owners who are wishing to retire and may want to sell their business to their employees. The communications and outreach for the program has already benefited from local media coverage in the San Francisco Chronicle.<sup>4</sup>

#### *Worker Cooperatives & the Revolving Loan Fund*

Sustainable Economies Law Center (SELC), an Oakland-based organization that advocates for policies that promote community reliance and economic justice, has

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<sup>3</sup> <https://institute.coop/news/creating-better-jobs-and-fairer-economy-worker-cooperatives>

<sup>4</sup> Otis Taylor Jr., [Nonprofit helps employees take hold of reins as business owners retire](#), San Francisco Chronicle, November 29, 2018.

recommended a number of amendments to the Berkeley Revolving Loan Fund Administrative Plan that would benefit worker cooperatives. These include:

1. Enable the use of loan capitol for conversion to worker ownership
2. Clarify and limit the personal guarantee requirement.
3. Establish a lending target for cooperatives.
4. Include worker-owned jobs as a selection criteria.
5. Reduce private dollars threshold for cooperatives.

SELC presented these recommendations at the November 29, 2018 Loan Administration Board (LAB) meeting. The LAB discussed the possible creation of a loan fund specifically for worker cooperatives. Worker cooperatives typically need training and technical assistance as a first step before accessing capital. It is not uncommon for loan funds earmarked for cooperatives to be underutilized, because the cooperatives were not "loan ready." The funding also require that applicants participate in business skills training through partnerships with existing cooperatives and other organizations. Applicants could additionally have a plan for reaching historically marginalized populations like people of color, immigrants, and low-income workers. The LAB will engage in additional discussions to determine the best approach for supporting worker cooperatives, and relay recommendations to the City Council.

#### BACKGROUND

The February 9, 2016 referral suggested policies and programs to support worker cooperatives, including the following:

1. Worker Cooperative Preference in Procurement and Contracting
2. Revise Business Permit Application to recognize Worker Cooperatives
3. Business Tax and Land Use Incentives
4. Developing Educational Materials

In January 2019, the Finance Department updated its business license application and renewal forms to better accommodate worker-owned cooperatives. Both forms have been modified to allow the principal(s) of a worker-owned cooperative to properly identify themselves and be recorded as such in the City of Berkeley business license system. In addition, OED is implementing new programs, as noted above, to provide focused assistance to worker cooperatives, educate business owners about the model, and increase capacity of economic development professionals and other staff to effectively serve cooperatives. There are other opportunities to support worker cooperatives by implementing some of the proposed measures and policies and modifying existing business practices.

During the past year, staff has consulted with and analyzed proposals from staff from Sustainable Economies Law Center (SELC) on how the City of Berkeley can adopt programs and policies to better serve and promote worker cooperatives. Most recently,

SELC attended the November 29, 2018 Loan Administration Board (LAB) meeting to discuss proposed changes to the Berkeley Business Loan program to support worker owned cooperatives. LAB members reviewed SELC's policy considerations and added an agenda item to a future LAB meeting to discuss amendments to the loan fund's Administrative Plan and application process.

The City's current Local Business Preference provides a five percent (5%) bidding preference on bid opportunities from \$100-\$25,000 to vendors operating businesses with a Berkeley street address. This preference is available to all Berkeley vendors, including worker-owned cooperatives that submit bids to provide goods, equipment, and non-professional services.

In March 2018, request for proposals (RFP) #18-11193-C was released to identify a firm to examine the City's procurement activities and identify disparities in the awarding of contracts affecting local, small, emerging, minority, and women business enterprises that could include worker-owned cooperatives. Price proposals received from six (6) respondents ranged from \$245,575 to well over \$400,000. Appropriated funding for the study exists in the amount of \$100,000. A full staff report on this project will be submitted to Council by March 31, 2019.

#### ENVIRONMENTAL SUSTAINABILITY

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

#### POSSIBLE FUTURE ACTION

City Council could consider expanding the Revolving Loan Fund to establish a separate capital base that is dedicated to funding worker cooperatives. Council may also consider modifications to the City's procurement process to increase the preference worker cooperatives.

#### FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

The establishment of a separate capital base dedicated to funding worker cooperatives would require a one-time investment that would likely fall within the range of \$100,000 to \$250,000. Additional staff analysis is required in order to determine the potential fiscal impacts of other possible future actions.

#### CONTACT PERSON

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#### Attachments:

1: Project Equity Outreach & Education Materials

# EXIT STRATEGY

## FOR YOUR BERKELEY BUSINESS

### Why should I consider converting my business?

You are able to create a flexible exit strategy and realize a fair sales price with tax advantages while taking care of your employees who helped build the business. Broad-based employee ownership sustains quality jobs, creates stronger businesses, and preserves your company's legacy.

### How are employee-owned businesses structured?

It is important to choose the form of employee ownership that is the best fit for you and your business. ESOPs and worker cooperatives have been around for decades. Worker coops are 100% employee-owned and have democratic practices such as majority board representation built into the structure. ESOPs can be fully or partially employee-owned, and Democratic ESOPs integrate employee voting and board representation.

### How does employee ownership work as an exit strategy?

An owner sells the business or its assets to a new employee owned business of which the employees are members. Or, in the case of an ESOP, sells the company shares to a trust that acts on behalf of the employees. This sale is typically financed by debt (non-voting equity is possible in a worker coop transition). Then, the newly employee-owned company pays down the financing out of future profits.



**ONLY 15%**  
of businesses  
succeed to  
the next  
generation.

Realize market value with tax advantages.

Preserve your company's culture and its legacy in the community.

**A GREAT SOLUTION FOR BUSINESSES OF ALL SIZES!**

project  
**{EQUITY}**

Let us guide you through the process.

**PROJECT-EQUITY.ORG**

### BUSINESSES



- Higher productivity & growth
- Lower employee turnover
- Improved lifespan
- Owner receives market value

### COMMUNITIES



- Retain good businesses & jobs
- Experience greater civic engagement
- Circulate more money locally

### EMPLOYEES



- Enjoy better pay & benefits
- Build assets & equity
- Have a voice in key decisions
- Grow leadership skills

# UNDERSTANDING YOUR Page 6 of 6 SUCCESSION OPTIONS

OPTIONS	 PRESERVE LEGACY	 MARKET VALUE	 TAX BENEFITS	 EMPLOYEES RETAINED
Sell to Family	✓	?	?	?
Acquisition	?	?	✗	?
Employee Ownership	✓	✓	✓	✓
Close Down	✗	✗	✗	✗

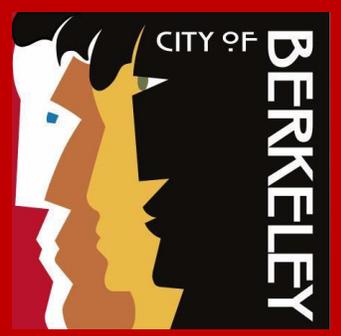
**OVER 80%** of businesses listed with a leading broker never sell

## EMPLOYEE OWNERSHIP MYTHS

- Myth #1 – My employees can't run my company!**  
With employee ownership, the employees would not be running the company alone. Management would be in place and the transition process ensures time to train and/or hire leadership replacement.
- Myth #2 – My employees don't want to buy the company.**  
There would be many employee owners, versus just one or a handful. Responsibility and rewards are spread among all. No individual would buy the company alone.
- Myth #3 – My employees don't have enough money to buy the company.**  
In an employee ownership transition, there's not an expectation that the employees would bring the total amount of cash to the table to buy the business.
- Myth #4: I won't get a fair price if I sell to my employees.**  
Sellers who transition their companies to employee ownership will receive fair market value plus potential tax advantages, and we recommend getting a formal valuation as a first step.

**Myth #5– It sounds hard!**  
Any business succession path takes effort. Project Equity helps with every step of the process.

**The City of Berkeley** has selected Project Equity for the important work of helping us retain local businesses based on their innovative model for sustaining small businesses in communities both locally and across the country.



Let us guide you through the process. **PROJECT-EQUITY.ORG**

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