

MEMORANDUM

DATE: May 17, 2011

TO: Patrick D. O’Keeffe, Executive Director

FROM: Economic Development and Housing Department

SUBJECT: Proposed Economic Development Strategy and Business Fee Comparison

RECOMMENDATION

Staff recommends the Agency review the following proposed Economic Development Strategy (“Strategy”) and business fee comparison table, and provide comments.

BACKGROUND

In June 2009, the Redevelopment Agency directed staff to develop an Economic Development Strategy in partnership with the Emeryville Chamber of Commerce. The purpose of the Economic Development Strategy will be to better communicate the economic development efforts of the City and to develop a method of measuring and monitoring performance. The Chamber of Commerce will help garner input from key business and community stakeholders.

In order to obtain input from the business community and incorporate those ideas and concerns into the Strategy, staff developed the following workplan with Chamber staff:

- Obtain input from the business community through a survey and focus groups.
- Based on input from the survey and the focus groups, develop a proposed Economic Development Strategy which could potentially propose programs or policies to address identified challenges and capitalize on strengths and opportunities.
- The proposed Economic Development Strategy will be first presented to the Council, and then to the public at a community meeting.
- Based on input from the Council and the community, the Economic Development Strategy will be finalized.

In early 2010 a survey was sent to all licensed businesses within Emeryville. The results of that survey were presented to the City Council in April 2010. A focus group was held in February 2011, and the results were presented to the Council in March 2011. Since that time, staff also conducted several one-on-one meetings with executives from major Emeryville companies. The results of those discussions have been integrated into the draft Strategy.

DISCUSSION

Proposed Economic Development Strategy

Per the workplan described above, the draft Strategy has been developed and can be found in Attachment 1 to this staff report. The purpose of the Strategy is to develop a set of programs, policies and projects that will grow and support the Emeryville economy. The strategy summarizes the City's current economic development efforts, identifies strengths and weaknesses, and proposes a workplan to capitalize on strengths and address weaknesses.

After input is received from the Council at the May 17 meeting, the proposed strategy will be presented to the public at a community meeting this summer. Based upon the input received, the Strategy will be finalized. Once the Strategy has been finalized, staff will prepare and present to the City Council an implementation plan for Fiscal Year 2011-2012.

Business Fee Comparison

Also, per the request of Council, Attachment 2 is a table summarizing business fee comparisons for Emeryville and selected Bay Area cities. The cities shown are Emeryville, Berkeley, Oakland, San Francisco, Alameda, Richmond, and San Leandro.

As shown in the attached table, Emeryville has a lower business tax structure than the immediate neighboring cities of Oakland and Berkeley. Berkeley, Oakland and Alameda have a payroll tax on administrative headquarters. As most businesses in Emeryville are subject to 0.08% gross receipts tax, in the event there is no gross receipts then the total of all expenses incurred in the manufacturing process at the business location or administrative office within the City of Emeryville for payroll, utilities, depreciation and/or rent is used to calculate the business tax. San Francisco does not levy a gross receipts tax, and instead taxes payroll. Of the seven cities included in this comparison, only Alameda has a lower business tax rate.

With regard to other taxes that a business may be subject to, Emeryville is generally on the lower end of the spectrum for these charges as well. Emeryville has the lowest Utility User Tax (UUT) rate of 5.5 percent among all the cities,

while the median UUT is 7.5 percent. Emeryville and Berkeley have a Transient Occupancy Tax (TOT) of 12 percent, which is in the middle of the range. Oakland and San Francisco have a 14 percent, TOT while Alameda, Richmond and San Leandro have a 10 percent TOT rate. Only Berkeley, Oakland and San Francisco charge a Parking tax, which is 10 percent in the two East Bay cities and 25 percent in San Francisco. It is also worth noting that each of the comparable cities are charter cities and thus each imposes a real estate transfer tax that a general law city, such as Emeryville, is not able to charge. Accordingly, to the extent these cities obtain such revenues upon the sale of real property, one could argue this would obviate the need to maintain other tax measures.

FINANCIAL CONSIDERATIONS

There are no financial considerations at this time.

LEGAL CONSIDERATIONS

There are no legal considerations at this time.

Michelle E. De Guzman, CED Coordinator
Economic Development & Housing Department

Helen Bean, Director
Economic Development & Housing Department

APPROVED AND FORWARDED TO THE
EMERYVILLE REDEVELOPMENT AGENCY

Patrick D. O'Keeffe, Executive Director

Attachments:

1. Proposed Economic Development Strategy
2. Comparative table of business fees

Attachment 1

Proposed Economic Development Strategy May 2, 2011

The business sector is a very significant component of the Emeryville community, as a strong economy supports a high quality of life. There are over 30,000 employees working in Emeryville, and on a daily basis Emeryville companies attract thousands of people to the City as visitors, clients, vendors and patrons. The primary purpose of this Economic Development Strategy (Strategy) is to support and expand the economic base of Emeryville.

Existing Conditions and Current Status

Emeryville has long seen the benefits of a strong economy for the larger community, and has made many efforts to integrate that objective into its policies, programs and projects. As a result Emeryville has many ongoing economic development activities. All of these activities are primarily funded by the Emeryville Redevelopment Agency.

- Marketing – develop and update brochures and maps
- Information and referral
 - Commercial space available, updated every six months
 - One-on-one new business assistance provided by Economic Development staff
 - How to start a business in Emeryville guide, available online
- Property and project development
 - Property acquisition/assembly
 - Brownfield remediation
 - Creation of development sites through providing structured replacement parking or construction of infrastructure
- Financial incentive programs
 - Façade grant and business loans
 - Enterprise Zone, in partnership with the Cities of Oakland and Berkeley
- Strategic Partnerships
 - East Bay Green Corridor Partnership
 - Emeryville Chamber of Commerce, including the Chamber Healthy City Initiative Program
 - East Bay Economic Development Association

- Implementation of Climate Action Plan through contract with the Emeryville Chamber of Commerce
- Building infrastructure capacity through the City's Capital Improvement Program (CIP)
 - Sewers
 - Improved transit/pedestrian/bike access
 - Transit-oriented development
 - Circulation (traffic) improvements

Economic Development Goals from 2030 General Plan

The goals to be achieved by this Strategy are those goals as defined by the community through the collaborative planning process used to develop the 2010 General Plan. Those goals are as follows:

- Attract and retain a mix of retail to serve local and regional patrons
- Grow and secure tax base through diversification of commercial uses
- Pursue retail that serves Emeryville residents, and encourage location in neighborhood centers
- Encourage development and retention of small businesses, start-ups, partnership incentives, and buildings that accommodate these businesses
- Encourage development of dynamic, leading edge industries based in high technology, medical/bio engineering, biotechnology, biofuels and media/digital technology that provide good quality jobs with the potential for career advancement
- Encourage development of existing businesses to retain and expand employment opportunities by providing assistance to businesses
- Work with existing Emeryville businesses, Chamber of Commerce, and others to address the City's economic needs and stimulate growth.

Demographics

As of 2011, the State of California Department of Finance estimates that residential population of Emeryville is approximately 10,125. The following is summary of other demographic characteristics of Emeryville, according to U.S. Census Bureau for the period 2005-2009:

- Household Type:
 - 30% Family households
 - 70% Non-family households (living alone or households of unrelated individuals)
- Average household size: 1.74 persons

- Annual Household Income
 - Median: \$57,211
 - Mean: \$82,537
- Median age: 33.9 years
- Race:
 - 43% White, non-Hispanic
 - 30% Asian
 - 15% Black or African-American
 - 9% Hispanic
 - 3% Two or more races
 - 2% Other
- Educational Attainment: 69% of people have a Bachelor's Degree or higher
- Travel to work:
 - 55% of residents drove to work alone
 - 37% carpooled, took public transportation, or used other means
 - 8% worked at home
 - Of those who commute, it took on average 28.4 minutes to get to work
- Occupation type:
 - 70% management, professional, and related occupations
 - 18% sales and office occupations
 - 11% service and other occupations
- Housing
 - 11% single family homes, 87% in multi-unit structures
 - 35% of housing stock built since 1990
 - 35% of housing stock owner-occupied and 65% renter occupied
 - Median monthly housing costs
 - Mortgaged owners \$2,339
 - Nonmortgaged owners \$616
 - Renters \$1,420

Based on this data from the Census, much can be generalized about the Emeryville community. Emeryville today is a diverse community, having a far greater Asian population (30% vs. 12% for California) and Black/African-American population (15% vs. 6.2% for California) than the state as a whole. The Emeryville population is young with a median age of 33.9 years, although only slightly younger than the mean age for the state of 34.6 years. In terms of income, Emeryville households slightly lag the median California income at \$57,211 vs. \$60,392. However, the gap between Emeryville and California is much smaller when looking at mean (average) income which is \$82,537 to \$82,948.

As evidenced by the high rate of people with a bachelor's degree or higher, Emeryville's population is highly educated. Most are renters who do not live in

family households. This can be seen in the relatively low average household size of 1.74 persons, as opposed to 2.91 persons for California. The majority of Emeryville residents are employed in professional and management occupations. Nearly half of all residents use alternative means to commute to work or work from home. The majority of housing units in Emeryville are in multifamily projects, and more than one-third of all housing stock in Emeryville is less than 20 years old.

The City's Department of Finance estimates that there are approximately 29,000 employees in Emeryville in fiscal year 2010. The ten largest employers account for approximately 15.7% of these jobs. This contrasts with fiscal year 2000 when employment was approximately 19,800 and the top ten employers accounted for 29% of all employment in Emeryville. This demonstrates that the economy has grown and diversified significantly in the last ten years.

Current Market and Economic Indicators

In order to gauge the current status of the Emeryville economy, a brief summary of major market and economic indicators is provided:

- *Sales tax*: Sales tax revenues represent almost 21% of the City's General Fund budget. Sales tax revenues have declined 37% from a high of \$7.8 million in Fiscal Year 2000-01 to approximately \$4.9 million in Fiscal Year 2009-10.
- *Office*: According to the most recent market report from Cassidy Turley, office vacancy in Emeryville for the first quarter of 2011 is 18.5% for office. Much of this vacancy is due to the foreclosure of the Watergate Office complex.
- *R&D occupancy* According to a market report from Cassidy Turley on the R&D market for the first quarter of 2011, Emeryville has a vacancy rate of 0.6% for R&D space. This is in contrast to a 23.3% vacancy rate for the East Bay
- *Land/Space Available*: The City maintains a Commercial Space Available Inventory, which was just under 2.6 million square feet across all categories of office, retail and industrial at the end of 2010.

As shown by these indicators, Emeryville has been significantly impacted by the recession although there have been some recent signs of recovery. This impact can be seen from a fiscal perspective in property reassessments and reduction in sales and hotel tax, which are now beginning to trend upwards but have not yet recovered to pre-recession levels. There are still significant commercial vacancies in office and neighborhood-serving retail, although leasing for research

and development space primarily for use by bio-tech and clean tech companies has remained a bright spot in the commercial leasing market. For-sale residential prices have also remained low, although there is also some recovery in the residential rental markets.

Throughout this period, there has been continued evidence of the overall strength of the Emeryville community. Based on information from the City's financial consultant Emeryville's regional retail continues to attract shoppers from throughout the region, making the City a net importer of sales. The growth in biotech has been and will continue to be a source and driver of demand for office/R&D commercial space. Also, companies have shown an ongoing interest in expanding or locating their headquarters or major divisions in Emeryville, such as the recent relocation of Santen, Inc. from Napa or the Infectious Diseases Unit of Novartis from Cambridge, Massachusetts and the expansion of Pixar Animation Studios.

Strengths and Weaknesses

Given this economic environment and at the direction of City Council, staff obtained information to determine the strengths and weaknesses associated with doing business in Emeryville. The following methods were used to gather this information:

- Survey made available to all licensed Emeryville businesses
- Focus group of smaller businesses (e.g. employ less than 50 people) conducted by independent consultant
- Direct meetings between Economic Development and Housing Department Staff and executives of larger businesses. Meetings were conducted with Ex'Pression College for the Digital Arts, Bay Street Emeryville, and National Holistic Institute.
- Independent research on best practices used by other municipalities

Based on information gathered, as well as the experience of staff in working with the Emeryville community the following strengths and weaknesses were identified:

- Strengths
 - Central location, which has several components
 - Centrally located within the larger San Francisco Bay Area
 - Proximity to major international and regional airports
 - Easily accessed by multiple transportation modes
 - Easily accessible by several major freeways (580, 880, 80, and 24)
 - Emery Go Round/BART
 - Bike friendly

- Prestige associated with being the headquarters of many major corporations
- Considered a major regional retail sales center
- Positive image of the City, which reflects on the businesses
 - Innovative/Trend Setting
 - Business-friendly
 - Action-oriented city and city government
 - Green
 - Artistic
- Transformation of Emeryville from a former industrial city
- Responsive and effective public safety
- Proximity to the University of California, Berkeley and Lawrence Berkeley National Lab
- Relatively low cost of doing business (relative to nearby cities of San Francisco/Oakland/Berkeley), including low rate of business taxation
- Weaknesses
 - Access constraints
 - Lack of available parking
 - Traffic congestion/circulation issues during peak hours
 - Pedestrian and bicycle connections still need improvement
 - Lack of identity for East Bay bio-science location
 - Land and space constraints
 - Soil and water contamination
 - Lack of vacant sites
 - High cost of infill development
 - Inefficiency in entitlement/building permit process
 - Slow internet service
 - High commercial vacancy rates for office and smaller retail/commercial space
 - Pockets of remaining blight
 - Fiscal constraints
 - Potential elimination or reduction of Redevelopment Agency funding and powers, and subsequent impacts
 - Constrained City budget causing reduction in speed or provision of public services

Economic Development Strategy Workplan

In order to achieve the goals described at the outset of this Strategy, the proposed workplan capitalizes on the strengths of the City's existing economic development activities while addressing weaknesses where possible. The workplan proposes to do this in nine major categories.

Improve access

Improving physical access allows employees to get to and from work, facilitates business operations and enhances the quality of life for both residents and workers.

- Implement parking strategy
- Implement Sustainable Transportation Plan (work with Planning & Building)
- Facilitate traffic circulation through strategically placed road improvements
- Expansion of Emery-Go-Round

Create conditions for continued growth and infill development of bio-science industries

The bioscience sector, including bio-fuels, has been a bright spot in the local economy even during the recession. There is already a significant cluster of these users in the Emeryville/West Berkeley area, and focusing on the growth and support of this clean and innovative market would leverage the significant investment being made in this sector by both private and public investment.

- Marketing program for bio-science corridor in partnership with the City of Berkeley, and the Chambers of Commerce of both cities
- Explore developing business incubator
- Pursue Lawrence Berkeley National Laboratory second campus

Create conditions and reduce costs of new infill development

Emeryville is small city, constrained by expansion by the cities of Berkeley and Oakland to the north, east, and south and by the San Francisco Bay to the west. In order to accommodate new businesses or the expansion of existing businesses, new development must be infill, on brownfields or currently underutilized sites. Offsetting the higher costs of infill development will make Emeryville more competitive for business attraction and retention.

- Assist with property acquisition (where necessary)
- Provide funding for replacement parking
- Offset costs of brownfields remediation
- Provide adequate infrastructure (utility undergrounding, sewer, storm drains)
- Provide regional/statewide advocacy to support business growth

Reduce cost and streamline process of locating and operating business in Emeryville

A key attribute of Emeryville is that it is perceived as business-friendly and nimble in its response and action. These activities will capitalize on those attributes, and address those areas that have been identified for improvement.

- Evaluate initial discount on business license tax for new Emeryville businesses
- Promote/continue partnership with Rubicon
 - Provides access to State/Federal funding for businesses
 - Provides job training and placement assistance to help enhance the quality of the local workforce
- Continue to support Enterprise Zone
- Streamline entitlement and permit approval process (work with Planning & Building)
- Facilitate capital formation through providing access to business loans for expansion

Support and explore innovations to serve business

These projects, policies and programs will help to attract new businesses and provide ongoing support to existing Emeryville business. They will also help to develop and improve methods for communicating to and with the business community.

- Evaluate installation of fiber optics for faster internet connection
- Develop business recovery plan as component of disaster recovery planning
- Continue to study and support key economic clusters
 - New media (e.g. Pixar/Ex'pression College for Digital Arts)
 - Bioscience (e.g. Amyris)
- Continue to improve communication and marketing with business
 - Explore social media and development of social media policy
 - Continue to review and revise as needed, the economic development website to better focus on helping businesses with information and data to start-up/grow their companies
 - Explore development of a separate Economic Development website
 - Develop "Welcome to Emeryville" package to be distributed by various City departments that work with new businesses (e.g. Planning and Building Department, and Finance Department)
- Consider formation of a BID or other mechanism to promote Emeryville hotels/hospitality venues to encourage business stays, meetings and tourism.

Support small, local-serving business development

Small businesses that provide essential goods and services for the local area are a major component in the vitality of the community. For many Emeryville residents, these small businesses are the day-to-day face of the business community and provide place for people to gather and interact.

- Explore developing Business Improvement District on San Pablo
- Continue façade improvement and small business loan program

Build upon and expand strategic partnerships

Strategic partnerships provide an opportunity for Emeryville staff to work with other jurisdictions and partner with affinity organizations. In turn, these partnerships will provide to access new resources in other jurisdictions, as well leverage existing resources through collaboration for new or expanded economic development opportunities.

- Work with existing partners to create more opportunities for the Emeryville business community
- Seek out additional strategic partnerships that will provide additional support and resources for the City's economic development objectives

Sustainability

A strong economy is one that plans for and includes sustainability, as environmental stewardship ensures the long term viability and livability of Emeryville as a community.

- Explore additional opportunities to integrate the Economic Development Strategy with Climate Action Plan
- Work with developers and business owners to increase the number and raise the level of LEED-certified projects
- Pursue additional park and open space development in the CIP
- Encourage businesses to adopt green practices through providing information and advocacy

Implement fiscal development strategy

The current economic development efforts undertaken by the City of Emeryville are largely funded by the Emeryville Redevelopment Agency. Although there is a threat to redevelopment as result of the California State budget process, redevelopment as a fiscal tool has a limited lifespan even in its current form. In order to continue to implement the Strategy, other funding sources must be

developed in order to initially augment and later replace the programs and projects now funded by redevelopment.

- As part of the implementation of the Parking Strategy, explore development of Parking Improvement District
- Pursue of grant funding for economic development initiatives and projects
- Build tax base through programs and projects that intensify land use, expand retail and support the hotel market

Performance Measures

In order to track the implementation of the workplan and evaluate the effectiveness of the Strategy, Economic Development staff will provide an annual update to City Council on activities described in workplan. As part of that update, staff will provide current and historical data for the following indicators:

- Building permits and values
- Commercial occupancy rates
- City revenues: total and by source
- Net new business licenses

The information on the indicators will be used a means to determine if the Strategy is effectively supporting, growing, and diversifying the economic base in furtherance of the overall vitality of the Emeryville community.

**ATTACHMENT 2
BUSINESS TAX COMPARISON TABLE
EMERYVILLE AND SELECT BAY AREA CITIES
MAY 2011**

	Emeryville¹	Berkeley²	Oakland³	San Francisco	Alameda⁴	Richmond	San Leandro⁵
Gross Receipts	0.08% for most businesses; 0.35% for commercial property rental	0.12% to 0.45% for most businesses; 0.06% for grocer; 1.081% for real property rental	0.12% to 0.45% for most businesses; 0.06% for grocer; 1.395% for real property rental; 5% for cannabis	na	Under \$345,000 gross receipts, set fees based on specified ranges; over \$345,000 gross receipts then .04%	na	Base fee of \$111.50 plus 0.11% to 0.33%
Payroll Tax	na	0.12%	0.12%	1.5% of payroll expense plus annual registration fees ranging from \$25-\$500, depending on total payroll expense	Under \$345,000 gross payroll, set fees based on specified ranges; over \$345,000 gross payroll then .04%	na	na
Employee Tax	na	na	na	na	\$60 per quarter per employee for peddler/solicitor	Base annual fee of \$268.50 plus \$53.50 each additional employee up to 25; \$46 each additional employee over 25	Base annual fee of \$111.50 plus \$33.40-\$83.70 per employee
Other	\$200-\$400 for massage depending on number of employees; \$500 for up to 10,000 square feet and \$250 for each additional 5,000 square feet for storage and warehouse	0.12% value added for manufacturing; flat taxes for nonprofits (\$26) and solicitor/peddlers(\$258)	0.12% value added for manufacturing	na	\$20 per residential dwelling unit; \$20 per 1,000 square feet for commercial rental; \$5 per room for hotel/rooming house	Special fees for various amusements, childcare, oil drilling and production, and peddler/solicitor	Base annual fee of \$100 plus \$16.70 per 1,000 sf (commercial property) or \$10.10 per unit (residential property); Base annual fee of \$111.50 plus \$33.40 per parking space; \$557.70 flat tax for other selected uses
Utility User Tax (UUT)	5.50%	7.50%	7.50%	7.50%	7.50%	10.00%	6.00%
Transient Occupancy Tax (TOT)	12%	12%	14%	14%	10%	10%	10%
Parking Tax	na	10%	10%	25%	na	na	na

- Notes:**
1. If no gross receipts, then the total of all expenses incurred in the manufacturing process at the business location or administrative office within the City of Emeryville for payroll, utilities, depreciation and/or rent is used.
 2. Gross receipts rate varies based on use, lowest rate for grocer only. Most other businesses .12%-.35%. Payroll tax applies only to administrative headquarters. Other applies only to manufacturing.
 3. Gross receipts rate varies based on use. Exemptions for businesses whose gross receipts are less than \$2,500. Payroll tax applies only to administrative headquarters. Business tax incentive program provides 10-year abatement of tax liability in five industry clusters (telecommunications, transportation, food processing, biotechnology and software/multimedia).
 4. For manufacturing, calculation is gross receipts less value of raw materials. Payroll tax applies only to administrative headquarters. For "Other" low end of range is for commercial property rental income and high end is for residential property rental in
 5. Gross receipts tax applies only to coin-operated devices, towing and firearms dealers. Employee tax varies based on use. Flat tax applies to specific uses.

Sources: 2009 Kosmont_Rose Institute Cost of Doing Business Survey, City of Emeryville, City of Berkeley, City of Oakland, City and County of San Francisco, City of Alameda, City of Richmond, City of San Leandro, CaliforniaCityFinance.com.