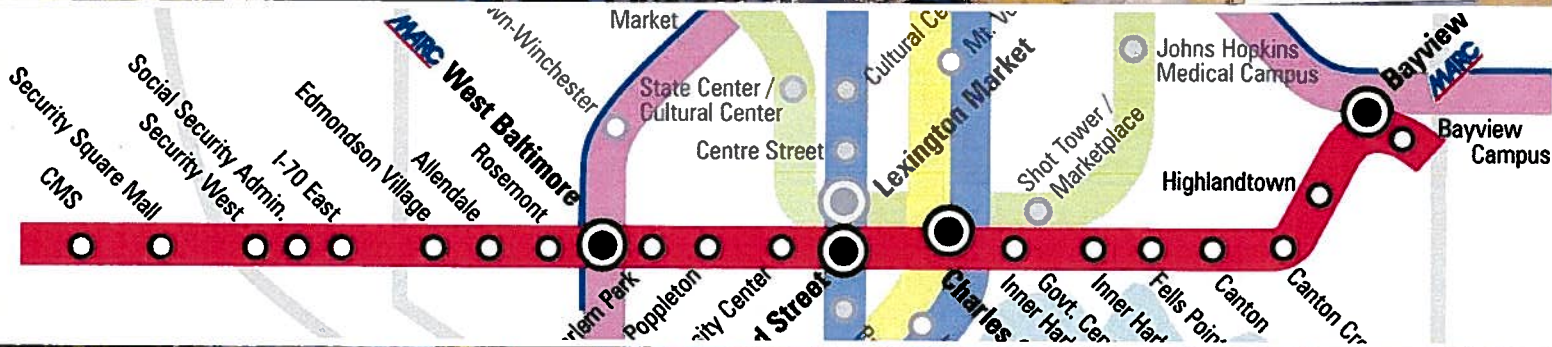
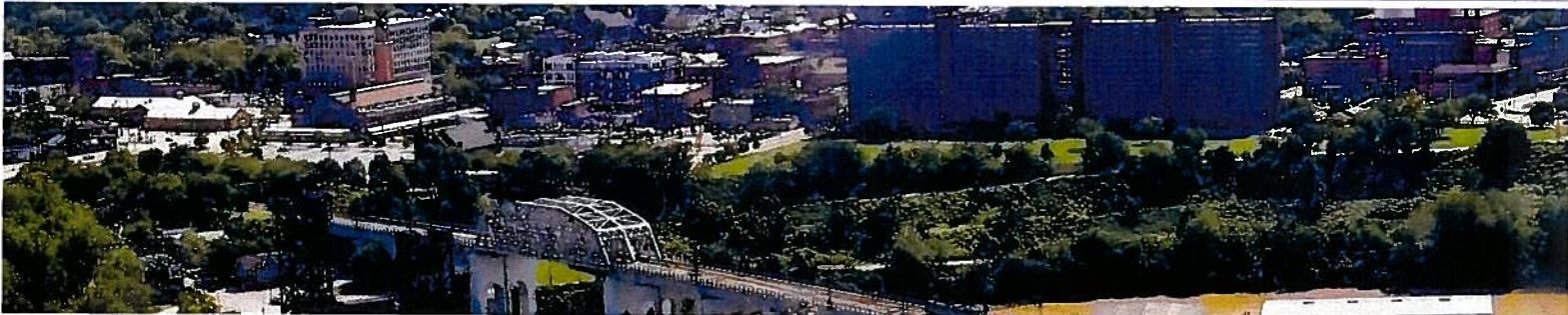




NEIGHBORHOOD FUNDERS GROUP
Grantmakers Supporting Community Change

Special Report



A Sense of Place

Place-Based Grantmaking in Practice

The Evergreen Cooperative Initiative of Cleveland, Ohio

By Ted Howard, Lillian Kuri and India Pierce Lee, The Cleveland Foundation



Introduction

Cleveland's Greater University Circle area is home to some of the city's most important anchor institutions, including the Cleveland Clinic, Case Western Reserve University, the University Hospitals, the Veterans Administration Medical Center and numerous cultural organizations. Together, they employ more than 50,000 people and represent the economic engine of northeast Ohio.

Yet the neighborhoods surrounding these multi-billion dollar institutions are among the most underserved and disadvantaged in the city. Unemployment is high, educational attainment is low and housing is distressed. Retail businesses, service outlets and other amenities are scarce. Relatively few job opportunities exist.

Rather than using a trickle down approach, Evergreen focuses on economic inclusion and building the local economy from the ground up.

In 2005, the Cleveland Foundation catalyzed a partnership of anchor institutions, community-based organizations and civic leaders to form the Greater University Circle Initiative. Over time, the initiative has put together a comprehensive community-building and development strategy designed to transform the area by breaking down barriers between institutions and neighborhoods. The goal of this effort is to stabilize and revitalize Greater University Circle and similar areas of Cleveland.

The Initiative works on a number of fronts: New transportation projects and transit-oriented commercial development are being implemented. An employer-assisted housing program open to all employees of local nonprofits is encouraging people to move back into the neighborhoods. An education transformation plan has been developed in partnership with the city government. Community engagement and outreach efforts are promoting resident involvement.

The most recent strategic development is an economic inclusion program known as the Evergreen Cooperative Initiative. Launched in 2007, the initiative seeks to bring about an economic breakthrough in Cleveland by creating living wage jobs and asset-building opportunities in six low-income neighborhoods in the Greater University Circle area (Glenville, Hough, Fairfax, Buckeye/Shaker, Little Italy and the eastern portion of East Cleveland) with a total population of about 43,000. The Evergreen strategy is designed to leverage the procurement and investment power of local anchors to build a network of cooperatively-owned, community-based businesses that supply goods and services to those institutions.

Rather than using a trickle down approach, Evergreen focuses on economic inclusion and building the local economy from the ground up. Rather than offering public subsidy to induce corporations to bring what are often low-wage jobs into the city, Evergreen supports new businesses that are owned by their employees. Rather than concentrating on workforce training for

employment opportunities that are largely unavailable to low-skill and low-income workers, the Evergreen Cooperative Initiative creates the jobs first, and then recruits and trains local residents to take them.

While drawing on precedents and experience gained in cities around the country, this is the first attempt to harness the economic power of anchor institutions to create widely shared and owned assets and capital in low-income neighborhoods. It is also the first significant effort to create green jobs that not only pay a decent wage and benefits, but also build assets and wealth for employees through ownership mechanisms.

Although still in its early stages, the Evergreen Cooperative Initiative is already drawing substantial support, including multi-million dollar investments from the federal government (particularly HUD) and from major institutions in Cleveland. It is also capturing the attention and interest of officials and philanthropic organizations in a number of other cities – Detroit, Atlanta, Pittsburgh, Baltimore, Newark, N.J., and a number of cities across Ohio – seeking to replicate the “Cleveland model.” Recent positive media coverage has appeared on NPR and in the Economist, Business Week, the Nation and Time. The initiative has been featured on the NBC Nightly News and in an upcoming PBS series called “Fixing the Future.”

There are also important state and federal policy implications and opportunities related to the effort that are being pursued with the Obama administration (in particular with HUD and the White House Office of Urban Affairs) and in Congress (through the office of Ohio Senator Sherrod Brown).

Vision and Broad Goals

The Evergreen Cooperative Initiative seeks to respond to a set of difficult economic questions now facing Cleveland and, indeed, many of America’s other cities:

- How do we create good jobs at a time of growing job dislocation and disinvestment in our urban areas?
- How do we anchor capital, particularly in underserved, low-income neighborhoods, so that it doesn’t get up and leave, as so many corporations have?
- Where do we find financing for job creation at a time of increasingly constrained resources for urban economic development?
- How do we address the lack of economic opportunity that is endemic in many urban neighborhoods, where unemployment is at double-digit levels even in the best of times and where as many as 30 percent of residents live below the poverty line?
- How do we turn the vision and promise of green jobs into real employment opportunities that are available to urban workers today?
- Most important of all, how do we rebuild the economies of our inner cities in a way that stabilizes and revitalizes disinvested neighborhoods?

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The Evergreen Cooperative Initiative is based on a vision of “community wealth building.” Community wealth strategies aim at improving the ability of communities and individuals to increase asset ownership, anchor jobs locally, strengthen the municipal tax base, prevent financial resources from “leaking out” of the area and ensure local economic stability.

The initiative is built on several strategic pillars:

1. Re-directing a portion of the multi-billion dollar annual business expenditures of anchor institutions into the surrounding neighborhoods.
2. Establishing a robust network of Evergreen Cooperative enterprises based on community wealth-building and ownership models designed to service these institutional needs.
3. Building on the growing momentum to create environmentally sustainable energy and “green-collar” jobs (and, concurrently, help local institutions achieve their own environmental goals).

4. Linking the entire effort to expanding sectors of the economy (e.g., health care and sustainable energy) that are recipients of large-scale public investment.
5. Developing financing and management capacities that can take this effort to scale – that is, to move beyond a few boutique projects to efforts that have significant municipal impact.

Over the next three to five years, the Evergreen Cooperative Initiative aims to catalyze the creation of up to 10 new for-profit, worker-owned cooperatives based in the Greater University Circle area. The goal is for those 10 businesses collectively to employ approximately 500 residents and serve as model green enterprises in northeast Ohio.

The longer-term objective is to produce 5,000 new jobs for Clevelanders over the next 10 to 15 years. The ultimate goal is to stabilize and revitalize Greater University Circle's neighborhoods.

Progress to Date

The first two businesses launched in October 2009:

- Evergreen Cooperative Laundry is the greenest commercial-scale health-care bed linen laundry in Ohio. When working at full capacity, it will clean 10 to 12 million pounds of linen for health-care institutions a year and employ 50 residents.
- Ohio Cooperative Solar (OCS) is a community-based clean energy and weatherization company that will ultimately employ as many as 75 residents. In addition to home weatherization, OCS installs, owns and maintains large-scale solar panels on the roofs of large buildings housing nonprofit health and education institutions. The institutions purchase the electricity that is generated from OCS. Projections indicate that OCS will more than double the total installed solar power capacity in the entire state of Ohio within three years. The first 110-kilowatt installation was completed in June 2010 on the roof of a Cleveland Clinic building and two more solar generators are being installed at University Hospitals and Case Western Reserve University.

The next two businesses will launch soon:

- Green City Growers will be a year-round, large-scale, hydroponic greenhouse that will produce approximately five million heads of lettuce per year, along with other crops. Sitting on 10 acres in the heart of Cleveland, with five acres under glass, it will be the largest urban food production facility in the United States and is expected to employ about 45 workers. Ground-breaking is scheduled for early 2011.
- Neighborhood Voice will be an innovative, "hyperlocal," community-based information source serving the Greater University Circle neighborhoods, as well as the anchor institutions. Combining print and online media, it is designed to be the centerpiece of an ongoing community-building and engagement process. The first issue of Neighborhood Voice will be published in October 2010.

A dozen or so additional business ideas are under discussion, and at least two are expected to launch in the first half of 2011.

What follows is a discussion of the strategic principles that underlie the Evergreen Cooperative Initiative.

Convince Anchor Institutions to Spend Locally

Anchor institutions are among the largest employers and purchasers in many large and mid-size municipal areas. These institutions are rooted in place; unlike corporations, they rarely "get up and leave." As such, they have (at least in theory) a self-interest in helping ensure that their surrounding neighborhoods are stable, vibrant and healthy. A central element of the Evergreen strategy has been to work closely with Cleveland's largest anchors (in particular, the Cleveland Clinic, University Hospitals and Case Western Reserve University) to modify some of their business decisions – particularly procurement – to produce greater neighborhood and city-wide benefit. Quite a few opportunities for new business development have been identified within the community. The potential here is enormous: the city's three largest anchors alone purchase more than \$3 billion in goods and services annually. To date, little of this "spend" has been targeted locally.

A systematic attempt to shift procurement to local vendors could add jobs and increase the impact these institutions have on urban rebuilding.

Jobs Are not Enough without Ownership and Stability

In low-income neighborhoods such as those of Greater University Circle, there is a crying need for jobs – but jobs alone are not enough. It is essential not only to provide living-wage jobs, but to increase the asset/wealth accumulation of local residents. Cooperatives and employee-owned businesses are proven vehicles for asset-building: over time, workers increase their equity in the firms where they work through distributions of profits into capital accounts. Financial projections for the Evergreen Cooperatives show that typical employees will accumulate an equity stake in their company of approximately \$65,000 within eight years – in addition to wages that are above industry standards and no-cost health benefits.

In addition to the wealth-building potential, the cooperative model has another important virtue. Because the workers own the companies and will rarely vote to send their jobs to another city or country, such firms are inherently more anchored than businesses that are externally owned. Thus, the Evergreen strategy builds productive capital within underserved neighborhoods and sees to it that it remains in place over time. This in turn helps stabilize neighborhoods by ensuring that good employment opportunities remain.

For-Profit, not Subsidy-Based

One of the greatest challenges facing low-income urban areas has been the decline since 1980 of federal funding for community economic development. Philanthropy has been unable to fill this gap.

The Evergreen Cooperative Initiative made a conscious decision at the outset to pursue a model of economic development that would not require ongoing subsidy. Philanthropic dollars are used to provide seed funding for each cooperative business, but the businesses are then expected to be able to turn a profit and stand on their own. Importantly, foundation resources are also used to leverage additional sources of financing such as bank loans, New Markets Tax Credits, HUD 108 funds and state renewable energy investments.

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For example, \$750,000 in grant funds from the Cleveland Foundation leveraged a total of \$5.7 million in funding to launch the Evergreen Cooperative Laundry. A \$1.4 million investment by the Evergreen Fund leveraged a HUD grant and loan totaling \$10 million, a \$1 million ARRA grant and an \$18 million New Markets Tax Credit allocation to launch Green City Growers.

As for-profit businesses, the Evergreen Cooperatives will also contribute much-needed tax revenues to fund city services.

Link Strategy to Growing Sectors of the Economy

Many American cities have been hard-hit by the decline of the manufacturing sector and the flight of jobs overseas. However, there are new opportunities for growth in expanding sectors such as health care and renewable energy, which are also receiving large public investments. Evergreen focuses in large measure on linking its businesses to these expanding sectors.

Its strategy of tapping into the procurement streams of anchor institutions that are connected to these growing sectors suggests a new possibility: The greater Cleveland metropolitan area has more than 50 hospitals and more than 250 nursing homes and other types of health-care institutions, along with scores of universities and large-scale cultural and other institutions that serve as local anchors. Many of these institutions could align their strategies to achieve significant impact across the entire metropolitan area. University Hospitals, for example, has already initiated a supply chain-attraction strategy that will award contracts to local businesses that relocate into a newly designated “Health Tech Corridor” adjacent to Greater University Circle.

Green Businesses, Green Jobs, Green Ownership

Environmental sustainability is an essential element of the Evergreen strategy. The initiative’s goal is to build a network of cooperative businesses that are the greenest firms within their sectors. Because it links to anchor institutions that are themselves working to shrink their carbon footprints, this green strategy gives Evergreen a competitive advantage with these clients. And as green businesses, the Evergreen Cooperatives have access to federal and state funds related to the green economy.

The Evergreen strategy also offers a new approach to creating green jobs. First, traditional workforce development trains low-income workers for green jobs that all too often do not exist or are not available locally for the people who receive the training. The Evergreen approach is to identify a new green business opportunity, build the business, and then recruit and train local residents to take the jobs.

Second, Evergreen seeks to create not just green jobs, but green ownership that leads to significant wealth accumulation for the people who hold those jobs.

Achieving Scale

Most community economic development efforts are unable to reach scale, limiting their impact as a result. In Evergreen's initial target area, for example, a handful of businesses is not enough to meet the needs of 43,000 residents.

The near-term goal of the Evergreen Cooperative Initiative is to prove the viability of its economic development model by building an initial portfolio of 10 cooperative businesses that will generate roughly 500 jobs within three to five years. But "moving to scale" – from 500 to perhaps 5,000 jobs – is central to the Evergreen strategy. Doing so will require access to capital.

To address this critical issue, the initiative has established the Evergreen Cooperative Development Fund, a nonprofit revolving loan fund that provides financing and strategic direction. The fund has two primary functions: (1) providing low-interest, long-term financing to start-up cooperative businesses in the Greater University Circle area; and (2) providing technical assistance and management support to the start-ups to help ensure their success.

The fund was capitalized with initial grants totaling more than \$5 million and Evergreen expects to raise another \$10-\$12 million over the next year. That in turn will leverage up to \$75 million in investment funds over the next three years. Each cooperative that receives initial financing from the fund will re-pay the loan over time at 1 percent interest, keeping financing available for other start-ups. Each cooperative also has an obligation to pay 10 percent of its earnings back into the fund. These annual contributions will help strengthen the overall Evergreen system and start new cooperatives that will provide jobs and wealth-building opportunities for more residents in the target neighborhoods. A portion of these funds may also be directed to charitable activities that benefit the larger community.

Thus, each business makes a commitment to its workers (through living-wage jobs, no-cost health benefits and asset accumulation) and to the general community (by helping create new businesses that can provide stability to neighborhoods).

The fund's development program is supported by the work of its technical assistance arm, Evergreen Business Services, which provides management, administrative, operational and other support to fund-financed companies (including new venture incubation, market research, initial feasibility study, business plan development, and recruitment of interim and permanent management).

A Network, Not Just Individual Businesses

Each Evergreen cooperative will be part of a larger network that is coordinated and managed by the Evergreen Cooperative Corporation (ECC).

Each Evergreen cooperative will be part of a larger network that is coordinated and managed by the Evergreen Cooperative Corporation (ECC). This entity is responsible for ensuring that the cooperatives hold to the vision of community stabilization and building wealth in target neighborhoods. ECC will share ownership with the worker-owners of the cooperatives, and representatives from ECC will provide ongoing leadership and expertise by serving on their boards.

Perhaps most important, the network structure will provide safeguards that prevent demutualization, a process by which cooperative businesses can be taken private. Privatizing can benefit a handful of employee owners, but the community as a whole would lose out.

Capture Local Financial Flows

The Evergreen strategy seeks to substitute local goods and services for those currently supplied from other regions. By way of example, residents of northeast Ohio purchase about \$7 billion worth of food each year, yet only a few hundred million dollars of that money is spent on food grown in the region. Lettuce comes from California and Arizona; herbs come from as far away as Hawaii and Colombia.

By building local businesses to meet the needs of Cleveland's anchor institutions, Evergreen seeks to redirect some of that spending so it circulates within city neighborhoods. Studies show that such spending has a multiplier effect – dollars spent locally can be doubled or tripled. That could help expand business and jobs beyond the Evergreen network to other local companies and entrepreneurs.

Broad Partnership Based on a Shared Vision

Evergreen enlists the active partnership of many of Cleveland's main institutions – local philanthropic organizations, major anchor institutions, key players in the banking and business communities, city hall and others. To succeed, this partnership must be built around a shared vision of possibility. The CEOs and senior leaders of many of the partner institutions convene quarterly to assess progress and explore new initiatives. They receive a steady stream of briefings and updates.

Evergreen draws heavily on the experience of the Mondragon Cooperative Corporation in the Basque region of Spain. Mondragon is one of the world's most successful large-scale cooperative models, employing 100,000 workers in a network of more than 120 cooperatively owned industrial, service and financial businesses. To help develop a shared vision among Cleveland partners, Evergreen has organized study visits so local civic leaders can learn first-hand how the Mondragon model works.

The Evergreen Cooperative Corporation will be the vehicle for institutionalizing this partnership. ECC will be governed by a board of directors drawn from anchor institution partners, local philanthropy and the Evergreen cooperatives. The same structure will be replicated in the individual cooperatives as well.

This represents an advance over more traditional worker, producer or consumer cooperatives. Evergreen uses a multi-stakeholder structure that links multi-billion dollar anchor institutions and residents of some of the city's most disadvantaged neighborhoods to improve business and job opportunities in the community they share.

Plan for Success

The Evergreen Cooperative Initiative takes the long view in planning for success. While its initial target neighborhoods are among the most underserved and distressed in Cleveland, Evergreen envisions a day when its investments will transform Greater University Circle into one of the most desirable places in the city.

Successful development will inevitably result in rising land values, which often leads to gentrification that forces long-time residents to relocate because of higher rents, property taxes, etc. To ensure income diversity among residents and rational land utilization for cooperative economic development in the future, Evergreen is working to create a community land trust that will be directly linked to the initiative.

The land trust will not be a stand-alone entity; it will be fully integrated into the overarching Evergreen structure. Its mission will be to foster stability and revitalization for the community as a whole, not just for participants in the land trust itself. While the Evergreen land trust will eventually work to ensure permanent housing affordability, its main focus for the foreseeable future will be on economic development and job creation activities.

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Conclusion

Something important is happening in Cleveland. A community-owned enterprise targeted at sectors that receive substantial public financing has begun to develop powerful momentum. This suggests the emergence of new principles, both for local development and for longer-range structural changes in the American economy. If the Evergreen Cooperative Initiative is successful, funders, business leaders and policy-makers will be looking to Cleveland for innovative ideas that can be translated into national economic strategy. •

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Additional Resources about the Evergreen Cooperative Initiative

The Economist: "The Hopeful Laundry: Micro-projects aim to restore a shattered area"
http://www.economist.com/world/unitedstates/displaystory.cfm?story_id=15213793

Business Week: "Buying Local on a Large Scale"
http://www.businessweek.com/smallbiz/content/feb2010/sb20100212_832582.htm

The Nation: "The Cleveland Model"
http://www.thenation.com/doc/20100301/alperowitz_et_al

Time: "In Cleveland, Worker Co-ops Look to a Spanish Model"
<http://www.time.com/time/business/article/0,8599,1947313,00.html>

Apollo Alliance:
<http://apolloalliance.org/green-collar-jobs/evergreen-cooperatives-forge-an-innovative-path-toward-high-quality-green-jobs/>

Evergreen Cooperative video:
http://www.youtube.com/watch?v=Gt_ZHUDhKjs

Ohio Cooperative Solar video:
<http://www.youtube.com/watch?v=f8gClGjBYns>

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