Community Wealth Building

at the State and Local Level

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As a result of increasing economic instability, communities across the nation are disappearing, urban and rural alike. Cities like Cleveland, Ohio and Pittsburgh, Pennsylvania are shadows of the great industrial cities they once were, suffering from urban blight and decay. Small, rural towns are not immune either from the erosion of the stable industry and secure jobs that once propped them up. These cities, towns, and the communities that comprise them are trying to stem these declines but it is an arduous process. However, it is neither an impossible endeavor nor one that requires a complete displacement or upheaval of the community.

This paper examines state and local policies regarding five community wealth sectors – employee stock-ownership plan companies, community land trusts, community development financial institutions, social entrepreneurship, and green collar jobs. A wealth sector employs strategies that aim to improve "the ability of communities and individuals to increase asset ownership, anchor jobs locally, expand the provision of public services, and ensure local economic stability."[1] Each industry has a different way of achieving this end, but the goal of promoting stronger, more sustainable communities is the primary mission across all of them.

Each section of this paper will offer a brief background explaining the wealth sector, an overview of state and local policies regarding that sector, and a recommendation for or an examination of how the sector looks going forward. This paper does not examine every state and local policy nor highlight every organization within each sector, but it tries to capture broadly what state and local governments are doing to address the urgent needs of communities across the nation. The paper concludes with some observations and recommendations about the current state of community wealth building.

I. Employee Stock-Ownership Plan Companies

A. Background

Employee stock-ownership plan (ESOP) companies are businesses that are partially or completely owned by their employees. These for-profit entities have pension plans with two unusual features: a majority of the employees' pension fund is invested in the company and the company is able to borrow against future earnings to buy company stock. Majority employee-owned companies provide numerous benefits to their communities in addition to keeping jobs close to home; they promote a broad dispersion of ownership among community members and overall increased productivity levels.[2]

With the passage of the Employee Retirement Income Security Act of 1974 (ERISA), ESOPs and owners selling their companies to their employees received significant tax breaks. However, as John Logue, director of the Ohio Employee Ownership Center, explains, expanding capital ownership and economic development are inherently state and local issues, while the federal government must focus on broad national issues. While ESOP benefits are felt across the entire economy, their benefits resonate stronger in the local community.[3]

ERISA laid the groundwork for an ESOP movement but the true push would need to come from the state level. After the 1979-80 recession, states took advantage of a friendly, decade-long political climate, resulting in 23 of them passing some version of employee-ownership legislation during that time. Seven states created state employee-ownership programs that provided funding and technical assistance to businesses aspiring to become ESOP companies.[4]

B. Overview

States mostly viewed ESOPs as a protective measure against job loss. As the U.S. economy improved throughout the 1990's, state funding consequently decreased, leaving only Massachusetts, Michigan, and Ohio with state employee-ownership programs.[5] While only the Michigan, Ohio, and Massachusetts programs have survived, new Vermont and Indiana initiatives to expand employee ownership have reversed this negative trend.

Michigan began as the national leader in employee ownership, stemming from legislation in 1974. However, many of its employee-ownership programs have been dismantled over the years. The Michigan Employee Ownership Center (MEOC) was established in 1984 but later shut in 1990; the Michigan Center for Employee Ownership and Gainsharing was created in 1986 but then closed in 1991; and Michigan's Rapid Response unit, which provided in-house employee ownership assistance, lasted until 2002.[6] While Michigan still supplies services to any company, individual, or organization interested in employee ownership, these resources have been contracted out from state agencies. The services provided include general consultation and information, referrals to professionals who can help implement ESOP programs, connections to other

Michigan departments for technical assistance, and aid with financing options.[7] While resources are still accessible in Michigan, they are no longer as extensive.

By contrast, the Ohio Employee Ownership Center (OEOC), a non-profit, university-based program, established in 1987, has had a very different story.[8] Supportive legislation followed in 1988 and for the OEOC's first three years, it contracted with MEOC for assistance. Of the two, however, OEOC has since become the more effective and comprehensive program. For instance, Ohio's overall ESOP growth rate is three times the national average.[9] The OEOC provides outreach, information, and technical assistance to Ohio employees and business owners interested in employee ownership.[10] Staffed by eight employees, OECO has an annual budget of $600,000 with 32 percent of income provided by the state, 35 percent from foundations, and 33 percent generated by the program. As a result of its work, 81 companies, with 14,685 employee owners, have been formed to date.[11] OEOC has spent approximately $500 per job to retain these positions (compared to $67,000 per each job for a Jeep plant in Toledo, OH) and has generated $60 in new employee-owner wealth per $1 spent by the OEOC (compared with other wealth creating programs like individual development accounts that create $1 to $2 of new wealth per $1 spent).[12] OEOC provides a range of services, including free preliminary technical assistance to interested parties, which to date has been accessed by more than 515 companies and 98,000 employees, and it will help businesses find "professional legal, accounting or valuation services."[13]

Just a year later in 1989, the Massachusetts Legislature passed an act that created the Massachusetts Office for Employee Involvement and Ownership (MASSEIO). The principal goal of this legislation is to encourage worker ownership through increased education, outreach, and promotional efforts. MASSEIO, like OEOC, provides free preliminary technical services to interested Massachusetts-based companies.[14] In addition to those services, MASSEIO provides a dollar-for-dollar match program up to $5,000 for professional services, including feasibility studies, business appraisals and valuations and legal planning, for any Massachusetts-based business considering implementing an ESOP.[15] In 2008, MASSEIO received $127,000 in state appropriations.[16]

Seventeen years later, Vermont recognized the benefits of employee ownership also. In May 2006, Vermont's Governor Jim Douglas "signed into a law a directive to the state treasurer, ordering continuing study on investing a portion of state pension funds into employee ownership, and directing the Vermont Economic Development Authority to give preference to loans to employee-owned firm or companies that are becoming employee owned firms."[17] Less than two weeks later, the state appropriated $25,000 for the Vermont Employee Ownership Center (VEOC), a non-profit, responsible for promoting the expansion of employee ownership within the state by providing information and resources to businesses, employees, and entrepreneurs.[18][19] VEOC also receives funding from foundation grants and donations from individuals and businesses.[20]

VEOC also administers the Vermont Employee Ownership Loan Fund. This fund provides capital, up to $50,000 over a five-year period for small or medium sized employee-owned or aspiring employee-owned companies, including those unable to secure traditional lines of financing.[21] Although just two years old, the VEOC has already assisted owners of 44 Vermont businesses, with a total of 981 employees, and has directly advised groups representing a total of 354 aspiring employee-owners in 14 companies. As the VEOC continues to grow, it plans to focus on developing networks among employee-owned companies and on working closely with them to ensure continued success.[22]

Two years later in May 2008, the Indiana ESOP Initiative, expected to cost the state $500,000 a year and motivated by State Treasurer Richard Mourdock's own experience as an employee owner, has thrust the state into a leading position on ESOP business development.[23] In addition to providing resources and information for interested business owners and employees, known as the "ESOP toolbox," Indiana's ESOP initiative includes a $50 million state investment through a "linked-deposit" program.[24] This ESOP "linked-deposit" program allows the State Treasurer's Office to link secured state investments from state banks to Indiana companies in need of capital to complete an ESOP transaction. "The Treasurer of State's Office will purchase CDs at a slightly reduced rate of interest, and the financial institution will agree to reduce the interest rate on the loan made to the company."[25] The plan also includes action by Credit Suisse, who manages the $155 million Indiana Investment Fund, which targets investments in state, on behalf of Indiana's Public Employees' Retirement Fund & Indiana Teacher's Retirement Fund. It will play an important role in this process by considering "on a case by case basis the purchasing of equity in an Indiana company for the purpose of completing an ESOP transaction."[26]

C. Going Forward

While there has been a drastic decrease since the 1980's in the number of states actively promoting employee ownership, recent initiatives in Vermont and Indiana illustrate why the political climate is the most important element in creating a successful state employee-ownership program. As Logue points out, local politicians during the 1980's were attracted to employee ownership because it gave them a politically viable way to protect state jobs during a difficult economic time.[27] In both Vermont's and Indiana's situation, job retention is an important facet of the state programs. Indiana's State Treasurer Mourdock is quoted as having said "one of the best reasons to help Indiana companies become employee-owned is that no group of employee-owners have ever, ever, ever, ever moved their company to Mexico or China!"[28] And while there are many other good reasons to promote employee ownership, it is much easier to pass legislation with an argument to protect the status quo than with one focused on the benefits the act will bring.[29]

ESOPs remain an unfamiliar term to most people and are therefore easily dropped from a state's agenda when there is no person or group pushing hard for them. Sustained support for these programs is the only way for significant inroads to be made in increasing employee ownership, but long-term commitments to programs that only benefit the general interest are often cut because few interests feel the direct loss of such a program.[30] However, as the economy continues to slow, as state jobs continue to disappear, and as Indiana and Vermont initiatives become more successful, state legislatures may again react like they did during the 1980's, developing an interest in their state's long-term economic situation and passing legislation that, in the long run, will reap both jobs and wealth building opportunities for their constituents.

II. Community Land Trust

A. Background

Although in the United States the most common type of community land trust, "a conservation trust," focuses on protecting open space, a different community land trust (CLT) model uses similar techniques to preserve affordable housing.[31] Almost non-existent and isolated to predominantly rural areas of the nation thirty years ago, community land trusts are now located across 41 states and the District of Columbia, principally in cities, towns and suburbs. To date, there are more than 200 CLTs across the country with new ones established each year.[32]

Structured as a non-profit organization, a CLT's primary goal is to maintain permanently affordable housing for low and moderate-income individuals. By buying and holding land in a trust, the CLT captures the profit from the rise in property values for the community, mitigating the market forces that make land unaffordable to many community members.[33] A typical CLT sells a ninety-nine year lease to a potential homeowner with a restriction that enables the trust to repurchase the housing unit if the owner decides to sell it. The repurchase value is predetermined by a formula. Although formulas vary due to a host of factors ranging from market conditions to the preferences of CLT boards, a typical formula allows the seller to receive "the value of the principal payments and down payment plus 25% of the accumulated equity, while the trust retains the other 75% of the accumulated equity."[34]

The CLT model enables families to purchase a home that would otherwise be too costly, allowing them the opportunity to develop assets by effectively owning a percentage of the unit instead of gaining nothing by renting a housing or apartment unit. While traditional affordable housing programs that subsidize costs by such means as by providing a zero-interest government loan (often forgivable after five or so years residency) also provides this benefit to a family, a CLT makes better use of public subsidy dollars because the trust captures 75 percent of the gain in property value, instead of it becoming no longer affordable after one generation.[35]

A typical CLT model has several other features. Homeowners are voting members of the community land trust, helping to generate organizational accountability. Most governance structures allow voting members, those living on the CLT's land or residing in the local community, to elect two-thirds of the CLT's board of directors. A classic CLT has a divided board, with one-third consisting of members representing CLT interests, one-third made up of community members in the surrounding community, and the remaining third is comprised by public officials, local funders, nonprofit providers of housing or social services, and individuals speaking for the public interest.[36]

B. Overview

A survey of prominent community land trusts across the nation illustrates the potential of this community wealth building model and the variety of ways in which city policy has played an important role in promoting its expansion. In Washington D.C., rising property values and increasing gentrification have compromised entire communities' ways of life. CityFirst Enterprises (CFE), operating primarily as a community development financial institution, has worked with the city to undertake an ambitious land trust plan that will create 10,000 permanently affordable housing units.

The CLT will not only help the District provide an adequate level of affordable workforce housing, it will also help the city develop and sustain mixed-income neighborhoods. The District has played an integral role in helping CFE launch this project, providing "$10 million in City funds, which will leverage $65 million in private sector socially responsive investment by New Market Tax Credits," and helping finance the first 1,000 units of permanently affordable housing. Although after public funds are leveraged with private contributions, they will comprise only a small percentage of total costs, the District has assisted CFE greatly, providing funds at the initial stages of the project and collaborating extensively on it.[37]

Another approach for facilitating the development of community land trust is for the city to grant a nonprofit organization seeking to create a land trust the right to condemn property using eminent domain, in accordance with a city-approved community plan. This took place more than 400 miles north of Washington D.C. in Roxbury, a neighborhood in Boston, Massachusetts. Dudley Neighbors, Inc. has helped develop more than "155 units of affordable housing, rehabilitate a commercial building, and add open space to the community."[38] An affiliate of the community development corporation Dudley Street Neighborhood Initiative, this CLT worked with the city and the Boston Redevelopment Authority to become a Massachusetts 121A Corporation in 1988. This special classification gave Dudley Neighbors the power of eminent domain to acquire privately owned vacant land in an area known as the Dudley Triangle. City donations of land, in addition, to seizing vacant lots allows this CLT to grow its land holdings and develop permanently affordable housing for this community. Over the next decade, Dudley Neighbors plans to add more than 200 new homes to the trust, in addition to constructing a community greenhouse, parks, gardens, open space and a revitalized local shopping area.[39]

A third approach for a city government is to directly establish a community land trust under City auspices. This was done in the City of Chicago where the Chicago Community Land Trust (CCLT) was established in 2006 as a result of municipal leadership and an initial grant of $396,000 from the MacArthur Foundation. Working in conjunction with other citywide programs, the CCLT expands upon Chicago's effort to provide affordable housing for its residents. Operated by the Chicago Department of Housing and Board of Directors appointed by the Mayor, the CCLT will have one-third of the Board consist of CCLT homeowners once the trust has acquired 200 homes.[40] In December 2005, Mayor Richard M. Daley stated that the CLT's goal was to manage 300 units of affordable housing within three years of its creation.[41]

An earlier example of a city government taking the lead in forming a community land trust is Champlain Housing Trust in Burlington (then Burlington Community Land Trust), where in 1984 the City helped jump start a land trust with a city grant of $200,000.[42] While Burlington, Vermont, the state's largest city, is only home to about 40,000 people, the citywide Champlain Housing Trust (CHT) is currently the nation's largest community land trust with more than 4,000 members.[43][44] In 2006, the Burlington Community Land Trust and Lake Champlain Housing Development Corporation, both founded with City support to provide affordable housing, merged to form the CHT.[45] In addition to traditional housing units, CHT manages over 100 owner-occupied condominiums built under the city's inclusionary zoning ordinance, which requires private developers to include low and moderate-income housing units in their buildings.

Instead of provisions requiring developers to transfer the land to the trust, recorded covenants against the unit deeds allow CHT to repurchase the condos at affordable prices when the owners move.[46]

Another related policy approach is the establishment of a publicly owned land bank that can hold property and organize it for re-use according to community standards. While not a traditional community land trust, the Genesee County Land Bank Authority (GCLBA), in Flint, Michigan, propelled by state action, has become a national leader in using "land banking" to guide community development. In 1999, the Michigan State Legislature revised an inadequate tax foreclosure process that kept land off of tax rolls and out of circulation for almost seven years, by streamlining the process and giving complete control of this land to the local County Treasurer after two-and-a-half years. As a result the Genesee County Land Reutilization Council (LRC) was formed in 2002 to determine the best use of this land. In 2004, when the state legislature passed land bank legislation, the LRC became the GCLBA. Since its inception, the GCLBA has promoted the "reuse of more than 4,000 residential, commercial and industrial properties that it has acquired through the tax foreclosure process."[47]

C. Going Forward

Community land trusts have been successful without municipal partnerships or assistance, but it is unlikely these CLTs would have become leaders in this wealth-building sector without it. Currently, the subprime loan and financial crisis provides an opportunity for a state-federal partnership to establish statewide CLTs, while protecting the millions of families that are losing their homes because of predatory lending practices. In 2007, a National Association of Community Land Trusts' survey demonstrated that only two homes on community land trust land had actually gone to foreclosure, and in dozens of cases, the CLT intervened to work with the homeowner and prevent the default.[4849] Over the past decade, only 17 out of 2,500 homes surveyed went to foreclosure, a rate of less than three-fourths of one percent.[50] The CLT model has essentially created a foreclosure-free environment.[51]

In order to prevent the foreclosure crisis from becoming more widespread, action needs to be taken that includes CLTs as part of the solution, allowing the government to avoid acquiring complete ownership stakes in these mortgages and without freezing mortgage payments and further disrupting the market. The federal government would provide a pool of funds, similar to the Emergency Economic Stabilization Act of 2008, which would allow CLT's to be "local stabilization buyers."[52]

Once purchased from the community, these homes would be promptly resold to that family, who would receive homebuyer counseling and a fixed-rate mortgage that was appropriate to their situation.[53] Although the family would still be subject to the CLT's shared equity arrangement, they would be able to remain a homeowner with an opportunity for moderate asset accumulation, preventing families from becoming disillusioned and leaving the home ownership process entirely.

These repurchased homes would become a part of existing or newly established state and citywide CLTs, originally administered by local organizations or municipal officials who are "experts in affordability arrangements such as a the CLT."[54] As the number of houses in the CLT expands, community members should be added to the board, similar to the Chicago Community Land Trust.[55] Considering how each state has different tax laws and how CLTs are better suited for smaller communities, it would be the states role to determine what percentage of these funds should go towards establishing new CLTs, evaluating the benefits of multiple smaller CLTs versus fewer larger ones.

Foreclosed homes are often auctioned at a significantly reduced rate, especially in such a weak housing market, allowing states an opportunity to create permanently affordable housing throughout all areas of the state at a relatively low cost. In addition to providing homes to evicted families, states would be creating stability in a depressed housing market, helping to prevent shocks to the financial markets.

States and local governments also need to revise laws that do not account for the unique characteristics of the community land trust model. John Emmeus Davis and Amy Demetrowitz lay out several changes in their report, entitled *Permanently Affordable Homeownership: Does the Community Land Trust Deliver on Its Promises?,* including "reducing or waiving application and impact fees, relaxing zoning requirements for parking or lot coverage, and offering other regulatory concessions to increase financial sustainability."[56] Fair valuation of CLT property is also important to ensure that the housing units remain permanently affordable. Since the "CLT home will nearly always rise more slowly than the resale price of a comparable market-rate home, many local assessors peg their periodic reassessments of CLT property to the maximum price contractually permitted by the CLT's resale formula."[57] This step is important to guarantee the long-term viability of these organizations.[58]

Using a community land trust model to ensure permanently affordable housing has become more common over the last decade as this model's advantages have become more obvious. States and local governments should take significant measures in order to make sure that CLT's can continue to strengthen communities, including partnering with the federal government to use this model during this economic crisis.

III. Community Development Financial Institutions

A. Background

The term 'community development financial institution' (CDFI) is relatively new, emerging in the 1960s and 1970s. But the concept behind these organizations is not.[59] Although communities throughout history have joined together to develop "self-help credit solutions," CDFIs have developed a particular focus on assisting nontraditional communities.[60][61] CDFIs serve a customer base that is 51% female, 58% minority, and 70% low-income, percentages that are significantly higher than mainstream financial institutions.[62]

Part of this sector's foundation is rooted in successful community development corporations (CDCs) that the Office of Economic Opportunity created to operate in impoverished urban and rural communities during the Johnson Administration's "War on Poverty."[63] Another very important factor behind the formation of CDFIs was the effort to combat the practice of red-lining, in which banks literally drew a "red line" around minority neighborhoods, refusing to provide loans to residents and businesses in those neighborhoods.[64] Although CDFIs grew slowly throughout the 1970's and 1980's, these organizations "expanded their funding sources by reaching out to private organizations, particularly religious institutions and individuals," and innovated the CDFI model by creating community development credit unions and banks.[65]

In the 1990's, three conditions helped the CDFI industry expand considerably. In 1994, Congress created the CDFI Fund, "a government agency that provides funding to individual CDFIs and their partners through a competitive application process" and in 1995, Congressional revisions to the Community Reinvestment Act qualified loans and investments in CDFIs as CRA activity.[66] Thirdly, the CDFI sector's successful track record was attracting new sources of support and funding.[67]

To date, there are more than 800 CDFIs recognized by the CDFI Fund, operating in rural and urban communities in every state in the nation.[68] "In order to be certified by the Fund, a CDFI must have community development as a primary mission; must serve an eligible target market; must be predominantly a financing entity; must provide development services (technical assistance); and must be a nongovernmental entity."[69] There are five types of CDFIs (excluding Community Development Corporations); each filling a specific niche:

1. *Community Development Banks (CDBs).* CDBs assist lower-income communities through targeted lending and investment.
2. *Community Development Credit Unions (CDCUs).* CDCUs encourage community ownership of assets and savings and supply affordable retail financial services to lower-income and minority communities.
3. C*ommunity Development Loan Funds (CDLFs).* CDLFs "aggregate capital from individuals and institutional social investors at below-market rates and re-lend this money primarily to non-profit housing and business developers in urban and rural lower-income communities."[70]

4. *Community Development Venture Capital Funds (CDVCFs).* CDVCFs "provide equity and debt with equity features for medium-sized business to create jobs, entrepreneurial capacity and wealth that benefit low-income communities."[71]
5. *Microenterprise Development Loan Funds (MDLFs).* MDLFs "foster social and business development through loans and technical assistance to low-income people involved in very small businesses or self-employed and unable to access conventional credit."[72][73]

Collectively, this community wealth-building sector manages more than $25.8 billion in assets.[74] In 2006, CDFIs financed and assisted more than 8,100 businesses, helping create or retain over 35,000 jobs; enabled the construction or renovation of more than 69,000 units of affordable housing and 750 community facilities; and provided alternatives to payday loans for over 32,000 people. Both individually and as an industry, CDFIs are continuing to grow, even as subsidies from government sources and financial institutions decrease. CDFIs are constantly innovating, "using market-rate or near-market-rate capital; …off-balance-sheet financing, and partnerships to fuel this growth."[75] For 295 CDFIs that had five years of data available as of fiscal year-end 2006, financing outstanding grew at a compound annual growth rate of 11% per year.[76] These organizations are playing a significant role in struggling and ignored communities throughout the nation.

B. Overview

This legacy of success does not reduce state and local governments' role.

Opportunity exists at the state level for policy changes that can significantly benefit this industry and the communities CDFIs serve. In 2007 alone, 38 states introduced legislation that supported CDFIs.[77] There are three specific policy strategies that states have and can pursue: 1.) Establishing CDFI Funds; 2.) Providing tax credit initiatives; 3.) Developing long-term, strategic initiatives.[78]

CDFI funds are any grant or loan programs that support the goals and objective of CDFIs. These funds can have a broad focus, such as an entity charged much like the Federal CDFI Fund with providing CDFIs direct support or an independent entity that appropriates "money directly to a specific organization or cause, like affordable housing or microenterprise."[79] In 2007, 29 states introduced legislation to create funds; eleven succeeded, designating this approach the most popular strategy and the most successful. Bills passed in California, Indiana, North Carolina, Oregon, Utah, Nebraska, New Mexico, New York, Florida, Louisiana, and Virginia, illustrating the diverse interest and appeal of this community wealth sector.[80]

In 2007, the Louisiana Community Development Act altered the requirements necessary to become a CDFI within the state and enabled the state's Department of Economic Development to appropriate grants and loans of up to $1 million per year to CDCs and CDFIs. Nebraska's Building Entrepreneurial Act utilizes a more direct grant program, providing up to $75,000 per project (requires a match of 50 cents for each dollar received) and technical assistance for small business development in areas that might not be able to secure traditional forms of financing, including those with high unemployment, low income, or declining populations. A fund in Oregon focuses on financing projects that the market overlooks, those that are too risky for traditional financial institutions but those that venture capital funds do not normally finance. Lastly, the New Mexico Minority Business Assistance Act provides grant money to allow minority business owners to receive technical assistance and guidance that otherwise might not exist. Analyzing this legislation illustrates how this policy can be implemented in many different forms throughout various communities across the nation.[81]

A tax credit for qualified investments is the second way that states can increase the effectiveness of CDFIs in their communities. In 2007, 15 states introduced a total of 17 tax credit bills that targeted community investment. Five states successfully passed legislation: Arkansas, Louisiana, North Dakota, Texas and Nebraska.[82]

In Louisiana, an amendment to the Louisiana CDFI Act expands tax credits to qualified investments that focus on providing medical services to low-income communities or medically underserved areas. Instead of encouraging a specific service, Texas' Nonprofit Property Tax Exemption Act created a tax exemption for property used by qualified nonprofit community business organizations that focus on community economic development.[83] In California, the well-established California Organized Insurance Network (COIN) encourages private investment in CDFIs by providing a one-year, 20 percent tax credit for deposits of at least $50,000. "Since 1997, COIN has generated more than $36 million of investment in California CDFIs, at a cost of $7.3 million in tax credits."[84] Prior to 2007, tax credit initiatives had historically been more popular than funds. These three examples illustrate how legislatures can target their tax credits towards what action will be most effective, including specific services, community organizations and/or private investment.[85]

Developing strategic initiatives legislation, bills that "focus more on implementing long-term economic development plans and achieving sustainable growth in the state," is a third policy option that states can pursue.[86] In 2007, 12 states introduced bills that promoted strategic initiatives. Four states succeeded in passing legislation: Colorado, Kentucky, Maryland and New York.[87]

In New York, an amendment to the Economic Development Law created an advisory board that would develop recommendations for increasing the capacity of minority-owned and women-owned business in the state.[88] The Governor appointed advisory board would include at least two representatives from community development finance, banking, insurance, or surety bonding entities, increasing the role of CDFIs in shaping policy that improves their mission. California's Economic Strategy Panel Act, which passed both legislative houses but was vetoed by Governor Arnold Schwarzenegger, designated a role for "key investment partners," which included CDFIs, in developing "a system that attracts private investment into the state."[89] CDFIs can have an important role in helping create broader economic development initiatives within a state.

C. Going Forward

According to Opportunity Finance Network, the leading national trade association of community loan funds, more legislation was introduced in 2007 that benefited CDFIs than "all similar bills introduced and passed in the previous decade combined."[90] Only about half of this legislation had funds stipulated, implying that some of these initiatives were essentially symbolic. For legislation that received appropriations, the successful tract record of CDFI funds and tax credit initiatives has been demonstrated, while the non-funded strategic initiatives may require some time to assess their effectiveness.

Regardless, the increase in legislation is extraordinary and a testament to the viability, innovation, and success of CDFIs over the years. States have begun to recognize the importance of promoting wealth building and economic development that improves depressed communities and does not just replace those who live within them. CDFIs help bridge the gap between "lower-income, historically under-served communities and conventional financial markets and institutions."[91] The current economic recession could produce a slowdown in public financing of these important community organizations, but considering their broad popularity and bipartisan support, any pause will be temporary.

IV. Social Entrepreneurship

A. Background

Increasing social entrepreneurship is an attractive policy option, as it combines private sector, free-market ideals with the non-profit sector's civic-minded initiatives. While there are differing opinions on how this sector should be defined,[*] within the context of this paper, social enterprises are socially driven, not-for-profit businesses that focus parts of their business model on creating internal revenue streams, reducing their reliance on traditional non-profit funding, like grants and donations. San Francisco-based REDF (formerly the Roberts Enterprise Development Fund) discovered that the revenue

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[*] Some individuals think that for-profit businesses that have a social mission as their primary goal should also be classified as social enterprises. This definition is more accepted in Europe, though by no means absent from the discussion of social enterprises in the United States.

generated from the socially focused business portion of the model "freed the non-profit organization from certain government constraints," enabling it to increase its effectiveness, scope, and beneficial social outcomes.[92]

A pioneer in the field of social enterprise is the Greyston Bakery in Yonkers, New York, which was "founded in 1982 by a Buddhist teacher to employ his students."[93] Greyston Bakery is now a $6.5-million for-profit enterprise owned by the non-profit Greyston Foundation, supplying products to Ben & Jerry's and Haagen-Dazs and cakes to many upscale New York restaurants, as well as providing jobs for 54 "hard-to-employ" workers.[949596] According to CEO Julius Walls, the social enterprise model provides more marketable and transferable skills than those acquired from a job-training program.[97] Greyston Bakery has expanded from its initial enterprise to serve more than 2,200 individuals and families each year, including adding a day care center, housing development operation for low-income individuals and people with HIV/AIDS, four community gardens, a technology education center, and other counseling and support services.[9899] "In 2002, 73 percent of Greyston's $12.3 million in income was generated internally through its businesses."[100]

Greyston Bakery is an example of an organization that became a successful social enterprise. As the Greyston Foundation's website states, "We don't hire people to make brownies, we make brownies in order to hire people."[101] This quote can be viewed as the essence of social entrepreneurship.

As of July 2004, a social enterprise database, sponsored by the Community Wealth Ventures and Social Enterprise Alliance, listed 679 ventures in 40 states and the

District of Colombia.[†] While the exact size of this community-wealth building sector is unknown, these organizations can be found across all industries with a majority of them falling into five categories: retail, light manufacturing, education and training, restaurant/cafes, and consulting.[102]

B. Overview

Among state governments in the United States, Louisiana's Office of Social Entrepreneurship (LOSC), the first of its kind in the nation, is a prime example of how government is beginning to take note of social entrepreneurship. Created in the fall of 2006 by Lieutenant Governor Mitch Landrieu, LOSC's primary role is to encourage social entrepreneurship by connecting "aspiring social entrepreneurs with support organizations, such as private foundations, that can lend expertise and resources" as Louisiana continues to try and recover from the disasters of Hurricane Katrina and Rita during 2005.[103]

This approach to social entrepreneurship has potentially two important benefits for the sector. First, the aftermath of those two hurricanes has created a need for service and enterprise in portions of Louisiana that were heavily impacted, providing an opportunity for different social entrepreneurs to replace these lost services in a way that generates jobs, economic growth, and social change. Secondly, this opportunity does more than just help Louisiana because LOSC efforts will illustrate to other states how effective social entrepreneurship can be in restoring communities.

[†] This database requires organizations to add themselves and does not claim to be a complete list of the sector but representative of the depth of it.

LOSC does not just encourage the creation of new social enterprises; it also works to transform existing non-profits. As competition for external revenue increases, non-profits will need to seek internal revenue streams in order to be sustainable. The Office also intends to focus on creating a network of social enterprises and include material on social entrepreneurship in high schools and colleges throughout the state.[104]

Although the state of Virginia did not initiate The Phoenix Project (TPP), its ability to garner high-level support from prominent Virginian politicians, such as Governor Tim Kaine and former Governor Mark Warner, has helped strengthen its message and encourage a statewide approach towards promoting social enterprises. TPP has a four-part method for promoting social entrepreneurship: "1) convene statewide discussions to educate and network leaders interested in social entrepreneurship; 2) engage public leaders as guest lecturers in an annual six-week social entrepreneurship academic and experiential program for 30 top undergraduate and graduate students drawn from throughout the Commonwealth; 3) create partnerships between consortia of universities and economically distressed communities to provide the context for launching and refining social enterprise solutions; and 4) forge a statewide agenda for accelerating social entrepreneurship with specific roles for leaders of each sector."[105] The fourth strategy, forging a statewide agenda, is the most important because it involves a public component, which could include many policy approaches, such as those implemented in Louisiana or Vermont.[106] This education and policy approach is broader than other state initiatives and may prove extremely effective in the longer term.

In Texas, The OneStar Foundation, Inc., a quasi-public institution that receives substantial grant money from the state and whose CEO and board members are appointed by the Governor, has recently began promoting social entrepreneurship, encouraging discussions about social enterprise among different groups, the development of new strategies, and the mobilizing of new resources.[107] Created in 2003, OneStar supports volunteerism, community service, and non-profits across the state, administering state programs such as AmeriCorps, the Governor's Mentoring Initiative, and the Governor's Faith-Based and Community Initiative.[108] Working closely with Governor Rick Perry, "OneStar has established a social sector development fund—with funding from the state matched by private funds—that seeks to stimulate social innovation, entrepreneurship, and investment in Texas' nonprofit sector."[109]

C. Going Forward

Public support of social enterprise still has tremendous room to expand. Each of these examples, LOSC in Louisiana, OneStar Foundation in Texas, and Project Phoenix in Virginia, offers a different approach towards promoting this emerging community-building sector. Each state has employed a different method of public assistance and highlights three directions that states can move in going forward:

1.) Establishment of a public or semi-public agency that promotes social entrepreneurship;
2.) Creation of public or semi-public social entrepreneurship investment funds; and
3.) Education of the public, private, and non-profit sectors about social entrepreneurship possibilities.

While it is still too early to determine which policy model will be most successful or most popular, ITN*America*[‡] offers an example of how this state-nonprofit partnership can operate effectively.[110] Founded in Maine, ITN*America* is a social enterprise, whose primary mission is to reduce the number of senior citizen drivers on the road, without eliminating their independence or slowing their active life styles.[111] Although ITN*America* is no longer reliant on public subsidies, this social enterprise would not be nearly as successful without the support and assistance of state and local governments.[112]

ITN*America's* service is available 24 hours a day, seven days a week for individuals 60 years and older, and those who are visually impaired. The organization addresses the issue created by "drivers ages 80 and older [having] higher crash death rates than all but teen drivers" and seniors sacrificing their well-being due to a lack of adequate transportation, making fewer trips to the doctors, grocery store, and social, family and religious activities than other age groups.[113] Establishing this social enterprise required two grants from the federal Transit IDEA program, allowing ITN*America* to develop logistical and research information to effectively run the organization.

Yet it was two changes at the state and local level that propelled this organization forward. The first one allowed the organization to achieve economic viability within its home state of Maine, granting it access to donated or traded automobiles. In 2005, after lobbying by the organization, the legislature amended a state law, intended to protect consumers from used car dealers, to permit any public or nonprofit organization to use automobile donations to provide transportation to seniors and to acquire personal automobiles from seniors in exchange for transportation services.[114] The second change

[‡] ITN stands for Independent Transportation Network

was a big push from "[t]he governors' offices of Connecticut, Illinois, New York, and Utah—and the state legislatures of Hawaii and Rhode Island—[that]…provided replication funds that…made it possible for ITN*America* to expand to those states."[115][§]

Each additional start up requires only $450,000, after which the organization has developed "a financial model that essentially funds itself—by capturing nominal fees from customers and leveraging private resources through volunteer time and philanthropic support."[116][117] In addition to addressing a social problem, each ITN affiliate helps generate between $300,000 and $500,000 for the local business community.[118] "By 2010, the estimated annual economic impact of ITN affiliates will be as much as twenty million dollars."[119]

This example illustrates why states are beginning to take a look at the social entrepreneurship model. However, with regards to community wealth building, it offers even greater potential. It offers a chance to refocus attention on those members of society who are often overlooked, while improving the strength of local communities.

V. Green Collar Jobs

A. Background

Green collar jobs — that is, jobs that create environmental benefits — have long existed in our economy; they just have not always had a name. As the negative consequences of climate change become more apparent and as energy costs rise, environmental sustainability has become more important and prominent within the

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[§] In addition, this has prompted leaders of transportation services in thirteen states to improve their services based on ITN*America*'s model.

national dialogue. As part of this dialogue, environmentalism, once seen as an obstacle to job creation, is increasingly becoming relied on to generate economic growth.[120]

Using a definition widely cited and initially written by Raquel Pinderhughes, Director of the Urban Studies Program at San Francisco State University and author of *Alternative Urban Futures: Planning for Sustainable Development in Cities*, green collar jobs are "blue-collar work force opportunities created by firms and organizations whose mission is to improve environmental quality."[121] Current interest has significant potential for many growing and existing industries, including "recycling and reuse; hazardous materials clean-up; building retrofits to increase energy efficiency and conservation; housing deconstruction; solar installation; urban agriculture; and manufacturing of items related to the green economy."[122]

B. Overview

Given the variety of jobs that can be considered "green collar" and the different ways a job can be classified as "[improving] environmental quality," it is more difficult for states and local governments to craft effective policy.[123] However, it does not reduce the important role that state and local governments have in helping transform the U.S. economy. Many of these policy choices are manifested through specifics sectors, like transit oriented development and urban agriculture; other policies focus on renewable energy mandates or efficiency requirements, while yet others are crafted specifically to reflect the capacity of a municipality.

Transit-oriented development (TOD) is an important component of a green economy because building greater densities near rail stations and major bus lines encourages transit use and reduces traffic congestion and pollution.[124] The jobs created by TOD are similar to construction jobs on highway projects; however, the difference, which makes these jobs green collar, is that the result of this construction serves to promote environmental sustainability. Indeed, this is the principle behind all "green collar" jobs: contrary to the common notion of a "jobs versus environment" trade-off, with green collar jobs it is the need to satisfy environmental outcomes that is, in fact, the cause or *generator* of new employment. In addition to helping to create cleaner, more sustainable communities, TOD has the added effect of generating revenue for cash-starved cities, both directly (through lease revenues) and indirectly (by increasing property values in transit corridors, which allows cities to collect more taxes).[125]

California, New Jersey and Massachusetts have taken an active role in promoting TOD. The California Transit Villages Act of 1994 created a TOD program administered by the California Department of Transportation (Caltrans). Although the legislature failed to appropriate sufficient funds, this statewide endorsement of TOD has prompted "numerous municipalities to apply for the designation" and has encouraged the development of TOD projects at "every major transit agency."[126] In New Jersey, 19 municipalities have been designated as "Transit Villages," allowing them to receive technical support, priority funding from state agencies, and the ability to apply for a $3-million grant each year. Massachusetts has also provided incentives for TOD by allowing those neighborhoods to have district improvement financing, tax increment financing, and location efficient mortgages.[127]

States can also work with local municipalities to promote urban agriculture. Urban agriculture, or the process of growing produce on small acreage within an urban city in a sustainable manner, is increasingly seen as an important contributor to the green economy not only because of its sustainable growing practices (organic farming, etc.), but also because of its potential to reduce the carbon-emissions related to transporting food to cities from afar. Realizing the potential that urban agriculture can have as a community wealth-building tool for low-income individuals, cities have initiated support for these green collar jobs. In Philadelphia, Pennsylvania, a partnership between Philadelphia's Water Department and the Institute for Innovations in Local Farming, a non-profit, helped create Somerton Tanks Farm, a business that employs two full time farmers and an assistant.[128] In 2006, the farm netted $48,000 after expenses.[129]

Also in Pennsylvania, Braddock Farms, located in the eastern suburbs of Pittsburgh, is a project of Grow Pittsburgh, an organization that aims to spur economic development through urban agriculture. It has received strong support from the Mayor's Office and Braddock Borough Council, who hope that it "will create job opportunities, transform vacant land into attractive greenspace, and increase local access to fresh nutritious foods."[130] Mayor John Fetterman has said, "My dream is for Braddock to become the center of urban agriculture in the region."[131] While Braddock Farms is only in its first season, the long-term goal is to create an "urban farming infrastructure."[132]

In New York, Governor David Patterson and Agriculture Commissioner Patrick Hooker announced a new grant program to "strengthen community gardens" on July 25, 2008. "The community garden grants will provide up to $5,000 to existing community gardens and local garden coalitions that serve low-income people in urban areas."[133] State and local funding are important steps to help this sector grow and mature as a part of a green economy. Cities are just beginning to realize the potential of urban agriculture.

Another growing area of green collar job development concerns jobs in renewable energy. Twenty-seven states and the District of Columbia have pursued renewable energy mandates, which require states to generate a specific percentage of their energy from renewable sources.[134] The extent of the mandates varies from state to state but these policies, by setting targets for new forms of renewable energy production, create instant demand for green collar jobs.[135]

The ways these mandates work varies. Some states have required a percentage of electricity to come from a specific source of energy. In Illinois, 75 percent of the renewable energy generated annually must come from wind technology. Similarly, in Minnesota, where 30 percent of the state's electricity must come from renewable energy by 2020, 7.5 percent of the total state's electricity must come from wind. New Mexico has created the strictest requirement for solar energy, mandating that at least four percent of the state's electricity be produced by solar energy by 2020 and mandating that "other renewable sources" provide one percent of the state's power.[136]

Other states like California have mandates that simply require the state to generate a percentage of total energy consumed annually from renewable sources. California recently increased its goal when Governor Schwarzenegger issued an executive order requiring that all electricity providers supply 33 percent of their energy from renewal sources by 2020.[137][138] These aggressive state policies, due to generated demand, have enabled California to become home to "44 percent of all U.S. patents in solar technologies and 37 percent of all U.S. patents in wind technologies."[139] California also became in 2006 the first state in the nation to cap its greenhouse gas emissions, requiring cleaner, more "green" power sources to provide the state's electricity.[140] In other sectors, such as the appliance manufacturing industry, strict efficiency standards "increase innovation incentives for producers, reducing marketing risks, creating more jobs and leading to the development of better appliances," and transform the sector into a component of the green economy.[141]

California's strict policies illustrate that the impact of these requirements on green job creation has been profound. Overall since 1972, approximately 1.5 million jobs have been created due to California's efficiency standards. [142]

State and local governments can also take advantage of workforce development programs to ensure that green jobs become jobs that can employ people from low-income communities, thereby benefiting the environment and reducing poverty at the same time. In June 2008, "eighteen students graduated from Oakland's first green collar jobs training program," receiving state-approved environmental engineering technician certificates. [143] With an 8.9 percent unemployment rate as of the fall of 2008, then one of the highest rates in the nation, the Regional Technical Training Center, a state-approved post-secondary agency, and Merritt College launched this new program "to help disadvantaged workers take advantage of the green economy."[144] In Edensburg, PA, after the passage of a renewable energy mandate in 2004, a number of players ranging from state and local government, workforce development groups, and organized labor worked together to market the skills of dislocated steel plant workers. As a result of their efforts, Spanish wind technology giant Gamesa opened their first North American plant in this community, helping reemploy these workers and expand the green economy.[145]

C. Going Forward

States and local governments have an incredible opportunity to help direct and develop the future green economy. This endeavor is complex, requiring many components, and remains without a blueprint. However, what is clear is that there is a role for both macro policies, such as statewide renewable energy mandates, and micro policies, such as transit-oriented development, urban agriculture, and workforce development programs to generate new jobs that can benefit low-income individuals in declining communities. Green collar jobs have significant potential to help these individuals and provide a rare opportunity for states and local government to also assist those individuals and communities who have often been most overlooked.

For example, affordable housing can be a natural component of TOD, since it can help reduce residents' automobile-related costs. New Jersey is beginning to strongly encourage affordable housing for municipalities that want "Transit Village" designation[146]. Urban agriculture is another green economy component that can be used to build community wealth. By definition, urban agricultural must be local and community-oriented. In addition, studies show that buying from these local growers "generate more income for local economies than does food purchases from supermarkets."[147]

State and local governments should avoid business as usual, capitalizing on this rare opportunity to define the structure of the new "green economy" that everyone knows will soon exist. State renewable energy mandates do not necessarily translate into green collar jobs for people in low-income communities, but they can if done right. These industries are still being defined, and as such, offer a better opportunity to help low-income individuals than the process of restructuring existing industries. For example, federal wind energy policies have led to a "highly centralized and absentee owned renewable energy industry."[148] State and local governments can reverse this trend, working to create a "highly decentralized and dispersed renewable energy industry" that is heavily locally owned.[149] This change in policy will link these mandates to the revitalization of local communities and regions, creating wealth through a sustainable, community asset.[150]

The green economy is coming. What it will look like has not been fully defined. However, it is clear that state and local governments need to play a role in establishing green collar jobs that are focused on strengthening local communities and that are establishing opportunities for individuals that have been traditionally ignored.

VI. Recommendations and Comments

This paper highlights some of the more notable state and local government policies regarding five community wealth sectors – ESOPs, CLTs, CDFIs, social entrepreneurship, and green collar jobs. Although each section of this paper commented on the sector going forward, there are additional observations and recommendations that can be drawn. These comments fall under two categories labeled: 1) Position and 2) Organization.

A. Position

State and local governments are better equipped to create wealth-building policies because the issues they address are inherently local and community-based.[151] These policy-makers have a more accurate understanding of the history, environment, and appropriateness of certain initiatives. They have a responsibility to implement policies that strengthen the communities of their constituents in ways that do not seek to displace them.

This state and local responsibility does not reduce the role of the federal government. The federal government's access to significantly more resources can provide funds to cash-strapped states during the current economic crisis, for instance. In August, the Housing and Economic Recovery Act of 2008 provided $3.92 billion to state and local governments to acquire blighted and abandoned property, illustrating the first time that "land banking" policy appeared in federal law.[152] Mentioned above, the Genesee County Land Bank Authority is a national leader in using land banking to guide community development and should be used as a model for how to best distribute those federal funds.[153] Similar federal money should be distributed to CLTs, enabling them to have a role in addressing the foreclosure crisis, and be used to provide credit to CDFIs, ESOPs, and social enterprises that are dependent on financing and leveraging.

Regardless, lack of federals funds is not an excuse for state and local governments to forgo implementing these policies. Prominent examples within each of the five strategies analyzed here, including the success of the Ohio Center for Employee Ownership (ESOP), CityFirst Enterprises (CLT), the California Organized Insurance Network (CDFI), ITN*America* (Social Enterprise), and efficiency standards in California

(Green Collar Jobs), demonstrate the high return on investment of these policies. These returns are significantly better than more traditional, inefficient job retention initiatives (e.g., the Ohio Jeep plant mentioned above) and expensive corporation-friendly tax cuts.

Additionally, there are other factors to consider beside just economic viability. These sectors are positioned to create stronger, more sustainable communities, promote greater equity and opportunity across social classes, and potentially increase the role of democracy in our society. These normative claims are an integral part of American ideals and values and should be strongly contemplated in conjunction with any economic analysis.

B. Organization

Perhaps the most important observation and recommendation here concerns the lack of organization among community wealth sectors (or even within sectors) and the dire need for it. The current economic downturn provides an opportunity for these sectors to push legislators to develop sound economic policy for those who actually need it the most and the burgeoning green economy allows them a rare opportunity to have a spot at the policy table for this rapidly developing sector.

These community wealth sectors should not be viewed as isolated entities, competing for the same scarce resources. Each of these sectors has illustrated that it can effectively and efficiently use public subsidies. They have shared interests — developing stronger, more sustainable communities – and, as such, should work jointly.

There is little incentive for policy-makers to establish general benefit policies, and even less for them to develop these policies for poorly organized groups.[154] Before any wealth sector coalition can be formed, the sectors themselves need to be organized like any other industry group, such as National Corn Growers Association. Forward Minnesota is an example of how this organization can begin. As a coalition of eight worker cooperatives, volunteer collectives, and democratically run non-profits in Minnesota, its goal is to further democratic workplaces in Minnesota.[155] Additionally, these organizations cannot just exist at the national level either; they must develop chapters at the state and local level and primarily focus on relevant community development policies.

Organization within a sector should only be a first goal if these policies are to be effectively implemented. Just as the powerful National Small Business Association represents small business interests, these industries need to organize a community wealth coalition with the primary goal of promoting sustainable, community-oriented economic policies. As clearly illustrated in this paper, certain sectors, such as CDFIs, have a significantly higher probability of appearing on a state or local government's policy agenda than other ones. Within the context of a coalition, the popularity and proven track record of certain sectors would have a net positive effect on the ability of other sectors to enter the agenda, by focusing legislators' attention to a broader scope of effective community development policies.

As a unified coalition, these organizations would not only be significantly better positioned to direct and influence policy, they would be able to accomplish more for their individual sector and not fight against each other for the same resources. Controlling a larger share of the electorate and a larger percentage of economic industry in a state or region, a community wealth coalition would be able to send a clear message to policy-makers.

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