# Determining Appropriate Community Wealth Building Mechanisms

Evergreen isn't just a network of cooperatively owned businesses, it's also a community land trust and a community development financial institution. The decision to create cooperative businesses came out of a series of community wealth building roundtables where local stakeholders decided they were the chosen method of asset development for the initiative in Cleveland. Local stakeholders chose the cooperative business model as the first mechanism to use, but it was only one of the strategies available to them. Determining which community wealth building mechanism or strategy to use is a process of assessing local possibilities, assets, and limitations. This document provides an outline of the different mechanisms as a guide for determining which community wealth building mechanisms are the most appropriate to consider for a specific, local context.

When government and non-governmental groups use "asset-based approaches" to advance social purposes, they use strategies and institutions to improve the ability of communities and ordinary people to acquire and accumulate wealth. Asset-based strategies often supply surprisingly effective responses to social and economic need by directly providing income or savings, by facilitating the development of locally based jobs and enterprises, by building up and stabilizing local assets and wealth, and by enabling local governments to apply existing resources more efficiently to better serve more citizens. Many asset based approaches move beyond strictly economic activity to include cultural, educational, and other efforts that cross and blur conventional lines that mark the different sectors.

Several factors account for the expanding use of asset-building strategies. Among the most important is increasing political resistance to raising taxes, which has pushed governments to seek alternative revenues and has led governments and others to promote indirect service provisions. In addition, the rise of a global economy that is subject to economic fluctuation puts a premium on investment strategies that keep capital anchored more firmly at home.

Asset-based approaches include an impressive range of activities. Three principal modes of asset building can be identified. First and most well known are individual asset accumulation programs that help low-income individuals develop savings so they can gain greater access to wealth-generating resources such as home ownership, educational advancement, or self-employment through proprietor-owned business or microenterprise. In a second kind of asset building, small, local "publics" employ a variety of for-profit and non-profit forms to build assets in neighborhoods, workplaces, and communities throughout the United States. In a third asset building form, government acts in an entrepreneurial fashion to help create jobs and spur locally based capital formation. In all the approaches, individuals and various public groups gain direct or indirect benefits by building asset ownership. Many asset-building strategies combine individual and community wealth-building. "Community wealth" arises when an institution uses the wealth or assets it owns to benefit the community at large.

## Individual Asset-Based Programs

A critical wealth-building principle can be usefully illustrated by considering one of its most straightforward and well-known applications: the individual development account (IDA). While traditional strategies to alleviate poverty hinge on social services and/or income support, the IDA approach focuses instead on changing structural aspects of poverty: it helps low-income people build wealth by matching their savings with business, government or philanthropic funds. The matching funds are typically restricted to helping low income people develop wealth through education (human capital), home ownership, and small business development. IDAs and similar efforts to promote individual assets offer promising possibilities for creating at least a modicum of savings among the poor, but these efforts remain in their infancy.

## Community-Based Approaches That Build Wealth

A much more fully developed approach is that of economic organizations that promote social purposes by accumulating community assets. Many of these efforts blend the small business' commitment to local community with elements of the public corporation's broader dispersion of ownership. Most also provide critical tools for anchoring otherwise footloose capital in communities with the support of anchor institutions, for example.

The kinds of entities involved range from community development corporations, community development financial institutions, and "social enterprises," to community land trusts, employee-owned enterprises, and cooperatives. All form part of a growing category of institutions that promote local asset accumulation by pooling locally based capital in ways that create new jobs, anchor existing jobs in communities, generate taxes to support social services, promote democratic practice, and benefit the public in other ways. Over the past thirty years, many have matured to the point where they now have considerable experience, expertise, support groups, and political backing. They also involve what are sometimes termed "cross-sectoral" organizational forms that advance social purposes and build locally based assets.

**Anchor Institutions**

Often known as "eds and meds," anchor institutions not only include universities and hospitals, but a broader range of place-based institutions, including cultural and arts centers such as museums, libraries, community foundations and other locally-focused philanthropies, faith-based institutions (such as churches, mosques, and synagogues) and community colleges. In many places, these anchor institutions have surpassed traditional manufacturing corporations to become their region's leading employers.

Universities alone now spend $350 billion annually and have a total endowment of over $300 billion. Nonprofit hospitals own assets in excess of $600 billion and enjoy annual revenues greater than $500 billion. For example, the University of Pennsylvania increased its purchasing from local vendors in West Philadelphia from $20.1 million in 1996 to $61.6 million in 2003; this helped leverage an additional $370 million in private investment. Increasingly, anchor institutions are playing an important role in implementing local community wealth building strategies.

Anchor institutions are not necessary community wealth building mechanisms but they are an integral part of community wealth building efforts. For example, anchor institutions local to the east side of Cleveland played an absolutely essential role in creating the Evergreen Cooperatives. It was their initial investment and commitment to purchase the goods and services from the cooperatives that made Evergreen possible. The Cleveland Clinic, Case Western Reserve University, VA Hospital, University Hospital, and the City of Cleveland all played key roles to create Evergreen, so it's important to understand again the role anchor institutions can play.

**Social Enterprises**

Social enterprise refers to non-profits that operate businesses both to raise revenue and to further the social missions of their organizations. These businesses build locally controlled wealth, which helps stabilize community economies, and represents a shift in non-profit operation toward a model of collaborating with 'client' populations in community-building efforts. As of 2005, social enterprise businesses in the Social Enterprise Alliance trade association generated $525 million in business-revenue, helping support $1.6 billion worth of mission-related work.

In San Francisco, for example, a group of over a dozen non-profit owned, social-enterprise businesses have provided employment for more than 2,200 people drawn from high-risk populations with high percentages of people who have been homeless, had criminal histories, and/or had experienced mental health problems. Two years after their hire, 77 percent were still employed either by one of the city's social enterprises or another employer, with the average wage earned roughly equal to the city's living wage of $10.25 an hour.

**Community Development Corporations (CDCs)**

Community development corporations are non-profit organizations that anchor capital locally by developing both residential and commercial property to meet local community needs. First developed on a large scale by 1960s civil rights advocates who sought to increase minority community control over local resources, today 4,600 CDCs nationwide promote community economic stability by developing over 86,000 units of affordable housing and 8.75 million square feet of commercial and industrial space a year.

Community development corporations (CDCs) are major players in asset-based strategies. They have traditionally anchored capital locally by promoting homeownership and developing community-owned and-controlled businesses. With the increased interest in asset-building strategies, many have expanded their efforts. According to the 2006 National Congress for Community Economic Development (NCCED) industry survey, the percentage of CDCs offering IDAs climbed from 9 percent in 1998 to 22 percent in 2005. CDCs also administer microlending programs and, as of 2005, had 116,000 loans (valued at $1.5 billion) to microenterprises on their books.

**Community Development Financial Institutions (CDFIs)**

This expansion of CDC financing programs has helped fuel the rapid growth of a new type of organization, the community development financial institution (CDFI). First formed to combat red-lining in the 1970s (a practice whereby banks would refuse to make loans to minority neighborhoods and would literally draw a red line circling the proscribed area on a map), CDFIs have grown to include a variety of community-focused banks, credit unions, micro-enterprise funds, loan funds, and venture capital funds that have assets of $20 billion, which they use to provide loans and technical assistance to meet the credit and finance needs of low-income individuals, community development corporations, and other community entities.

Increasingly, CDCs and CDFIs, as well as some forward-thinking community foundations, have sought ways to expand their "asset related" work across a range of sectors. This has helped facilitate what Heather McCulloch, founder of Asset Building Strategies, calls a developing continuum of asset-building efforts—beginning at the individual level and moving steadily wider to encompass various forms of community-benefiting enterprises. McCulloch is working with a group in San Francisco's Mission District to develop a multifaceted wealth-building strategy. The program includes family and individual programs (such as IDAs), efforts to develop common assets through shared-equity housing (such as community land trusts or limited-equity cooperatives) and funds to develop resident-owned businesses (such as worker cooperatives) and enterprises in which ownership is restricted to community members. (The community-owned enterprise model echoes the Green Bay Packers franchise in the National Football League, which has been owned by the residents of Green Bay, Wis., for more than 80 years.)

**Cooperative Businesses (Co-ops)**

A cooperative is any business that is governed on the principle of one member, one vote. The first modern cooperative was a retail co-op founded by 28 people in Rochdale, England in 1844. Originally selling butter, sugar, flour, oatmeal, and tallow candles, business expanded rapidly in scope and scale as the co-op succeeded in elevating food standards — rejecting then-common tactics such as watering down milk. Co-ops today exist in many sectors of the American economy, including banking (credit unions), agriculture, electricity, housing, and grocery stores. All told, over 130 million Americans are members of at least one cooperative or credit union. Credit unions alone have assets exceeding $600 billion. Non-financial cooperatives are also growing. Retail food cooperatives, if grouped together, would constitute the fourth largest chain in the natural-foods industry.

The expansion of employee ownership, once seen as a radical demand but now commonplace, is even more impressive. A modest federal tax credit ($2 billion per year) has encouraged increasing numbers of retiring owners to investigate employee stock-ownership plans (ESOPs). The credit reduces their capital gains taxes if they sell at least 30 percent of their enterprises to their employees.

**Employee Stock Ownership Plan companies (ESOPs)**

Employee stock-ownership plan (ESOP) companies are for-profit entities in which employees own part or all of the companies for which they work, financed through part of their pension contributions. ESOPs provide a number of benefits. For former owners, ESOPs provide a way for local owners to cash out when they retire, while protecting the jobs of their workers. For communities, ESOPs provide greater employment stability, while maintaining higher productivity. For workers, ESOPs provide a significant source of retirement savings. Today 11.2 million American are members of ESOPs, up from 250,000 only three decades ago.

The wealth-building importance of ESOPs is dramatic: The assets owned by employees in ESOPs are worth an estimated $600 billion—about $60,000 per employee-owner. In comparison, the most recently available CFED survey found that in 2003 the number of participants in IDA programs totaled roughly 50,000, and the amount of money leveraged in purchases supported by IDA matches had reached a relatively modest $168 million.

ESOPs also support community wealth building in a variety of ways: They provide stable, well-paying jobs, anchor capital locally and contribute to a stable economic base that generates tax revenue and supports public services. In this age of global capital mobility, when jobs are moved from America's cities to South America or Asia, workers in employee-owned firms do not vote to ship their own jobs abroad.

A study by the Ohio Employee Ownership Center at Kent State University found that in

Ohio 58 percent of all conversions to employee ownership occur because of succession issues, which arise when a retiring owner needs to cash out. This pattern seems to hold true around the country. Because of the impending retirement of the baby-boom generation, there is a clear opportunity for many additional conversions. In the next five years, 30 percent of family-owned firms are expected to experience a change in leadership because of retirement or semi-retirement. Cornell economist Robert Avery estimates that the nation will experience a net $10.4 trillion transfer of family owned business assets by 2040.

The looming threat of *not* responding to this opportunity is also clear: Many viable community businesses will simply be closed or purchased by large corporations that will shift operations elsewhere. Local governments can use policy approaches, such as tax credits or technical-assistance programs, to promote employee ownership and take advantage of this opportunity.

**Community Land Trusts (CLTs)**
A community land trust is a non-profit organization that buys land on behalf of the community and leases the land to homebuyers, with a restricted deed, which requires that the buyer give the trust the option to buy the house back at a price set by a predetermined formula. Typically when it sells, the family gets to keep 25% of the equity gain, while the trust retains the other 75%, which is used to subsidize future buyers. As a result, the land trust can keep the housing it provides permanently affordable—avoiding land speculation and gentrification, while building wealth in low-income communities.

A study of the land trust in Burlington, Vt., found that the average land-trust homeowner gained between $5,000 and $8,000 in equity in about six years, allowing the majority to "step up" to traditional homeownership. The equity gain retained by the trust enabled it to provide affordable housing to future generations—a type of community wealth of great significance as public subsidy funds become more limited. Chicago, Ill., and Irvine, Calif., are among the many cities now developing land trusts. By 2025, Irvine expects to develop almost 10,000 units of land-trust housing, which will represent 10 percent of its total housing. (See "City Hall Steps In," page 12.)

**Commons Strategies**
Although many think of the "commons" as the unenclosed grazing land of medieval towns, modern-day commons include any system that supports things whose ownership is held in common or in the public domain, such as open space, the environment, and the Internet. Conservation trusts to preserve land, "cap and trade" systems to protect the environment from global warming, and licensing systems to facilitate the non-commercial sharing of information on the Internet (such as "Creative Commons" licenses, which are now attached to more than 50 million creative works) are all applications of the "commons" principle.

## Governments Acting Entrepreneurially to Build Wealth

**Municipal Enterprise**
Local and state governments can directly own businesses that both generate revenue and provide needed services. Common forms of municipal enterprise include: public power companies that not only provide power, but also cable and broadband services; environmental businesses, such as methane-recovery, that both generate electricity and promote environmental goals; and real estate development designed to generate lease revenue to finance city services. Close to 2,000 localities own their own electric utilities, and many of these have diversified beyond power production.

According to the American Public Power Association, as of the end of 2005, 105 municipal utilities provided cable television, 175 leased fiber optic networks, 132 provided Internet services, 272 offered municipal data networking, 47 provided long-distance telephone service and 57 provided local phone service. The business revenue generated by such enterprises can be an important source of income for cash-starved city coffers, and thereby a source of relief to highly taxed city residents. *Cleveland Magazine* reports that public ownership of Cleveland Public Power saved city taxpayers $185 million between 1985 and 1996.

Cities are also generating revenue and providing services through real-estate ownership.
Boston, seeking to promote urban revitalization, invested in the Faneuil Hall Marketplace retail complex in the early 1970s. The development helped revitalize Boston's downtown, and the annual lease revenues the city earned over the next decade were an estimated 40 percent higher than would have been generated simply from property taxes on the complex. Boston's achievement has inspired city officials around the country. In many localities, transit authorities are generating lease income by developing publicly owned real-estate assets around transit stations.

**State & Local Investment Policy (Economically-Targeted Investments)**

City and state governments have adopted a wide set of policy tools to spur community wealth building, including creating loan funds to start up local businesses and venture capital funds that give cities and states an equity stake in the outcome of their public investments. Another important strategy has been economically targeted investments, which employ pension assets to support local jobs and community economic development.

Nationwide, public-sector pension-fund assets total over $2 trillion. Increasingly, a portion of these funds is being targeted to fill capital gaps that would otherwise halt local economic development. Retirement Systems of Alabama invests in numerous Alabama-based industries, including a statewide golf-course network that has raised tourist revenues while earning a strong return for the pension fund.  CalPERS, California's largest employee pension fund, invests part of its more than $200 billion in community-investment funds, such as Pacific Community Ventures, which in turn make venture-capital investments in local businesses deemed likely to generate high-wage jobs and the Green Wave Initiative, providing funding for energy efficiency retrofits across the state.

**Transit-Oriented Development (TOD)**

Many public transit authorities use their ownership of real estate to concentrate business and residential development near rail stations and major bus lines, thereby encouraging transit use and reducing congestion and pollution. Transit-oriented development can be an important part of a community wealth building strategy by helping cash-starved cities and counties raise revenue without raising tax rates and by concentrating economic development in specific corridors, thereby reducing sprawl and increasing the efficiency of public service delivery. Cities that make extensive use of transit-oriented development include San Francisco, Portland (Oregon), Dallas, Atlanta, and Washington, D.C.