



Office of the City Manager

INFORMATION CALENDAR

October 26, 2010

To: Honorable Mayor and Members of the City Council

From:  Phil Kamlarz, City Manager

Submitted by: Michael J. Caplan, Economic Development Manager

Subject: Decline in Taxable Retail Sales in Berkeley with Corresponding Decline in City Revenue from the State Sales Tax

INTRODUCTION

Since the economic crisis began in the first quarter of 2008, Berkeley's retail sector suffered its effects somewhat more slowly than the State as a whole or Alameda County. Nevertheless, since the fourth quarter of 2008 taxable retail sales in Berkeley have undergone a sharp and sustained decline continuing through the 1st quarter of Calendar Year 2010, the latest complete data available. (See Table I) Preliminary information indicates that this trend may be ending, as 2nd quarter taxable retail sales in Berkeley are up 2.8% compared to the same period last year.¹ This report discusses the sectoral and business district patterns revealed in the recent decline and suggests steps that the City could take to improve conditions for retail businesses in Berkeley.

CURRENT SITUATION AND ITS EFFECTS

I. *Decline in Retail Sales and Tax Receipts:* City sales tax receipts for the latest available four quarters ending in March, 2010, are nearly \$1.2 million lower than receipts for the year ending in March 2009, a decline of nearly 9% in current dollars and 10.9% in dollars of a constant 2010 value (i.e., adjusted for inflation.) This is \$1.92 million below receipts for the year ending June, 2008, the highest recent four quarter period, a decline of 13.7% in current dollars or 14.3% in dollars of a constant value.

The loss of nearly \$2 million in City revenue reflects a loss of nearly \$200 million in retail sales for Berkeley businesses in the 21 month period since June, 2008. Among other consequences, this is reflected in an increased vacancy rate in some Berkeley business districts, particularly along Solano Avenue.

II. *Job and Payroll Losses:* While the post 2007 national economic crisis has had serious local impacts on retail sales, data from the State of California's *Quarterly Census of Employment and Wages* shows that job and payroll losses in Berkeley's retail sector began much earlier. (See Table II and Chart I) The retail sector lost jobs in every year but one during the last decade and the 1st quarter payroll reported to the

¹ Phone conversation with Bret Harmon of MuniServices (sales tax auditing firm), October 3, 2010.

State by retail businesses in Berkeley has declined continuously since 2003. Furthermore, when we adjust Berkeley sales tax receipts since 1990 to dollars of a constant 2009 value, we find that although receipts stabilized in the middle of the last decade before the recent abrupt decline, they have never recovered to the level they had attained in 2000. (See Chart II) In real terms, 2006 receipts were 15.3% below 2000 and 2009 receipts were nearly 28% lower.

All of this suggests that we need to analyze the impact of the economic crisis on Berkeley retail in the context of longer term changes such as the shift of retail spending to new retail centers in Emeryville and elsewhere plus the rise of e-commerce.

BACKGROUND

The Bradley-Burns Uniform Sales and Use Tax Law approved in 1955 mandated that the State collect a 1 percent local sales tax as part of the larger Sales and Use tax levied on most items for sale in California. The 1 percent is allocated to cities on a point-of-sale basis. This *situs* rule means that the sale tax is one of the few sources of revenue that cities can potentially increase by zoning more land for retail and attracting more retail businesses.

Many cities have done exactly that, particularly since the passage of Proposition 13. Since 1980 nearby Emeryville has added more than 1.3 million square feet in 4 new shopping centers as part of a deliberate strategy to build its retail sector. Albany has also accommodated “big box” retail in the form of a Target Store on Berkeley’s Northern border.

Berkeley, however, has not seen the encroachment of big box retail as have surrounding cities because its residents have long valued and protected the unique character of its neighborhood commercial districts and has restricted conversion of land historically zoned for industry to retail use. As a result Berkeley has not rezoned any significant new area for retail since the creation of the 4th Street business district in the early 1970s². This means that retail change in Berkeley occurs almost exclusively within our already-established business districts.

The good news here is that Berkeley’s retail districts have evolved to be walkable streets with lovely, “village” charm that are populated mostly with small, independently-owned businesses. OED staff work with the leaders of business district organizations, including the four Business Improvement Districts, to help maintain and improve public

² In 1997, one particular address, 1730 4th Street, was rezoned to retail to allow Cody’s Books to locate there. This site is now the location of CB2, a branch of Crate & Barrel. In 2006, the City rezoned several acres from industrial to commercial to allow the development of the new Berkeley Bowl West supermarket. While the new store has been successful and has obviously met a great need, the City has not benefitted very much in sales tax because groceries are tax exempt. The City has also changed zoning in a portion of West Berkeley, the M District, to allow new car dealers to locate there if they wish. The intent of this action was to retain our existing car dealers, although none of them has yet moved there.

areas, provide marketing services, and recruit new businesses to vacant spaces. Because of their special character some of Berkeley's shopping areas attract customers not only from surrounding neighborhoods but from the entire Bay Area.

The challenge for Berkeley is that in the U.S., retail sales are increasingly concentrated in large format discount big box chain retailers like Target, Costco, Best Buy and others that Berkeley has been unable to accommodate. As we will see, this has meant that, particularly for some categories of goods (consumer electronics, computers, appliances, men's clothing) our own residents have increasingly had to shop outside of Berkeley or on the Internet.

Sources of Information on the Retail Sector

In order to analyze retail sales in Berkeley, staff has three somewhat different sources:

- MuniServices Sales Tax Analysis and Reporting Service (STARS). A private firm, MuniServices, audits Berkeley sales tax receipts under contract to the City using data received electronically from the State Board of Equalization (BOE). As a by-product of the audit, it produces tables and charts on Berkeley's retail sectors and individual retail districts. MuniServices classifies firms into sectors using a system that is similar to but not exactly the same as that used by the BOE. Retail districts are defined by street boundaries supplied by City staff. MuniServices' supplies retail data relatively quickly: approximately six months after the sales tax reporting period (e.g., staff has received tables and charts for the 1st quarter of 2010.)
- BOE Taxable Sales in California. The BOE publishes official statistics on taxable sales in California, including summary statistics for Berkeley and other jurisdictions in the State.³ This data for taxable retail sales (not sales tax receipts) is published about two years after the reporting period (e.g., the latest complete year available is 2008.) BOE tables are particularly useful to compare the pattern of retail sales in Berkeley to the State or Alameda County.
- 2007 Economic Census. The Census Bureau earlier this year released its 2007 Economic Census, including statistics on retail trade in Berkeley. This source is important because it covers all of retail trade including products like groceries and medicines that are not subject to the sales tax. The Census Bureau classifies retail firms according to the North American Industrial Classification System (NAICS).

³ *Taxable Sales in California* available on the BOE website: www.boe.ca.gov. Taxable sales are, of course, equivalent to City sales tax receipts multiplied by 100. The BOE uses its own system to classify retail firms by sectors, although it has announced that in the future it will classify them according to the official federal North American Industrial Classification System (NAICS) used by all other statistical agencies

Staff has used the BOE's *Taxable Sales in California* and results from the Census Bureau's *2007 Economic Census* to analyze the basic pattern or structure of retail sales in Berkeley. Staff has used MuniServices data to review and assess recent sectoral and district trends since the onset of the economic crisis in 2008.

The Pattern of Retail Sales in Berkeley and How it Differs from the State and County

Table III, taken from a recent consultant report that uses BOE data for 2008, compares taxable retail sales on a per capita basis for Berkeley and Alameda County. It shows that in 2008 Berkeley had taxable retail sales of \$9,505 per capita slightly more than the \$9,402 per capita in Alameda County as a whole. The pattern of taxable retail sales in Berkeley differs from the County for three major reasons:

- *Much lower General Merchandise Sales: \$531 per capita in Berkeley compared to \$1,375 in the county.* "General Merchandise Stores" are traditional department stores like Sears or Macy's plus discount "Big Box" stores like Wal-Mart, Target or Costco. Berkeley consumers have to drive to another city to shop in this type of store, which explains why the sales for this category are so much lower in Berkeley. (The question arises, then, why Berkeley shows any sales under "General Merchandise?" The answer is that the State Board of Equalization, unlike other agencies, considers drug stores as part of the "General Merchandise" category so that the purchases that consumers make in Berkeley Walgreens and CVS stores show up here.) But Berkeley consumers mostly have to shop outside of Berkeley for products usually purchased in department or discount stores: e.g., appliances, major furniture and home furnishings, consumer electronics, etc.
- *Strong Sales in the "Other Retail Stores" category: \$2,520 in Berkeley compared to \$1,558 in the county.* This category includes most types of specialty retail stores: books and stationery, jewelry, office supplies, gifts, arts goods and novelties, etc. Berkeley's strength has long been its many small independent retailers operating in our various business districts so it is not surprising that sales are so strong in this category compared to the County.
- *Strong Restaurant Sales: \$2,213 per capita compared to \$1,286 in Alameda County.* Berkeley had 490 permits for Eating and Drinking Places in 2008, much higher than would be expected for a medium-sized California city. The high per capita sales in restaurants reflects a tradition of interest in food and innovation in cuisine that goes back several generations as well as a high population in age groups prone to eating away from home.

- The basic pattern shown by the taxable sales comparison is that Berkeley consumers shop outside the City or on the Internet for many categories of goods either because we don't have the type of stores that sell them (e.g., consumer electronics, computers, appliances, men's clothing) or we don't have the kind of large discount store that can be expected to sell them at the best price. On the other hand, we make up for part of this deficit through a strong restaurant sector and some specialty retail stores that draw our own residents as well as many people from the surrounding region.. Note, however, that Berkeley appears to be strong in the kind of retail (restaurants, specialty stores) that would be likely to suffer when consumers cut back on "discretionary" expenditures. Few people "need" to eat away from home in restaurants or shop in specialty boutiques.

2007 Economic Census

The Census Bureau's recently-released economic census for 2007, that covers all Retail Trade (NAICS industries 44-45) and not just taxable sales, shows some of the same characteristics described above in greater detail. Table IV compares Retail Trade and Food Services and Drinking Places (NAICS industry 722) in Berkeley and the State of California using data from the 2007 Economic Census. While "General Merchandise Stores" account for 13.5% of all retail sales in the State, they produce less than one quarter of one percent (0.23%) here. (Note that this is much lower than shown in the BOE taxable sales report because NAICS classifies drug stores as Health and Personal Care, not General Merchandise.) Berkeley is also below the State average in sales through Electronics and Appliance stores and Gasoline Stations. On the other hand, Berkeley has a much higher proportion of sales than the State in one very important type of retail store as well as significant advantages in others:

- Food and Beverage stores (NAICS 445): 23.8% vs. 16.2%. This reflects the fact that our grocery stores, probably especially two Berkeley Bowls, but also "Specialty food stores" like the Cheese Board and 13 others serve not only our own very food-conscious residents but attract many people from other cities as well.⁴ Unfortunately, this does not benefit our tax base very much because food for home consumption is exempt from the sales tax.
- Sporting Goods, Hobby, Book and Music stores (NAICS 451): 8.62% compared to 2.2%. The size of this retail sector is explained by our longstanding though eroding strength in book stores (Moe's, Ned's, ASUC (Follett) bookstore), CD/music stores (Amoeba, Rasputin's, plus bicycle dealers and REI. REI is one of the largest single retailers in Berkeley.

⁴ Note, however, that the relatively low proportion of Food and Beverage store sales in the State compared to Berkeley undoubtedly also reflects the fact that in most places other than Berkeley, a large and rising proportion of grocery products are being sold through discount General Merchandise stores (Wal-Mart, Target, Costco, etc.) rather than any type of food store. .

- Health and Personal Care stores (NAICS 446): 10.73% vs. 5.79%. Explained less by health consciousness (though that may play some role) than by the fact that drug stores fall into this category in NAICS, and in the absence of discount or department stores Berkeley consumers buy a high proportion of general goods through Walgreens and CVS.
- Furniture and Home Furnishings (NAICS 442): 5.5% vs. 2.97%. Products that are purchased through department stores like Macy's in the rest of the State tend to be bought at stores like European Sleep Works or Viking Traders here.
- Building Material and Garden Equipment and Supplies (NAICS 444): 9.46% compared to 7.03%. Berkeley has two large lumber/building products stores, Ashby Lumber and Truitt and White, plus Orchard Supply and several nurseries.
- Miscellaneous Store Retailers (NAICS 453): 4.48% vs. 2.75%. Berkeley has 28 stores in the category "Office supplies, stationery and gifts" and 23 "Used merchandise stores." Sales through Used Merchandise stores are nearly seven times the State average.

The Economic Census for 2007 shows that in the Retail Trade sector, Berkeley has per Capita Sales of \$11,705, somewhat below the State's average of \$12,494 per capita. However, Berkeley had a per Capita Income in 2008 of \$36,844, 25% higher than the State average of \$29,405 in the same year. In addition, Berkeley has a high daytime population of as many as 140,000 people, some of whom could be expected to do some shopping here.

Overall, then, Berkeley consumers, both the resident ones and the ones who commute in, are not shopping in Berkeley retail stores in the proportion that they do in other California cities. While we have the strong sectors shown above (particularly grocery stores), they do not compensate economically for the absence of large department and discount stores. Like the taxable sales data from the BOE, the Economic Census shows that Berkeley consumers are making a lot of their larger retail expenditures for articles like major appliances, consumer electronics, computers, men's clothing, etc. in surrounding cities and on the Internet.⁵

In official statistics, restaurants are no longer considered part of Retail Trade. In NAICS, Food Services and Drinking Places (NAICS industry 722) were moved to a new Sector, Accommodation and Food Services (72). But it was shown above that for taxable sales, restaurants are Berkeley's strongest single sector. The economic census shows that in 2007 Berkeley's 365 "Food Services and Drinking Places" accounted for

⁵ As early as Fall 2000, for example, a survey conducted by the consulting firm Bay Area Economics showed that 83% of Berkeley households had Internet access (compared to 41.5% in all U.S. households) and, of these, 81% were already making purchases over the Internet (60% had already purchase books.) We can assume that Internet purchases have multiplied many times since 2000. Janet Smith-Heimer, *Will E-Retail Hurt Main Street? A Survey of Berkeley Residents.*

\$269,308,000 in sales, \$2,473 for each Berkeley resident. If we combine Food Services and Drinking Places with Retail Trade, Berkeley per Capita “Retail and Food Service” Sales increase to \$14,179, slightly higher than the equivalent number for the State, \$14,077. Along with grocery stores, food is Berkeley’s comparative advantage: the attraction that draws customers here and compensates for our weakness in other retail.

Sectoral Trends during the Economic Crisis

In the post-2007 economic crisis, all of Berkeley’s retail sectors have declined, though some have been more impacted than others. The table below shows the *change* in sales tax receipts for the 10 largest retail sectors in Berkeley for the period from the 1st quarter 2008 through the 1st quarter 2010 (i.e., the latest information available.) Within this two year period, we have calculated the change from the highest four quarters to the four quarters ending in March, 2010:

City of Berkeley Sales Tax Receipts by Sector ⁶
Year Ending March 2008- Year Ending March 2010
Percent Change From Peak 4 Quarters to 4 Quarters Ending March 2010

	Current Dollars	Adjusted to June 2010
Restaurants	-6.6%	-8.5%
Miscellaneous Retail	-12.3%	-14.6%
Auto Sales- New	-8.3%	-10.7%
Health & Government	-9.8%	-11.4%
Recreation Products	-16.2%	-17.3%
Service Stations	-19.1%	-20.8%
Food Markets	-9.5%	-11.9%
Building Materials- Retail	-28.9%	-30.8%
Apparel Stores	-23.8%	-25.8%
Furniture/ Appliance	-31.9%	-33.7%

- **Restaurants.** During the economic crisis, sales in Berkeley’s largest single retail sector declined by a modest 6.6% in current dollars or 8.5% in dollars of a constant (June, 2010) value. This is less than would be expected as households cutback on meals away from home. Most other California cities experienced a much greater decline.
- **Miscellaneous Retail.** This sector, which includes stores, classified as “Art, gift and novelties”, “Stationery/books”, “Jewelry” and “Specialty stores”, declined much more: 12.3% in current dollars and nearly 15% in constant dollars. But the largest category within this sector, books, held up fairly well because textbooks

⁶ Business sectors as defined by MuniServices, the City of Berkeley’s sales tax auditor. Sectors arranged by size of sales tax receipts.

and other assigned reading material apparently comprise a large proportion of sales.

- Auto Sales. Auto sales declined only 11% in real dollars from the year ending 1st quarter 2008 through the year ending 1st quarter 2010, but this is somewhat deceptive because the comparison starts from a low base: sales had already declined by more than 20% in the period 2006-1st quarter 2008. Auto sales actually recovered modestly throughout 2009 into the 1st quarter of 2010.
- Health and Government. This sector includes retail activities at the University of California (except for the ASUC/Bear Student Store which is classified under Books), LBNL, and several non-profit organizations. The decline of 11.4% in real terms reflects reduction in food service and other sales at the University, plus some reductions in patient/visitor expenditures at Alta Bates.
- Recreation Products. This sector comprises sporting goods (REI and the bicycle shops) and music/CD stores (Amoeba, Rasputin's and musical supply stores.) Households cut back on expenditures in these very discretionary activities, so it is not surprising that sales declined by 17% in inflation-adjusted dollars.
- Gasoline Stations. The decline in gas station sales was largely determined by a drop in gasoline prices in this period. Berkeley households buy much of their gasoline outside of Berkeley.
- Food Stores. As indicated earlier, sales tax receipts only cover taxable products (beer and wine, snack items, health and beauty products). Berkeley food store sales actually increased considerably in this period.
- Apparel and Building Materials/Furniture /Appliance. The really large declines (more than 30% in real terms) occurred in categories that depend on construction and home improvement: building materials and furniture/appliance. It is well known the new home construction and home improvement dropped precipitously in the wake of the economic crisis, partly because of the collapse of financing. It is also not surprising that households cut back on expenditures for clothing, especially in the small, relatively expensive clothing and accessory stores that predominate in Berkeley.

In general, the decline in Berkeley's retail sectors corresponds fairly well with national and state trends: a huge drop in the sectors that depend on home sales and home improvement (building material, furniture and appliances/home furnishings), reduction in the purchase of large durable items (autos, sporting goods) and some decline in all other discretionary purchases. As already noted, in some categories (e.g., apparel) households may not have cut back total expenditures as much as is reflected in the decline in Berkeley stores, but shifted purchases to discount stores outside Berkeley or

the Internet. Berkeley restaurant sales declined less than expected, perhaps reflecting the continuing local interest in food and innovation in cuisine.

District Trends during the Economic Crisis

We are not going to discuss Berkeley business districts individually because we cannot reveal economic information that can be attributed to particular stores: in a small area, a “sector” often consists of one or two businesses. Instead, we rank the districts we track in the order of the decline in their sales tax receipts in the two years between the four quarters ending 1st quarter 2008 and the four quarters ending 1st quarter 2010 and see what patterns emerge:

DECLINE IN RETAIL SALES BY DISTRICT, YEAR ENDING MARCH 2008- YEAR ENDING MARCH 2010

	Current dollars	Constant (2010) Dollars
Fourth Street	-21.50%	-23.80%
University Avenue ⁷	-18.50%	-20.80%
North Shattuck ⁸	-16.80%	-19.10%
Solano	-15.40%	-17.70%
South Berkeley ⁹	-13.50%	-15.80%
North San Pablo ¹⁰	-13.50%	-15.80%
Elmwood ¹¹	-7.70%	-10.00%
South San Pablo	-7.10%	-9.40%
Telegraph ¹²	-6.90%	-9.20%
Downtown	-4.60%	-6.90%

⁷ Defined as University Avenue from Martin Luther King Jr. Way to the freeway, the membership area for the University Avenue Association.

⁸ Defined as Shattuck from Delaware to Rose but including Walnut Square, the membership area of the North Shattuck BID.

⁹ South Berkeley includes businesses on Shattuck from Dwight Way to the Oakland border; businesses on all of Adeline to the Oakland border; businesses on Ashby from Shattuck to Sacramento; and businesses on Sacramento from the Oakland border to Dwight Way.

¹⁰ Defined as businesses on San Pablo north of University Avenue.

¹¹ Defined at the businesses in the C-E zoning district on College between Russell and Webster with some addresses on Ashby near the intersection with College.

¹² Defined as businesses in the C-T zoning district: Telegraph from Bancroft to Parker with commercial addresses on streets that intersect with Telegraph (Bancroft, Durant and Channing.) This is also the membership are of the TBID.

The sales decline by district seems to generally conform to the sectoral analysis above. Fourth Street depends on a more regional customer base that drives in to shop and some of its larger stores sell, (or sold) furniture and home furnishings, or at least very “discretionary” items that customers may find they do not need when they feel economically insecure. University Avenue has many South Asian stores that cater to customers who often drive long distances to find ethnic-oriented items. North Shattuck and Solano did not decline as much (and, indeed, most of the businesses in these districts seem to have survived fairly well even during the economic crisis.) However, the stores that did close and caused the drop in district receipts seem to be those that sold relatively high-end products (e.g., Elephant Pharmacy¹³ on North Shattuck) or furniture/home furnishings. It is logical that districts that depend more on sales of high-ticket or discretionary items and/or a more regional customer base would suffer more from the economic downturn than those that tend to sell “basic” products that customers need irrespective of economic conditions (e.g., auto repair, inexpensive meals) and/ or that depend on a close-in or resident customer base. The Downtown, Telegraph and the Elmwood are districts that conform more to the latter model. Of course, these are generalizations and all of the districts and sectors contain stores that contradict “trends” and models.

Conclusion

The retail downturn in Berkeley occurred from the same factors that affect the whole country: people who are unemployed or underemployed have been forced to cut back their expenditures. During the economic crisis, the unemployment rate has more than doubled, from 4.5% in 2007 to 11.1% in August, 2010.¹⁴ However, even many of those who still have their jobs are worried that they may be laid-off and, in any case, their retirement portfolio and the value of their homes may have declined (or at least stopped increasing). Faced with one or more of these conditions, it is logical that people would decide to reduce their expenditures, often drastically. They defer discretionary and “big ticket” items and explore less expensive ways to purchase those items they feel they cannot do without.

However, the analysis above also showed that before the economic crisis began Berkeley’s retail economy still missed much of its potential by failing to capture a reasonable proportion of the spending power of our own residents, let alone the thousands of commuters who work here. Berkeley residents had *higher* than average per capita incomes and *lower* than average expenditures within Berkeley on most retail items except food at home and away from home. This means that our own residents are making many of their purchases in Emeryville, El Cerrito or on the Internet.

¹³ The Elephant Pharmacy on North Shattuck did not close because the store’s receipts were falling but because the investors who were backing this start-up chain saw no future for the concept after the recession set in.

¹⁴ State of California, Employment Development Department, Labor Market Information Division.

There are many reasons for this, including the perception—and often, the reality—that they can find less expensive goods by shopping on the Internet or at discount retailers outside Berkeley. Having said that, many of these same people love and want to support Berkeley’s neighborhood shopping areas populated, as they are, with many unique, independently-owned stores (It is no accident that attendance at the Solano Stroll keeps increasing, year after year).

Finally, it is also true that many Berkeley residents do not fully understand that local shopping helps to support local services by generating City sales tax revenue.

Taken together, these circumstances help us frame some responses to the retail sales and sales tax decline.

POSSIBLE FUTURE ACTION

1. “Buy Local”

In order to counteract sales tax leakage and support local businesses, OED is supporting a community wide marketing campaign through a contract with “Buy Local Berkeley”. Buy Local, which includes both merchant associations and individual small business owners in Berkeley, is a marketing campaign that educates shoppers about the benefits of shopping at locally owned and operated businesses in Berkeley. With over 420 Berkeley business members and an email list of more than 5,000 subscribers, Buy Local Berkeley is using electronic, social media, print advertising and events to spread the word about quality retail offerings here in town. Their materials emphasize that purchases made at Berkeley independent retailers provide greater economic and community benefit than those made at “Big Box” stores outside our community as well as providing revenue to the City government to support local services. OED has one staff person who is assigned to assisting “Buy Local” and this person can be extended into the future along with some additional marketing resources to support this effort.

2. Encourage Night-Time Businesses on Telegraph and the Downtown

The business leadership of both the Downtown and Telegraph Districts favors more night-time business and area plans also support a “24-hour” orientation for both districts. More and more students living in or close to the district report in surveys that they want more late-night entertainment, restaurants and stores. Nevertheless, Telegraph and the Downtown continue to face perceived and actual crime and loitering conditions that deter late-night patronage. Relatively few restaurants, let alone stores are actually open past 10 pm, let alone into the early morning. As a result, the real level of night-time activity now lags Downtown Oakland, the Temescal and certainly San Francisco.

If the business community and the City wish to make the Downtown and Telegraph more lively, successful districts at night, they will need to take definite steps to resolve

the problems that inhibit restaurants and stores from being open at night. This includes improving night-time conditions in public areas, including targeted Policing and other necessary services. To leverage any improvement in streetscape conditions, businesses will have to actually extend their hours and maintain them long enough so that the general public can become aware. One way to do this would be for the BIDs to organize events that can attract an evening clientele and spend money to publicize them.

In a City with a large youth population and with many arts and other venues that are open at night, creating successful night-time business districts to serve them is one of the most obvious and cost-effective strategies for increasing business revenue.

3. Marketing Assistance for Available Commercial Space

During the economic downturn, the vacancy rate in many of our retail districts has increased. However, one of Berkeley's great strengths is that even with worsening economic conditions, many prospective new business owners want to open stores and other types of business here: In the first 8 months of 2010 alone, 566 new businesses opened here.

One way to help them is to make it easier for them to find space here. In September, 2010, the Office of Economic Development, in partnership with the Downtown and Telegraph BIDs and the Chamber of Commerce launched a website (www.locateinberkeley.com) that contains a comprehensive inventory of vacant commercial property in Berkeley. Local businesses and entrepreneurs or, for that matter, people anywhere in the world, can now look in one place on-line for space that meets their needs. While the site includes all available commercial property, one may do a search specifically for retail space, even by neighborhood district. This is one way the City can work with property owners and brokers in the future to assist retailers seeking a Berkeley location.

4. Improve the Permit Process for New Retail Stores

The great majority of retail businesses and restaurants that start-up here are independent and locally-owned. They raise capital (usually from their own savings or resources), negotiate with a landlord to lease a space, and go through the City permit process to open in one of Berkeley's business districts. But, in some cases, the permit process is slower than businesses need and add additional costs that hamper the ability of new businesses to succeed.

In 2004, the Planning Commission reviewed the recommendations of the *Mayor's Task Force on Permitting and Development* and implemented many of the highest priority ("Tier 1") items. After initial attention, many of the recommendations that staff deemed lower priority ("Tiers 2 and 3") were subsequently set aside in the press of other work. Now may be a good time to re-look at the Task Force's business permit process

recommendations and determine whether more of them should be implemented on a priority basis. It would also be useful to consider if any other permit policy issues need attention that were not addressed in the Task Force Report.

Retailers and brokers often report that the time it takes a small retailer to get a Use Permit is a major disincentive to leasing their space. Despite the reduction in the number of Zoning applications due to the economic crisis, staff reductions in the Planning Department have meant that it still takes up to 6 months to obtain a Public Hearing and a ZAB vote. If the Current Planning workload could be reduced by identifying some permits that could be issued as Administrative Use Permit or Zoning Certificate, the remaining Use Permit applications could be processed more rapidly.

5. Continue Support for BID and Commercial District Sponsored Festivals and Identity Marketing Efforts

Events like the Solano Stroll, the North Shattuck “Spice of Life Festival”, the Telegraph World Music Festival and the International Food Festival at University and San Pablo play an important role in attracting additional customers and creating a “brand” identity for the districts. Support for these types of district identity marketing events should be continued and encouraged by the various City departments who typically assist in the pre- and post- event coordination. The Office of Economic Development, the Berkeley Chamber, VisitBerkeley.com and the BIDs and merchant associations should extend their efforts to market Berkeley’s unique commercial districts, products and cultural experiences to shoppers and visitors.

FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

Report is for information only although suggested policy initiatives, if ever implemented, are intended to increase retail sales revenue.

CONTACT PERSON

Michael J. Caplan, Economic Development Manager

Attachments:

- 1: Table I: Quarterly Sales Taxes Receipts Berkeley Compared to CA and Alameda County¹
- 2: Table II and Charts I: Retail and Employment in Berkeley 2001 – 2009
- 3: Chart II: Berkeley Sales Tax Revenue 1900-Year Ending 1st Quarter 2010
- 4: Table III: 2008 Taxable Retail Sales: Berkeley Compared to Alameda County
- 5: Table IV: Retail Sales in the 2007 Economic Census-Berkeley compared to California

Table 1

QUARTERLY SALES TAX RECEIPTS, BERKELEY, ALAMEDA COUNTY AND STATE OF CALIFORNIA WITH PERCENT
CHANGE FROM COMPARABLE PERIOD IN THE PREVIOUS YEAR

	BERKELEY	ALAMEDA CO	STATE WIDE		BERKELEY	ALAMEDA	STATE WIDE
2006Q1	3,317,696	58,306,271	1,289,222,782	2006Q1	2.80%	7.15%	5.90%
2006Q2	3,670,444	64,609,654	1,431,618,405	2006Q2	10.29%	5.14%	5.50%
2006Q3	3,564,193	65,777,995	1,457,371,732	2006Q3	-4.69%	0.74%	0.87%
2006Q4	3,759,652	65,735,733	1,447,797,453	2006Q4	2.85%	-0.22%	-0.14%
2007Q1	3,620,313	60,055,977	1,324,422,745	2007Q1	9.12%	3.00%	2.73%
2007Q2	3,737,100	65,168,854	1,441,881,109	2007Q2	1.82%	0.87%	0.72%
2007Q3	3,862,950	67,493,050	1,416,773,469	2007Q3	8.38%	2.61%	-2.79%
2007Q4	3,454,554	66,118,345	1,448,720,649	2007Q4	-8.12%	0.58%	0.06%
2008Q1	3,480,132	57,330,554	1,296,120,885	2008Q1	-3.87%	-4.54%	-2.14%
2008Q2	3,647,576	60,766,021	1,396,926,558	2008Q2	-2.40%	-6.76%	-3.12%
2008Q3	3,800,282	60,722,359	1,370,722,718	2008Q3	-1.62%	-10.03%	-3.25%
2008Q4	3,617,685	57,969,737	1,291,815,325	2008Q4	4.72%	-12.32%	-10.83%
2009Q1	3,311,597	47,384,271	1,083,514,146	2009Q1	-4.84%	-17.35%	-16.40%
2009Q2	2,950,209	48,192,230	1,106,404,132	2009Q2	-19.12%	-20.69%	-20.80%
2009Q3	3,585,869	51,838,470	1,168,182,780	2009Q3	-5.64%	-14.63%	-14.78%
2009Q4	3,401,218	54,312,009	1,213,634,280	2009Q4	-5.98%	-6.31%	-6.05%
2010Q1	3,094,156	48,578,048	1,089,031,821	2010Q1	-6.57%	2.52%	0.51%

Table II

**NUMBER OF RETAIL EMPLOYERS, SIZE OF RETAIL EMPLOYMENT AND 1ST QUARTER PAYROLL
CITY OF BERKELEY, 1ST QUARTER 2001-1ST QUARTER 2009**

	# of Employers	March	1st Quarter Payroll		SF CPI
		Employment	Current \$	Adj. 2010 \$	
2001	492	6,548	\$47,602,439	\$57,319,277	189.1
2002	503	6,444	\$51,217,100	\$60,425,563	193
2003	481	6,311	\$53,489,097	\$61,730,701	197.3
2004	482	6,092	\$49,255,999	\$56,558,704	198.3
2005	460	5,901	\$44,966,679	\$50,562,532	202.5
2006	449	5,491	\$43,067,664	\$46,943,548	208.9
2007	444	5,344	\$43,678,888	\$46,087,501	215.8
2008	449	5,490	\$46,129,573	\$47,292,678	222.1
2009	449	5,063	\$38,678,303	\$39,352,322	223.8
2010 (April)					227.7

Chart I

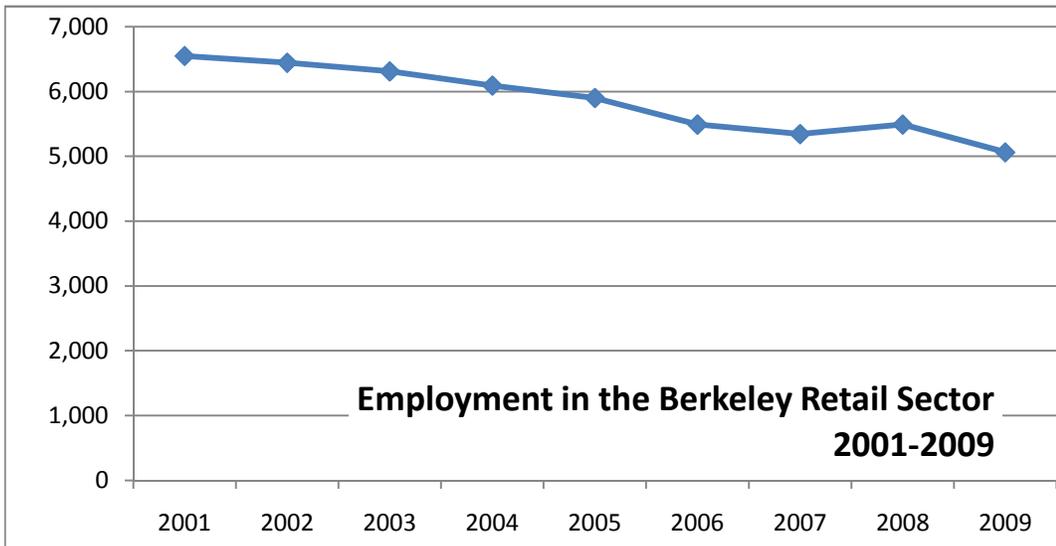


Chart II

Berkeley Sales Tax Revenue 1990-Year Ending 1st Quarter 2010: Current vs. Constant Dollars

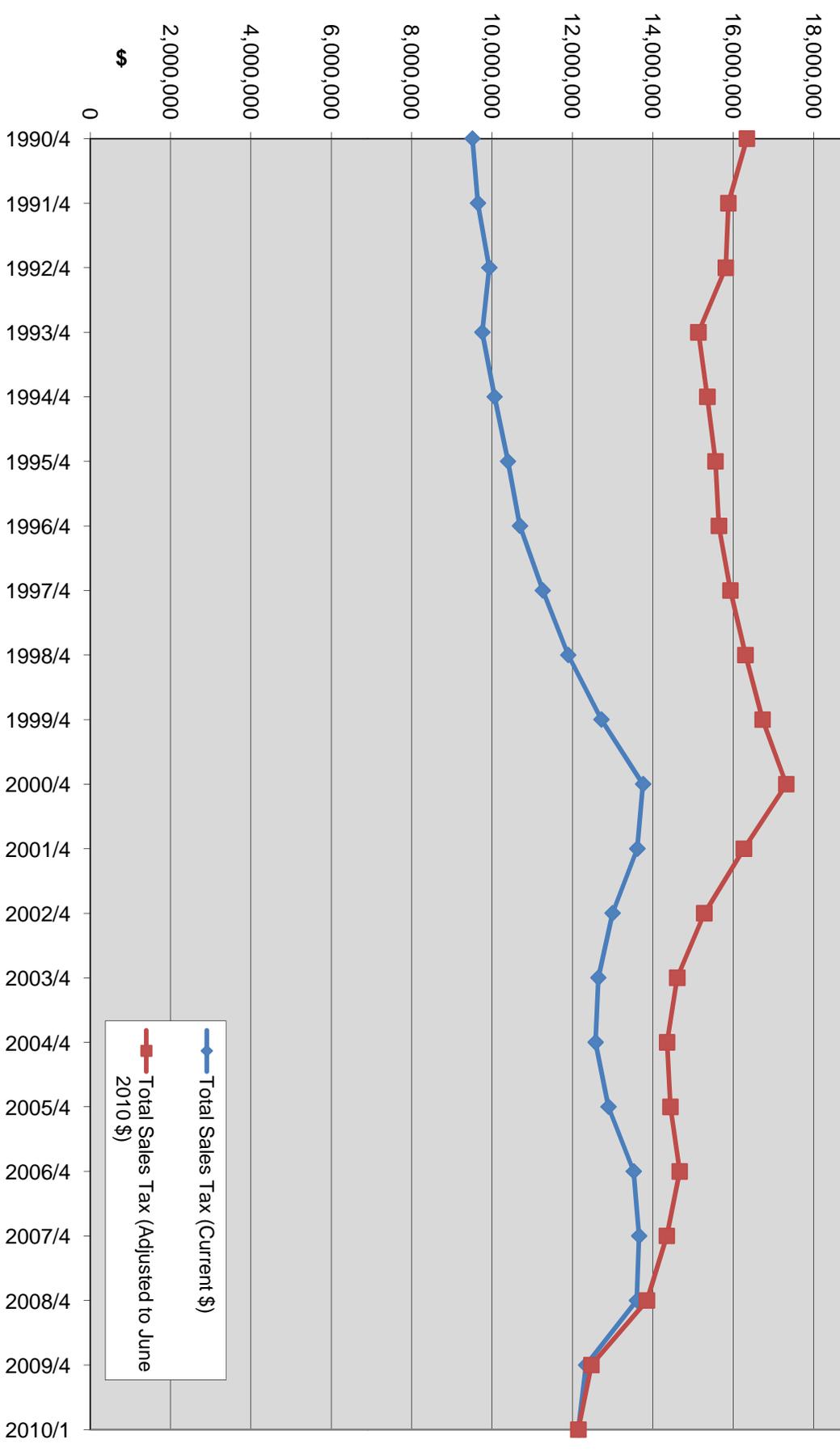


TABLE III

Comparison of 2008 Alameda County and City of Berkeley
Taxable Retail Sales Relative to Retail Stores

	Taxable Retail Sales		Taxable Retail Sales Leakage		
	<u>County</u>	<u>City</u>	<u>Per Capita (1)</u>	<u>Percent (2)</u>	<u>\$ Million (3)</u>
<u>Retail Stores</u>					
Apparel Stores	\$483	\$531	None	0	0
General Merchandise Stores	1,375	531	\$844	61	90.17
Food Stores	504	593	None	0	0
Eating and Drinking Places	1,286	2,213	None	0	0
Home Furnishings and Appliances	532	511	21	4	2.24
Building Materials and Farm Implements	846	769	77	9	8.23
Auto Dealers and Auto Supplies	1,506	1,028	478	32	51.07
Service Stations	1,312	809	503	38	53.74
Other Retail Stores	1,558	2,520	None	0	0
TOTAL	\$9,402	\$9,505	\$1,923	20	205.45

(1) County taxable retail sales per capita minus city taxable retail sales per capita

(2) Per capita leakage as a percent of county taxable retail sales per capita

(3) City average (based on beginning of year and end of year) population estimate times per capita leakage

Retail Trade by Subsector: California compared to Berkeley
2007 Economic Census

2007 NAICS code	Meaning of 2007 NAICS code	CALIFORNIA		Per Capita Income (2008): \$29,405		BERKELEY		Per Capita Income (2008): \$36,844		Sales Per Capita (\$1,000)
		Population: 36,418,499	Number of Establishments	% of Establishments	Sales (\$1,000)	% Retail Sales	Population: 108,885	Number of Establishments	% of Establishments	
441	Motor vehicle and parts dealers	11,323	9.89%	105,835,001	23.26%	16	3.16%	226,443	17.77%	
442	Furniture and home furnishings stores	7,411	6.48%	13,507,101	2.97%	57	11.26%	72,680	5.70%	
443	Electronics and appliance stores	5,903	5.16%	15,663,014	3.44%	22	4.35%	29,309	2.30%	
444	Building material and garden equipment and supplies dealers	7,843	6.85%	32,009,547	7.03%	36	7.11%	120,635	9.46%	
445	Food and beverage stores	16,574	14.48%	73,637,817	16.18%	63	12.45%	296,670	23.28%	
446	Health and personal care stores	9,544	8.34%	26,339,576	5.79%	45	8.89%	136,746	10.73%	
447	Gasoline stations	8,179	7.15%	40,325,391	8.86%	20	3.95%	63,996	5.02%	
448	Clothing and clothing accessories stores	18,974	16.58%	30,598,137	6.72%	76	15.02%	90,910	7.13%	
451	Sporting goods, hobby, book, and music stores	6,417	5.61%	10,008,020	2.20%	64	12.65%	109,902	8.62%	
452	General merchandise stores	3,087	2.70%	61,204,201	13.45%	6	1.19%	2,885	0.23%	
453	Miscellaneous store retailers	12,746	11.14%	12,499,123	2.75%	80	15.81%	57,125	4.48%	
454	Nonstore retailers	6,437	5.62%	33,405,342	7.34%	21	4.15%	67,292	5.28%	
44-45	Total Retail Trade	114,438	100.00%	455,032,270	100.00%	506	100.00%	1,274,593	100.00%	\$11,705.86
722	Total Food Services and Drinking Places	69,350		57,640,928		365		269,308		\$2,473.33
	Total Retail Trade + Food Services	183,788		512,673,198		871		1,543,901		\$14,179.19

Source of Industry Data: U.S. Census, 2007 Economic Census

Source of Population and Per Capita Income: U.S. Census, American Community Survey

To maintain confidentiality, the Census Bureau suppresses data to protect the identity of any business or individual. The census results in this file contain nonsampling error. Data users who create their own estimates using data from this file should cite the Census Bureau as the source of the original data only.

For the full technical documentation, see Survey Methodology link in above headline.