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Internal

CONSENT CALENDAR
March 11, 2025

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To: Honorable Mayor and Members of the City Council
From: Councilmember Sophie Hahn (Author)
Subject: First Year Free - Fill Empty Storefronts Act

RECOMMENDATION

Refer to the City Manager to (1) create and implement a First Year Free Program for Berkeley, modeled after San Francisco's successful program, for an initial period of 5 years and (2) study and report back to Council on other strategies to attract new businesses and fill empty storefronts.

POLICY COMMITTEE RECOMMENDATION

On February 3, 2025 the Land Use, Housing & Economic Development Policy Committee adopted the following action: M/S/C (Bartlett/Tregub) to forward item to Council with a negative recommendation to take no action. The committee will revisit this issue at a later date with the intention of further developing the goals of the item. Vote: All Ayes.

SUMMARY STATEMENT

The COVID-19 pandemic had an unprecedented impact on Berkeley's small and local businesses. While Berkeley's business sector has progressed toward recovery, commercial vacancy rates remain high. To address similar challenges in San Francisco, a First Year Free program was established in 2021 to waive the cost of initial registration fees, license fees, first-year permits, and other fees for qualifying local businesses. More than 4,000 new businesses have already opened and taken advantage of the program.

To help fill empty storefronts and attract new, small businesses in Berkeley, this item directs the City Manager to create and implement a First Year Free program, modeled after San Francisco's successful 2021 program – for a period of 5 years – and study, implement, and/or recommend to the City Council other strategies to fill empty storefronts and foster a thriving small business environment in Berkeley.

BACKGROUND

America's small business sector has been struggling for several decades, decimated by the rise of Big Box, Chains, and e-commerce. Berkeley, which has been fortunate to retain many small businesses, has nevertheless been impacted by these trends. The arrival of big retail has thrown local economies into turmoil, leaving smaller and local businesses unable to compete with the scale of giant retail chains. The global shut down of commerce during the COVID-19 pandemic was another huge blow to small and locally owned retail and restaurants, precipitating enormous stress, and widespread closures.

The economic impacts of the pandemic have been significant and widespread. While businesses of all sizes were impacted, small businesses – which are more likely to struggle with financially fragility – faced the most uncertainty.

The public health crisis, lockdowns, and social distancing measures resulted in economic challenges that forced many owners to reckon with supply chain delays, loss of revenue, and closure. While the Small Business Association (SBA) did provide financial assistance including the Paycheck Protection Program (PPP), and various loan and grant programs, many small businesses were unable to access state and federal aid. Businesses in California also benefited from various state-level programs but a survey of small businesses in California found that women and minority-owned businesses struggled more during the recovery because they may not have received assistance in proportion to their acute need, loss of revenues, and impacts on business operations.[1]

During COVID's time of acute uncertainty, and following feedback from small business owners, conversations with the Director of Economic Development, the Chamber of Commerce, and various Business Improvement District leaders, Councilmember (then Vice Mayor) Hahn introduced an item to begin regular small business listening sessions, so Berkeley's small enterprises could more easily communicate with the Council, City, and Mayor.[2]

In March 2020, when the regional stay at home order was enacted, Berkeley took immediate steps to protect businesses impacted by the sharp decline in patronage, including a ban on evictions for both residential and commercial tenants. Council also established the Berkeley Relief Fund, which provided a down payment of $3 million from the City in concert with a fundraising campaign from private donors and community members that raised $1.5 million. *Through this generous local funding, 700 businesses received grants to pay rent, payroll, and other expenditures.*[3]

In April, the Berkeley City Council approved the creation of the Save Our Small (SOS) Business Loan Fund, introduced by Councilmember Hahn and based on an innovative proposal by faculty and students at the Haas School of Business at UC Berkeley to create a public-private partnership that could provide a supplemental source of capital for small businesses impacted by the COVID-19 emergency. Thanks to the City's leadership, and with the expert guidance and

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[1] Dani, L., Earle, J. S., & Min Lee, K. (2022, January). *Small Business in the time of COVID-19: A Survey of California's Small Businesses*. Economic Development Collaborative . https://edcollaborative.com/wp-content/uploads/2022/01/COVID-19-Impact-on-California-Entrepreneurs-v2.pdf

[2] Hahn, S. (2020, January 21). *Small Business Listening Sessions*. City of Berkeley. https://berkeleyca.gov/sites/default/files/documents/2020-01-21%20Item%2035%20Small%20Business%20Listening%20Sessions.pdf

[3] Arreguin, J. (2022, August 10). *The Big Impact of Berkeley's Small Businesses*. Mayor Jesse Arreguín. https://www.jessearreguin.com/newsletters-2/2022/8/10/the-big-impact-of-berkeleys-small-businesses

advocacy of Haas School faculty, including Professors Adair Morse and Laura D. Tyson, the SOS Business Loan Fund was transformed to a statewide initiative announced as the California Rebuilding Fund.

For Berkeley's small businesses, nonprofits, and other eligible enterprises to take advantage of this now statewide opportunity, Councilmember Hahn referred to the City Manager to immediately engage in a robust outreach effort throughout Berkeley, focusing particularly on underserved small businesses and nonprofits, entrepreneurs in historically disenfranchised communities, and enterprises serving children.[4] Technical assistance from the City helped many businesses successfully apply for support as soon as the California Rebuilding Fund portal opened.

While Berkeley is fortunate to be home to some 5,000 small businesses and took many steps to support and protect local businesses during the pandemic, commercial spaces remain vacant at higher than pre-pandemic levels.[5] According to the 2023 Economic Dashboard, the citywide average vacancy rate was 8.1% as compared to the pre-pandemic rate of 5.4%.[6] Certain neighborhoods struggle more than others, with several Berkeley neighborhoods having vacancy rates in the double digits including South Berkeley, University, San Pablo, and the Downtown.

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[4] Hahn, S. (2020, September 15). *Outreach and Technical Assistance for Berkeley Small Businesses Eligible to Participate in the California Rebuilding Fund.* City of Berkeley. https://berkeleyca.gov/sites/default/files/documents/2020-09-15%20Item%2027%20Outreach%20and%20Technical%20Assistance.pdf

[5] Arreguin, J. (2022, August 10). *The Big Impact of Berkeley's Small Businesses*. Mayor Jesse Arreguín. https://www.jessearreguin.com/newsletters-2/2022/8/10/the-big-impact-of-berkeleys-small-businesses

[6] Berkeley Office of Economic Development. (2024, February 1). *2023 Economic Dashboard*. City of Berkeley. https://berkeleyca.gov/sites/default/files/documents/Economic%20Dashboard%202023.pdf

Vacancy Rates by District, Calculated by Square Footage, 2018-2023

District	2018	2019	2020	2021	2022	2023
Downtown	3.1%	5.1%	9.9%	15.7%	11.9%	10.8%
Elmwood	7.3%	7.3%	10.9%	10.9%	7.7%	6.2%
North Shattuck	1.7%	0.7%	4.3%	4.3%	4.3%	1.9%
San Pablo	4.9%	4.6%	4.8%	7.9%	10.8%	15.5%
Solano	4.1%	2.6%	6.7%	4.4%	3.7%	2.6%
South Berkeley	9.7%	7.6%	10.1%	8.8%	11.8%	19.2%
Telegraph	7.9%	4.4%	17.2%	12.6%	8.5%	9.3%
University	11.0%	7.8%	11.0%	9.1%	12.8%	17.7%
Neighborhood Commercial (C-N)			7.3%	3.2%	2.3%	2.6%
West Berkeley	3.7%	5.8%	3.7%	4.7%	5.2%	2.2%
Citywide Avg.	**5.0%**	**5.4%**	**6.9%**	**8.3%**	**8.4%**	**8.1%**

Source: Berkeley OED

Even though the City worked diligently to provide small and local businesses with financial and technical support during the pandemic, many still struggle to recover and empty storefronts have proliferated; the First Year Free program directly addresses this challenge.

First Year Free

The First Year Free Program was created by San Francisco's Board of Supervisors and the Mayor to support and revive San Francisco's small businesses as the City recovered from the pandemic. The program waives the cost of initial registration fees, initial license fees, first-year permit, and other applicable fees for qualifying businesses. There is no paperwork to apply, as enrollment is automatic with the registration of a new business or location within the City. Since its inception, 8,349 businesses have enrolled and $3.7 million in fees have been waived.[7]

Earlier this year, San Francisco decided to renew the program for a third year due to its popularity and success, with some 4,000 new businesses opening in the City as a result of the program.

To qualify for San Francisco's First Year Free program, the applicant must be a new business, or new location of a business, that begins on or after July 1, 2023 and:

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[7] Sos, Z. (2024, September 21). *New Castro business touted as Success Story of SF's First Year Free Program*. KTVU FOX 2 San Francisco. https://www.ktvu.com/news/new-castro-business-touted-success-story-sfs-first-year-free-program

- Have $5,000,000 or less in estimated (or reported) San Francisco gross receipts; and
- Have a registered location that is for commercial use; and
- Not be a home-based business or a short-term rental

Only small businesses are eligible for the program; the program is not applicable to Formula Retail (chain store) locations. For qualifying businesses, the program waives: 1) the initial business registration fee (for new businesses only), 2) application, inspection and one-time permit fees, 3) initial license fees.

Andrea Becerra, who fell in love with cooking during the pandemic as she grieved the death of her father, is one of those new business owners. Once her small business outgrew her kitchen, the First Year Free program made it possible for her to open her first restaurant in the Mission – El Mil Amores.[8]

Photo credit: Astrid Kane/The Standard[9]

As a result of the program, Ismel Deluna opened a new wellness center – Healing Cuts – providing haircuts and wellness services for the disability and LGBT community, operating out of the Castro.[10] Hailed as a success story, the owner explained that the First Year Free program played a significant role by allowing his small business to build a base while saving money on fees and permits, giving businesses a boost to start.

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[8] Pena, L. (2024, February 16). *SF extends program that waived $2.5M in fees to new businesses and ones struggling to stay open*. ABC7 San Francisco. https://abc7news.com/sf-extends-first-year-free-program-small-business-permit-registration/14430751/

[9] Kane, A. (2023a, June 25). *Mexican breakfast gets an upgrade at this restaurant in San Francisco's Mission District*. The San Francisco Standard. https://sfstandard.com/2023/06/25/mexican-breakfast-gets-an-upgrade-at-this-restaurant-in-san-franciscos-mission-district/

[10] Sos, Z. (2024, September 21). *New Castro business touted as Success Story of SF's First Year Free Program*. KTVU FOX 2 San Francisco. https://www.ktvu.com/news/new-castro-business-touted-success-story-sfs-first-year-free-program

Photo credit: San Francisco Business Times[11]

Small businesses often represent and reflect the communities they serve, filling gaps left behind by big business. They help foster stronger community relations, providing a place for people to not only shop but gather. They are unique, one of a kind, and important to a community's identity. Small businesses keep money in the local economy, create job opportunities, and can provide environmental benefits. They are an asset to our City and we should continue to create and support opportunities to expand and support the small and local business landscape.

<u>REVIEW OF EXISTING PLANS, PROGRAMS, POLICIES, AND LAWS</u>

In addition to Berkeley's various pandemic-related programs, Berkeley's Office of Economic Development (OED) has helped finance small businesses through the Revolving Loan Fund and Resiliency Loan Program, lending a total of $2,744,987 to 45 small businesses.[12] Berkeley's OED also provides assistance to businesses, entrepreneurs, artists, and community organizations to access services and resources available to them. This includes connecting with local leaders, finding a business location, going green, navigating Berkeley's codes, receiving financing, recruiting talent, and more.[13]

The City has also developed a Business Resource Guide which includes information on starting and sustaining a successful business in Berkeley. The guide walks potential business owners through the key steps of launching a new business including creating a business plan, exploring financing options, establishing as a legal entity, and obtaining a business license and permits.

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[11] Bloomberg, S. (2024, June 6). *How the SF LGBT Center is empowering entrepreneurs*. San Francisco Business Times. https://www.bizjournals.com/sanfrancisco/news/2024/06/06/business-of-pride-lgbt-center.html

[12] Berkeley Office of Economic Development. (2024, February 1). *2023 Economic Dashboard*. City of Berkeley. https://berkeleyca.gov/sites/default/files/documents/Economic%20Dashboard%202023.pdf

[13] Berkeley Office of Economic Development. (2022, January). *Office of Economic Development Services.* City of Berkeley. https://berkeleyca.gov/sites/default/files/2022-01/OED-Services-Brochure.pdf

Furthermore, Berkeley's Strategic Plan includes the goal of fostering a dynamic, sustainable, and locally-based economy. Berkeley has taken many steps to cultivate a thriving local economy and a thriving small business sector, and this item supports those goals.

ACTIONS/ALTERNATIVES CONSIDERED

The City Manager should study San Francisco's program, consider what adjustments might need to be made for the Berkeley context, and implement a version of First Year Free that is supportive of the goal of attracting new businesses to Berkeley storefronts.

CONSULTATION/OUTREACH OVERVIEW AND RESULTS

Councilmember Hahn discussed strategies for filling empty storefronts with the City Manager, who expressed interest in the First Year Free program. Staff also contacted the Berkeley Chamber of Commerce and the Downtown Berkeley Association for input.

RATIONALE FOR RECOMMENDATION

Berkeley's unique character is owed in large part to the presence of small and local businesses and not for profits and arts organizations. These enterprises are indispensable, contributing significantly to our economic and cultural vitality, stimulating the local economy, attracting tourism, and most importantly, fostering a sense of community.

However, Berkeley's small and local businesses continue to face significant challenges due to inflation and rising costs, space constraints, and growing competition from online stores and chain retailers.

IMPLEMENTATION, ADMINISTRATION, AND ENFORCEMENT

The City Manager should review studies and consult experts on best strategies to fill empty storefronts. Additionally, staff should consult with the City of San Francisco to better understand the program, details around implementation, marketing, and success. Consider how much revenue the City generates and stands to lose from waiving initial business registration fees, application, inspection and one-time permit fees, and initial license fees, as well as the short and long-term benefits in waiving those fees to get new businesses in place that will generate increased tax revenues over the long run.

ENVIRONMENTAL SUSTAINABILITY

While virtually all businesses have a carbon footprint, small and local businesses tend to have a much smaller impact on the climate than large corporations. According to TIME Magazine, while small and mid-sized businesses make up roughly 90% of businesses worldwide, most global emissions can be tracked to a small number of the world's largest companies.[14]

FISCAL IMPACTS

The First Year Free program will result in the City "not receiving" fees and taxes it would otherwise receive - if a new small business were to establish itself. Without that new business,

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[14] Kane, A. (2023a, June 25). *Mexican breakfast gets an upgrade at this restaurant in San Francisco's Mission District*. The San Francisco Standard. https://sfstandard.com/2023/06/25/mexican-breakfast-gets-an-upgrade-at-this-restaurant-in-san-franciscos-mission-district/

however, there will be no fees and taxes at all. Backfilling of fees and taxes may be required if a tax or fee isn't part of the general fund; the City Manager will need to understand the "back end" implications of the policy and ensure departments collecting special/enterprise fees and taxes, if any, are made whole.

On the other side of the equation, the successful establishment of new businesses will generate additional tax revenues every year they are in business, and filling one empty storefront can have the beneficial impact of attracting additional businesses to nearby empty storefronts, creating a positive cycle of business health for areas particularly hard hit by vacancies.

It is exactly this positive feedback loop that First Year Free is trying to jump-start, with the cost of waiving fees and taxes in the first year to be offset by the benefits, including direct financial benefits to the City, of adding new businesses to our tax rolls and encouraging business health overall.

OUTCOMES AND EVALUATION

It is suggested that two years after the program is established, the City Manager undertakes a review – including but not limited to quantifying the number of new businesses established under the program, the costs of waiving taxes and fees, and the benefits to the City of the additional tax revenue from those new businesses. Other appropriate metrics can be used to further inform the study, and adjustments to the program considered for implementation by the City Manager.

CONTACT

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