

Keeping Wealth Local: Shared Ownership and Wealth Control For Rural Communities

*By Marjorie Kelly, Tellus Institute
With Shanna Ratner, Yellow Wood Associates*

A report for the Wealth Creation in
Rural America project of the Ford Foundation.



Wealth Creation in Rural America

This report is part of the Wealth Creation in Rural America initiative, funded by the Ford Foundation. The aim of the initiative is to help low-wealth rural areas overcome their isolation and integrate into regional economies in ways that increase their ownership and influence over various kinds of wealth. The initiative has produced nine previous papers, which can be found at <http://www.yellowwood.org/wealthcreation.aspx>. The goal of this report is to advance the initiative's broad aim of creating a comprehensive framework of community ownership and wealth control models that enhance the social, ecological, and economic well-being of rural areas.

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Resources do not represent community wealth unless communities own and control them.

Table of Contents

PART I — OVERVIEW AND SUMMARY

Introduction: Rural Communities at a Turning Point	4
Shared Ownership and Community Wealth Control	4

PART II — RETHINKING WEALTH AND OWNERSHIP

A New Approach to Assets	6
Six Forms of Community Wealth	7
Co-Evolution of Physical and Social Technologies	8
Local Ownership and Shared Ownership	9
The Challenges of Shared Ownership	10

PART III — UNDERSTANDING THIS MOMENT IN TIME

Common Language, Common Movement	11
New Rural Opportunities — And the Role Shared Ownership Could Play	12
Existing Development Strategies and Shared Ownership	14
Going to Scale	15

PART IV — MODELS OF SHARED OWNERSHIP

1. Cooperative Ownership	17
2. Employee Ownership	19
3. Community Land Trusts	21
4. Municipal Ownership	23
5. Local Ownership	25
6. Tribal Ownership	26
7. Community Covenants and Easements	28
8. Mission-Controlled Ownership	31

PART V — COMMUNITY INFLUENCE OVER WEALTH FLOWS

1. Community Fees and Taxes	33
2. Community Endowments	35
3. Community Benefits Agreements	36
4. Community Currencies	37

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Confronted with new opportunities for wealth creation, rural communities face the challenge of keeping that wealth local. Two tools for doing so are shared ownership and influence over wealth flows.

Part I — Overview and Summary

INTRODUCTION — RURAL COMMUNITIES AT A TURNING POINT

Rural communities stand at a crossroads. Traditionally on the fringe of societal concerns — geographically isolated and often trapped in persistent poverty — rural areas are today poised to play a more central role in the emerging economy of sustainability. The natural resources that form the traditional rural asset base are being valued in new ways. Rising demand for sustainable practices in fisheries, organic agriculture, and forest stewardship is opening the potential for new sources of rural prosperity. Renewable energy technologies such as wind and solar power hold forth promising new opportunities. The Obama administration’s plan for universal broadband access could reduce isolation. Taken as a whole, these developments signal that rural communities are on the cusp of a new era when they could begin charting their own course to broadly shared well-being.

Confronted with new opportunities for wealth creation, rural communities face the challenge of *keeping that wealth local*. Too many communities give their wealth away — allowing logging or mining of community resources, for example, or giving tax breaks to businesses in the hopes of creating jobs. But if temporary streams of income are received from such activities, the major benefits flow to absentee owners, leaving rural communities with little. Businesses too often leave. The jobs created may not be good ones. Logging opportunities run dry. Mining operations can leave a costly ecosystem legacy.

As traditional approaches to rural community development reveal their shortcomings, there is a growing interest in alternatives. Leading edge communities are learning to conceptualize and manage their assets in new ways. They’re beginning to grasp a key truth: *Resources do not represent community wealth unless communities own and control them*. Ownership and wealth-control frameworks define assets and channel the flow of benefits from them over time. Ownership and control of assets can spell the difference between those who enjoy economic stability and those who do not.*

SHARED OWNERSHIP AND COMMUNITY WEALTH CONTROL

In emerging experiments nationwide — and in older alternative designs that may be under-appreciated — communities are demonstrating that powerful ways to own and control rural assets are through local and shared ownership.¹ While local ownership is broadly understood, shared ownership is an emerging, broad category of ownership designs that can take many forms. It can mean ownership is shared among individuals, as in cooperatives or employee-owned firms. It can mean ownership is shared between an individual and a collective entity like a land trust. Or it can mean a sharing of certain ownership duties — like marketing dairy goods or managing wind rights — while other aspects of property ownership remain in individual hands.

* “Shared ownership” is a term beginning to gain traction in recent reports and conferences. See for example “Expanding Asset-Building Through Shared Ownership,” 2008 report by Heather McCulloch and Beadsie Woo, for the Annie E. Casey Foundation. The Casey Foundation also in December 2008 sponsored a gathering for asset-building leaders to discuss innovative shared-ownership strategies.

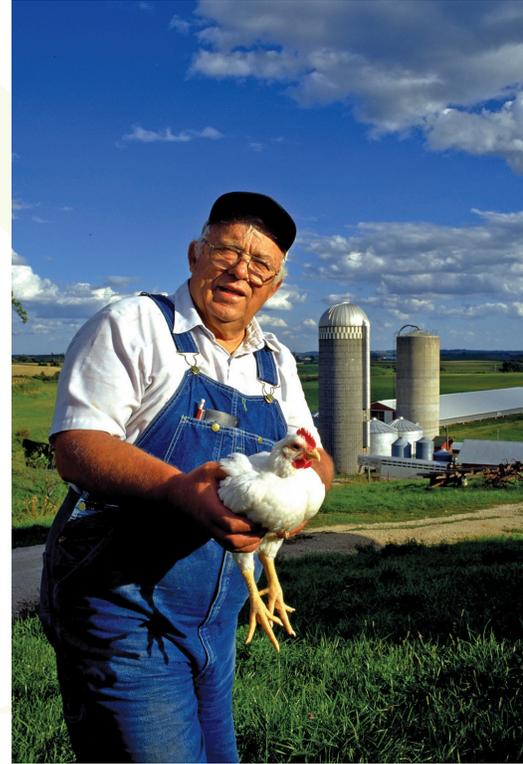
SHARED OWNERSHIP

This refers to economic entities where private ownership, in whole or in part, is blended with ownership that is shared among individuals, or between individuals and a community organization.

Absentee ownership is detached from the life of a community and its enterprises. By contrast, shared ownership means that the interests connected to the living fabric of an enterprise — employees, community members, the natural environment — are represented at the table of ownership and governance.

- The most familiar rural examples are **producer cooperatives** like Organic Valley in Wisconsin — the \$528 million company owned by the 1,300 organic family farms that produce its milk, cheese, and meat. By owning their own marketing company cooperatively, these farmers cut out the middleman and increase their income.
- The community interest in keeping farms permanently affordable and locally owned is being served by **community land trusts**, which make ownership of land a community resource while permitting individual ownership of houses. This shared ownership model allowed a family in Williamstown, Mass., to retain ownership of their house and continue farming their land, while receiving payment from Equity Trust for their land.
- Unfragmented open space for wildlife is being preserved on nearly one million acres in Arizona and New Mexico, through a ranchers' organization called the Malpai Borderlands Group. Using the shared ownership tool of **conservation easements**, this group created a nonprofit oversight organization that brings together ranchers, scientists, and government agencies to engage in cost-sharing range and ranch improvements and endangered species habitat protection.
- In a creative new approach in Maine, the community interest in preserving waterfront for commercial fishing is given legal standing through **working waterfront covenants**, which are shared ownership agreements that attach to property deeds in perpetuity. These covenants allow communities to purchase and hold development rights, making it more affordable for local fishermen to own and use the property.
- In a model now spreading from New Hampshire to the nation, residents of manufactured homes are joining together to create **resident-owned communities**. By cooperatively owning the land of the communities where these manufactured homes reside, residents work a legal transformation in the status of their homes, from personal property into real estate. The result is increased property values, more stable families, and greater participation in the life of the community.
- In Minnesota, farmers and community members have come together to create **cooperatively owned wind farms** through the company MinWind, which owns and manages rural wind generation facilities. Community members earn more from those wind resources than if they had rented the land to absentee-owned power generation companies.

A second set of tools for creating community wealth can be termed vehicles for **community control or influence over wealth flows**. These are tools that tap creative sources of wealth, not related to ownership, that create long-term



By cooperatively owning their own marketing company, farmers at Organic Valley cut out the middleman and increase their income.

community benefit.* These include fees and taxes, community currencies, community endowments, and community benefits agreements in which communities contract with companies to provide specific benefits.

- On Martha’s Vineyard, there is a community **land bank** — fueled by a 2 percent **land transfer fee** levied on real estate sales — that permits the community to acquire land for affordable housing and conservation and hold it in perpetuity.
- The Nebraska Community Foundation is coaching its affiliated funds on how to build **community endowments** by asking landowners to include the community in their wills, donating 5 percent of the value when land transfers to the next generation. This wealth control tool is a way of tapping a portion of the \$94 billion expected to transfer in rural Nebraska in the first half of this century.
- In rural areas where time can be more abundant than money, **time banks** give participants credits for time spent helping others, allowing them to tap these credits when they need assistance. States such as Missouri and Michigan have enacted legislation in support of time banks.

In Parts IV and V, this report will explore various models of shared and local ownership and models of community wealth control useful in rural areas. If these models are not widely used or understood, it is in part because our culture lacks a conceptual framework in which to make sense of them. The variety of community wealth designs can seem a wilderness of single instances. Building a framework in which to place those instances is a task this report turns to in Part II. In Part III, it looks at the opportunities and challenges of our moment in time, as a way of helping developers see how to move forward.

Part II — Rethinking Wealth and Ownership

A NEW APPROACH TO ASSETS

While shared ownership and community wealth control designs can create financial wealth, their aim is to serve a broader Triple Bottom Line: economic gain, social return, and ecological stewardship. A simple concept lies at the root of this approach: *There are many more kinds of wealth than financial wealth.* When old-growth forests are clear-cut, mountain tops removed to mine coal, and fishing stocks depleted by over-fishing, there may be temporary income streams enjoyed, but precious assets are left damaged. Fishing stocks, coal, and forests are assets that can be termed *natural capital*. It is only when one knows what kinds of assets, or wealth, are available — or could be available if restored — that the appropriate ownership design can be chosen.

* A related concept of “*common assets*” is about “creating markets, ownership rights and public trusts for revenue generated from natural and social resources,” write Carl Rist, Bill Schweke and Bridget Venne in “Stock in Trade: Promising Market-Based Ideas for Taking Asset Building to Scale,” Nov. 2007 report to the Nathan Cummings Foundation. We have chosen to use the term “community wealth control” because of its broader reach, encompassing streams of income (such as fees on real estate transfers) or benefits (such as living wage jobs required by community benefits agreements) that are less about assets than about more broadly defined flows of wealth.

INCOME VS. ASSETS

Income: *A flow of money that might start or stop.*

Assets: *A stock of value that creates a stable flow of income over the long term.*

A key step is for developers to aid rural communities in grasping the vital distinction between *income* and *assets*. Income is a flow of money that might stop or start — like the income from a job that is lost when a company shuts down and leaves town, or the income that runs out when fishing stocks are exhausted. *Assets* are enduring stocks of value that create a stable flow of income over the long term. An interest-bearing Certificate of Deposit is an asset that is a source of income. A forest, left standing, might be an asset producing long-term income from the sale of carbon sequestration services.

Those who own and control assets are less subject to the whims of others and more in control of their own economic destiny, than those dependent solely on income from external sources. Assets create an ability to plan for the future: to pursue an education, purchase a home, or start a business. They increase social status and social connectedness, and enhance the life chances of offspring.² Research shows that even a small amount of assets makes a vital contribution to the well-being of low-income families. Scholar Michael Sherraden calls assets “hope in concrete form.”³

In the U.S., it is estimated that 26 percent of Americans are asset poor. That’s twice the rate of income poverty, which is 13 percent.⁴ When most Americans think of the poor, they think of the urban poor in the inner city. The rural poor are often forgotten, living in distressed areas most Americans never think about or see, in the Mississippi Delta, Appalachia, the *colonias* along the border in Texas, and other isolated areas. Yet some 20 to 50 percent of the U.S. population is rural (depending on the definition used).⁵ And 8 million rural Americans are poor.⁶ In a recent study, the Carsey Institute at the University of New Hampshire found that half the rural poor are segregated in high-poverty areas.⁷ On average, rural areas have lower per capita income, fewer educated citizens, and slower population growth.⁸

Rural areas are poor in financial capital, but they are rich in natural capital and other forms of wealth. The Wealth Creation in Rural America project has identified six forms of community wealth.

SIX FORMS OF COMMUNITY WEALTH

1. *Financial capital* includes bank accounts, equity investments, and bonds. But any income stream flowing into or out of a community is a form of financial capital. The interest rural households spend on credit card payments, for example, often exceeds the total of local tax payments.⁹ This flow of funds can become a community asset when a community-owned bank or credit union controls it.
2. *Natural capital* is defined by Fikret Berkes and Carl Folke as including (a) non-renewable resources such as oil and minerals; (b) renewable resources such as fish, wood and water; and (c) environmental services such as climate, waste assimilation, and flood control. Oil resources can become a community asset through a wealth-control design like the Alaska Permanent Fund, which charges royalties on oil extraction and pays dividends annually to all Alaska residents.
3. *Social capital* is the stock of trust, relationships, and networks that support a healthy community. These can become a source of wealth, for example, when social networks allow people to come together to share ideas on organic farming.

MULTIPLE KINDS OF ASSETS

Financial assets are only one form of wealth. Other types of assets are natural capital, social capital, individual capital, built capital, and intellectual capital.

Social capital in the form of healthy human relationships also contributes directly to community members' well-being, in ways beyond its ability to be monetized.

4. *Individual capital* is the stock of skills and the physical and mental capabilities of people in a region. These might include the skills to operate computers, for example, which can be used to create wealth when broadband access reaches rural areas. It also includes the entrepreneurial ability to start new businesses. And it includes human health.
5. *Built capital* includes communication technology, wind energy towers, biofuel production plants, and other forms of infrastructure that can generate community wealth. Also included in built capital are homes and community buildings that shape community prosperity.
6. *Intellectual capital* is the stock of knowledge and innovation in a region, embodied not in individual minds — as individual capital is — but instead in the enduring intellectual products those minds have created. Intellectual capital might include inventions that lead to patents, or published writings that generate income.¹⁰

Community prosperity rests on the ability of residents to make the most of the resources they have on hand. This means (1) recognizing the assets a community has, (2) managing them in effective ways, and (3) using appropriate ownership and wealth-control designs to define, capture, and benefit from those assets.

CO-EVOLUTION OF PHYSICAL AND SOCIAL TECHNOLOGIES

As awareness of new kinds of community capital arises, there is also a need for new kinds of ownership. As we confront the challenges of global warming, biodiversity erosion, water and air pollution, and the depletion of petroleum resources, our society is seeking new ways to organize our economy. In rural areas, the rising importance of sustainability means new *physical technologies* like wind turbines, solar power installations, carbon sequestration practices, and organic farming techniques.

But physical technologies are only one piece of the rethinking underway. Equally important are *social technologies*,¹¹ or *social architectures*.¹² These have to do with how we organize ourselves to do things: how decisions are made, how institutions of ownership and control are designed, how success is defined and measured, and how monetary rewards are channeled. Physical and social technologies co-evolve.

Consider, for example, two different paths in the development of wind energy. In one path, absentee investors bargain with landowners individually, renting land at the lowest possible price in order to construct wind turbines. Wind leases generally allow land owners to tap between 0.5 percent (one-half of 1 percent) and 1.5 percent of gross income from wind generation. Thus a wind farm generating, say, \$200,000 in revenue brings the landowner only \$1,000 to \$3,000. This is the familiar path of rural poverty.

A second path involves the same physical technologies — wind turbines — but different ownership structures. This is the path taken by the 300 farmers and other com-



PHYSICAL AND SOCIAL TECHNOLOGIES

Physical technologies

include sustainable designs such as wind farms.

Social technologies

are about who owns wind farms and reaps their benefits.

Physical and social technologies co-evolve.

munity members who are owners of the Minwind Energy wind farms in southwest Minnesota. Minwind is a limited liability company operating on cooperative principles. To raise the \$4 million to build its initial four wind turbines in 2001, the co-op sold shares for \$5,000 to local residents. Today the co-op has 11 turbines. And it hires an attorney to negotiate power purchase contracts with buyers like Alliant Energy and Xcel Energy. When the wind farm generates \$200,000 in revenue, all of it flows into the co-op, to be used to pay wages, expenses, and returns to local investors.¹³

In both paths, physical technologies are the same. The difference lies in the architecture of ownership. When community members retain ownership and control, they keep wealth local.

LOCAL OWNERSHIP AND SHARED OWNERSHIP

Many theorists have identified local ownership as a key part of community well-being. W.R. Goldschmidt, in his classic 1947 work *As You Sow*, argued that communities with small-scale, local ownership — as contrasted with large, absentee-owned firms — showed a variety of benefits, including more schools, parks, and civic organizations, improved infrastructure, and a more stable population.¹⁴ Locally owned firms may also be more conscious of their impact on the local environment. An Environmental Protection Agency study found that absentee-owned chemical plants released three times the toxins of those whose ownership was locally rooted.¹⁵

Local ownership is vital. And it's not the whole story. Local ownership by elites, for example, is different from widely distributed local ownership. Local ownership can also be lost over time, as owners retire and sell their enterprises to those outside the community. Done right, shared ownership has the potential to overcome such problems.

In a study of six local buyout cases in Canada's forest sector, researcher Jeji Varghese and colleagues wrote, "Missing from the comparative work of absentee versus local ownership is a careful analysis of the *features* of local ownership that lead to more socially desirable outcomes." [Emphasis added.] They found that when enterprise ownership and governance was inclusive — embracing employees, managers, and community members — there was a greater likelihood the enterprise would remain committed to benefiting the local community.¹⁶

This is a key point. When enterprises build concern for the community into their ownership structure — through shared ownership, management, and control — those enterprises are more likely to benefit the local community over the long term. With shared ownership, enterprises can stay locally committed over the long term.

If "good" ownership is generally thought of as small and local, shared ownership adds a critical nuance. Shared ownership is about institutionalizing a fundamentally different way of conceiving of economic activity. Traditional economics is about individuals. But as Herman Daly and John Cobb Jr. write in *For the Common Good*, "True economics concerns itself with the long-term welfare of the whole community." This requires a different conception of the economic person, which they term "*person-in-community*." They suggest economics needs a broad rethinking on the basis of economics for community¹⁷

PERSON-IN-COMMUNITY

Economic man is the isolated individual, maximizing his gains.

Person-in-community is a broader conception, where economic activity serves both individual and community welfare.

Shared ownership institutionalizes the concept of person-in-community.

Shared ownership is part of this rethinking. It's about reconceptualizing the nature of assets and ownership, so assets are no longer the property of isolated individuals, but are part of the inseparable linkages between individuals, the community, and the ecosystem.

Shared ownership can also be a form of risk management for communities. When the ownership or management of assets is pooled, the risk to individual households is lessened. By sharing ownership, communities can also open up new value propositions, as with Minwind, where community members acting together have been able to accomplish things that none could have accomplished alone.

THE CHALLENGES OF SHARED OWNERSHIP

Shared ownership is a powerful approach, yet it comes with challenges. Among the greatest is obtaining financing. This stems partly from the perception of lower returns, and partly from a lack of a framework for gauging Triple Bottom Line returns. A core challenge is getting institutional investors more involved so resources can flow.

Also involved is a lack of understanding, hence a lack of comfort, on the part of investors and entrepreneurs. This is interlinked with the lack of a professional infrastructure in attorneys, consultants, and other advisers who can assist in the creation and management of shared ownership enterprises. Technical assistance networks and trade associations exist in many areas, such as cooperatives, employee ownership, community land trusts, municipal ownership, and conservation easements. But services may not always be available nationwide nor geared to rural areas. Resident-owned communities have a new network forming, ROC-USA, to spread technical assistance and financing. Working waterfront covenants are supported within one state only, which is Maine. Other newer models have little to no support infrastructure, as with community currencies, forest covenants, community endowments, land banks, and mission-controlled ownership.

Another challenge is that, in an economy that has for so long been focused on individualism, some community members may feel averse to collective action. Collective action often involves meetings, and many people dislike meetings. Shared ownership might also to some minds sound like socialism. But this is far from accurate. The concept of private ownership is deeply intrinsic to shared ownership. Instead of doing away with private ownership, this approach redesigns it.

The challenge for developers is to find ways to draw people in to understanding that collective action is something we are engaged in all the time. Churches are one example, fire departments another. We trust firefighters to work as hard at saving our houses as they would their own. Inherently, all of us have a sense of community. The challenge is to draw it out.

Another issue is that shared ownership models may have an uneasy fit with existing legal and financial frameworks — such as a lack of mutual funds that serve these kinds of enterprises. Even where models are well developed and resources for assistance are available, community development practitioners may be unaware of those resources.

BUSINESS MODEL VS. OWNERSHIP MODEL

Business model:

A company's value proposition that keeps revenue flowing.

Ownership model:

The legal and governance framework that roots assets in communities, provides for resource sharing, and aligns expectations.

Many of these challenges come down to lack of understanding. What is needed is not so much public relations as a more fundamental change in attitude and culture. Here is where language and framing are critical. What are needed are simple conceptual tools for helping people understand that community-based ownership and community benefit are the same thing. There is a need for a conceptual construct for people to line up behind. Once understanding and excitement are there, resources are likely to follow.

Another challenge is management capability. In the end, success hinges not on the ownership form but on how it is put together with people and resources. As Peter Pitegoff, dean of the University of Maine School of Law, points out, entrepreneurs are not wise to begin by saying they'd like to start a cooperative or an employee-owned firm. The first questions are who are the players, what is the business model, what is the management capacity and the capital needs — *then* ask, what is the appropriate ownership design.

This points to the critical distinction between a *business model* and an *ownership model*. The business model is the heart of the enterprise. It is the company's unique value proposition that keeps the revenue flowing. An ownership model is the legal and governance framework that holds the enterprise together and gives it shape: rooting assets in communities, providing for the sharing of resources, making interactions easier, creating an appropriate role for capital, and aligning expectations.

Part III — A Moment in Time

COMMON LANGUAGE, COMMON MOVEMENT

Various evolving terms such as shared ownership, Triple Bottom Line, person-in-community, and natural capital are all part of the search for a common language to describe the new economy being built today. The exploration happening in rural communities is part of a larger movement underway around the world. New forms of ownership can be seen in the movement for nonprofit-owned “social enterprises,” which operate profitably while pursuing social mission. In Denmark, there are cooperatively owned “wind guilds” that helped that nation transition to wind power more quickly than elsewhere. Across northern Europe, there are foundation-owned corporations — like Novo Nordisk, a pharmaceutical company with 5.6 billion Euro in revenues — where formal governance is structured around the Triple Bottom Line. In the U.S., there are emerging hybrids like Google.org — a model dubbed “for-profit philanthropy” — where a budget of \$2 billion is employed for philanthropic ends, through an entity that pays taxes and makes both grants and investments.¹⁸

These hybrid ownership models bear a family resemblance to older community models like cooperatives, which now enjoy global membership of 800 million people — more than double the total three decades ago. More Americans hold memberships in co-ops than hold stock in the stock market.

These developments herald a worldwide *economic design revolution*, yet to be recognized as a unified phenomenon because it lacks a common language. In the progressive U.S. business community, one hears about *local living economies*, or *for-benefit enterprise*. In Latin America the preferred term is *solidarity economy*.¹⁹ In other

COMMON LANGUAGE

Common language creates common purpose. In community development, a phrase positioned for wide adoption is “community wealth.”

Key ways to keep community wealth local are local ownership, shared ownership, and other forms of community influence or control over wealth.

cases the chosen phrase is *common assets*.²⁰ In Quebec, the preferred term is *social economy*, which has brought official recognition to cooperatives and nonprofits as a significant sector in Quebec's economy.*

Common language helps create common purpose, which is critical in movement building. In the 1970s, when girls' athletics struggled with under-funding, women faced harassment in the workplace, and wages for women remained below those of men, these movements gained power when they were unified under the name of feminism.

In community development, the phrase that's best positioned for wide adoption seems to be *community wealth*.^{*} Among the tools for keeping that wealth local are shared ownership and community wealth control designs. These simple concepts may have the capability of being the girders of a framework that can unite a community wealth movement.

NEW RURAL OPPORTUNITIES — AND THE ROLE SHARED OWNERSHIP COULD PLAY

If the search for common language is one aspect of this moment in time, another aspect is its unique conjunction of opportunities and challenges. The sources of competitive advantage for rural areas are changing. At one time, rural areas relied upon land, natural resources, low taxes, and low-cost labor to attract manufacturing. But when areas like Japan and Northern Europe began employing advanced technologies to make higher quality goods, rural wages were not low enough nor skill levels high enough to compete.²² Old paths to development have closed, yet new paths are opening.

New opportunities are arising that represent the kind of moments in time when new ownership designs are easiest to implement. One such time is *when new sectors are being created*. When there was the first land rush in the Western U.S., when railroads were laid across the country, when oil was discovered, when the automobile was created, when phone lines were laid, these moments in the dawning of the Industrial Revolution were when today's great financial fortunes were created. With wind, solar, and biomass, we are today entering a new era of sustainable energy. We're also entering an era of universal broadband access. The emergence of these new sectors signals that we stand at a pivotal moment. Rural areas hold much of the wealth that the nation is beginning to tap. Over time, these communities will find their wealth staying local, or find it being extracted by absentee owners. What will direct the future flows of wealth are the ownership designs put in place today.

- **Wind power:** Only 1 percent of the nation's energy today comes from wind, but the Department of Energy says the U.S. could realistically generate 20 percent of its electricity from wind by 2030.²³ Some refer to the American prairie as the Saudi Arabia of wind, capable of producing enough electricity to meet the needs

* "Community wealth" is the phrase used by the Democracy Collaborative at the University of Maryland in its popular website, community-wealth.org. It's also the framework chosen for a new national policy proposal, "Rebuilding America's Cities: Community Wealth-Building Policies for the New Era," being prepared for 2009 release by the Democracy Collaborative and other groups such as the Institute for Policy Studies; draft copy provided by Steve Dubb, sgdubb@yahoo.com.

NEW OWNERSHIP DESIGNS

*are easiest to
implement:*

1. *When new sectors are emerging (ie. wind, solar, broadband).*
2. *When there is broad generational turnover (ie. home foreclosures, Baby Boom retirement).*

of the entire country. A land rush is underway, and through cooperative bargaining associations like the Bordeaux Wind Energy Association in Wyoming, ranchers are pooling wind-rich land and negotiating collectively with developers.²⁴

- **Solar power:** The worldwide market for solar energy roughly doubled in 2007, to \$33 billion, and is expected to triple within the next four years.²⁵ Programs are being created almost daily — at the national, state, and utility levels — to support the growing photovoltaic market.²⁶ The nation has two paths to solar photovoltaics: (1) absentee-owned, centralized, concentrating solar power installations; or (2) locally owned photovoltaic installations on individual rooftops. According to a recent study by the Institute for Local Self-Reliance (ILSR), a locally owned project has a 25 to 200 percent greater economic impact for the community.²⁷
- **Broadband development:** The Obama administration’s 2009 stimulus legislation allocated \$7 billion to expand broadband access in under-served areas, including rural communities. The legislation also gave the Federal Communications Commission one year to create a road map for universal broadband service. As the ILSR emphasizes, “To ensure long-term affordability, equitable access and vigorous competition, the community needs to own physical infrastructure.”²⁸ Universal broadband could bring both massive opportunity and massive disruption, because commentators say it may make obsolete *all other electronic media*, from cable TV and over-the-air broadcasting to landlines and cell phones.²⁹

A second moment in time when new ownership designs are easy to implement is at a time of *generational turnover*. No ownership design is forever, because companies are sold, owners die, companies go bankrupt, houses are sold or foreclosed, or government policies shift ownership patterns. All of these represent potentially pivotal moments of generational turnover when solid assets can become liquid and change hands — possibly on quite favorable terms. This turnover applies not only to businesses but to all assets, such as land, buildings, and housing. It also applies to financial assets, as with the Nebraska Community Foundation’s efforts to capture 5 percent of the \$94 billion expected to transfer in rural Nebraska in the first half of this century. Other examples of generational turnover opportunities:

- **Home foreclosures:** At a time when nearly 10 percent of mortgages may be at risk of foreclosure, community land trusts have a foreclosure rate of about half of 1 percent.³⁰ With millions of homes entering the market in unfavorable circumstances, “Land trusts and communities have a once-in-a-generation buying opportunity,” says attorney David Abromowitz with the Center for American Progress. The federal government, through the Neighborhood Stabilization Program, has made \$3.92 billion in funds available, in legislation that specifically names land trusts as eligible.³¹
- **Baby Boom retirement:** As Baby Boom entrepreneurs make plans to retire from their businesses, a massive ownership shift is coming. Some 50,000 businesses changed hands in 2001, but that number was projected (before the downturn) to hit 750,000 in 2009. Only one in seven of these founders expect to pass their business to a family member; 58 percent plan to sell to a third party. There may be more owners wishing to sell than there are buyers. This creates an opportunity for employee ownership, particularly in rural areas, where buyers are hard to find.³²



The nation has two paths to solar power, absentee-owned or locally owned. Locally owned projects have a 25 to 200 percent greater economic impact for the community.

EXISTING DEVELOPMENT STRATEGIES AND SHARED OWNERSHIP

As rural development organizations develop new pathways into this transforming landscape, a number of key strategies are emerging, each of which might benefit from the selective use of shared ownership models.

1. CLUSTERS: Since the 1980s, a popular focus in rural development has been on industry clusters, such as a catfish farming cluster in Delta, Mississippi, a wind farm cluster in Western Texas, and a handmade crafts cluster in Toe River Valley, North Carolina.³³

Shared ownership models institutionalize and thus strengthen the informal collaboration found in these clusters. An example is the Delta Pride cooperative created by Mississippi catfish farmers to collectively process and market their products. Wind clusters are also benefiting from shared ownership models, because without such collaborative structures, wind turbines can pit farmers against farmers. Shared ownership models can be used for (1) collective bargaining with developers;³⁴ (2) cooperative ownership of wind turbines as with Minwind Energy in Minnesota; (3) as a potential tool for partnerships with urban investors, to collaboratively create enterprises to build and operate wind turbines, similar to the wind guilds of Denmark.

2. ENTREPRENEURSHIP DEVELOPMENT: The goal in these efforts is to support individual entrepreneurs. The Appalachian Center for Economic Networks in Ohio, for example, has developed a kitchen incubator facility — a licensed processing and storage facility — to help entrepreneurs process food.

Shared ownership models are being used to help entrepreneurs go to scale. A good example is CCA Global Partners, headquartered in Manchester, N.H. and St. Louis, Mo., which is one of the largest cooperative businesses in the U.S. For nearly a quarter-century it has partnered with entrepreneurial retailers to help them build their businesses. This cooperative is structured into 14 affiliate companies, with \$10 billion in aggregate annual sales, making it a kind of mega-cooperative. It has developed and nurtured affiliate cooperatives in the flooring, mortgage banking, lighting, and bicycling industries, which together have thousands of locations. CCA gives independent businesses access to collective services in buying, marketing, branding, insurance, web services, and financing — while allowing them to maintain their unique identities.³⁵

3. VALUE CHAINS: Developing value chains is about moving beyond the transactional relationships of a typical business supply chain, embracing the larger web of stakeholder relations in a new Triple Bottom Line business model.³⁶ One example is the cutting-edge Forest Opportunities Initiative Carbon Credits Program, created by the Mountain Association for Community Economic Development (MACED), operating in eastern Kentucky and central Appalachia. Helping forest landowners expand beyond traditional commodity production, MACED is helping landowners grow Forest Stewardship Certified wood, earn income from biomass, and sequester atmospheric carbon. It is now negotiating its first pool of carbon offsets to sell on the Chicago Climate Exchange.³⁷

CCA GLOBAL PARTNERS

With \$10 billion in aggregate sales and 14 affiliate companies, CCA Global Partners is a mega-cooperative. It gives independent businesses access to collective services in buying, marketing, branding, and insurance, while allowing businesses to maintain their unique identities. It's an example of how shared ownership can be used as a tool for entrepreneurship development.

Shared ownership models are a way to enhance the different value propositions being developed. MACED's project is a good example, because MACED itself is serving as the aggregator of offsets for a number of different landowners. It has developed a computer model that is a forest vegetation simulator, documenting how much new carbon has been sequestered on a given piece of property within a period of time. Some 80 local land owners have become interested in using MACED as their carbon aggregator, employing this form of shared management because of its cost efficiencies, said Justin Maxson, president of MACED. He said his development organization acts in essence as a marketing cooperative.

4. Capital investment: Community development organizations are structuring innovative vehicles that make funding available to enterprises unable to access capital from conventional lenders.

Shared ownership models — such as community covenants — are being used in conjunction with funding, to create Triple Bottom Line benefits. An example is a Maine program called Farms for the Future, a statewide economic development program of the Maine Department of Agriculture, administered by Coastal Enterprises Inc., which brings business assistance to the farming community. When farmers have an idea for a new product, new market, or improved efficiency, they can turn to this program for help. CEI helps each farmer select a team of advisors that assists them in developing a business plan. Each farmer also receives a grant of 25 percent of the funds needed to implement that plan. In exchange, farms enter into a farmland protection agreement, keeping their land from non-agricultural development for five years. The agreement can be terminated by paying back the grant.³⁸

GOING TO SCALE

A key aim with new models of ownership is taking them rapidly to scale. One of the best examples of how this can be done is seen in the housing sector, in the case of “Resident-Owned Communities,” which allow residents to acquire their own manufactured home communities.

The principal architect of the concept is the New Hampshire Community Loan Fund, which has employed this transformative strategy since 1984, making more than 90 loans with no defaults. A new organization, ROC USA, has recently been formed to take the concept to scale. By providing training and certification of technical assistance providers, as well as loans, the organization aims to take the concept out nationwide and help other groups form, state by state. The aim is to reach many of the 17 million Americans who live in manufactured homes.

“The core nonprofit model is to design innovations, identify best practices, and hope others adopt them,” said Michael Swack of the Carsey Institute at the University of New Hampshire, who is on the board of ROC USA. “But that system is set up to fail. It creates small solutions to big problems.” The goal of ROC USA is to not only demonstrate but facilitate scalability.

Experience in New Hampshire shows that the resident-owned community concept is a powerful model. These communities allow homeowners to enjoy greater stability,



In 2009, residents of the Aberdeen West Cooperative in Stratham, N.H., bought their own manufactured housing community, creating a “resident-owned community” – a concept that ROC-USA aims to take to scale.

lower site fees, better home price appreciation, and faster home sales. Benefits to the community include a greater investment in upkeep of homes, as well as greater community involvement. Parks are in better shape, for example, and parents are more likely to attend school conferences and vote locally, said Swack.

The model works in part because the ownership design transforms manufactured homes into real estate. Traditionally, these mobile homes are financed like cars, with banks lending reluctantly and at high rates. With resident-owned communities, banks are more ready to lend because of low default rates and the technical assistance of the loan fund. Resident-owned communities are organized as cooperatives, where governance is one person, one vote, and they bear some resemblance to the community land trust model, with land owned jointly and homes owned individually.³⁹

A similar example of going to scale can be seen in the working waterfront covenant program created by Coastal Enterprises, Inc. in Portland, Me. As profiled further in Part IV of this report — under Community Covenants and Easements — CEI has created a shared ownership model that involves an easement restricting use of certain waterfront properties to commercial fishing. After honing this concept, CEI worked to have a state program created, which includes the use of state bond funds in purchasing the easements. The state has contracted with CEI to manage the project

The process seen in these examples suggests a simple, powerful framework for going to scale: a single development agency develops and hones a model, or perhaps a set of elements that can be used to construct a family of models. Then a larger program is formed to take these models to scale, rolling out three things: a conceptual framework, a funding template, and a network of technical assistance providers. This is a process framework that might be applicable in other sectors where new opportunities are today arising, such as in the development of solar and wind power, or the creation of community forests.

Part IV — Models of Shared Ownership

Shared ownership strategies have been around for many decades, but they are today achieving a new level of attention. While diverse, they have in common the fact that *they change the nature of wealth ownership in a way that benefits both the community and the individual.*

This commonality is not yet widely recognized, even among experts in the field. For that reason, shared ownership strategies tend to exist in separate silos, each with its own history and infrastructure of support. The impressive range of practical ownership tools, and the implications for building a new kind of economy, remains largely unappreciated. In this portion of the report, we look at a variety of models, using examples drawn primarily from enterprise, with a few examples from the housing sector if those ownership model offer unique or powerful lessons applicable to rural enterprise.

A FORMULA FOR GOING TO SCALE

- 1. A new model is honed by a development agency.*
- 2. A larger program is created that offers a funding template and technical assistance.*

1. COOPERATIVE OWNERSHIP

Definition: A cooperative is a democratically controlled enterprise owned and governed by the people it serves.

Cooperatives have existed in indigenous societies for centuries. And mutual insurance companies — such as the one Benjamin Franklin helped create in the 1700s — are also forms of cooperatives. The model took on its present design in England in 1844, with the work of the Rochdale Pioneers, who saw the cooperative form as a counterforce to the Industrial Revolution. Today, co-ops have today become a world-wide movement with 800 million members. A recent census by the University of Wisconsin Center for Cooperatives found there are nearly 30,000 U.S. cooperatives, with more than \$3 trillion in assets,* generating more than \$500 billion in revenue and \$25 billion in wages.⁴⁰

As a shared ownership model, the cooperative form is the oldest and most highly advanced. A cooperative is a vehicle the community uses to pool its resources to create an enduring enterprise to meet community needs. Cooperative laws vary greatly from nation to nation and state to state. But, in general, the form involves democratic governance — one person, one vote — and member control over profits, business re-investment, and service development. Cooperatives are about putting member service before profits.

Strengths: The cooperative movement is unique among shared ownership designs in having a formal set of ethical principles, the Rochdale Principles. These include voluntary and open membership, democratic member control, member economic participation, cooperation among cooperatives, and concern for community. These principles have helped make co-ops pioneers in social accountability, organic food, and Fair Trade.

Weaknesses: A weakness of the cooperative model is that — despite its reach and longevity as a model — it remains often misunderstood, and relatively obscure in American business school education programs. Another key weakness is that co-ops, because of their member-based ownership and control structure, have difficulty attracting non-member capital. One possible solution is being explored by the National Cooperative Business Association, which is considering creating a new equity investment fund, which could allow many cooperatives to access funds through a pool, like a mutual fund, paying investors market or near-market returns.⁴¹

Range of applications: The cooperative form can be used in a nearly unlimited range of sectors. Nationally, the most widely used co-op form is the credit union, with some 90 million members. Credit union assets have grown a hundred-fold in three decades.⁴² Also in wide use are electricity co-ops, with 40 million members. Co-ops are well known in rural areas, because agricultural co-ops have long been a feature; 30 percent of total agricultural production is marketed by co-ops. Rural applications include the following:

* Note that the \$3 trillion in assets includes the assets of mortgage giants Fannie Mae and Freddie Mac, federal government-sponsored enterprises, which the project determined technically fit the definition of cooperatives. The asset and revenue values are from before the financial crisis of late 2008.

The cooperative form is the oldest and most advanced shared ownership model. In rural areas, 30 percent of agricultural production is marketed by co-ops.

- **Marketing co-ops** build markets for members such as farmers or artisans. A small rural example is the *Indian Spring Farmer's Cooperative* in Mississippi, a farmer's group with some three dozen members who share marketing activities and have collectively purchased processing equipment such as a cooler, washing tubs, and sorting tables. Among the most prominent marketing co-ops — also known as producer co-ops — are Land O'Lakes, Ocean Spray, and Organic Valley.
- **Value-added processing co-ops** allow producers to jointly manufacture products so as to capture a higher value in the marketplace. One example is *Dakota Growers Pasta Co.* in Carrington, N.D., a durum mill and pasta production facility created in 1990 by wheat growers. The producer-owned company is today the third largest manufacturer of dry pasta in North America.⁴³
- **Consumer co-ops** provide products or services to retail members. A rural example is *North Coast Cooperative* (NCC) in the relatively poor town of Arcata, Calif., which expanded from bulk distribution for a small group to operating two full-service supermarkets. NCC helps local agricultural producers build supply chains, offers local employment, and operates a foundation that donates to local groups.⁴⁴
- **Purchasing or service co-ops** allow businesses to collectively purchase materials or manage services. The number of purchasing co-ops grew from 50 to 300 in the last decade.⁴⁵ A small-town example is the *Rural Wisconsin Health Cooperative* in Sauk City, Wisc., originally created to help small rural hospitals recruit healthcare professionals, which now also provides billing, insurance reimbursement, and other services to member hospitals.⁴⁶ Another powerful example is *Farmers' Health Cooperative of Wisconsin*, in Jefferson, Wisc., organized in 2007 and now serving 2,200 members, providing affordable health insurance designed for farmers by farmers. It is the only organization of its kind in the nation.⁴⁷
- **Rural electric co-ops** provide electrical power to rural areas. An example is the *Central Iowa Power Cooperative* in Cedar Rapids, Iowa, which provides power to a series of distribution cooperatives, and also operates an economic development program and a venture capital firm.⁴⁸
- **Worker co-ops** are businesses owned cooperatively by their employees. An example is *Quality Care Partners* in Manchester, N.H., an employee-owned firm employing 30 licensed nursing assistants who provide health services to the elderly. The enterprise was launched by Paraprofessional Healthcare Institute, a nonprofit that has helped launch similar health care co-ops in other states.⁴⁹

A "NATIONALLY LOCAL" MARKETING CO-OP: ORGANIC VALLEY

Tucked into the hill country of Wisconsin one can find the innovatively designed Organic Valley, a marketing cooperative. With 2008 revenues of \$528 million, Organic Valley is one of the four largest organic brands in the nation, owned by the organic family farms that produce its milk, cheese, eggs, and meat.

The company's mission is to save the family farm, which means paying as much as possible to farmers. "We don't have any need for profits much over 2 percent," said CEO George Siemon. "We'd just pay taxes on it. We'd rather give it to the farmers." Organic Valley cuts out the middleman, packaging and marketing farmers' products direct to grocery stores nationwide. Sales for years grew 30 to 40 percent a year, and even in the 2008 downturn, revenues grew 16 percent. Along the way, Organic Valley reached out to help farmers through the rigorous, three-year process of going organic, increasing its member base in three years from 900 to 1,300.

In this "nationally local" ownership design, farmers enjoy the strength of a national brand, while customers benefit from locally rooted distribution. The company accomplishes this by organizing producers into regional pools, which limits the need to truck products long distances. A customer buying milk in Boston is buying New England milk. A customer buying milk in Seattle is buying Pacific Northwest milk.

The network of producer pools also serves as a network of advisory farmer councils, offering input to management separately from the traditional board of directors. These councils provide a place where farmers can discuss issues they care about, like product quality or standards for pasturing cows.

The company capitalizes itself, in part, by selling preferred shares directly to the public, paying 6 percent annually. "We raised a phenomenal amount of money within 60 miles of here," Siemon said. Because preferred shares have limited voting rights, this capitalization structure makes capital not a master but a friend.

Governance: While co-op members elect the board of directors, consumers may have less involvement in a grocery store or utility provider than farmers do in an enterprise central to their livelihood. As a result, for better or worse, many co-ops allow management to operate with considerable autonomy from rank-and-file members. Some-co-ops, however, maintain greater direct member control. Washington Electric Co-op in Vermont scrapped a board nominating committee during a heated debate many years ago, and now allows any member to run for the board.⁵⁰

Expertise required: An attorney specializing in co-op law will be required; also needed is assistance in training board members in cooperative principles. More critically, Newell Lessell of ICA Group in Brookline, Mass.⁵¹ — who consults to worker-owned and community-based businesses — says cooperatives getting started need four things: (1) First is a “sober third party to look at the situation in a cold way, not an emotional way,” to determine if there is a realistic business model. (2) Someone is needed to serve as a general contractor to the process: raising grant money and capital, doing business planning, determining if there is the human capital to do the business. “Human capital is non-trivial in very rural settings,” he emphasizes. (3) Entrepreneurial drive is also needed. It need not be an individual and could be a board. “That’s how barn-raising happens,” he says. (4) Finally, financial resources are needed.

Sources of assistance:

- **Cooperative Development Foundation** is a charitable organization that helps community developers with early-stage funding; www.cdf.coop/.
- **Cooperative Development Services** has provided consulting to more than 500 cooperatives; www.cdsus.coop.
- **CooperationWorks!** is a national network of cooperative development centers; www.cooperationworks.coop/.
- **Federation of Southern Cooperatives** helps low-income communities across the South, with a focus in the “Black Belt”; www.federation.coop.
- **ICA Group** is a consulting group that assists start-up worker-owned community-based businesses; www.ICA-Group.org.
- **National Cooperative Bank** provides financial services to co-ops, especially in the retail food and housing sectors; www.ncb.coop.
- **National Cooperative Business Association** has a network of cooperative legal and business experts; www.NCBA.coop.

2. EMPLOYEE OWNERSHIP

Definition: An Employee Stock Ownership Plan is an employee retirement plan where employees own shares in a company through a trust, cashing out upon retiring or leaving the firm.

While employees can own a business through a cooperative, in the United States a much more common form of employee ownership is the Employee Stock Ownership Plan (ESOP) company. Louis Kelso helped popularize the concept in the 1950s and 1960s, and tax provisions favoring its use were enacted into federal pension law in 1974 (specifically through provisions in the Employee Retirement Income Security Act, better known as ERISA). As a result, the ESOP is the most tax-advantaged mechanism for companies to share ownership with employees.

There are 11,400 employee-owned firms, reaching 14 million employees. About a quarter of these companies are majority employee-owned.

The model has been extraordinarily successful. The number of ESOPs increased tenfold between 1990 and 2005. As of early 2009, there were 11,400 employee-owned firms, reaching 13.7 million employees. About 3,000 companies are majority employee-owned. Plan assets were valued at \$925 billion before the recent financial crisis.⁵²

Strengths: Among the strengths of ESOP companies, from an employer perspective, is that they motivate employees, reduce absenteeism, and create a more cohesive, involved workforce. ESOP companies also tend to grow more quickly — about 2 or 3 percent faster than comparable non-ESOP companies. And tax advantages are substantial. From an employee perspective, ESOPs are a way to enjoy ownership in the place where they work, to build a retirement nest egg, and in some cases, to have a greater say over workplace decisions. A 1998 study found that the median hourly wage at ESOP companies was 4 to 18 percent higher than in comparable companies. The average value of retirement benefits was \$32,000, about triple that of comparable non-ESOP companies.⁵³

Weaknesses: One weakness of ESOPs is the “repurchase obligation,” which requires companies to buy back stock that ESOP trusts have purchased and allocated to employees. Some companies manage this by creating “internal markets” that allow employees to purchase stock from one another. Others handle it by deferring repurchase obligations over some years. In one recent case — involving Antioch Co. of Yellow Springs, Ohio — a policy of purchasing shares immediately after employees left created a crisis when the economy turned down. Seeking to cash out, 80 percent of employees left, forcing the firm into bankruptcy. That situation is far from typical, however. With planning, most firms manage the repurchase obligation successfully.

Range of application: The primary use of ESOPs is for the sale of a closely held business to its employees, as an exit plan for the owner, allowing taxes to be deferred on the gain. ESOPs can be used in both C and S corporations. ESOPs are generally only appropriate for businesses of over \$1 million in revenue, because of substantial annual administration costs involved. The most common mechanism to create an ESOP is the leveraged ESOP, in which the ESOP trust borrows money to buy an owner out, with the company repaying the loan by making tax-deductible contributions to the trust. (Typically, the transfer occurs in stages, which means the original owner’s remaining share can secure the first stage of the ESOP purchase). The company can deduct both interest and principal on the loan.

Governance: At their best, employee-owned firms employ a participatory management approach (often referred to as the “ownership culture”) that gives employees an actual voice in day-to-day affairs. In some cases, employees also are able to elect members to seats on the board. Studies have found that employee ownership boosts corporate performance only when employees are given the tools, training, and opportunities to take more active roles as owners. One example is *Springfield Remanufacturing*, in Springfield, Mo., which trains all employees in open-book management and gives them responsibility for the line items on the financial statements directly impacted by their jobs.⁵⁴

Community wealth assets: This model of ownership contributes to *individual capital* in employee knowledge and skill, and to *social capital*, since employee-

JOHNNY’S SELECTED SEEDS

This company in Winslow, Maine, a supplier of seeds and tools to both commercial farmers and individual gardeners, offers a rural example of employee ownership. The firm sold a 30 percent stake to its employees in 2006, with 100 percent employee ownership expected in 2015. “An ESOP was a good fit, because in a rural area there are not a lot of people to sell a business to,” said Newell Lessell of ICA Group, who assisted in the sale. “To find someone to buy and relocate to Maine is like finding a needle in a haystack.” In the case of Johnny’s Seeds, there was an additional social motivation to share the wealth with worker owners.

Source: Author interview with Newell Lessell of ICA Group. Also see www.johnnyseeds.com.



owned business are by definition locally owned, and are less likely than absentee-owned firms to send jobs overseas or to close down local sites as a response to crisis.

Expertise required: An ESOP conversion may require a full-blown feasibility study by an outsider, or it could involve simply a careful business plan prepared in-house. A valuation consultant and ESOP attorney will be required. Owners will need tax guidance to take advantage of the tax breaks for selling to an ESOP. A trustee must be chosen to oversee the plan, and there are annual administrative duties required.

Sources of assistance:

- **ESOP Association** is a trade group offering advocacy and services for member ESOPs, as well as a directory of service providers; www.esopassociation.org.
- **National Center for Employee Ownership** is the nation's leading source of assistance with employee ownership. It conducts seminars, publishes how-to guides, and provides a consultant-referral service; www.nceo.org.
- **Ohio Employee Ownership Center**, www.ken.edu/oeoc.
- **Vermont Employee Ownership Center**, www.veoc.org.

3. COMMUNITY LAND TRUSTS

Definition: *A community land trust is a nonprofit organization formed to hold title to land in perpetuity, allowing the community to provide permanently affordable housing and plan land use to meet other community needs, while houses remain under private ownership.*

Bob Swann, who would later form the Institute for Community Economics, the first U.S.-based support group for community land trusts, helped develop the community land trust model in the late 1960s. The initial effort was to help black Southern sharecroppers own and manage their land. Though those sharecroppers ultimately failed, today community land trusts (CLTs) are found across the country. In the early 1980s only a handful existed, yet by 2008 there were more than 200, and others are forming rapidly in the wake of the housing crisis. Federal legislation passed in July 2008 created the Neighborhood Stabilization Program, with \$3.92 billion in funding that specifically mentions community land trusts as eligible.

Strengths: The most common use of the community land trust model is to lock in housing subsidies, so they benefit one homeowner after another and need not be repeated each time a house is sold. The CLT does this by acquiring land and then leasing its use to homeowners, with a formula that restricts the re-sale value of the property, thereby passing through the housing subsidy benefits to future families. Home owners can make a profit but not a killing. CLTs also retain a long-term option to purchase the homes. CLTs can forestall foreclosures, because the land leases permit the CLT to step in and “cure” a default when homeowners are late with mortgage payments. For this reason, foreclosures at CLTs are less than 1 percent.

Over time, CLTs can gain greater self-sufficiency through modest monthly ground lease payments (\$25 to \$100 per month) collected from homeowners, and through resale fees. The *City of Lakes CLT in Minneapolis*, for example, charges a marketing

fee of \$2,500 per unit when a unit is sold. Some also receive fee-for-service income, performing services such as packaging loans for local mortgage lenders.⁵⁵

Weaknesses: Homeowners may be reluctant to enter an arrangement where they do not receive the full benefit of increasing real estate values. Also, most CLTs — at least in initial years — must continually fund-raise in order to keep operating. And like every nonprofit developer, CLTs face challenges in rehabilitating houses on affordable terms.

Range of applications: The CLT model can be used by community development agencies to gain control of real estate to develop affordable housing, business districts, parks, or other assets. CLTs increasingly are closely tied to state and local governments. Some municipalities take the lead in researching opportunities, providing equity investments or low-interest loans, or conveying vacant parcels of land or property acquired through tax foreclosures.

- **Scattered site:** A statewide CLT has recently been created in Delaware, the *Diamond State Community Land Trust*, using an estimated \$20 million in government funding from various sources to buy and rehabilitate foreclosed properties. In this kind of approach — known as a “scattered site” land trust — properties in the land trust are not contiguous.⁵⁶
- **Private developer involvement:** In some cases, private developers are asked to work with a CLT. In Chapel Hill, N.C., Centex Corp. built a 200-unit town-house development and agreed to sell 30 units to the *Orange County Community Housing and Land Trust* at a below-market price.⁵⁷
- **Housing trust funds:** In Burlington, Vermont, a housing trust fund is capitalized through a 1 percent add-on to the city’s property tax, with funds used in part to support nonprofits developing affordable housing.⁵⁸
- **Farm affordability:** Equity Trust, Inc. in Turners Falls, Mass., is using a land trust in conjunction with an Agricultural Protection Restriction to keep *Caretaker Farm* in Williamstown affordable. The ground lease will require continued active farming on the land.⁵⁹

Governance: The board of directors of the classic CLT is divided into three equal portions: one-third of seats to represent residents of the homes; one-third to represent residents of the surrounding community; and one-third made up of those who speak for the public interest, such as public officials, local funders, and nonprofit providers of housing services.⁶⁰

Expertise required: Consultants and attorneys are generally required for organizational development, ground lease issues, project feasibility, business planning, and applying for 501(c)3 status. In some cases, municipalities hire consultants or provide grants to support this planning and incorporation process.

Sources of assistance:

- **Burlington Associates** is a national consulting cooperative providing technical assistance to community land trusts, offering a “Community Land Trust Resource Center”; www.burlingtonassociates.com.



Land trust ownership is being used at Caretaker Farm in Williamstown, Mass., to keep the farm affordable for generations to come. The ground lease requires that the land be farmed using sustainable methods.

- **Equity Trust, Inc.** works to implement CLTs and operates a loan fund, including a Fund for Community-Supported Agriculture making loans to small farmers; its web site also lists other resources; www.equitytrust.org.
- **Institute for Community Economics**, the first U.S.-based support organization for CLTs — now affiliated with the National Housing Trust — operates a loan fund and offers other resources; www.iceclt.org.
- **National Community Land Trust Network** is the central network of CLTs; www.cltnetwork.org.
- **National Housing Conference** offers a website of resources on a variety of “shared equity” approaches to housing; www.nhc.org/housing/sharedequity.

4. MUNICIPALLY OWNED ENTERPRISES

Definition: Businesses owned by local public authorities that provide services to citizens and bring in revenue for cities.

When electricity services were spreading across the nation a century ago, the private sector electrified urban areas but left rural areas in the dark, because the population was not concentrated enough to make service delivery highly profitable. Thousands of communities across the U.S. responded by building their own electric utilities — some owned by municipalities, others incorporated as cooperatives or in other forms — often with funding from the federal government, thanks to the Rural Electrification Act of 1936.

History may be repeating itself today with the spread of broadband telecommunications, as rural communities step forward to build the infrastructure needed to offer cable television, high-speed internet, cellular phone, and other services. Municipally owned enterprises have been so successful that private telecom companies have been attempting to create barriers to municipal ownership, with 15 states limiting or prohibiting such systems as of 2008.⁶¹

Municipal broadband services can significantly impact local economic growth, helping communities attract and spawn business development. After Ten Sleep, Wyoming, laid fiber-optic cable, it enabled the start-up of one of the state’s fastest-growing businesses, Eleutian Technology, which hired 300 local people to teach English to 15,000 students in Korea.⁶²

But as the Institute for Local Self-Reliance notes, it is not enough to simply have the technology. The community needs to own the physical infrastructure. Otherwise cities “put themselves in a position of relying on corporate goodwill to keep prices affordable, to upgrade technology, and to allow unrestricted access to the Internet.”⁶³ Community-owned broadband could democratize communications and economic opportunity in this country.

Funding for such projects might come from the \$2.5 billion in funds for rural broadband deployment created by the Obama stimulus program, being administered by the USDA’s Rural Utilities Service. There is a deadline of September 2010 for awarding funding.⁶⁴

It’s not enough for communities to bring in broadband telecommunication services. The community needs to own the physical infrastructure.

Strengths and weaknesses: Municipal enterprises have different goals and time horizons than traditional companies. The aim is not to maximize profits but to develop a community asset that meets the needs of residents and benefits the community. As a number of experts have noted, a new strategy may be emerging: instead of offering incentives for businesses to relocate, municipalities are using their own investment capacity to start city-run businesses. A possible weakness of this approach is that cities often choose to continue operating facilities even when they do not break even. Most municipalities deliberately subsidize parks and recreation, for example, to reduce the exclusionary impact that user fees can have.

Range of applications: In addition to power and telecom services, municipalities operate many other services on a business-like basis, including solid waste services, convention centers, ports, airports, transit systems, hospitals, parking garages, golf courses, even hotels and liquor stores. The League of Minnesota Cities, for example, found that the average city in the state runs five enterprises.⁶⁵

Instead of offering incentives for businesses to relocate, many municipalities are now using their own investment capacity to start city-run businesses.

- **Recycling business:** Hutchinson, Minn. (pop. 13,600) transferred more than \$1 million to the city's general fund in 2002 from the various city enterprises it operates. Among them is a recycling business that collects organic material for its *Creek Side Soils* brand of compost and colored mulch, which is sold to retailers, golf courses, and individuals. The city also owns a hospital, electric plant, liquor store, local cemetery, and airport.⁶⁶
- **New municipal electric utilities:** In the wake of rising electricity costs across the nation, the generally lower rates charged by municipal utilities look more attractive than ever. In Massachusetts, a movement has sprung up to facilitate the formation of new munis in the state, with proposed legislation endorsed by 115 municipalities and organizations (www.massmunichoice.org). The state is studying the fiscal impact and barriers of establishing new munis.
- **Telecom and cable service:** When city leaders in *Glasgow, Ky.* (pop. 14,000) became concerned about the high price of cable services, they decided to create a community-owned service, which now charges just \$27.50 a month. They are also one of the few cities to offer an alternative to the local commercial phone service.⁶⁷
- **Broadband:** Some two-dozen rural towns in Vermont have joined together to create the *East Central Vermont Community Fiber Network*, to bring state-of-the-art broadband services to their residents.⁶⁸ Other small towns with municipal fiber-to-the-home services include Jackson, Tenn., Kutztown, Penn., and Reedsburg, Wis.
- **Wind power:** The *Rural Electric Convenience Cooperative* in Auburn, Ill., recently completed the building of a wind turbine, on the former site of a coal mine, with grants from the USDA and the state, combined with a zero-interest loan through the Clean Renewable Energy Bonds program created by the Energy Policy Act of 2005.⁶⁹

Governance: In theory, municipal enterprises should be democratically run, because cities themselves are structured democratically. In practice, this may not be the case, with municipal utilities (and rural electric cooperatives) too often being run by managerial elites not open to citizen input. The potential remains, however, for citizens to take charge of enterprise governance by working through city government.

Expertise: In developing new enterprises, towns will likely need technical assistance in technology and business development.

Sources of assistance:

- **American Public Power Association** is the trade association for publicly owned electric utilities; www.appanet.org.
- **Fiber-to-the-Home Council** aims to educate the public and government officials about broadband; www.ftthcouncil.org.
- **Institute for Local Self-Reliance** has a Telecommunications as Commons Initiative; ILSR provides technical assistance and information; www.ILSR.org.
- **Rural Community Assistance Partnership** is a national service delivery network providing technical assistance and financial resources to rural communities; www.rcap.org.

5. LOCAL OWNERSHIP

Definition: Ownership of economic entities that is held entirely by people within a geographic region.

While not falling within the definition of shared ownership, local ownership is nonetheless a simple way of keeping wealth local. Local ownership in many cases refers to ownership by a founding entrepreneur or a family. Profiled here are also a few examples of one-of-a-kind local ownership designs that have elements of shared ownership, such as the unique ownership structure of the Green Bay Packers football team.

Strengths and weaknesses: The strength of local ownership is the way it contributes to community resilience by allowing the community to capture wealth from local resources and employ local decision-making — keeping companies from moving out of town, for example. A key weakness is that without a deliberately designed, shared ownership form — like employee, cooperative, or trust ownership — local ownership can be more ad hoc, its benefits not formally recognized, which allows it to easily move out of local control over the years. At a time of generational turnover, for example, locally owned companies are at risk of being sold to those outside the community, being closed down, or moved. Ownership by single individuals creates no systematic way to avoid these possibilities, as shared ownership does. Also, when local ownership simply means ownership by elites — as opposed to widely distributed local ownership — the community may not share broadly in the benefits.

Range of applications:

- **Community ownership:** The *Green Bay Packers*, the football team that since 1919 has made its home in Green Bay, Wisc., is entirely owned by its local fans through a unique shared ownership structure. It is designed as a not-for-profit corporation with some 112,000 shareholders and \$241 million in revenue. Its shares do not increase in value nor pay dividends and can only be sold back to the team. If the company were to be sold, all profits would be earmarked to go to the American Legion. This arrangement keeps the team local, and has made Green Bay the only town of its size to have a major league football team. In the National Football League, the Green Bay Packers is the only surviving team still playing in its original small town.⁷⁰



RIVERVIEW'S LANDFILL ENERGY PROJECT

Looking for ways to help the environment and generate municipal income, Riverview, Mich., worked with the local utility, Detroit Edison, to recover and sell landfill gas to generate energy. Created in 1986, the project captures methane through more than 200 methane gas wells located on the 178-acre landfill owned and operated by the City of Riverview. The landfill produces 4.3 million cubic feet of gas per day, allowing the Riverview Energy Systems plant to produce electricity for thousands of homes.

While the city owns the landfill and generates revenue from it, Riverview Energy Systems is owned and operated by a partnership between Landfill Energy Systems and Detroit Edison. The community benefits by eliminating a potentially dangerous gas and improving quality of life.

- **Mixed ownership:** In Sacre-Coeur, Quebec, a local wood-processing facility changed hands many times and went bankrupt before reopening in 1985 as *Boisaco Inc.*, a company that is still operating today. In its original design, shares were divided equally among a cooperative of mill workers, a cooperative of forest-harvesting workers, and a local investment group. The distribution of board seats mirrored the distribution of shares, with each group holding veto power over major decisions in the company.⁷¹

Governance: The assumption that local ownership automatically leads to local control is not accurate. A McDonald’s franchise, for example, might be locally owned, while significant control over key decisions remains outside the hands of the local owner. Similarly, a firm can be locally owned one day then sold to outsiders the next. If communities want to see ownership of enterprise remain local over the long term, this concern needs to be built into the company’s design. In the case seen above, there are design protections that guarantee ownership remains local. The Green Bay Packers restricts the sale of shares to local residents. When Boisaco was begun, thoughtful consideration was given to the allocation of both ownership shares and governance rights. Private ownership in the long-term community interest is possible, but it does not happen automatically simply because of local ownership. It takes design.

Community wealth assets: Sometimes there can be a tradeoff between building one form of community wealth and another. In the Green Bay instance, the ownership design preserves *social capital* by limiting gains in *financial capital*.

Sources of assistance:

- **Business Alliance for Local Living Economies** is an international alliance of independently operated local business networks dedicated to building local living economies; for a list of regional networks see www.livingeconomies.org.
- **Community-Wealth.org** is a website run by the Democracy Collaborative at the University of Maryland that offers a comprehensive database of tools for community wealth building; www.community-wealth.org.
- **Institute for Local Self-Reliance** offers technical assistance and information; www.ILSR.org.

6. TRIBAL OWNERSHIP

Definition: *Ownership of economic entities that is held collectively by indigenous tribal peoples.*

In the past, tribal ownership has extended primarily to land and housing, as well as some economic entities, including casinos and other businesses. Today tribal ownership faces potentially significant new opportunities in renewable energy. As activist Winona LaDuke, executive director of Honor the Earth, has written, “Tribes have the potential to provide almost 15 percent of the country’s electricity with wind power.”

Strengths and weaknesses: LaDuke offered a prescient summary of the strengths and weakness of tribal ownership in her writing. “Ojibwe prophecies speak of a time in the Seventh Fire when our people see two paths ahead,” she wrote. “One path is well worn and scorched. The other is new and green.”⁷² As tribes seek to take the

If communities want to see ownership of enterprise remain local over the long term, this concern needs to be built into the company’s design.

green path, developing wind power on tribal lands, designing tribal ownership in the right way could be central to making sure the wealth stays local. One problem is that these ownership forms have shown significant potential for abuse, because tribal companies have at times served as ways to receive no-bid contracts for federal funds, exempt from many regulations. *Mother Jones* wrote in 2005, for example, about the Olgoonik Corporation in Alaska, owned by the Inupiat Eskimo tribe, which in the early 2000s received \$225 million to build military bases around the world, then subcontracted most of the work to Halliburton.⁷³

A second problem is that much renewable energy development is driven by tax incentives, while the income of tribal members often falls short of the level needed to benefit from those tax incentives. Perversely, this can mean that wind development makes financial sense only when ownership is held by those outside the tribe. This problem can be solved with a design similar to the “ownership transfer corporation,” where ownership is held initially by outsiders but is formally structured to transfer to tribal or community members over time, as tax incentives are exhausted. However, Mark Willers, CEO of the farmer-owned Minwind in Luverne, Minn. — who called such arrangements “flips” — warned that they often do not work out to community benefit. He told of wind farms in Minnesota where initial investors built as cheaply as possible and passed on equipment that too often broke down or was of substandard quality. To succeed, ownership transfer corporations would need to be controlled by the tribe from the start, which would take careful design of governance and management incentives.

Range of applications:

- **Native ownership:** The most powerful recent example of tribal ownership is *NativeEnergy*, a company that leverages demand for carbon offsets to bring funding to new Native American, family farm, and community-owned renewable energy projects. The company, which became majority Indian-owned in 2005, is moving forward with plans for a distributed wind project on eight different reservations.⁷⁴
- **Ownership transfer corporation:** This is a model that has been used in infrastructure projects around the world, where governments invite private investors to build infrastructure projects such as power stations, toll roads, canals, and tunnels. Private owners are given sufficient time to recover their investment with an attractive return, after which ownership reverts to the government or becomes a public good. Such a design might be used, for example, to develop wind energy installations, allowing investors to benefit from tax incentives, with ownership reverting over time to a tribe. Purchase by the tribe would not be required; rather, the mechanism could be the issuance of dual-class shares — investor shares and stakeholder shares — with investor shares being allocated initial, time-limited rights, and with ownership transferring over time to those holding stakeholder shares.⁷⁵

Governance: In the case of tribal ownership, governance may be shaping up to be as important as ownership. The 2005 Energy Policy Act gives incentives to energy companies to partner with Indian tribes in developing tribal resources, but it also rolls back environmental and historic preservation protections on those developments.



THE ROSEBUD TRIBE'S WIND PROJECT

Indian reservations are among the windiest places in the U.S., but tribes are still struggling to develop the tribal infrastructure needed to manage the growth of wind energy. The foundational success story is the 750-kilowatt turbine built by the Rosebud Sioux in South Dakota in 2003. Owned and managed by the Rosebud Tribal Authority, the project is the prototype for a larger 30-megawatt project also planned for the reservation. The initial turbine was built in partnership with *NativeEnergy*, a company that became majority Indian-owned in 2005.

Nationally, the Intertribal Council on Utility Policy, which owns the majority stake in *NativeEnergy*, is working with tribal leaders to bring more wind power to Indian reservations. And Honor the Earth, a Native American foundation, is helping to train Native youth in solar and wind generation.

Whether new opportunities truly benefit tribes will depend to a large extent on both tribal ownership, and on ongoing tribal governance in the community interest.

Expertise required: Tribal energy development requires technical assistance with energy, business development, and the design of ownership and governance.

Sources of assistance:

- **Coquille Economic Development Corporation** in North Bend, Ore., is the parent corporation for all Coquille Tribal businesses (hospitality, gaming, health care, agriculture, and broadband) and acts as a business incubator; www.cedco.net.
- **Corporation 20/20** at Tellus Institute in Boston can offer technical assistance in implementing ownership transfer corporation designs; www.corporation2020.org.
- **Great Neighborhoods! Development Corp.** in Minneapolis — formerly the American Indian Neighborhood Development Center — has expertise in working with native communities on business development; www.gndc.org.
- **Honor the Earth** is a Native American foundation in Minneapolis funding Native groups and partnering with them to catalyze a green future; www.honorearth.org.
- **NativeEnergy** in South Burlington, Vt., is a tribally owned enterprise that is a potential source of funding for renewable energy projects: www.nativeenergy.com.
- **Windustry** is a nonprofit organization providing technical assistance for rural landowners interested in wind energy; www.windustry.org.

7. COMMUNITY COVENANTS AND EASEMENTS

Definition: A community covenant or easement is a binding contract stipulating that development rights will be held in perpetuity by a community institution, while property ownership will remain in individual hands.

Community covenants and easements are ways to create perpetual Triple Bottom Line protection of land and other forms of property. They are legal devices that create shared ownership by separating ownership into a part held by the community and a part held by individuals. Individuals retain private ownership of land, but sell or donate a portion of their ownership rights — generally, development rights — to the state or a public interest organization, agreeing that development shall not occur on that land. This arrangement locks in subsidies so the property remains affordable and locally owned in perpetuity.

Strengths and weaknesses: The strength of easements and covenants is that they provide protection for land that is contractually binding in perpetuity. Covenants and easements attach to the property deed and go with it when the property is sold. These instruments can also involve financial or tax benefits.

The potential weaknesses of these instruments can be seen with the experience of agricultural easements, which are designed to prevent development and can require the continued use of land for farming purposes. In a 2006 study, the American Farmland Trust found that these easements had protected 1.1 million acres, which in most cases continued to be farmed despite purchases by non-farmers. But these easements failed to economically help farming communities in many cases, as farm

supply outlets and processing facilities continued their long decline. In addition, the study found that most programs were unprepared for the long-term job of governing holdings and responding to problems with non-compliance.⁷⁶

Range of applications:

- **Conservation easements, individual:** The owner of the *Canadian River Cattle Ranch*, on the New Mexico/Texas border, donated a conservation easement covering 29 miles of Canadian River frontage and thousands of acres of native prairie. The easement, managed by the Parks and Wildlife Foundation, ensures the land will never be subdivided or developed.⁷⁷
- **Conservation easements, multi-unit:** To help preserve rural identity and a sense of place, the town of Flower Mound, Texas, has created a conservation-oriented residential development called *Chimney Rock*. The development consists of 48 one-acre single-family lots, with 49 acres of preserved open space. The purpose of the conservation easement — to which homeowners have agreed — is the protection of a scenic vista designated by the town, which affords a view of the forested shores of Grapevine Lake.⁷⁸
- **Agricultural easements:** The township of *Dunn, Wisc.*, operates one of the few agricultural easement programs in the Midwest. It was established in 1996, with voter approval of a 50 cent property tax for funding. This funding source covers about half the cost of expenditures.⁷⁹
- **Working waterfront covenants:** Of Maine's 5,300-mile coastline, only 20 miles of working waterfront remains. To help coastal waterfront property owners involved in commercial fishing hold onto their properties — and not be induced to sell by high prices — *Coastal Enterprises Inc.* in Portland, Me., has developed the unique working waterfront covenant. In this model, the state provides funds to purchase development rights, executing a covenant with the property owner that protects fishing activities and prohibits conflicting activities such as condos or marinas. The property owner retains the right to sell or lease, and the covenant does allow for some degree of mixed use. The state retains a right of first refusal to purchase the property.⁸⁰
- **Forest covenants:** In Monkton, Vt., a first-of-its kind experiment is underway at the *Little Hogback Community Forest*, involving two kinds of covenants: a conservation easement prohibiting development, and a new tool that can be termed an “affordability covenant,” which further reduces the price that purchasers must pay. The aim is to value the property at “forest value,” meaning its value for small-scale timber harvesting (not clear-cutting) and other uses such as recreation. The affordability covenant is designed to make the forestland affordable in perpetuity for community residents. The private owners are the 16 residents who have become shareholders of a single parcel of land, at a cost of \$3,000 per share. They are shareholders in Little Hogback Community Forest, a limited liability corporation, managed by the nonprofit Vermont Family Forests. The Vermont Land Trust holds the conservation easement.⁸¹

Governance: In general, appropriate governance means some community entity must be designated or created — with necessary funding streams — that has the capability to enforce provisions of covenants and easements over the long term. With

Some community entity must be designated to enforce provisions of covenants and easements over the long term.

working waterfront covenants, for example, the covenants are held by the Maine Department of Marine Resources. The covenant document requires annual reports and periodic site visits. Another governance consideration is “exit”: how can landowners sell their portion of the property while keeping the covenant in force. This is accomplished by the oversight group retaining the “right of first refusal,” to ensure that the land or forest will be valued at its working value and thus remain affordable to the next purchaser, who would buy with the intent of continuing commercial fishing or small-scale timber harvesting.

Community wealth assets: By removing the potential for development, covenants and easements allow *natural capital* assets to be valued at their living value, their value as forests, prairies, waterfronts, or farms. Community covenants are themselves forms of *intellectual capital*, as they are intellectual tools adaptable for many uses. They allow for the flow of *financial capital* — as in the sale of a home or waterfront property — while keeping financial gains within appropriate bounds.

Expertise required:

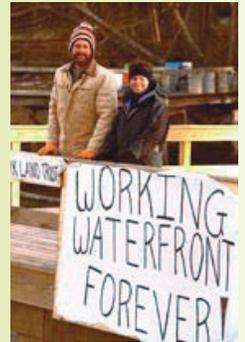
- **Working waterfront covenants:** Hugh Cowperthwaite, Fisheries Project Director with CEI, says a project will require a business plan, clear title, baseline documentation, and Phase I Environmental Site Assessment of the property. Advisers required are a certified commercial appraiser, land surveyor, and legal counsel. He said it typically takes three to four months to complete an application, and six months or more after that before approval.
- **Forest covenants:** The institutional capacity to buy and hold a parcel of land until the community pieces are put together is a first requirement. The transaction will require a survey, a forest management plan, an appraisal at market value and at forest value, legal counsel, and community organizing. There must be a nonprofit entity to hold rights in land without having to pay taxes, and to sell land subject to easements. Also required is the individual or institutional capacity to facilitate the organizational and subscription process for shareholders.
- **Conservation easements:** Among the critical requirements are access to legal expertise, tax guidance, and an institution with the ability to manage easements over the long term.

Sources of assistance:

- **Coastal Enterprises Inc.** in Portland, Me., assists applicants in preparing a working waterfront covenant application; www.wvapp.org or www.ceimaine.org.
- **Equity Trust** in Turners Falls, Mass., is a small national nonprofit offering technical assistance in land tenure counseling and land stewardship services; www.equitytrust.org.
- **The Nature Conservancy**, which has been using conservation easements for more than 40 years, now holds 3.2 million acres under easement and operates a revolving fund; www.nature.org.
- **The Trust for Public Land** offers a database of community-based forestry initiatives and is the definitive source of information about land conservation, including a list of support organizations; www.ConservationAlmanac.org.
- **Vermont Family Forests** served as the incubator for the development of the Little Hogback Community Forest, a concept created by Deb Brighton;⁸² it tells the story on its website; <http://www.familyforests.org/research/comm-equity.shtml>.

THE SEWALLS BRIDGE DOCK PROJECT: WORKING WATERFRONT COVENANT

In York Harbor, Maine, a small group of committed citizens came together to preserve one of the area’s oldest fishing piers. York Harbor is home to 30 lobstermen and other fishing vessels but has limited commercial dock



space. In 2003, two local fishermen bought the Sewalls Bridge Dock, working with the York Land Trust to purchase and hold an easement that restricts use of the property to commercial fishing. By dividing off a portion of property rights in this way, the dock became more affordable for the fishermen. Also, vital commercial access to the waterfront was preserved in perpetuity.

Coastal Enterprises Inc. (CEI) played a role in the project and has since shaped the concept into a model it is applying throughout the state. CEI worked to have a state program established, which is now in its third year of employing \$5 million, using state-allocated bond funds. Funding has been approved for 14 projects, involving single owners, joint partners, and fishing cooperatives. CEI is under contract to manage the project and works with two state agencies.

- **Vermont Land Trust** holds the conservation easement on Little Hogback and has expressed interest in replicating the model; www.VL.org.

8. MISSION-CONTROLLED OWNERSHIP

Definition: *Mission-controlled enterprises design social mission protection into their legal frameworks, with the aim of aligning investor expectations and ensuring social mission remains intact through time.*

There is a little-appreciated but powerful, emerging class of shared ownership models that are designed to keep control in mission-oriented hands over time and align investor expectations. These can be termed mission-controlled ownership architectures.

Range of applications:

Dual-class share structures are one class of these. By keeping control of a special class of super-voting shares — placed in the hands of a family, a trust, a foundation, or a nonprofit — an enterprise can guarantee that social mission remains in place, even as outside investors acquire a majority of ownership shares.

There are potential uses for such models in rural areas. But the most visible examples are often found among large corporations whose shares are publicly traded. *Interface Inc.* is one example. This Fortune 1000 flooring company, with revenues of over \$1 billion, is well on its way to achieving its ambitious pledge of achieving “Mission Zero by 2020” — a goal of having zero negative impact on the environment by the year 2020. What allows it to focus on this long-range environmental mission is its dual-class governance structure, which keeps super-voting shares in the hands of Chairman Ray Anderson and a few other executives. These special shares give them control of 72 percent of votes for the board, although they own far less than a majority of publicly traded shares. Super-voting shares are generally unavailable to the public, trading hands under carefully controlled terms.

Other dual-class share models include:

- **Family control:** The *New York Times Co.*, with its mission of serving an informed electorate, is controlled by the Ochs-Sulzberger family.
- **Foundation control:** *Novo Nordisk A/S*, a Danish pharmaceutical company with a mission of defeating diabetes, is controlled by a foundation.
- **Trust control:** *Grupo Nueva SA*, headquartered in Chile, with a mission of contributing to a sustainable Latin America, is controlled by the VIVA Trust (VIVA stands for Vision and Values).⁸³

When nonprofit rural community development agencies help create businesses but do not wish to own those businesses themselves, they could use such designs to ensure that the community mission of an enterprise remains intact over time. Dual-class shares could allow majority ownership of a business to change hands over time, while the mission of staying local could remain intact, if control were vested in a community body. As with conservation easements, the body holding control could vary. It could be the development agency, a foundation, a trust, or any community group.⁸⁴

Dual-class shares might also be used in a case where a family would like to sell a business but ensure it stays local and practices environmental stewardship. In some cases, families have established foundations to hold dual-class shares, while majority ownership in a business is sold to another party. This only works in a situation where a company is desirable enough for a buyer to accept restrictions, or where the buyer shares the same values.

B Corporations — with the “B” standing for “beneficial” — represent another class of mission-controlled architecture. Developed in 2006 by the nonprofit B Lab, the B Corporation template requires two things of companies. First, they must adopt a bylaw provision stating that directors will consider the welfare of stakeholders such as employees, customers, the community, and the environment, as well as the financial interest of shareholders. Second, companies must receive a passing grade on a scorecard of social and environmental practices. Over time, B Lab aims to develop a marketing visibility for the B Corporation certification that will attract customers, creating a competitive advantage for such firms.

L3C Corporations, low-profit, limited liability companies, or L3Cs, are a hybrid of a nonprofit and for-profit organization. This new type of company charter was first enacted through legislation in 2008 in Vermont. Other states are rapidly adopting it, with enactment in 2009 in Maine, Utah, Michigan, and Wyoming. Other states pursuing legislation include Arkansas, Georgia, Illinois, Louisiana, Michigan, Missouri, Montana, and North Carolina. The L3C is designed to attract both private capital and philanthropic capital for enterprises delivering a social benefit. An L3C is designed to have a primary charitable mission with a secondary profit concern. But unlike a charity, it can distribute profits, after taxes, to owners or investors. State L3C legislation has national applicability, since companies chartered in one state can operate in other states.⁸⁵

A potential rural use is in North Carolina, where the furniture industry has been hard hit. In an initiative led by Robert Lang of the Mary Elizabeth and Gordon B. Manweiler Foundation — and including Ashoka, the Council on Foundations, and the Kauffman Foundation — there is a plan to create L3Cs that would be owned by foundations and other investors. These companies would be used to buy factories, upgrade them for sustainability, and lease them at low cost to furniture manufacturers, as a way to preserve jobs.⁸⁶

Strengths and weaknesses:

- **Dual-class share structures:** These designs ensure that mission is not for sale. They allow a minority group to maintain control over the purpose and major decisions of an enterprise — such as a decision to sell or relocate — even as other parties own a majority of shares. The weakness of such designs is that they are not well known and hence can lack legitimacy, acceptance, and technical support.
- **B corporations:** The strengths of this concept lie in its marketing potential, as well as the stream of revenue that B Lab enjoys from licensing the B designation. Some 200 companies have so far signed on. A potential weakness lies in potential legal challenges under state laws governing directors’ duties, although such challenges seem unlikely. A second potential weakness lies in the lack of voting

Low-profit, limited liability companies – L3Cs – are a hybrid of a nonprofit and for-profit organization. They can attract both private capital and donations, but unlike a charity they can distribute profits to investors.

and governing control mechanisms. This means that when a company is sold, B Corporation language could easily be amended or eliminated.

- **L3C corporations:** The strength of the L3C design is its ability to attract Program Related Investments (PRIs) from foundations, bringing new sources of investment to bear on social problems. L3Cs can have different classes of investors—such as individuals, government agencies, nonprofits, and for-profits—with foundations taking the most risk. A potential weakness is that PRIs are only used by 5 percent of foundations.

Governance: Legal provisions — such as dual-class shares, B corporation language, or L3C designation — are not in themselves sufficient to create effective mission control. An enterprise should also have a clearly defined mission or purpose. It should keep that mission alive with training, celebrations, or other cultural practices. And performance against mission should be monitored over time in formal ways, such as through annual reports. Novo Nordisk, for example, has adopted an ambitious charter spelling out the company’s values and commitments. And each year the company must report to the controlling foundation board on how it is ensuring that operations serve a Triple Bottom Line. The foundation board includes an electrician, scientists, a physician, and a lab technician, so many points of view are represented.

Sources of expertise:

- **Americans for Community Development** was formed to turn the L3C into a major force in philanthropy; the organization was created by Robert Lang of the Mannweiler Foundation and is run by L3C Advisors, which offers technical assistance in organizing and financing L3Cs; www.americansforcommunitydevelopment.org.
- **B Lab** offers a variety of support services for companies at www.bcorporation.net.
- **The Corporation 20/20** project at Tellus Institute in Boston has expertise in alternative ownership designs and can offer technical support; www.corporation2020.org.

Part V — Community Influence Over Wealth Flows

This section looks at models for community wealth control that don’t involve ownership. Instead, these models are tools for shaping the flow of wealth in other ways that create enduring local benefit. Models examined here are community fees and taxes, community endowments, community benefits agreements, and community currencies.

1. COMMUNITY FEES AND TAXES

Definition: *Special fees or taxes levied by cities and states, outside general funds, which can be earmarked to create community wealth assets.*

Special fees and taxes may be poised for greater use, given the convergence of two trends: the crisis in government budgets due to the economic downturn, and the rising value of natural capital. These trends create a confluence of necessity and opportunity.

Range of applications:

- **Depletion taxes:** Taxes on the depletion of non-renewable resources — such as oil, natural gas, coal, and precious metals — are levied by 38 states. In a 2008 report, the Institute for Local Self-Reliance (ILSR) called for these to be raised. It noted that mineral and energy prices have been soaring, at the same time that technological developments have made greater extraction possible. By raising or adding depletion taxes, states can ensure that the public benefits from the extraction of remaining natural resources. For example, if North Dakota imposed a depletion tax similar to Montana’s (also known as a “severance tax”), the ILSR report estimated it would generate enough additional annual revenue to replace nearly all other taxes the state collects.⁸⁷
- **Real estate transfer taxes:** Levied by states, counties, or municipalities, these taxes are generally a percent of real estate value and are paid every time a property is sold. They can be earmarked for special trust funds to create affordable housing or preserve land for conservation, as they are on Martha’s Vineyard in Massachusetts. There, a 2 percent surcharge on real estate sales goes to fund a Land Bank, which in 2008 took in close to \$10 million.⁸⁸ In Illinois, a housing trust fund — funded by a real estate transfer tax — has brought in some \$100 million since its creation in 1989.⁸⁹
- **Impact fees:** Also called “developer exactions,” these are payments required of developers, to ensure that new developments pay a fair share of the public costs they generate. The fees are used for projects such as schools, parks, and maintenance of public infrastructure. By the mid-1980s, 90 percent of localities had begun to impose developer exactions. Rural uses could include impact fees levied on coal mining or other resource extraction industries.⁹⁰
- **Feed-in tariffs:** Under these arrangements, the government or a public utility commission sets the price for renewable electricity at a rate high enough to ensure such projects can attract investment. The price can be varied to achieve community goals. For example, rooftop solar power might be priced higher than concentrated solar power. This is an approach to renewable energy development that offers an alternative to tax credits. It has proven remarkably successful in Germany, where renewable energy satisfies 15 percent of the nation’s electricity needs, and half of renewable energy plants are locally owned. German producers can attract financing on favorable terms because their electricity contracts are guaranteed. Feed-in tariffs have also been adopted in Ontario, Canada, and in Gainesville, Fla.⁹¹
- **Systems benefits charges:** Also known as “public benefit funds,” system benefits charges are fees placed on electricity bills that many states use to support renewable energy, energy efficiency, low-income customer support, and other programs. Community development agencies might consider trying to tap these funds.⁹²
- **Value recapture taxes:** These are one-time “windfall taxes” levied on land or housing where price increases have flowed from actions by government. This might include cases where land is brought into a city’s boundary, for example, or when public streets or sewers are extended. The idea is to recapture some of the private value created by public action.⁹³ Such funds can be earmarked for affordable housing or natural resource protection.

On Martha’s Vineyard in Massachusetts, a 2 percent surcharge on real estate sales goes to a Land Bank, where funds are used to buy land for conservation and affordable housing.

Sources of assistance:

- **Institute for Local Self-Reliance** offers technical assistance and information on environmentally sound community development strategies; www.ILSR.org.
- **PolicyLink** spotlights promising practices and supports advocacy campaigns; it offers on-line resources on developer exactions, real estate transfer taxes, and other tools to build community equity in its Equitable Development Toolkit; www.policylink.org.

2. COMMUNITY ENDOWMENTS

Definition: A community endowment is an enduring stock of assets dedicated to use in the community interest.

In systems language, one can think of community taxes and fees as “flows” of community wealth, while community endowments are “stocks” of community wealth. These endowments are ways to bring resources not previously owned by a community into enduring use by the community.

Range of applications:

- **Land banks:** These are public authorities that can efficiently acquire, hold, and develop tax-foreclosed properties with the long-term interests of the community in mind. Frank S. Alexander of Emory Law School, an expert in the field, says Michigan’s land bank legislation is the best in the nation. The Genesee County Land Bank in Michigan, for example, recaptures 50 percent of property tax revenues for the first five years after transfer of property to a private party.⁹⁴ When a rural community finds a land owner seriously delinquent on taxes, land might be taken for conversion into a community forest.
- **Community foundations:** In cash-poor, land-rich Nebraska, Jeff Yost of the Nebraska Community Foundation has identified a powerful asset that can be tapped to build community wealth. That asset is the transfer of wealth. In the first half of this century, \$94 billion is expected to transfer in rural Nebraska alone. The foundation is asking its 20 affiliated funds to build permanent, unrestricted community endowments equal to 5 percent of the project 10-year transfer of wealth. It coaches community leaders to send the message, “when you plan for the future, consider your hometown as another child!”⁹⁵
- **Community forests:** In developing countries, community forests on public lands have been successfully used to engage local residents in management and stewardship activities. The Conservation Fund is taking this approach on land in North Carolina adjacent to a Department of Defense installation, being used to create the state’s first community forest. In addition to protecting forestland and improving water quality, the initiative will restore habitat for the endangered red-cockaded woodpecker and involve sustainable timber harvesting and bee propagation.⁹⁶

Sources of assistance:

- **The Conservation Fund** has a Resourceful Communities Program in Chapel Hill, N.C. that is setting up the community forest there; www.resourcefulcommunities.org.



North Carolina’s first community forest being established on 532 acres in Hoke County will help restore habitat for the endangered red-cockaded woodpecker.

- **Frank S. Alexander**, Emory Law School in Atlanta, is the author of *Land Bank Authorities: A Guide for the Creation and Operation of Local Land Banks*, published by Local Initiatives Support Corporation; www.lisc.org/resources; email Alexander at lawfsa@law.emory.edu.
- **Nebraska Community Foundation** offers trainings and conferences on innovative rural philanthropy; <http://www.nebcommfound.org/>.

3. COMMUNITY BENEFITS AGREEMENTS

Definition: *A community benefits agreement is a legally enforceable contract between community groups and a developer, detailing benefits the developer agrees to provide the community.*

After finding a good deal of success in California, community benefits agreements (CBAs) are now being negotiated by community groups across the nation, to ensure that communities benefit as development proceeds. Generally, a CBA is created in a three-way negotiation, involving a community group, the developer, and the government. The community group is the initiator, and government licensing or permitting procedures create the leverage to bring the developer to the table. Negotiations are aimed at creating an enforceable contract — often written into a development agreement with the city — requiring the developer to invest in a package of community benefits. And in return for such agreements, community groups agree to support the developer’s application for license. CBA’s often include living wage jobs, local hiring, affordable housing, parks, environmental benefits, and other provisions.

The Los Angeles Alliance for a New Economy (LAANE) has been the leader in creating these agreements. Today, the Partnership for Working Families is working to roll out the strategy nationwide. Thus far it has established a partnership base of 18 organizations in cities ranging from Boston and Hartford, Ct., to Milwaukee, Phoenix, Denver, and Ventura, Calif. CBA coalitions are also in formation in a dozen other communities.

Though CBAs have not yet been widely used in rural areas, they may serve as a way to create binding agreements with coal mining companies or other extraction industries, in cases where new state or local permits are being sought.

Range of applications:

- **Urban uses:** The *Los Angeles Alliance for a New Economy* has negotiated impressive CBAs in relation to the Los Angeles Sports and Entertainment District (a \$1 billion complex), the Los Angeles International Airport, and other projects. In L.A. and other cities, community benefits have included investments in a community fund, set-aside space for locally owned small businesses, labor neutrality agreements, job training programs, and housing assistance.⁹⁷
- **Rural uses:** A CBA was successfully negotiated with the 2005 expansion of the *Comanche Power Plant* in Pueblo, Colo., a city that is not rural but is 50 percent Latino and has slow growth and high unemployment. The setting for the negotiation was a Public Utility Commission hearing where a variety of community groups made their case to Xcel Energy. Benefits negotiated included emissions

A community benefits agreement is an enforceable contract requiring a developer to invest in living wage jobs, parks, affordable housing, and other benefits.

reductions, investments in energy conservation and renewable energy, and funding to lower pollution from school buses. Efforts have also been made to attach CBAs to the reuse of closed military installations.

Sources of assistance:

- **Los Angeles Alliance for a New Economy** has led the work of creating CBAs; www.laane.org.
- **Partnership for Working Families** has a Community Benefits Law Center providing legal assistance to communities; www.communitybenefits.org.

4. COMMUNITY CURRENCIES

Definition: A community currency is a currency backed by a local organization, not linked to the government, which is intended to promote trade in a local region.

Among the first uses of community or local currencies were company scrip used to pay workers, while the oldest local currencies known to be still in use today are the WIR in Switzerland and the Labor Banks of Japan. Since 2002 in the U.S., community currencies have seen an upsurge of use, as a way to increase the resilience of local economies by encouraging local purchasing.

Strengths and weaknesses: Jane Jacobs — author of *The Death and Life of Great American Cities* — argued that local currencies can be a way for depressed regions to pull themselves up, by giving people a medium of exchange for trading locally produced goods and bartering services. When exchanges are done using local currencies, more of the benefit stays local from a given level of economic activity. These currencies can be a creative way to release untapped social potential. Their weaknesses can include lack of use, lack of understanding, and expense in getting started.

Range of applications:

- **Currencies not convertible to dollars:** The *Ithaca HOUR* is a currency in use in Ithaca, N.Y., since 1991. Valued at \$10, one HOUR is recommended as payment for one hour's work, though wages are negotiable. HOURS are not freely convertible to dollars, although some businesses do agree to buy them. Several million dollars' value of HOURS have been traded, among thousands of residents and over 500 businesses. Their function is to promote local economic development, since they can only be spent on local goods and services.
- **Currencies convertible to dollars:** In 2006, *BerkShares* were launched in Great Barrington, Mass., by the E.F. Schumacher Society. The shares are placed in circulation when citizens exchange \$95 for 100 BerkShares at participating banks, which means users of the currency can shop locally at a discount of 5 percent. Thus far, over 2 million BerkShares have circulated in the Berkshire economy. The experiment has drawn national media coverage in *Time* and *Newsweek*, and a reported three calls a day are coming in from other communities interested in creating local currencies.
- **Time banks:** Time banks encourage people of all ages to “deposit” their time through helping others and get that time back when they need help themselves. Time banks — sometimes called Time Dollars, or LETS — offer participants

In Great Barrington, Mass., citizens pay \$95 for 100 BerkShares, allowing them to use this community currency to shop locally at a discount of 5 percent.

service credits based on time donated, thus encouraging relationship building and reciprocity. Some theorize that these programs tap into a different spectrum of motivation — the desire to be needed and to help — that is ignored by market mechanisms. Several states, including Missouri and Michigan, have enacted legislation in support of time banks.⁹⁸

Sources of expertise:

- **Cyclos** is open source currency accounting software; <http://project.cyclos.org>.
- **E.F. Schumacher Society** spent \$250,000 on research and development to create BerkShares and has made that research available free online; it also maintains a comprehensive website of resources; http://www.smallisbeautiful.org/local_currencies.html
- **Targeted Currencies** is a Boulder, Colo., consulting business designing currencies for communities and businesses; www.targetedcurrencies.net.

FOOTNOTES

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