

# SHELTERFORCE

## Green Jobs with Roots

*For the founders of Cleveland's Evergreen Co-ops, putting a handful of people to work at minimum wage isn't worth it. They are aiming at nothing less than ground up economic transformation – one owned by the very people it's intended to help.*

October 17, 2010 By Miriam Axel-Lute

In a couple years, residents of some of the poorest neighborhoods in Cleveland will be the collective owners of the largest collection of solar panels in the state of Ohio. Next door, sixty locations on the Cleveland Clinic's campus will be serving salads made from locally grown lettuce year-round—where local means not “a farm closer than California,” but a greenhouse staffed and owned by neighborhood residents on a former brownfield mere miles away.

A few years after that, laundry workers in those same neighborhoods will have not only living wage jobs but equity ownership accounts in a green business worth tens of thousands of dollars each.

These are heady things to contemplate for the six neighborhoods surrounding Cleveland's University Circle, where the current median income is \$18,500, unemployment is at least 30 percent (and underemployment another 20 percent), and foreclosure rates are among the worse in the city.

But the Evergreen Cooperative Initiative, which launched Ohio Cooperative Solar and Evergreen Cooperative Laundry in the past year and expects the Green City Growers greenhouse to be operational by 2011, is no pipe dream. Though its ambitions for economic transformation are high, so are its standards for practicality.



### The Cleveland Model

Evergreen was launched in 2007 by a working group convened by the Cleveland Foundation and including the Cleveland Clinic, University Hospitals, Case Western Reserve University, and the city of Cleveland. The heart of the Evergreen strategy is the marriage of for-profit worker-owned cooperatives and local procurement.

As part of the formerly industrialized Midwest, Cleveland knows only too well that one of the problems with creating jobs is that sometimes they leave again—outsourced overseas or tempted away by subsidies offered by other desperate regions. Evergreen's worker-owned cooperatives model sidesteps these issues. Worker-owners are unlikely to vote to offshore their own jobs. Plus, without money being siphoned off to corporate overhead or a profit-minded entrepreneur, cooperatives are in a better position to pay living wages and still be competitive.

The local procurement angle means that the co-op's customers are likely to stay put as well. Rather than launching businesses based on workforce skill sets or entrepreneurial ideas, the Evergreen working group started by looking at the \$3 billion per year that the 40 some University Circle anchor institutions already spend on goods and services and asking what parts of that spending they could redirect locally.

They hired Ted Howard of the Democracy Collaborative to do an inventory. From the results, he created a matrix of 30 potential services for which there was high demand among multiple anchor institutions that might reasonably be served through a local cooperative.

Because Evergreen's founders were interested in long-term transformative effect, they picked from this list based on whether the business could:

- employ at least 50 people, at at least \$10.50/hour plus healthcare;
- be competitive, not rely on only one customer, and not displace existing jobs;
- be in a growing sector where they can stand out by creating the most sustainable business in that sector in Northeast Ohio; and
- be profitable enough for worker-owners to accumulate \$65,000 in their equity accounts in six to seven years while returning some profits to a collective fund for use in starting new cooperatives.

And they would have to do this while hiring only from within the targeted neighborhoods.

### Looked at through these lenses, three business ideas floated to the top:

The first was laundry. Even a single hospital needs 15 million pounds of laundry washed per year, and there are about 50 hospitals and 250 nursing homes in a 50-mile radius of University Circle. There was huge potential for greening with the introduction of water- and energy-efficient equipment and low-toxicity cleaners. And the timing was right as well: Some of the institutions have been working with a vendor that is closing. Many nursing homes have been doing laundry in house but are looking to outsource because their equipment is aging and they want the space to expand. The VA hospital has been driving its laundry 30 miles roundtrip to another VA with an in-house laundry, but that facility is scheduled to close.

Evergreen Cooperative Laundry, which launched in October 2009, is the greenest commercial scale laundry in Ohio, and expects to employ 50 people. The first groups of workers made it through their trial period and became full worker-owners in Summer 2010, and they are on track to be turning a profit by Fall 2010 as planned.

Ohio Cooperative Solar (OCS) was actually the idea of some of the institutions, who came to the Evergreen planners and said they were worried about energy costs and eager to deploy solar on their rooftops as part of their greening efforts. The problem was, as nonprofit institutions, they couldn't benefit from federal tax credits for solar installation, and so couldn't quite make the investment pencil out. OCS is the solution: OCS installs, owns, and maintains the panels, gets the tax credits, and sells the energy to the institutions. To avoid seasonal unemployment, in the winter OCS does weatherization.

At the moment OCS is doing most of the installation work, calling in master electricians for the final hookups, but all the workers are in training to be certified to do the entire installation. OCS's first installation on the Cleveland Clinic is meeting all expectations and the clinic is eagerly waiting in line for a second. OCS has already revised its employment projections from 50 to 75.

Local food is a sexy topic these days—but it often involves farmer's markets or home-based specialty food businesses, which don't fit Evergreen's models. Instead, Green City Growers is building the largest urban greenhouse in the country. The five-acre greenhouse, on a former brownfield near good public transit, will grow lettuce and herbs year-round, incorporating numerous innovative energy-efficiency measures, such as a wind turbine, double insulating curtains, and LED lighting. They have been told by the institutions and distributors that they will be able to sell as much as they can grow. They hope to break ground in Fall 2010.

## Selling the Model

Making something as unusual as the Evergreen model happen requires helping people understand the idea, having them believe it's possible, and getting them excited about it.

When Howard started his inventory, he would ask procurement officials about their local purchasing. "They would say 'we do a great deal' ... but they meant Northeast Ohio," he recalls. "Sometimes they meant from the city, but never from the neighborhoods. When I said 'I mean locally, like right across the street,' it was like I'd asked them if they purchased from Mars."

Luckily, even though the idea of local procurement was new to them, the University Circle leaders already understood that it was in their self-interest to help their surrounding neighborhoods. That groundwork had been laid a few years before, when the Cleveland Foundation convened the CEOs of the key anchor institutions to discuss ways the neighborhoods could benefit from the current building boom in the Circle. By working together on projects like employer-assisted housing and joint transportation improvements, they built trust, gained experience, and established a philosophical common ground. This made them receptive to the Evergreen model, despite its departures from more standard economic development approaches.

Howard also led two study trips to Mondragon, Spain, home to the famous Mondragon Cooperatives, which Evergreen hopes to emulate. Mondragon was started by a priest in 1956 in the Basque region. What began as a single cooperative selling paraffin heaters has become a network of 100 cooperatives, employing 100,000 worker-owners (Spain's seventh largest employer), bringing in \$24 billion in revenues in 2007, and transforming a ravaged post-war area into a thriving community.

Taking trips abroad may seem a bit excessive as part of a plan to revitalize a corner of poor urban America, but those who went said the trips were crucial for building a close-knit cadre of leaders in Cleveland who really believe in the potential of large-scale cooperative ownership. "You've got to have a real champion inside these institutions," says Stephen Kiel, the current president of OCS. "The rest of this stuff is business development 101. But the magic here is that collaboration."

Having the core institutions at the table from the beginning, for example, made a huge difference in helping them feel bought in says Oliver "Pudge" Henkel, government-relations officer for the Cleveland Clinic. Henkel also credits the industry and business expertise of people like Kiel and Mary Donnell, project leader for the launch of Green City Growers, who were hired to prepare business plans and navigate the financing process, for generating confidence among the purchasers.

Once the potential customers were on board, the next sell was to sources of financing. Not surprisingly, this was harder.

The Evergreen Coops are for-profit businesses. The only long-term subsidy they have is in the form of patient capital and belowmarket rate loans. But they are capital intensive, requiring millions of dollars worth of equipment/construction and intensive training to start up. And even in the best economic times, banks are hesitant to fund startups. Throw in the coops' location

and targeted hiring commitments, the unfamiliar cooperative structure, and the unprecedented green processes, and, says Howard, most loan officers looked at them as if they were completely crazy.

The initial contribution of the Cleveland Foundation was essential for opening doors. Rather than making grants directly to the coops, the foundation gave \$3 million to help capitalize the Evergreen Cooperative Loan Fund, which in turn makes no-interest loans to the startup cooperatives. Once the co-ops are turning a profit, they will direct a percentage of that profit back to the fund, which will continue to finance new cooperatives.

This approach was a little different for the Cleveland Foundation, but, says program director Lillian Kuri, "They're not coming back year after year for grants. Is that not a better risk to take? It's a much more sustainable use of precious resources."

The commitment of potential customers also helped with financing—the laundry was able to collect signed contracts or letters of intent that represented a full 50 percent of the volume they would need to break even, which dramatically increased the confidence of lenders. The OCS plans were so solid that that several of the institutions provided direct upfront financing themselves.

Also, the city of Cleveland helped broker access to several different kinds of federal funds: HUD Section 108 loan guarantees (taking 2nd or 3rd position on the loans), New Markets Tax Credits for the laundry (working with U.S. Bank), Department of Energy funds for the solar company, and a HUD Brownfields Economic Development Initiative grant for the greenhouse. The city is also a customer of the solar company.

Financing was still hard, and slow. The one local bank that did provide financing, First Merit, only did so because it knew the foundation would be good for it, says Howard. Shore Bank, a mission-driven investor, was the only other bank to provide direct initial financing. But in the end, the Evergreen working group was able to make the financing for each of the first three co-ops work.

## A Second Chance

For lenders, potential customers, and even for Kiel, a big unknown was the capacity of the very workforce they were committed to helping. Many neighborhoods residents have faced long-term unemployment and involvement with the criminal justice system. With that in mind, Evergreen partnered with Towards Employment, an agency that specializes in working with that population and providing on-site retention services, not just hiring assistance. From among their regular clients, Towards Employment carefully screens Evergreen applicants for the motivation to be part of this different kind of workplace. The Ohio Employee Ownership Center provides specific training in being part of a cooperative.

"The workforce has really responded to the opportunity," Kiel says. "When you give people a second chance and the opportunity to participate—as in a worker-owned business—getting the buy-in makes the job of management much easier. ... Our guys can be really good."

Of course it takes a little time for Evergreen's employees to believe just how different the model is, Kiel notes: "A lot of our workforce has been burnt by unkept promises: going through training programs with no job at the end,

promised a raise that didn't come through, or laid off when company said it was healthy. We've spent a lot of time earning trust and respect."

The Evergreen coops are earning that commitment through small, but important, gestures of support for their workers, such as giving those who are performing well days off to take care of legal matters when needed and supporting letters for the courts, things Jill Rizika, director of Towards Employment, says are often very hard to get from employers and yet can make the difference between staying on the road to stability and getting dragged back into the correctional system.

The coops are working toward turning senior management over to worker-owners from the neighborhoods within two years of launch, and external project leaders are partially recruited for ability to train from within. The process is already rolling: OCS's technical director is a neighborhood resident and the first two laundry hires have already been promoted to replace the externally recruited laundry operations manager. The next venture—a neighborhood newspaper and communications company—is starting with all local managers from the beginning.

## From Cleveland to the Nation

The Evergreen working group is in the process of incorporating as the Evergreen Cooperative Corporation, a holding company for all the coops, governed by a multi-stakeholder board. Howard believes this is the first time in the United States that such a diversified network of worker-owned cooperatives is being put together. They envision a flexible network of dozens of small coops (50 to 75 employees), rather than a few large ones that would make the network more vulnerable to changing market conditions.

To help spread the model, the Democracy Collaborative, which is serving as the policy and replication assistance arm of Evergreen (funded by the Cleveland Foundation), is working with Senator Sherrod Brown's office on a proposal for a 10-year, \$100 billion National Community Wealth Building Initiative.

Even though it's just getting off the ground, queries about the Evergreen model have been pouring in, with cities from Pittsburgh to Atlanta meeting with Howard or filling up busloads of community leaders to visit Cleveland. Evergreen has been the subject of numerous high-level briefings at the federal level and visits by top HUD officials.

Not every struggling U.S. city has University Circle, but most have some concentration of anchor institutions. It's possible that when presented with a model that doesn't require them to make philanthropic outlays, more will be willing to make the leap to supporting their low-income neighbors. If so, and if the model survives the twists and turns of changing economics, Evergreen could set a new standard for sustainable, transformative community economic development.