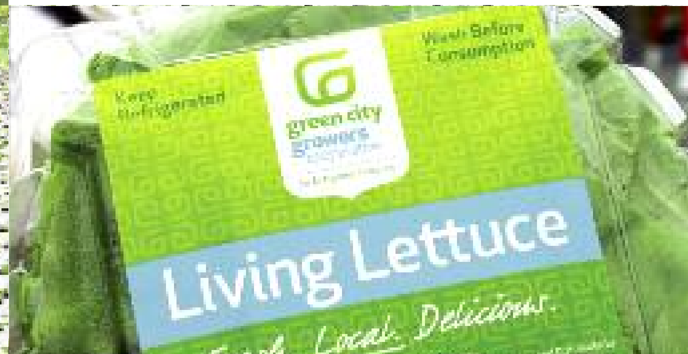
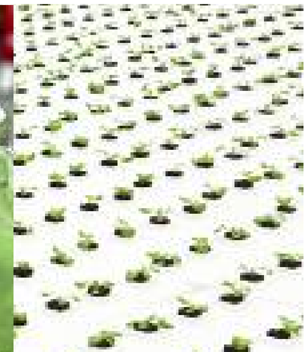
Growing *a Cleveland Renaissance*

Urban farming co-op boosts struggling neighborhood with local foods, new jobs

By Stephen A. Thompson, Assistant Editor

Constance Suggs tends organic lettuce, grown in nutrient-rich water, without soil. Living Lettuce (below) is the co-op's brand of premium, organic lettuce. Photos by Jerry Mann, courtesy Green City Growers (CGC).





Demand for local food is strong in Ohio, an agricultural state that produces more than 2,000 kinds of crops and is home to numerous farmers markets, food hubs and produce stands. But in Cleveland, the local food movement means more than fresh, healthy produce. Local food production is at the heart of a grassroots effort to reclaim portions of the city suffering from urban decay and unemployment.

Spearheading the effort in one struggling Cleveland neighborhood is a workers' cooperative that has built a large-scale greenhouse that is producing healthy food and creating jobs in an area that desperately needs both. Built on 11 acres, the Green City Growers greenhouse officially opened last Feb. 25. It has four acres under roof, with 3.25 acres of growing area.

Green City Growers employs 25 people who produce high-quality, hydroponically grown leafy vegetables. Major crops are Bibb lettuce, green leaf lettuce, gourmet lettuces and basil, which are sold to restaurants and retailers year-round.

City slammed by real estate bust

The real-estate bust of several years ago hit Cleveland hard. The city, already suffering economic difficulties due to the closure of many factories, saw a rash of foreclosures that resulted in thousands of vacant houses and plummeting property values. The U.S. Census Bureau estimates that more than 8,000 houses have been demolished in the greater Cleveland metropolitan area.

Left behind after each demolition are bare foundations and vacant lots that are soon filled with weeds and trash. These attract vermin and further damage neighborhood property values and quality of life.

The Green City Growers' greenhouse operation represents an investment of about $17 million. It is currently producing Bibb lettuce, green leaf lettuce, gourmet lettuces and basil. Photos courtesy Green City Growers

"You have to **build** *a coalition of people who believe in the project and can bring different skills to it."*

Residents are fighting the decay with a growing "community gardening" movement, in which neighbors are turning abandoned properties into small greenhouses and vegetable plots. Some participants are even working to overhaul local ordinances that effectively prohibit residents from raising chickens.

The idea for a worker-owned greenhouse was first floated by community leader Alayne Reitland. A member of the board of the Cleveland Foundation, an organization dedicated to the improvement of local communities, Reitland took the idea to the leadership of Evergreen Cooperatives. Evergreen is a project that promotes worker-owned businesses as a means of furthering economic development. Evergreen already had successfully started a worker-owned laundry and a workers' cooperative that installs solar panels (see Nov.-Dec. 2012 *Rural Cooperatives*).

Cleveland Foundation funds feasibility study

Evergreen decided to forge ahead with a feasibility study for an urban farming project, funded by a grant from the Cleveland Foundation. To conduct the study, the co-op hired Mary Donnell, a business consultant with many years of experience in the fresh produce industry. Completed in 2010, the study found that the concept had promise.

The idea simmered for a year, says Donnell. "When they decided to go forward with the idea, they asked me to be the entrepreneur to build it out. I moved to Cleveland from Bowling Green, Ohio, in the spring of 2010."

The neighborhood chosen for the project certainly needs help. It has a 57-percent poverty rate and a median income of less than $18,500. Even though vacant land is plentiful in the neighborhood, finding a suitable building site was not easy.

"We needed a big site, and it needed to be assembled," says Donnell. "Most often in cities, there aren't 11 acres already 'put together.'" Much of the land for the site chosen, she says, was foreclosed property owned by banks. Some of the land was owned by the city, while other portions were privately owned.

"With any big development project — especially in the city — there's a lot of moving parts," Donnell says. "Plus, there's the design and site work considerations. Those all have to be done almost concurrently so that you're ready to start the project. We started into development phase, land assembly, financing, planning, environmental assessment, all at that time."

With a little help from some friends

Evergreen didn't blaze the trail alone. Kent State University's Ohio Employee Ownership Center (OEOC), established in 1987, provides technical assistance to worker ownership projects and had helped with the previous Evergreen co-op projects. Roy Messing, OEOC's interim director, helped pull it all together.

"Our motivation is to provide employee ownership," he says. "We've done a lot of work with conversions [from private to worker ownership], but this was a chance to launch a project

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ESOPs, worker co-ops each have advantages

The Ohio Employee Ownership Center (OEOC), a nonprofit program based at Kent State University, was established in 1987 to provide outreach and technical assistance to Ohio employees and business owners interested in employee ownership. OEOC provides training to existing employee-owned firms and helps establish startup employee-owned ventures.

Startup projects, such as Green City Growers Cooperative, are much less numerous than are businesses converting from private to employee ownership. The Center has participated in more than 100 such conversions since its founding in 1987, according to Roy Messing, its interim director. "Our founder, John Logue, was looking at Employee Stock Ownership Plans as a way to extend the lives of steel and other companies that were having a rough time in the late 1980s," he says.

According to Messing, the majority of conversion projects have been Employee Stock Ownership Plans, or ESOPs. In an ESOP, shares in the company are given to employees as part of their compensation. The shares are held in trust until an employee retires or leaves the company, at which point the shares are sold.

In effect, ESOPs function as retirement plans and are governed by the Federal Employee Retirement Income Security Act (ERISA). While ESOPs may be issued by a company in which the original owners still hold the majority of shares, in a "100-percent ESOP" the shares also provide a means by which ownership can be completely transferred to employees.

ESOPs offer tax advantages

ESOPs can provide significant tax benefits to the original owners. "If you sell at least 30 percent of your shares to your employees, you can defer capital gains under Section 1032, so that's a benefit for the owner," says Messing.

By making a 100-percent ESOP an S Corporation, all income tax can be avoided until shareholders receive cash from the trust, usually in retirement, according to a pre-determined formula. S Corporations (or S Corps) are corporations that — instead of paying federal income tax — pass corporate income tax liability through to their shareholders.

Shareholders of an S Corp report their portions of income and losses on their personal tax returns and are taxed at their individual rates. That means S Corps shareholders avoid double taxation on the income from their shares.

"If it's a 100-percent S Corp ESOP, 100 percent of the shares are held by the ESOP itself and the S Corp, so all the earnings flow to the trust," says Messing. "Therefore, there's no income tax. We're seeing a recent trend where many businesses are transitioning to 100 percent ESOP and taking that tax benefit, [thereby] having a big windfall in the short term." (Editor's note: An article in the January-February 2009 issue of *Rural Cooperatives* describes how a loan guarantee from USDA Rural Development was used to finance a 100-percent employee-owned conversion of Doucette Industries Inc., which designs heating and cooling systems. Past issue of *Rural Cooperatives* magazines can be accessed at: www.rurdev.usda.gov/BCP_Coop_RurCoopMag.html).

Tax benefits provide a powerful incentive to owners to go the ESOP route, Messing says. "There's not a great deal of tax incentives for a co-op, because you have 8 ½ months to distribute the patronage." As a result, there are about 300 traditional worker cooperatives in the United States as compared to an estimated 10,000-to-11,000 ESOP companies, says Messing, "With the ESOP, you can still establish bylaws that are very cooperative in nature, so you can still have a democratically run business."

Co-op structure best for small companies

Despite the attractions of an ESOP, Messing believes there is an important place in rural development for the worker cooperative. "If you don't have 20 employees or more, you can't justify an ESOP," he says. "So smaller businesses go the more traditional employee-co-op route. I think there are going to be more opportunities for worker co-ops in rural America, where you've got these small towns and companies with 10 or 15 workers, the owner is going to retire and there's no son or daughter to transition it to. So that's something we're going to continue to highlight."

Motivations tend to differ between startups and conversions, says Messing. "With startups, there's a mission involved," he says. "With conversions, retiring owners want to continue the operation (once they are no longer owners). It's an interesting blend. Some see their business as a legacy and they want their employees to continue that legacy. With others, they realize their employees helped get them where they are and they want to benefit them.

"People ask what type of company is a good candidate for conversion to employee ownership," Messing says. "And I say it's a profitable company, because you have to take out debt to buy out the equity of the owner who is departing. We see cases where people want to transition to an ESOP or a workers co-op, and the numbers don't work. In those cases, we advise them not to move forward."

Possible stumbling blocks are numerous. "They may not have the management capability, or the owner wants to step back from a management role," says Messing. "Then they have to bring in the right people or train the right people to fill that management void. Each case is different."

—Stephen A. Thompson