



# STAFF REPORT

AGENDA NO: 10b

MEETING DATE: April 6, 2020

**To: Honorable Mayor and City Council**

**Date: April 6, 2020**

**From: Lisa K. Goldman, City Manager – (650) 558-7243**

**Subject: Discussion and Direction on Potential Small Business Support Programs in Response to COVID-19 Public Health Emergency**

## **RECOMMENDATION**

Staff recommends the City Council review the potential small business support programs in response to the COVID-19 public health emergency and provide direction.

## **BACKGROUND**

At the March 25 City Council special meeting, the City Council discussed the COVID-19 public health emergency and agreed to provide an initial \$30,000 in funding to assist individuals struggling during the COVID-19 public health emergency. The funds are being distributed to CALL Primrose (\$10,000) and Samaritan House (\$20,000). The Council funds these nonprofits, as well as a variety of others, through its annual Community Groups Funding program that accompanies the adoption of the budget in June.

Individuals and nonprofit organizations will also be able to access funds from SMC Strong, which the County set up and seeded with an initial \$3 million donation. The SMC Strong funds will be split evenly among individuals needing assistance, nonprofits, and the business community. The County and SAMCEDA are also soliciting additional donations to this fund. Donations can be made via [www.smcstrong.org/](http://www.smcstrong.org/). The SMC Strong website contains information about how individuals can access these funds, as well as information on which nonprofits will receive funds. That information can be found at [www.smcstrong.org/frequentlyaskedquestions](http://www.smcstrong.org/frequentlyaskedquestions).

## **DISCUSSION**

At the March 25 meeting, the Council also agreed to the formation of a subcommittee to develop programs to assist Burlingame's small business community. Councilmembers Brownrigg and Colson volunteered to serve on this subcommittee since they are the Council's liaisons to the Chamber of Commerce. The members of the subcommittee consulted with a number of businesses, local and regional business support organizations, and City staff and developed the attached document for the Council's review and direction.

**FISCAL IMPACT**

The fiscal impact is unknown at this time and will depend on which programs the Council decides to support and at what level.

Exhibit:

- Subcommittee Proposal

**City of Burlingame**  
**Small Business Support Options During COVID-19 Local Health Emergency**

**Background:** The Coronavirus contagion and the unique shelter-in-place public health mandates will have a major negative impact on City finances as well as our local business community. After 9/11, revenue to the City of Burlingame dropped by 25% over two years; in the Great Recession of 2008/9, City revenue dropped by 15%. Given the likely sustained impact to hotel tax revenues, it is in the City's financial interest and our community interest to work with local merchants to ensure revenues (and sales taxes) bounce back as quickly as possible once life returns to normal. Sales taxes typically provide 18-20% of the City's income.

The subcommittee interviewed over 100 small businesses and, not surprisingly, most are reeling. Revenue for many have been cut to zero or near-zero while daily living and commercial expenses like rent and utilities continue. Business owners are making decisions now as to whether to re-open their doors once the shelter-in-place rules are lifted. If business owners decide to stay shut, it is uncertain how quickly stores will be leased to new merchants in the midst of an economic downturn. These factors explain why we believe the City should consider strong and innovative support to the private sector, especially our small business community.

The Burlingame City Council Economic Recovery Sub-Committee has assembled several economic stimulus options for consideration by the full Council. We have consulted with staff, the Chamber, the Downtown BID, the Broadway BID, over 100 individual business owners in Burlingame, and the San Mateo County Economic Development Association (SAMCEDA) to determine ways in which we can support and sustain these important businesses that drive our economy, employ our residents, and serve our constituents.

The concepts are as follows, and are explained below. They are not mutually exclusive. Programmatic details would be developed over the next week if Council elects to proceed with any or all of these measures, and brought back to Council for final approval.

1. Provide business advisory services to our community to help them tap into the plethora of county/state/federal business support programs
2. Provide direct financial support to qualified Burlingame merchants, either through a loan program or a grant program
3. Provide stored value cards to means-tested Burlingame residents that can be spent only on local Burlingame goods and services
4. For one year, underwrite the DBID and BBID fees so that the business districts can maintain community services while relieving merchants of paying dues
5. Maintain one month of free parking downtown after the recovery commences
6. Commit to a "Buy Local, Act Local" program by city government
7. Advertise in local media to support our merchants and to support local journalism
8. Debate possible commercial rent forbearance policies if the County does not act.

**1. Provide advisory assistance to Burlingame businesses to secure County, State, and Federal relief:**

Both the State and the Feds are offering significant relief for small businesses, but accessing this relief is complicated. In our call with 50 small businesses and others, it was clear that some had already availed themselves of the process and others were far behind. The purpose of this proposal is to provide expertise inhouse through our Economic Development expert and by supporting SAMCEDA in creating a county-wide information resource for small businesses.

The most relevant recent [bill](#), the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act), which the President signed on February 27, provides:

- Loans through the Small Business Administration (SBA) that can be used for employee salaries under \$100,000; paid sick or medical leave; insurance premiums; and mortgage, rent and utility payments;
- The loan is eligible for 100% forgiveness if used for the above purposes and in conjunction with guidelines related to staff retention;
- Funding for businesses or 501(c)(3) nonprofits with less than 500 employees, including sole-proprietors, independent contractors, and other self-employed individuals;
- Waives affiliation rules for businesses in the hospitality and restaurant industries, and specifies that businesses with more than one physical location can be eligible so long as no one location employs more than 500 individuals;
- Requires eligible borrowers to make a good faith certification that the loan is necessary due to the uncertainty of current economic conditions caused by COVID-19. (CPAs may have a role in assisting in the verification of loan eligibility and forgiveness.)

There are two ways to provide supplemental advisory services to our business community. First, we recommend steering our own Economic Development officer into focusing virtually 100% of his time over the next several months on assisting our small business community to tap into these support programs. Second, we should utilize SAMCEDA's growing expertise. SAMCEDA is examining the Small Business Development Center (located at CSM) to determine if they are able to assist San Mateo County small businesses. SAMCEDA is also going to work on either a virtual training meeting or video resources to assist business owners attempting to file for relief, and will consider providing a help hotline for the County.

**Cost:** Burlingame could consider making a contribution to SAMCEDA of up to \$5,000 to assist in developing general resources to aid small businesses in their efforts to tap federal, state and county relief.

## 2. Create a Small Business Support Fund, either loan or grant-based:

Given ongoing expenses and zero revenue for most small businesses, there is an immediate cash flow need to help bridge the time before full revenue operations return and/or County/State/Federal funds arrive. Some financial support early would be widely appreciated; this was one of the main points made during our interview process.

The Council has to determine first whether providing “bridge financing” to small businesses is a good idea and if we do, then whether a financial support program should be structured as grants or “soft loans”. Talking to merchants and based on what other cities and SMC Strong have done, we recommend grants/loans of between \$5,000-\$20,000 per successful applicant. The program would need to be managed in a way that is transparent, equitable and justifiable, with a minimal administrative impact on staff. If the Council agrees to proceed with a program, the Subcommittee recommends a \$500,000 allocation from our Economic Catastrophe reserve funds. The finer administrative details of the program would be fleshed out over the week ahead based on Council guidance. The goal should be to have money ready to be deployed by the last week in April, before May rent is due.

**Loan vs Grant** – the pros and cons of each should be debated by Council. Not surprisingly, our small business community would prefer a grant program because they are already stretched financially. A grant-based program is also much simpler to administer, especially in terms of follow up. The benefits of a loan program are that the money could return to the Council one day for other public uses and the program would be more business-like overall, but it would also be more challenging and expensive to administer since one has to track each loan.

### 2A. Loan Program:

There are two programmatic options developed below; in either case, the administration of the loan program would require hiring a third party:

- I. **Business Loan Program** – Soft loan program for qualified merchants:
  - One-year holiday from any repayment
  - Starting one year after date of loan, loan amount + 2 % flat processing fee is split into 24 payments, paid monthly over the ensuing 24 months
  - Certified sales taxes paid by the merchant that come to the City can be used to offset the loan amount, up to 50% of the value of the loan
  - This has the advantage of linking the value of the loan to sales taxes.
  
- II. **Rent Stabilization Loan Program** for qualified merchants:
  - If a merchant needs some help making the rent, then the city could lend up to \$5k/month for up to (but not to exceed) 50% of the monthly rent for up to 3 months, provided the landlord agrees to roll over the 50%

balance to the future for repayment. This has the advantage of encouraging landlords to participate.

- Six months after drawing the loan, the merchant shall begin repaying the city/landlord the outstanding balances in 12 equal payments over the following 12 months, with the City to be paid pari passu with the landlord.
- As an example, rent is \$9,000 /month. The merchant borrows 50% of one month's rent from the city, so \$4500, which the merchant pays to the landlord. The Landlord rolls the balance, \$4500 into a future payment. Six months after the loan, the merchant begins to repay the \$9,000 over 12 months, 50% to the landlord (back rent) and 50% to the city for its loan. In this example, that merchant's rent burden would rise from \$9,000/month to \$9,750/month for the following 12 months.
- This has the benefit of encouraging landlords to participate. On the other hand, it might cause some landlords to be less generous than they were planning to be with tenants.

## **2B. SMALL BUSINESS GRANT PROGRAM**

The other approach to expeditiously support local small businesses is to develop a grant program, targeting \$5,000-\$15,000 per applicant. After discussions with SAMCEDA, they have agreed to help us administer a Burlingame-based program if that is the direction we select. Council would approve the funding allocation and the general qualification criteria, provide the funding to the SMC Strong Fund and then SAMCEDA would evaluate applications and make the grants directly via their fiscal partner. This would remove Council from the decision-making process while creating a competitive process that assists those businesses that have a path forward to a successful recovery. The Council would also approve the implementation timeline and the follow up metrics to determine program success.

As noted, one benefit of a grant program is that there is no ongoing administrative burden as there would be in a loan program.

**SUGGESTED BUSINESS QUALIFICATION CRITERIA**, whether loan or grant, are:

- a. Must hold a local Burlingame business license for at least the last year
- b. Have a Burlingame address with a physical retail storefront location that is open to the public
- c. Complete an application packet that includes information on current financials including cash on hand (bank statement), credible business plan to re-open and succeed, even if shelter in place remains in effect through May, other financial support that has been applied for or received, any demonstrable evidence of commitment to remain in Burlingame, for example, lease term, and expected use of the funds

- d. Number of FT and PT employees and estimated payroll size per month pre-closure (target businesses with fewer than 20 FTE – allow flexibility for restaurants that hire PTE)
- e. Gross receipts in a normal year (target businesses with no more than \$5 million a year in gross receipts for 2019)

**3. Kickstart Burlingame Debit Card for qualified residents:**

This concept would help both our most struggling residents and our local business community. The concept is to create a “Kickstart Burlingame” pre-loaded debit card that could only be spent in the 94010 area. We would make the debit cards available to the most vulnerable households through a simple written application, screened using the Peninsula Clean Energy CARE program criteria (applies to about 5-6% of Burlingame households, representing the most financially vulnerable). The benefits would flow quickly to families in need and to our local merchants, albeit the beneficiaries might be a grocery or a chain store, not necessarily a small business or restaurant. A program administrator would need to be retained and the feasibility of the program, such as geographic spending limitations, determined if the Council wishes to proceed.

**Cost:** The Council would determine the program size, but the recommendation would be to allocate \$250 debit cards per family. If we use the CARE criteria referenced above, targeting about 5% of our community, that would require about a \$150,000 to \$250,000 funding commitment. Obviously, each of these financial parameters can be adjusted by Council.

**Gift Card Concept:** a related idea that members of the public have suggested is to create a Burlingame Merchant gift card program, where community members could buy a card, effectively pre-paying for local services. Financially, this is not as optimal for a merchant since, for accounting reasons, the money can’t be counted as revenue until the services are actually provided, so technically it does not provide upfront capital. (That would be different if the Gift Card cost the public, say, \$200 but only was “worth” \$100 in store value.) The subcommittee considered the complexity of this approach. After discussing it with several merchants, we determined that we can certainly encourage the public to proceed but this is not the highest and best use of City resources or time.

**4. Cover Downtown and Broadway Business Improvement District Fees:**

The City Council could opt to pay the DBID and Broadway BID fees for the 2020 year so that those groups could waive fees for their members for one year. The estimated total is approximately \$125,000 and would relieve small businesses of paying dues while maintaining funds for our community events that attract visitors into downtown when we are open for business.

**5. Waive Parking Meter Fees for one month after re-opening:**

Several merchants expressed gratitude for the “Free Parking” program at our metered spots. They asked us to please extend the parking meter fee waiver for up to one month after the shelter in place is concluded. The cost is the forgone fee revenue which is difficult to estimate. We would have to work with merchants to be sure they steer employees to satellite lots.

**6. “Buy Local, Act Local” Marketing Campaign:**

The City staff will make a point of ordering all food and supplies locally when possible and facilitate information sharing resources to promote local businesses. Recognizing the importance of the construction and remodeling industry to Burlingame, city staff will also continue to look for innovative ways to streamline and expedite necessary inspections and services, for example using remote video for inspections where feasible. There may be modest costs associated with some of these efforts.

**7. Support Local Media:**

We recommend taking out advertisements in our local newspaper for several weeks to promote our downtown merchants and indirectly to support local journalism, which is important for our community and for our businesses. A budget allocation should be discussed.

**8. Commercial Eviction Protection Program:**

The issue of paying rent when no revenues are coming in is one that haunts many of our small business community; a large number of commercial tenants expressed concern to us about making their May rent. In SAMCEDA’s guidance to business, one of the first steps they urge small business to take is to reach out to landlords. Landlords have generally said they will work with their tenants on a case-by-case basis.

Most Burlingame commercial tenants have reached out for some form of forbearance with mixed results; some landlords have waived April rent entirely, others have deferred it, and still others have insisted on being fully paid. The owner of UK Hair, to give just one shining example, stated to his hair dressers (who rent their stations) that he did not expect to be paid until they could make money.

Several interviewees noted that rent forbearance, if it means paying the total accrued rent back in a lump sum after 4 or 6 months, would be very difficult to do, even if the economy comes back. In other words, forbearance without a reasonable repayment plan over time is not much help.

The subcommittee believes this is a very important matter, but given that the County is considering a commercial rent forbearance measure at their next meeting in April, we recommend delaying consideration of any local measures until we see

the outcome of the County deliberations and only after organizing a meeting with Burlingame land owners so we can hear directly from them as well.