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# Cities Developing Worker Co-ops: Efforts in Ten Cities

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## About the Imagined Economy Project

The Imagined Economy Project launched in 2014 to examine, reflect on, and promote imaginative economic development approaches in the U.S. that balance the need to earn a living with addressing longstanding economic problems like income inequality and poverty, labor downgrading, and environmental degradation. For decades, a main way of addressing these systemic challenges has been through public policy, but the limits of social welfare and regulatory policy may be heightening in an increasingly global economy and a political culture of retrenchment. Beyond policy, communities and visionaries are trying a new tactic. They are experimenting with ways of transforming economic development from the inside, and the Imagined Economy Project is motivated to understand, explore, and assess such imaginative approaches like the worker cooperative initiatives discussed in this report. In our view, worker co-ops offer some potential for creating more just and equitable markets, and municipal backing has been key in accelerating their proliferation in local economies.

## Author

Michelle Camou

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## Distribution

*Cities Developing Worker Co-ops: Efforts in Ten Cities* is provided at no cost in pdf version at [www.imaginedeconomy.org](http://www.imaginedeconomy.org).

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## Summary Overview

In recent years, city governments have begun to help develop worker cooperative businesses in their local economies, a deliberate action to make economic development more inclusive and equitable. The Imagined Economy Project explores municipal approaches to worker co-op development in ten cities, finding it offers potential for the creation of economic opportunity as well as opportunities for cities to learn and refine their own commitments to a more expansive notion of economic development.

There are three approaches to worker cooperative development shaping up in the ten cities:

- **The Anchor Approach-** City governments provide business loans and other supports to worker cooperatives developed by a corporate umbrella to tap into procurement spending by area anchor institutions. (Cleveland, Richmond, Virginia, Rochester).
- **The Ecosystem Approach-** City governments, through seed funding and direct programmatic delivery, stoke the local capacity to provide educational, outreach, technical assistance, and financial supports for worker co-op business starts or conversions. (Austin, Madison, Minneapolis, New York, Richmond, California).
- **The Preference Approach-** City governments develop bid preferences for verified or certified worker cooperatives able to meet city procurement needs, and may also offer other supports like tax forgiveness, financing, or fast tracking permits. (Berkeley, Oakland).

The cities are at various stages of planning and carrying out the development of worker cooperatives. In Cleveland, New York, and Richmond, California, municipal efforts to promote worker cooperatives are far enough advanced to indicate some of the results.

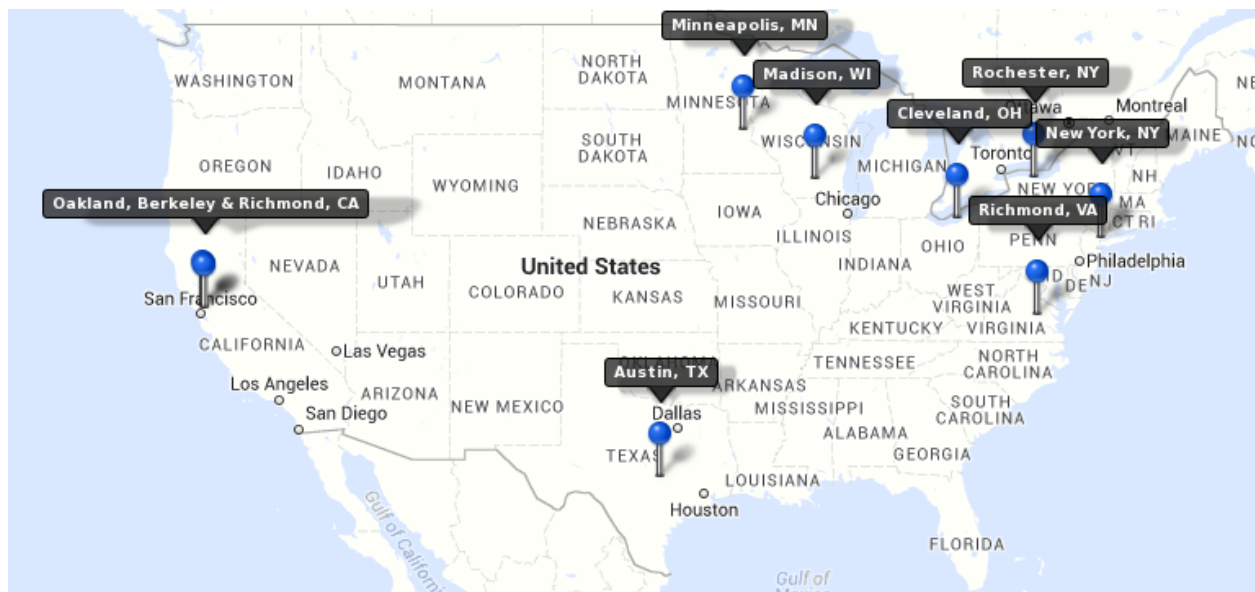
- Municipally-supported worker co-op efforts produce some business and job creation. Three cities produced 25 new worker cooperatives employing 261 people, mostly in the service sector.
- The cost ranged from a high of \$100,000 to a low of \$7,143 spent per job created.
- Ecosystem building involving very intensive technical assistance and business supports yielded the fastest growth of worker cooperatives locally. The anchor institutions approach yielded fast growth of larger workplaces.
- City governments approach their efforts to promote worker cooperatives in the spirit of learning, adaptive management, and grounding performance measures in experience.
- Cities may make long term commitments to municipal worker cooperative development based on performance as well as compatibility with other small businesses, adequate resources, and successful balance between social and business missions.

While the long-term impact of these efforts cannot be predicted, city government decisions to experiment with worker cooperatives signals true engagement with questions of how to build equality and wealth, upgrade labor, and support divested communities in an ever-changing market. This is a welcome advance to the economic development landscape that can only strengthen with adoption and reflective application by additional cities.

## Introduction

City governments are moving in an unexpected direction of late. They are making worker ownership an explicit part of their approach to economic development. Since 2009, at least ten municipalities have taken steps to promote the growth and development of worker cooperatives, or democratic businesses owned and operated by worker-owners. Worker cooperatives are not common in the United States; currently, there are about 400 nationwide.<sup>1</sup> Nonetheless, they may be uniquely suited to addressing the sort of labor market and environmental problems likely to loom large in the coming century, as well as become vehicles of economic inclusion for people facing barriers to employment or business ownership.

Through their actions, cities are taking a place at the forefront of broader societal efforts to give worker cooperatives a boost, to try to make them structural features of urban economies. This report, based on interviews with elected officials or key personnel in the ten cities, offers an overview of the three basic approaches shaping up around municipally-supported worker co-op development. It also examines the available evidence on the “so-far” results and costs involved in carrying out these projects, as well as some of the steps involved in program implementation and, possibly, institutionalization.



The key findings are as follows:

- There are three basic city government approaches to worker co-op development. These are:
  1. *The Anchor Approach*- Starting worker co-ops to tap into the procurement needs of anchor institutions like hospitals and universities. (Cleveland, Rochester, Richmond, Virginia).  
*-This approach has been especially attractive to high-poverty cities, and city governments expect or have funded this mostly through external loans and grants.*

<sup>1</sup> Democracy at Work Institute, 2015. “2015 Press Kit” <[https://www.usworker.coop/sites/default/files/PressKit\\_1.pdf](https://www.usworker.coop/sites/default/files/PressKit_1.pdf)>

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2. *The Ecosystem Approach*- Building up a population of co-op developers, incubators, educators, and lenders charged with starting or converting worker-owned businesses. (Richmond, California, New York, Madison, Minneapolis, Austin).  
*-This is associated with cities whose residents have near or higher than average incomes, many with an existing mass of worker cooperatives or a group of interested nonprofit organizations. Funding has come from city operating or capital budgets.*
  3. *The Preference Approach*- Extending preferences to worker cooperatives bidding to be city contractors or vendors. (Berkeley, Oakland).  
*-This is shaping up as a San Francisco Bay Area regional approach, although it could move beyond the region with time.*
- Three cities have programs or projects up and running and, in total, all three have created 25 new worker co-ops employing 261 people in for-profit worker co-op businesses. The majority of the businesses are in the service sector, and the public costs per job created ranged from a low of \$7,143.00 (involving no financing role assumed by the city) to a high of \$100,000.00 (involving a substantial financing role assumed by the city). The cities are impressed by the results and understand a substantial financing role may be appropriate for cities to assume but are also motivated to reduce the cost basis at the higher end of the spectrum.
  - A common step to implementation involves locating the worker co-op program or project within a city agency, while a minority of cities also created new staff positions and community navigators. Few cities have made long term funding commitments to worker cooperative development. Taking that step, the cities state, relates to philosophy as well as performance on business and job creation. Plus, the cities perceive three challenges to work through as they consider long-term funding commitments, including impacts on other small businesses, resource limits, and achieving balance between social and business purposes.

Ultimately, worker cooperatives offer promise to cities wishing to confront the shortcomings of traditional economic development in expanding opportunity, capturing procurement dollars locally, producing more equality than inequality, and investing in local businesses and people. Of course, municipal efforts to expand cooperative workplaces are at early stages, continually unfolding. What we are seeing today does not necessarily indicate future trends or expectations about other cities. Most definitely, the ten cities are learning by doing and open to rethinking as experience dictates. Nonetheless, the group of ten cities has produced various concepts and models that are shaping the conversation for city governments and others concerned with urban America, labor, inequality, and how business forms can adapt in an ever changing world economy.

**ABOUT THE TEN CITIES**

**Figure 1: Total Population and Median Household Income/Poverty Rate: Cities Promoting Worker Co-ops**

Austin	931,830 \$55,216/19%
Berkeley	120,972 \$65,283/20%
Cleveland	388,072 \$26,179/35.9%
Madison	248,951 \$53,933/19.6%
Minneapolis	410,939 \$50,767/22.6%
New York	8,550,405 \$52,737/20.6%
Oakland	419,267 \$52,962/21%
Richmond, CA	109,708 \$54,857/17.1%
Richmond, VA	220,289 \$41,331/25.5%
Rochester	209,802 \$30,784/33.8%
<b>Total Population</b>	<b>11,610,235</b>

Source: US Census Bureau Quick Facts, City Population Estimates 2015

It is a diverse group of ten experimenting with worker ownership as urban economic development, suggesting that cities of variable regions and sizes, socioeconomic qualities, governance structures, and even capacities can act to build up or support worker cooperative sectors. The pioneering group of ten ranges from New York, the largest city in the United States and also one of the largest economies in the world to Richmond, California, a relatively small city of 109,000 in the East Bay of San Francisco. All told, 11.6 million people are living in cities with municipal efforts to foster cooperative sectors of their economies. There are Rust Belt cities and Sun Belt cities, as well as cities from every geographic region. The urban search for economic development alternatives appears to span the nation.

**Median Household Income and Poverty Rates.** The median household income in the United States in 2015 was \$53,482, according to the US Census Bureau. Five of the pioneering cities have median household incomes near or higher than this, with Cleveland, Rochester, and Richmond, Virginia falling well below.

The relative wealth in the higher- than- average income cities coexists with poverty. In fact, all of the ten cities active on worker cooperative development have poverty rates higher than the national average of 14.8%. It appears that separate urban dynamics- high poverty as well as wealth coexisting with poverty- may compel interest in creative policy solutions.

**Political Features and Capacity.** Commitments to worker co-ops have sprung from city governments of all types. Four of the ten cities are “Strong Mayor” governments (New York, Cleveland, Richmond, VA, and Madison); four are Council/Manager governments (Rochester, Richmond, CA, Austin, and Berkeley); one is a “Weak Mayor” type (Minneapolis); and one is a hybrid “Strong Mayor” and Council/Manager government (Oakland).

**Figure 2: Municipal General Funds**

	General Fund Total	General Fund Per Capita
Austin	\$906,700,000	\$993.33
Berkeley	\$147,900,000	\$1,244.39
Cleveland	\$542,800,000	\$1,393.51
Madison	\$268,200,498	\$1,091.62
Minneapolis	\$463,000,000	\$1,137.01
New York	\$77,482,450,000	\$9,061.85
Oakland	\$534,378,786	\$1,291.00
Richmond, CA	\$136,949,000	\$1,261.48
Richmond, VA	\$766,300,000	\$3,517.51
Rochester	\$373,696,100	\$1,779.65
<b>MEDIAN</b>	<b>\$498,689,393</b>	<b>\$1,291.43</b>

See Appendix 1 for documentation of general fund budgets.

Mayors or Councils have been the initiators of worker co-op promotion in cities.

With some exceptions, most of the cities are able to innovate from a modest resource base. While cities may pull from various budget areas to support specific innovative programs, the General Fund is that portion of the budget that is less restricted and may be allocated by Mayors and City Councils in support of their urban agendas; it

signals a city's resource capacity. The ten cities have a median of \$1,291.43 per city resident available in General Funds. New York and Richmond, Virginia have a considerably larger resource base than that, while Austin's base is fairly well below. Despite many being stretched, the pioneering cities are figuring ways to tap their resources in order to innovate.

### WHY WORKER CO-OPS?

The city governments profiled in this report want the benefits of urban economic development to be shared more widely, but many express awareness that conventional economic development approaches can be troubled. As Ruth Rohlich of Madison's Office of Business Resources put it, economic development as frequently practiced "isn't helpful in creating really healthy communities, financially strong communities, in an equitable way." In many ways, the municipal embrace of worker cooperatives reflects a prioritization of equity on the urban agenda, as well as willingness to experiment with economic development beyond incentivizing corporate relocation downtown. They want opportunities distributed more evenly, reaching neighborhoods that have been divested as well as individuals facing barriers and disadvantages like chronic poverty, inadequate transportation or childcare, non-English fluency, felony records, or the lack of a diploma or GED. The officials interviewed believe worker cooperatives can get their cities closer to equity by producing economic inclusion, high quality jobs, and an ability to stimulate growth in neglected or hard-hit areas.

**Figure 3: Possible Benefits of Worker Co-ops**

- Workers involved in setting labor terms.
- Profits distributed to workers.
- Highest to lowest wage ratio kept low.
- Business stability and job security.
- Environmental best practices.

- **Economic Inclusion.** In five of the ten cities (Austin, Cleveland, Madison, Minneapolis, and New York), city officials emphasized worker cooperatives as a way to connect their most vulnerable populations to the economy. In Austin, for instance, the city has identified 10,000 "hard-to-employ" individuals that it would like to help join the labor market, with worker cooperatives being a possible pathway for at least some of them. In Minneapolis, Daniel Bonilla said that city officials support promoting the worker cooperatives model as a way to permit market entry for low-income individuals that, alone, would never have the startup capital or skills to form a business. And in Cleveland, Economic Development Director Tracey Nichols was drawn to support the venture that would become the famed Evergreen Cooperatives. "I heard they were going to hire a lot of people who were formerly incarcerated," she said in an interview, "...and to me, that's a great idea."
- **Investments in Divested Neighborhoods.** Both Rochester and Richmond, Virginia conceptualize worker co-op development as one way of tackling inner city divestment and highly concentrated poverty in certain city areas. In Oakland, while clear to state the importance of city-wide benefits to taxpayers, Nayeli Maxson, policy aid in City Council District 4, expects worker cooperatives to bolster neighborhood-based business districts. And in Richmond, California, former Mayor/current Council member Gayle McLaughlin discussed worker cooperatives as a

community-wide empowerment strategy given relatively poor economic conditions and a slow post- 2008 recession recovery in that city. Here, we see municipal thinking that worker cooperatives can elevate areas as much as individuals.

- **Job Quality.** In its publication “Working Together,” the NYC Department of Small Business Services and the Mayor’s Office of Contract Services jointly expressed the expectation that “the worker cooperative business model provides New Yorkers with meaningful opportunities to achieve upward mobility by earning higher wages and maintaining stable employment.”<sup>2</sup> Four of the ten cities shared this sentiment, expecting worker cooperatives to enhance job quality due to the triple bottom line focus typical of many worker cooperatives. For instance, Oakland’s Councilperson Campbell Washington pointed out “a whole host of positive things” that would likely follow from worker cooperatives, chief among them sustainable jobs at better wages. Madison and Richmond, Virginia also see the creation of higher wage and secure jobs as top advantages of worker cooperatives; in Richmond, Virginia, Director of Community Wealth Building Thad Williamson aspires to see new job offerings at \$15 an hour or higher.

Overall, the ten cities are promoting worker cooperatives as a way to develop multidimensional local economies that better channel opportunities to individuals and neighborhoods that largely have been left out of the mainstream. This signals an inventiveness and creativity on the part of the city governments, as well as engagement with broader cultural understandings of how to create a more equitable economy.

### READERS GUIDE

The remainder of the report examines city government efforts to foster worker cooperatives in more detail. The material is divided into brief chapters, described below, that can stand alone or be read as a whole.

*Chapter one* explores the city role in supporting the anchor approach to developing worker cooperatives. Cleveland, Rochester, and Richmond, Virginia are taking this approach, although Rochester and Richmond are still in the planning phases. The chapter describes the anchor-linked worker co-op approach and structure, which is mostly located in the private sector, as well as the city role in accessing financing and handling underwriting risk.

The ecosystem approach describes efforts in Austin, Madison, Minneapolis, New York, and Richmond, California to shape the institutions, resources, attitudes, and abilities that foment worker cooperatives, and this is the subject of *chapter two*. The city governments taking this approach focus mostly on worker co-op education and technical assistance, supporting nonprofit co-op developers, and/or developing financing programs.

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<sup>2</sup> NYC Small Business Services and Mayor’s Office of Contract Services 2015. *Working Together: A Report on the First Year of the Worker Cooperative Business Development Initiative*. <<http://www.nyc.gov/html/sbs/downloads/misc/wcbdi2015-booklet/offline/wcbdi.pdf>>



*Chapter three* moves to Berkeley and Oakland, each in the early stages of implementing a preference approach. Neither city has gotten to implementation yet, but their early processes give a sense for how city governments can support worker cooperatives through their own procurement.

Cities are getting into worker co-ops because they want to see results given available resources. *Chapter four* describes results and costs per job created in the three cities farthest along in their worker co-op projects or initiatives: Cleveland, New York, and Richmond, California. The evidence so far shows that a slight amount of worker-owner opportunity has resulted, but business failure has also happened. The per-job cost to cities is quite variable depending on the extent of the city's role in accessing financing for startups, but key actors are experimenting with methods for bringing the highest cost basis down.

*Chapter five* discusses what the cities are doing to carry through on their commitments to worker co-op development, as well as some of the considerations in making these commitments long term or even permanent. The main implementation task involves locating projects within city bureaucracies, while a minority of cities has added new staffing. Making worker cooperatives a permanent or a long term commitment of cities will depend on philosophy, as well as performance and the adequate resolution of three challenges that the cities anticipate as worker cooperatives take root.

The *Conclusion* sums up the incredible work of cities in supporting economic development rooted in worker ownership and concerns for equity. These are city governments thinking actively and creatively about how best to grapple with protracted socioeconomic challenges related to ongoing economic restructuring. There are risks and costs for sure, but rewards also await city governments and their residents willing to take a chance on innovation. Whether these efforts result in the equitable and inclusive economies these municipalities hope for is an answer that has to wait. Nonetheless, more city governments getting involved and sharing insights can only strengthen the chances of worker cooperatives expanding equity in urban economies.

## Chapter One:

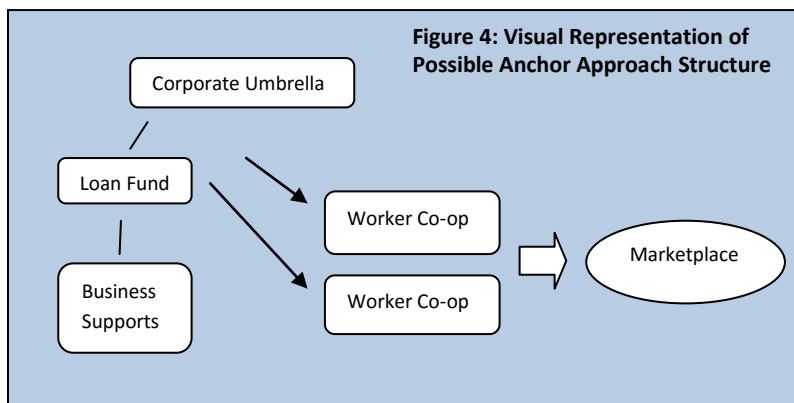
### Building up Worker Co-ops with Anchor Institutions: Cleveland, Rochester, and Richmond, VA

Forming worker cooperatives as suppliers or vendors to a city’s major civic institutions like hospitals, museums, universities, libraries, etc is one way to develop a worker cooperative market sector. Typically, anchor institutions- named because they are stable and likely permanent fixtures in urban communities- control millions in procurement dollars and have interests in the economic and community development of the neighborhoods surrounding them.<sup>3</sup> The logic is that, by becoming part of the anchor institution supply chain, worker cooperatives can become viable businesses with deep and lasting roots in the neighborhoods where they are located. Cleveland is the first example of this approach in action and has been inspirational to many other cities, including Rochester and Richmond, Virginia. Each of those cities is currently planning its own anchor-linked projects or initiatives.

#### THE BASICS OF THE ANCHOR APPROACH

The anchor approach involves the creation of a nonprofit umbrella company that works to develop multiple worker-owned businesses serving market niches in demand by anchor institutions. Based loosely on the Mondragon Corporation in Spain, the approach is the invention of the D.C.-area think tank the Democracy Collaborative. The Cleveland Foundation brought the Democracy Collaborative to Cleveland to turn the concept into action in an impoverished section of the city. This

was the first application in the U.S.



The Cleveland effort was named the Evergreen Cooperatives and, in addition to the nonprofit corporation that coordinates the for-profit businesses, there is also a development fund to oversee profit pooling and seed funding and programs to provide business services and social supports to

employees. Since 2009, it has established three worker-owned businesses rooted in green practices and technologies under the central umbrella employing, in 2016, 113 people in the for-profit businesses plus another six in business services.<sup>4</sup> Two of the three companies were profitable by 2014,<sup>5</sup> and the long term vision for Cleveland is enough business starts under the Evergreen Cooperatives rubric to support 3-5,000 new jobs in an area with 43,000 residents.<sup>6</sup>

<sup>3</sup> Initiative for a Competitive Inner City, 2011, “Anchor Institutions and Urban Economic Development: From Community Benefit to Shared Values,” *Inner City Insights* 1:2, <[http://www.icic.org/ee\\_uploads/publications/ICIC\\_RESEARCH\\_anchor\\_institutions\\_r2.pdf](http://www.icic.org/ee_uploads/publications/ICIC_RESEARCH_anchor_institutions_r2.pdf)>

<sup>4</sup> Figures supplied by Jon McMicken, CEO of Evergreen Cooperatives Corporation, in August 2016.

<sup>5</sup> Keith Epstein, “Rebuilding the Rust Belt,” *Politico* Feb 19, 2015

<[http://www.politico.com/magazine/story/2015/02/what-works-cleveland-115324\\_Page3.html#.VVY-ffBenIU](http://www.politico.com/magazine/story/2015/02/what-works-cleveland-115324_Page3.html#.VVY-ffBenIU)>

<sup>6</sup> Informational interview with Ted Howard, Executive Director of the Democracy Collaborative, in 2011.

Richmond, Virginia and Rochester aspire to similar developments in their cities. Like Cleveland, worker cooperatives are not significant parts of their existing economies, although Rochester has one verified, preexisting worker co-op.<sup>7</sup> Rochester is entering the second stage of its planning, while Richmond was still in the early stages of feasibility study at the time of interview. Both cities commissioned the Democracy Collaborative to carry out feasibility studies, market research, implementation, and outreach to local anchor institutions. In Rochester, where some of the planning has been made public, there appear to be a few minor conceptual differences built into the anchor approach as compared to the model developed in Cleveland. Richmond has not yet announced its plans.

The first alteration planned for Rochester involves the business mix. Said Henry Fitts, Director of Innovation for the City of Rochester, “A lesson learned from the Evergreen experience has been that high-capital startup businesses are a lot more difficult to accomplish through this model.” Market research in Rochester has also focused on service-based businesses requiring lower start-up capital. The planned service businesses are not duplications of existing services but chosen to satisfy unmet

consumer or anchor institution demands. The transit service, for instance, is conceived as a way to get inner-city residents to suburban and rural jobs, while the food processing plant intends to capitalize on a desire by area anchor institutions to include more locally-sourced food in cafeterias.<sup>8</sup>

**Figure 5: Anchor-Linked Worker Co-op Businesses**

Cleveland	Rochester <i>Proposed</i>
Commercial Laundry	Transit Service
Solar Energy and Home Repair/Maintenance	Food Processing-Locally Grown Food
Hydroponic Greenhouse-Lettuce and Herbs	Green Construction/ Energy Efficiency Childcare (producer coop) Community Health

The second alteration detailed in the Democracy Collaborative’s implementation plan for Rochester builds in complementary ways of growing the number of businesses

under the nonprofit umbrella. In addition to new business starts, the Rochester model envisions bringing already existing or independent worker co-ops into the fold (in exchange for access to business services) and helping convert conventional businesses to worker cooperatives.<sup>9</sup> Both of these measures reflect an understanding that a speedy expansion of the number of profitable businesses is a key to generating wealth for worker-owners, as well as stoking the supply of capital available for investment in additional wealth-building ventures. In Cleveland, the Evergreen Cooperatives grew to three for profit businesses over five years but may have accelerated sooner with independently-formed co-ops joining.

### CITY INVOLVEMENT

With time, city governments have initiated anchor-linked worker co-op development but in Cleveland, the first city to try it, it started as a Cleveland Foundation project. The City of Cleveland got

<sup>7</sup> See Chapter four, Figure 11, this volume for details.

<sup>8</sup> Jessica Bonanno et al, 2016, *Rochester’s Market Driven Community Cooperatives Corporation, A Feasibility Analysis and Implementation Plan*, p. 37 < <http://democracycollaborative.org/content/rochester-s-market-driven-community-cooperatives-corporation-feasibility-analysis>>

<sup>9</sup> Ibid, p. 16.

involved by chance. Cleveland’s Nichols said, “I heard about it just in passing,” and she was so impressed that she asked her staff to contact the Evergreen group to offer financial assistance. As Nichols recalled, “When we called them, they had just been turned down by the bank for the whole thing, and they were kind of bummed out. They also happened to be in Mondragon, Spain and said they almost went off the road.”

The City of Cleveland provided financing for the three worker cooperatives. Nichols was able to provide a low interest loan package with loans between one and three percent interest, with the greenhouse development backed by a non-school tax increment financing (TIF). In total, Cleveland made \$11.9 million available to the three Evergreen Cooperatives ventures. The majority of these funds were made through U.S. Department of Housing and Urban Development’s (HUD’s) Section 108 Loan Guarantee program where cities borrow from the federal government and pass the loans on to the borrower. HUD granted a waiver of Public Benefit since the cooperatives, as start-ups, were unable to receive traditional bank financing. HUD also granted a waiver of Public Benefit because of the higher than normal HUD funding per job created. The City also received a \$2 million Brownfield Economic Development Initiative (BEDI) grant from HUD for the greenhouse project as that site qualified as a brownfield. The project required clean-up of the site.

The main challenge for Nichols was underwriting. She explained that cooperatives are higher risk borrowers simply because there is no single owner to assume the risk of the loan, provide a personal guarantee, and put up collateral. The fact that the Cleveland Foundation and various anchor institutions were financial backers helped minimize some of those obstacles for the City of Cleveland. However, the greenhouse project, the most expensive of the three ventures, posed additional difficulties that Nichols resolved by placing a TIF debt reserve on that business. Cleveland set aside the non-school portion of the payments in lieu of taxes for debt repayment, in the event that the greenhouse could not make payments on its sizeable loan.

<b>Figure 6: Economic Development Tools Used to Fund Worker Co-ops in Cleveland</b>	
<b>Loans</b>	HUD’s Section 108 Loan Guarantee Program
<b>Grants</b>	HUD’s Brownstone Economic Development Initiative
<b>Subsidies</b>	Tax Increment Financing Debt Reserve

Pioneering city involvement in Cleveland paved the way to proactive government roles in other cities. In both Rochester and Richmond, Virginia, city governments have been initiators of the anchor approach, making anchor-linked worker co-op development part of larger, recently-established poverty reduction initiatives. In the past year, each city issued a Request for Proposal (RFP) for feasibility study and planning and also envisions making financial commitments to eventual program implementation.

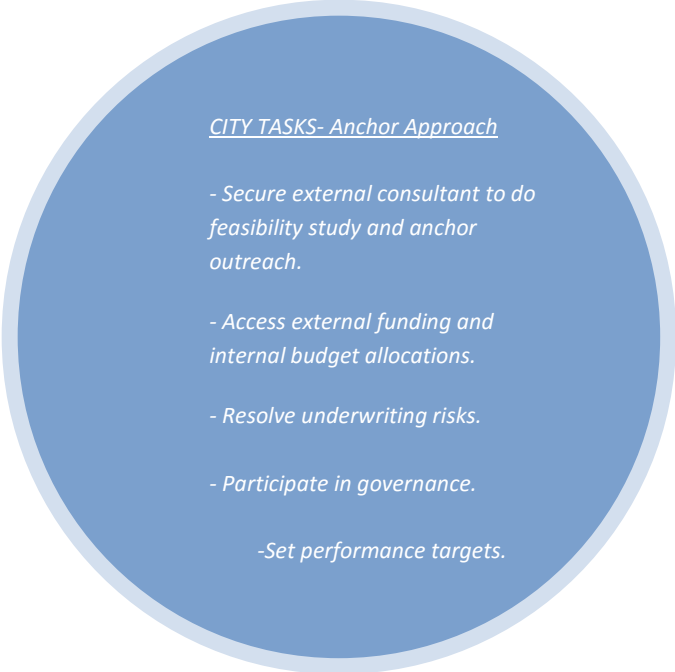
**PERFORMANCE TARGETS**

Cleveland, responding and not initiating anchor-linked worker co-op development, did not have a hand in setting performance targets around worker co-op creation. The later adopters, Richmond, Virginia and Rochester, entered their planning with performance targets in mind, very much informed

by outcomes in Cleveland. Richmond has set the goal of 50 jobs created through an anchor-linked worker co-op enterprise project, with the ratio of public investment per job below (and perhaps well below) \$10,000: 1. Richmond’s Thad Williamson, Director of Community Wealth Building, foresees using HUD’s Section 108 Loan Guarantee Program, as well as other city economic development tools and other outside funding. Yet, to move forward, the City Council would need to approve any resource commitment. In Rochester, too, the targeted number of initial jobs is modest: 100 jobs created from anchor-linked worker co-ops in a targeted city neighborhood. Rochester’s Fitts mentioned that the City of Rochester is ready to fund the next stage of its plan: creation of the nonprofit umbrella structure overseeing the development of the worker co-op businesses. He also mentioned the Community Development Block Grant program as well as a quasi-public community development organization as sources of financing, as well as applicable tax abatements, land leasing, and TIF subsidies.

**A WRAP UP**

The anchor approach is gaining traction, especially as part of municipal initiatives to combat poverty in high poverty cities. The city role has become one of steering: hiring a consultancy to do feasibility/market studies and accessing financing for businesses under a corporate umbrella. In the financing role, the city opens itself to risk that may be minimized through TIF participation, land leasing, or other subsidies or tax abatements. As the approach has spread outside of Cleveland, city governments have assumed greater leadership in structuring projects, they have gained more influence over the contours and startup costs of the businesses they finance, and they can minimize risk that way. City governments are reasonable about performance measures in the initial years of anchor-linked worker co-op development projects, basing their sense for what is possible on Cleveland’s early example.



*CITY TASKS- Anchor Approach*

- Secure external consultant to do feasibility study and anchor outreach.*
- Access external funding and internal budget allocations.*
- Resolve underwriting risks.*
- Participate in governance.*
- Set performance targets.*

## Chapter Two:

### Building Up Worker Co-op Ecosystems: New York, Madison, Richmond, CA, Austin, Minneapolis

Worker cooperatives sprout and spread not from thin air but from social, economic, and institutional conditions that vary from place to place. An entrepreneurial ecosystem refers to the interactions between the variety of local human, cultural, legal, market, and policy features that relate to business formation, growth, and expansion.<sup>10</sup> Worker co-op specific entrepreneurial ecosystems have shaped the emergence of worker co-op sectors locally,<sup>11</sup> as advocates and support organizations form to promote, incubate, and experiment with the worker-owned business form. The logic is that, through the everyday functioning of ecosystems, entrepreneurs can turn good ideas into viable worker co-op businesses in their local areas.

The ecosystem approach shares features with the anchor institutions approach, namely both assert how important it is for worker cooperatives to situate within a collaborative system of business supports, financial supports, and social supports. Two differences are key. First, while anchor institutions may be customers, the ecosystem approach is not oriented or designed around anchor institution procurement. Second, unlike the anchor approach with its nonprofit umbrella coordinating business creation and support organizations, the ecosystem approach is decentered. There is no single coordinating agent driving business starts or providing support. Key actors are independent and diffuse, although they may collaborate and cooperate voluntarily. Richmond, California and New York City are the early adopters of the ecosystem approach, with Madison, Minneapolis, and Austin following suit.

#### THE BASICS OF THE ECOSYSTEM APPROACH

The worker cooperative ecosystem entails all of the things that bring worker co-ops to life: entrepreneurs; financing; markets and customers; cooperative values; specialized business services; supportive laws; social supports for worker-owners; and co-op development initiatives. The worker co-op advocacy organizations the Democracy At Work Institute (DAWI) and Project Equity jointly identified eleven locally-variable elements that underlie worker cooperative ecosystems, depicted in Figure 4 on the next page.

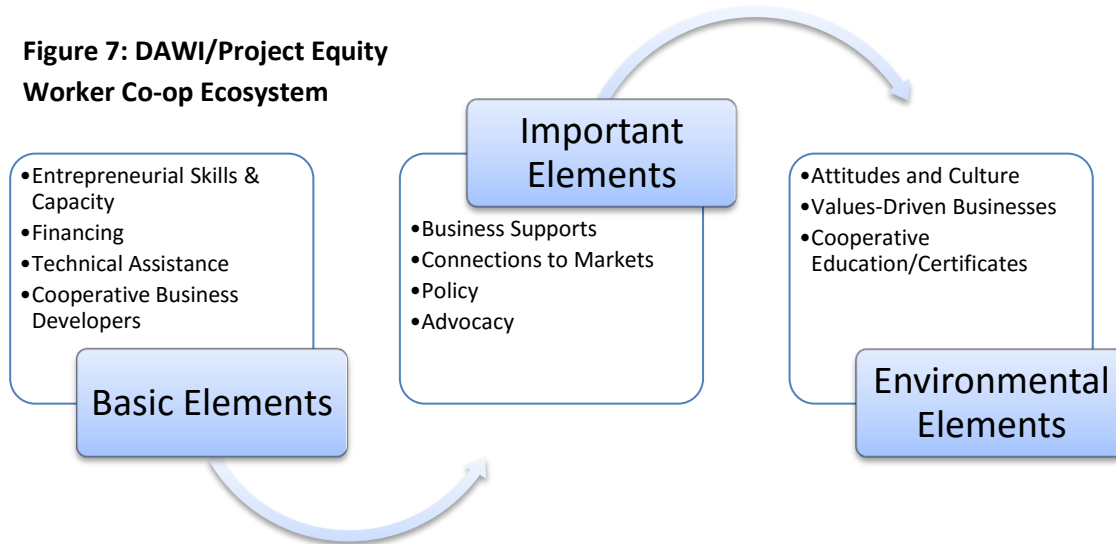
DAWI and Project Equity divided their eleven ecosystem elements into three categories: basic, important, and environmental. The BASIC ecosystem elements include the mix of talent and financing leading to first instances of worker co-op ventures: entrepreneurial interest, leaders, and management expertise; knowledgeable professionals like lawyers and accountants; loans, grants, and investment capital; and cooperative business developers or associations doing incubation. The IMPORTANT

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<sup>10</sup> Daniel Isenberg, 2015, "Introducing the Entrepreneurship Ecosystem: Four Defining Characteristics." *Forbes* <<http://www.forbes.com/sites/danisenberg/2011/05/25/introducing-the-entrepreneurship-ecosystem-four-defining-characteristics/#5243768a38c4>>

<sup>11</sup> For just one overview, see Rachel Tanner, 2013, *Worker Owned Cooperatives and the Ecosystems that Support Them*. Massachusetts Institute of Technology, Department of Urban Studies and Planning. <<https://dspace.mit.edu/handle/1721.1/81643>>

**Figure 7: DAWI/Project Equity Worker Co-op Ecosystem**



SOURCE: Adapted from Melissa Hoover and Hilary Abell, 2016. *The Cooperative Growth Ecosystem: Inclusive Economic Development in Action*. Project Equity and Democracy at Work Institute, p. 8. <http://institute.coop/sites/default/files/resources/Ecosystem%20Report.pdf>

elements prime for scaling up the worker cooperative sector through: private or public agencies providing business supports; advocacy organizations pushing for expansion; market linkages through anchor institutions, city procurement/contracts, or supply chain opportunities; and public policies to produce funding or pro-cooperative laws. Finally, ENVIRONMENTAL elements reinforce the cultural underpinning of worker cooperatives: local social change desire; local population of business alternatives like ESOPs, triple bottom line businesses, social enterprises, and B-corps; and formalized educational offerings through colleges and universities and technical assistance purveyors.<sup>12</sup>

It might be possible for a worker co-op ecosystem to develop without local government support and, in fact, that has been the case in places like the San Francisco Bay Area with a relatively large population of worker cooperatives arising organically. Nonetheless, city governments control certain resources and economic development tools helpful to the worker cooperative ecosystem. They are uniquely positioned to accelerate the interactions of actors and elements in ecosystems, given their preexisting relationships with industry, finance, and communities.

### CITY INVOLVEMENT

City governments taking the ecosystem approach focus primarily on three elements: bolstering the capacity of worker cooperative developers, educating potential entrepreneurs, and instituting financing or lending options. The main ways they do this are by enlisting public agencies in front-line delivery of services to worker cooperatives or potential cooperative entrepreneurs, as well as incentivizing and funding the development of ecosystem elements in the private sector. The cities entered this field with different pre-existing local worker co-op cultures and infrastructures. All of the

<sup>12</sup> Melissa Hoover and Hilary Abell, 2016. *The Cooperative Growth Ecosystem: Inclusive Economic Development in Action*. Project Equity and Democracy at Work Institute. < <http://institute.coop/sites/default/files/resources/Ecosystem%20Report.pdf> >

cities except for Richmond, California had at least one worker co-op operating in the city prior to city governments getting engaged. (See Chapter 4, Figure 11, p. 21). Moreover, all but Richmond had at least some local worker co-op development organizations or incubators prior to municipal commitments to ecosystem development.

### City Governments Become Cooperative Educators

Several of the ecosystem-focused cities are aware that worker cooperatives are unfamiliar in the culture. As part of the ecosystem approach, all five have taken on the responsibility of providing broad worker co-op education through city government, something that they are able to do relatively easily within existing city agencies. Typically, they do this by making information available via the city’s print and web-based media and/or creation of some sort of city-run course or seminar.

Then-Mayor Gayle McLaughlin first got Richmond, California involved in worker cooperative promotion through educational programming. As Mayor, she developed a one-year program, run by a part-time consultant hired by the city, to offer forums and workshops on worker cooperatives. As a one year program, it yielded four worker cooperatives. New York’s city government also provides worker cooperative education through its Small Business Services Solution Centers. With a nonprofit partner, it co-created the “10 Steps to Starting a Worker Cooperative” course.

In 2016, Minneapolis rolled out a three-step program to support co-op development called C-TAP (Cooperative Technical Assistance Program). The first step, first offered in early 2016, is a co-op feasibility course open to city residents free of charge. It is designed as an 18-hour course to teach about co-ops and co-op conversions, and the second and third steps roll out later in 2016 and again in 2017. Austin is considering something similar and, while still undecided on details, anticipates tailoring some of its small business classes to be co-op specific.

Figure 8: Costs to Start City-Run Worker Co-op Education or Technical Assistance Programs

Austin	\$60,000
Minneapolis	\$50,000 plus \$ per 20 co-ops started
New York	\$58,250
Richmond, CA	\$50,000

While most of these offerings have been geared to the general public or potential entrepreneurs, New York and Madison have also arranged education targeted to local financial institutions. In Madison, for instance, Shared Capital Cooperative (formerly Northcountry Cooperative Development Fund), has run several trainings targeted to Madison’s lending community and plans to continue this as worker co-op fund managers crystallize.

### City Governments Expanding Private-Sector Co-op Developer Capacity

Cooperative developers are very often drivers of worker co-op ventures, pulling together the knowledge, technical assistance, and coaching/support that entrepreneurs need to turn their ideas into functioning businesses. New York City and Madison have both invested significant resources to establish and foster networks of cooperative developers, financiers, and technical assistance purveyors in their local nonprofit sectors.



**New York.** New York’s City Council allocated \$3.3 million over the last two budget years to contract a collaborative group of nonprofit organizations to build up cooperative development capacity throughout the city.<sup>13</sup> Then, in 2016, Mayor De Blasio followed this up with Local Law 22 of 2015, requiring City of New York reporting on outputs and also encouraging worker co-op bidding on city contracts.<sup>14</sup> The largest single year allocations to worker cooperative ecosystems to date, New York’s efforts to promote and develop worker cooperatives resulted from an amenable administration and an active lobbying effort by the collaborative of nonprofits waged via change.org.

New York’s ecosystem-building is called the “Worker Cooperative Business Development Initiative.” In 2015, eleven groups (plus New York City Small Business Services) received contracts, and that increased to fourteen in 2016. The City contracts are used to:

- Incubate new worker cooperatives or business conversions
- Provide general outreach and education to New Yorkers
- Offer technical and business support services for existing cooperatives
- Increase the number of worker cooperatives and worker-owners

**Figure 9: New York City Coop Developer Contracts 2015**

Total Organizations #	12
Total \$ Amount	\$1,200,000
Average \$ Amount	\$100,000
High Amount	\$218,500
Low Amount	\$15,000
Median Amount	\$83,600
Worker Coops Created #	21

In fulfillment of their charge, the various groups have developed a variety of conferences, lectures, information sessions, and courses to deliver general education/outreach; 938 people participated in these opportunities in 2015. Additionally, several of the organizations have developed trainings, workshops, and one-on-one opportunities to help startup, converting, or existing worker cooperatives with the gamut of details involved in structuring and running such a business: by-laws, participatory governance structures and Board training; market research; links to procurement; financial literacy and getting loans; legal advice; business succession and business planning; participatory skills; internal policies; and back office support. In total, 21 worker cooperatives were created in the first year, inclusive of 141 worker-owners.<sup>15</sup>

**Madison.** The City of Madison, inspired by New York, is in the process of developing a similar technical assistance capacity centered in its private sector. The Mayor of Madison, Paul Soglin, was involved in creating a worker-owned cab company in the 1970s, and that personal history combined with a mature existing worker cooperative community inspired Soglin to “do this better than New York,”

<sup>13</sup> This was preceded by one of the organizations, The Center for Family Life, getting a smaller contract to do worker co-op incubation in 2013.

<sup>14</sup> Local Law 22 of 2015 requires city agencies to maintain statistics on the portion of city bids going to worker co-ops, as well as produce analyses of what could make worker cooperatives more competitive in bidding.

<sup>15</sup> NYC Small Business Services and Mayor’s Office of Contract Services, 2015. *Working Together: A Report on the First Year of the Worker Cooperative Business Development Initiative*. <<http://www.nyc.gov/html/sbs/downloads/misc/wcbdi2015-booklet/offline/wcbdi.pdf>>

laughed Madison's Rohlich in an interview. The city committed \$600,000 per year for five years, with half of that devoted to technical assistance capacity building in the first years as the ecosystem establishes and half to building a loan fund. The program components are open-ended, according to Rohlich, since Madison wants to give recipient organizations time to think through "great plans and programs." The City of Madison expects organizations to consult with the University of Wisconsin Cooperative Extension, a nationally-recognized expert on cooperatives.

Because the drive to build up technical assistance capacity came from the Mayor rather than advocacy, the City of Madison has taken an active role in organizing the various organizations and institutions that will be vital to developing worker co-op capacity in the city. The City of Madison has been assembling the various players, including local lenders and credit unions, nonprofit organizations, community organizers, and labor unions, that will collaborate to carry out visions and plans developed in common. Unique to Madison is a very strong role for labor unions in the planning and eventual programmatic processes; as instructed by Mayor Soglin, the City of Madison wrote a role for unions into the RFPs, and service providers must have the ability to accommodate unionized worker co-op projects.

**Public Sector Developer Role in Three Cities.** While the private sector is the important location for co-op development capacity, city agencies are also assuming a role in the budding ecosystems. Madison and New York, through Local Law 22, plan to require reporting in order to track progress and steer any needed changes. Furthermore, New York, Madison, and Minneapolis have folded some form of technical assistance into public agencies. Madison, for instance, is planning to make information on business conversions a normal part of its business retention program. New York offers a referral service in its Business Solutions Centers, with one business development project resulting so far from an inquiry first made at the Staten Island Business Solution Center. And, in Minneapolis, the City plans to roll out steps two and three of the CTAP in late 2016 and 2017, offering full wrap around services and one-on-one coaching to entrepreneurs starting cooperatives as a result of attending a CTAP course. According to Minneapolis' Bonilla, the city-run educational programming is geared to helping individuals self-select into cooperatives rather than conventional businesses. The first course enrolled 24 participants, with 10 new co-op groups represented. Each new business starting a cooperative out of a feasibility course can move to the second step of CTAP and receive \$5,000 worth of full package technical assistance from a pool of consultants hired by the city.

### City Governments Helping Solve the Problem of Financing Worker Cooperatives

Finance is a particular dilemma for worker cooperatives, and several of the city governments are taking active measures to make sure there is dedicated financing for worker cooperatives present in the local ecosystems that they are trying to shape. Minneapolis has a history of lending to cooperatives through its traditional economic development program<sup>16</sup> but is planning to roll out a dedicated cooperative lending program.

Richmond, California established a separate, nonprofit revolving loan fund after receiving a \$50,000 anonymous donation as a result of its one year cooperative education program. According to

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<sup>16</sup> Camille Kerr, 2015. *Local Government Support for Cooperatives*. < <http://www.uwcc.wisc.edu/pdf/local%20govt%20support.pdf> >

former Mayor Gayle McLaughlin, she considered running this as a public fund but, ultimately, rolled it out of the city due to already-stretched economic development staffing, prohibitive rules in the existing revolving loan fund for conventional businesses,<sup>17</sup> and a desire to protect dedicated funding for cooperatives. Devoted to worker co-op initiation, the nonprofit Richmond Worker Cooperative Revolving Loan Fund can offer small loans between \$3,000 and \$20,000; two loans have been made from the fund, one to a catering company and another to a solar panel installation business. The businesses have faced considerable challenges, however, and the solar business failed.

To date, Madison has conceived the most expansive city government commitment to producing financing for worker cooperatives. Half of its budget allocation for worker co-op ecosystem development, or \$300,000 per year for five years, is to go for lending. Currently, the city is gathering various organizations, credit unions, and micro-lenders to figure how, as a group, they can structure lending for cooperatives. Then, Madison will issue a RFP for fund managers to handle lending from the private sector, as was the case in Richmond, California. Originally, the City of Madison had intended for all of the \$600,000 yearly budget allocation to go toward loans but learned how important are technical assistance and a support system to the viability of worker cooperative start-ups. As a result, Madison has made the ability to grow the funds available for lending to worker co-ops an important part of the RFP for fund managers. As Rohlich mentioned in an interview, the fund managers contracted by the city will need to demonstrate strong fundraising plans, abilities to bring in matching dollars, and commitments from financial institutions willing to set aside percentages of loan capital. Moreover, the City plans to revisit the funding percentages each year, with the possibility of increasing the percentage of the budget allocation going to the finance component.

### PERFORMANCE TARGETS

Building up worker cooperative ecosystems is new for cities, and their expectations tend to be open-ended. Of the five cities focused on ecosystem building, only Richmond, California set a soft numeric goal of ten co-ops by the end of the city's worker co-op promotion effort. In New York, there are harder numeric goals and objectives, but those are set up by the various nonprofit organizations comprising the WBDCI and not by New York City Council or other agencies.

The other cities, at this stage, just have abstract understandings of how to evaluate their ecosystem development. Austin will focus on jobs created, while Minneapolis' Bonilla said the city government will evaluate performance based on the number of jobs created, the number of co-ops created, multiplier effects in the area economy, and seeing more racial and ethnic diversity in the cooperative sector.<sup>18</sup> At this moment, neither city has established specific performance targets. The same goes in Madison, where the first two years are meant for capacity building and years three, four, and five are meant for more concrete expectations. Madison's Rohlich mentioned that the City of Madison wants an insider perspective of the co-op development process before deciding performance

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<sup>17</sup> The city revolving loan fund cannot be used for business start-ups but rather to support improvements of established businesses, according to former and current Councilperson Mayor McLaughlin.

<sup>18</sup> In an interview, Bonilla said that co-ops in Minneapolis are most commonly owned by white residents that are plugged into social movements. The City of Minneapolis would like to see more wealth creation and sustainable income resulting from cooperatives, especially for racial and ethnic minorities in Minneapolis. The City believes more resources to start cooperatives will lead to the desired diversity.

measures, making sure expectations are reasonable and grounded. Overall, the cities understand they are entering new terrain and feel much the same as Madison.

### WRAP UP

Cities are betting that building up worker co-op ecosystems will yield a diffuse population of worker co-op startups and conversions providing higher quality opportunities to working people. The city role is expansive, involving a direct public role in education and technical assistance provision as well as an indirect role in building worker co-op support service and financial institution capacity in the private sector. City governments know they are venturing into new terrain so they are open-ended about performance, waiting to observe processes before determining the performance measures for program evaluation.

#### *CITY TASKS- Ecosystem Approach*

- Develop budget allocations and renewals.*
- Organize collaborations among worker co-op service providers.*
- Initiate contracts with service providers and lenders/fund managers and establish reporting requirements.*
- Add worker cooperative education and technical assistance to Small Business programming.*

## Chapter 3:

### Worker Cooperative Preference Ordinances: Oakland, Berkeley

Preference in city bidding can foster worker ownership in much the same way anchor institutions can: by constituting markets for goods and services produced by worker cooperatives. There is a long tradition of federal, state, and local governments using preferential purchasing and contracting to promote entrepreneurship among certain populations (i.e. women, minorities, the disabled, veterans) or business types (small businesses).<sup>19</sup> Creating bid preferences for worker cooperatives is an extension of this tradition. Berkeley is the first city to pass a substantive ordinance doing this, while Oakland is currently drafting one to build upon an earlier resolution stating support for worker co-ops.

**Figure 10: KEY PROVISIONS in SELC's  
GENERIC WORKER CO-OP PREFERENCE  
ORDINANCE**

**Preferences**

- Bid discounts, preference points for certified co-ops
- City standards for certification
- Solicit bids from worker co-ops
- City guarantees to bonding companies and lenders
- Exemptions from city business taxes and fees
- Expedited review on permits and fee waivers

**City Involvement in Financial and Technical Support**

- Low income loans for worker co-ops
- Coordinate city agency support for co-ops, including workforce development
- Education and awareness, including conversions
- Forge partnerships between co-ops and communities

**Worker Co-op Incubation and Conversion**

- Fund nonprofit incubation and conversion programs
- Prioritize programs with long term mentoring, plans to scale up, focus on underserved communities.
- Train nonprofits on incubation and conversion

**Revolving Loan**

- Dedicated lending program for certified worker co-ops with plans to grow, hire low income workers, and getting support.
- Payments on Interest cycled back to the fund

Source: Adapted from Sara Stephens 2015. *Worker Cooperative Ordinance*, Sustainable Economies Law Center  
<[https://drive.google.com/file/d/0B\\_rgt0QdXUbySk5Z2ZGlzTGVPZDQ/view](https://drive.google.com/file/d/0B_rgt0QdXUbySk5Z2ZGlzTGVPZDQ/view)>

#### THE BASICS OF THE PREFERENCE APPROACH

The Sustainable Economies Law Center (SELC) developed the preference ordinance approach for adoption in any city. SELC's sample "Worker Cooperative Ordinance" is quite extensive. Its hallmark is to establish bid discounts and preference points for certified worker cooperatives competing to be city vendors or contractors. However, it also includes other components familiar to the anchor and ecosystem approaches to worker co-op development. Specifically, it argues for a city role in technical assistance and ecosystem development. It also specifies a city role in financing and lending for worker cooperatives.

Besides bid discounts and preference points, SELC adds two elements to the worker preference approach not explicit in the other approaches. First are exemptions from city business taxes and fees. The logic is that worker cooperatives, especially those focused on low-wage industries, likely face handicaps in accessing capital, so exemptions from taxes and fees may more quickly stabilize businesses that could produce extraordinary social benefits in cities. The second novel feature of the approach is the creation of a legal definition of a worker cooperative. As SELC notes, there is no standard definition of a worker cooperative,<sup>20</sup> but specifying a standard can help make sure that city resources and benefits reach truly democratic businesses with features like patronage, worker participation in their own labor experiences, and other benefits.

<sup>19</sup> Kathy Krepco and Jui Agrawal, 2013, *Advancing Economic Opportunities for Jobseekers with Disabilities*. Employer Assistance Resource Network. <<http://askearn.org/docs/StateProcurement.pdf>>

<sup>20</sup> Sara Stephens, 2015. *Worker Cooperative Ordinance*, Sustainable Economies Law Center  
<[https://drive.google.com/file/d/0B\\_rgt0QdXUbySk5Z2ZGlzTGVPZDQ/view](https://drive.google.com/file/d/0B_rgt0QdXUbySk5Z2ZGlzTGVPZDQ/view)>

## CITY INVOLVEMENT

Oakland was the first city to respond to SELC’s advocacy for a worker cooperative preference ordinance, with Berkeley following shortly after. To accelerate action, Oakland City Councilperson Annie Campbell Washington initiated a mostly ceremonial resolution passed by Oakland City Council in late 2015, and she is following this with a meatier preference ordinance that is currently being drafted. Oakland’s resolution, the first of its kind, inspired Berkeley City Councilperson Jesse Arreguin to introduce a substantive worker cooperative preference ordinance, and this was approved in early 2016. Both of these efforts are in early stages and have not yet been implemented.

The existing Oakland and Berkeley resolutions as well as Oakland’s follow-up draft legislation include some but not all of the provisions urged by SELC. Both cities are proposing to establish new staffing to coordinate, as Campbell Washington put it, “all things worker cooperative.” Substantively, both of the resolutions that passed include city commitments to worker cooperative education and/or technical assistance, as well as establishing bidding preferences, and worker cooperative certification standards. In addition, Berkeley added business tax and registration fee exemptions, as well as some easing of land use review.

- **Education and Technical Assistance.** In Oakland, the City Council pledged to add information about worker cooperatives on the city Economic Development department website, as well as have front line staff consult on worker co-op startups and conversions. In Berkeley, the City pledged to create informational materials and also offer technical assistance through the economic development division.
- **Bidding Preferences.** Bidding preferences were passed in Berkeley and will be proposed for a vote in Oakland. Berkeley has an existing “Buy Local” contracting preference written into law, and the resolution commands additional discounts for worker cooperatives bidding on contracts or purchasing agreements, to be determined by the City Manager and relevant city agencies. In Oakland, Councilperson Campbell Washington is also drafting preferences in procurement and contracting for worker cooperatives in consultation with both the purchasing and contracting and compliance departments. The Councilperson is clear to balance the desire to promote worker cooperatives in city bidding with an equal desire not to disadvantage other local small businesses. According to Campbell Washington, “Worker cooperatives get a preference, but it’s not on top of a preference that they would receive if they’re a small business.”
- **Worker Cooperative Certification and Registration.** In consultation with SELC, both cities are working to define worker cooperatives in municipal code and for inclusion in permitting applications. SELC’s basic definition includes five worker cooperative features: they are local; majority voting power is held by workers; a majority of employees are worker-owners with voting rights; worker owners control the majority of the board of directors; and there is patronage distributed to worker owners based on the value of their work contributions.<sup>21</sup>

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<sup>21</sup> Stephens, p. 13.

- **Business Tax and Land Use Incentives.** Berkeley has included exemptions from business tax and registration fees in a worker cooperative's first year, as well as reductions in business taxes in subsequent years. In consultation with the permitting department, land use review will also be eased for worker cooperatives, although details are still pending.

Neither city added nor has immediate plans to add a lending option for worker cooperatives. Oakland's Campbell Washington has made the creation of a dedicated revolving loan fund a longer term goal. In Berkeley, Brandi Campbell, Chief of Staff to Councilperson Arreguin, said that the city's existing revolving loan fund is under-utilized. One part of worker cooperative education and promotion in Berkeley will include more publicity of the low-interest revolving loan fund as an opportunity for worker cooperatives.

### PERFORMANCE MEASURES

Berkeley's Brandi Campbell mentioned the city does not yet have any metrics in mind for assessing the impacts of its efforts to support preference bidding and worker co-op development. Much like their counterparts doing ecosystem development, Berkeley and Oakland are aware that they are trying something new and that performance evaluation requires some experience. Furthermore, Oakland City Council is aware that progress is likely to be slow in Oakland because there are not yet many worker cooperatives in the industries currently supplying or contacting with the city government. In the short term, it will be necessary for worker co-op businesses to form before seeing the full effects of the law in Oakland, as will probably be the case in all other cities developing cooperatives through preference ordinances. As worker co-ops form in Oakland, Campbell Washington expects the city government to track worker cooperative formation, as well as other outcomes deemed important by key personnel.

### WRAP UP

Oakland and Berkeley, two Bay Area cities, have passed ordinances to promote worker cooperatives in city bidding processes. These ordinances are in early stages and are yet to be implemented, but key aspects of the legislative process have included a structure for worker co-op preference points that do not disadvantage other small businesses; the creation of procedures for certifying worker cooperatives; and some city provision for the kinds of business and social supports that can accelerate the growth of worker cooperatives in the key industries contracted by city governments.

#### CITY TASKS- Preference Approach

- Garner City Council Support for ordinances.
- Establish a worker co-op certification procedure in municipal code.
- Create preference points that do not disadvantage other small businesses.
- Produce educational materials and content for display and delivery.
- Extend tax and fee exemptions.

Chapter Four:

The Results of City Governments Supporting Worker Cooperatives: Jobs Created at What Cost

The cities are aware that the benefits of worker co-ops will be slow-going. Long term, they hope their commitments to worker cooperatives are transformational, shaping more equitable and inclusive local economies through incremental change. Short term, as the previous chapters suggest, city

**Figure 11: Number of Worker Co-Ops Pre-existing in the 10 Cities\***

Austin	5
Berkeley**	10
Cleveland	0
Madison	12
Minneapolis	2
New York	19
Oakland	10
Richmond, CA	0
Richmond, VA	0
Rochester	1
<b>TOTAL</b>	<b>59</b>

\*These figures are confirmed, for-profit worker cooperatives derived from the US Federation of Worker Cooperatives "Find a Worker Coop" feature on its website. A small number of closed, nonprofit, or all volunteer cooperatives were removed from each city count. Access "Find a Worker Coop at: <<https://usworker.coop/find-a-worker-coop>>  
 \*\* Figure supplied in an interview with Berkeley.

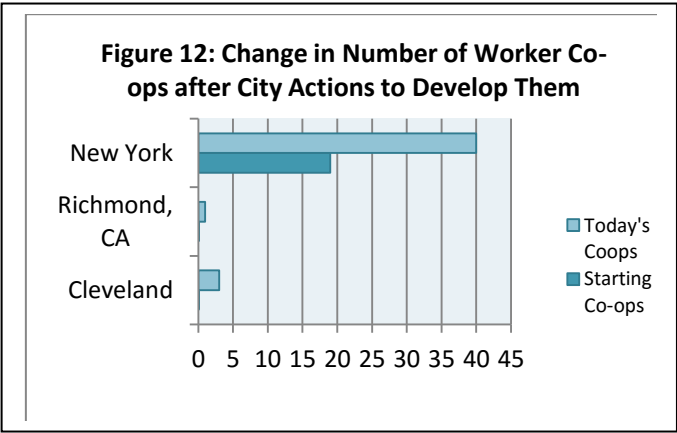
governments expect growth in the number of cooperatively owned and governed businesses and growth in the number of quality jobs, all at a reasonable cost. The initial results in the three cities that have already activated their municipal efforts at worker co-op development are encouraging. Businesses and jobs have been created as a direct result of city government action at a range of cost.

**Business and Job Creation: Cleveland, Richmond, CA, New York**

Worker cooperatives developed organically and outside of city initiatives in most of the ten cities. As shown in Figure 11, only in Cleveland, Richmond, California, and Richmond, Virginia did city governments begin their work in this field with no existing for profit worker cooperatives. The rest of the cities had anywhere from one to nineteen, with the greatest concentration per capita in Madison.

City government actions to support worker cooperative development definitely result in worker co-op business creation, if experiences in Cleveland, New York, and Richmond, California are a guide. Figure 12 shows that the number of cooperatives has grown in all three of

the cities after municipal efforts. In Cleveland today, there are three cooperatives associated with the Evergreen Cooperatives that received financing coordinated by the city government.<sup>22</sup> In New York, there are 40 worker cooperatives as of 2015, up from 19 in 2013, with more having formed or in the process of forming in 2016. Finally, Richmond, CA has one worker cooperative, a catering firm that received startup funds from the privatized revolving loan fund that was initiated by the City of Richmond.



<sup>22</sup> Not included in the total is an additional Cleveland worker co-op called Rust Belt Riders Composting that sprouted autonomously but was inspired by the Evergreen Cooperatives business model. Currently, it operates informally as a worker cooperative. See Michelle Camou, 2016. *Business Profiles: Rust Belt Riders Composting*. Imagined Economy Project. <http://imaginedeconomy.org/wp-content/uploads/2014/08/rustbeltriders.pdf> Another worker co-op called Flywheel Technology also started independently of the Evergreen Cooperatives, but the business did not last.



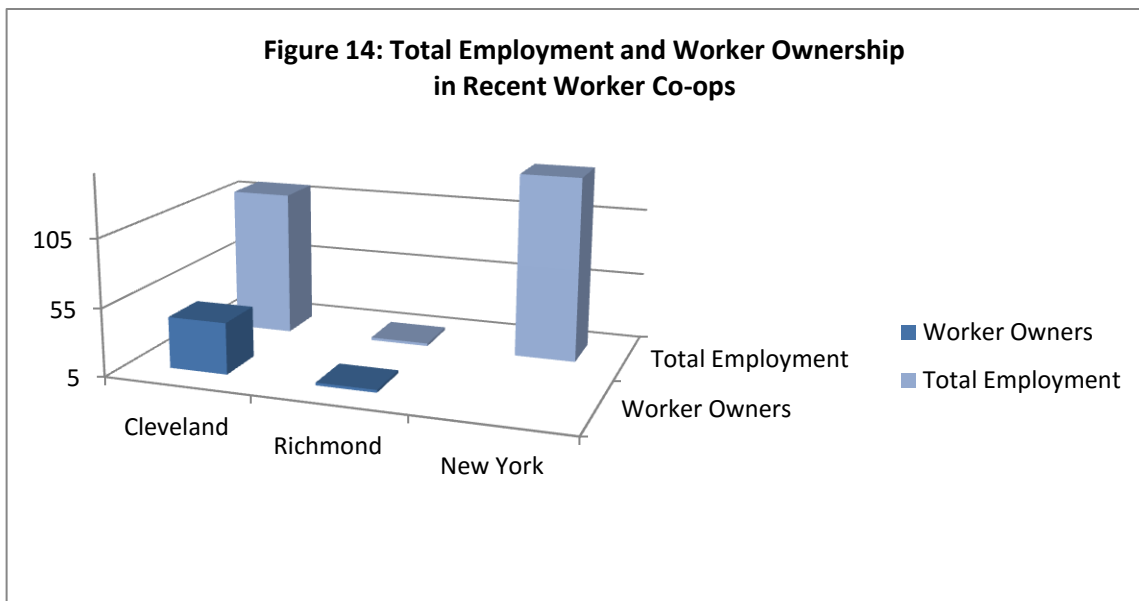
The businesses created out of the worker co-op initiatives tend to be small ones, in the service sector. Figure 13 shows the known business starts,<sup>23</sup> classified by industry and city. While total employment varies from business to business, the average employed is: 37.7 in Cleveland; 7 in Richmond; and 6.7 in New York.

**Figure 13: Industry Sectors of Worker Co-op Start-Ups**

<b>Services</b>	<b>Business</b>
Arts education- NY	<b>Services</b>
Catering- Rich	Comm. Cleaning- NY
Cleaning- NY	Comm. Laundry- Cle
Cleaning- NY	Marketing- NY
Moving- NY	Security- NY
Pest Control- NY	<b>Light</b>
Travel- NY	<b>Manufacturing</b>
Tutoring- NY	Silk Screen- NY
<b>Agriculture</b>	<b>Light</b>
Greenhouse- Cle	<b>Construction</b>
	Solar/Energy- Cle
<b>Unknown</b>	<b>Retail</b>
Bakery- NY	Thrift Store- NY
Sewing- NY	
	<b>TOTAL BUSINESSES</b>
	20

Employment in worker co-ops tends to be complicated, with only a portion of employees worker-owners at any given time and others in standard employment arrangements. This is because worker cooperatives usually require an eligibility period for new employees but also because some individuals lack interest in worker-ownership. While the advantage of worker-ownership is what distinguishes worker cooperative strategies from conventional economic development, cities certainly gain from regular jobs added as well. Figure 14 reports total employment and worker-ownership figures whenever possible, although New York only publishes figures on worker-owners.

Job creation totals for each city are as follows: 113 jobs created in the three for-profit businesses under the Evergreen Cooperatives plus an additional six in support functions; seven in Richmond’s one worker co-op; and an unknown amount of employees but 141 worker-owners created in the first year of the WBCDI in New York. Worker



<sup>23</sup> The NYC Small Business Services and the Mayor’s Office of Contract Services publish statistics on the annual accomplishments of the Worker Cooperative Business Development Initiative. The Imagined Economy Project compiled data on business starts in New York from that report, fiscal year 2015; however, there is missing data on six of the cooperatives created. Furthermore, there is not enough information on two of the companies to classify them by industry, so they appear as “unknown.”

ownership in the other cities reached 100% in Richmond; all seven women employed by the company Fusion Latina are also owners. In Cleveland, about 38% of the workers in the three for-profit Evergreen co-ops were also owners in 2016. For all of the cities, salary information and other details on employment terms are unavailable, so it is impossible to evaluate statistically any job quality enhancements associated with these worker co-ops.

**Per Job Cost to City Governments: Some Considerations**

Getting to this sort of business and employment growth involved spending by each city.

Figure 15: Costs to Cities Supporting Worker Co-ops		
	TOTAL (excludes tax abatement or TIFs)	Cost Per Job Created
Cleveland	\$11.9 million	\$100,000.00
Richmond, CA	\$55 thousand	\$7,143.00
New York	\$1.2 million	\$8,511.00

As seen in Figure 15, the amounts spent by the cities are quite variable, from a high of \$100,000 per job to a low of \$7,143 per job. In the case of Cleveland, the spending per job was mostly in the

form of federal guaranteed loans for start-ups involving the cost of green equipment and facilities. The amount of the loans will be recovered and initial costs may mask long term returns in terms of interest, tax revenue, and any declining demand for public welfare support, assuming the created worker co-ops stay viable. As Cleveland’s Tracey Nichols explains, “(A cooperative) is truly place-based. It’s not going anywhere.” These cooperative businesses are unlikely to be lost to relocation down the road.

The variability in costs suggests maneuverability for city governments contemplating worker co-op initiatives. To a degree, cities can adjust their price points through program structures, expectations, and the mix of specific business ventures.

**Lowest Cost, High Challenge.** The Richmond, California example shows that lowest-cost efforts to incentivize worker cooperative businesses can face difficulties if supportive services are absent. The relative lack of intensive technical support for cooperative entrepreneurs has been challenging in Richmond, as several worker co-op starts have been unable to stay afloat. According to former Mayor McLaughlin, four co-ops resulted from the year of city-sponsored co-op education and the privately run revolving loan fund; these included two catering companies, an energy installation company, and a bicycle business. Only the seven-member catering company Fusion Latina remains, although a different worker-owned bicycle business is in development.

The former Mayor and her aid, Marilyn Langlois, explained the Richmond worker co-ops’ struggles as a result of the difficulties inherent in getting established in any business compounded by the low-income status of the worker co-op members. Worker owners did not have savings to fall back on or loans to float them as they got the businesses up and running. Langlois said, “Co-op members had to have other jobs just to support themselves and their families and so they had to do this (co-op business) on the side, which is pretty difficult.” Interestingly, the Evergreen Cooperatives in Cleveland faced difficulties with their business starts in early years and had to use grants and loans to maintain viability as managers searched for the right services and customer base to reach profitability.<sup>24</sup> The take away is

<sup>24</sup> Epstein, 2015 <[http://www.politico.com/magazine/story/2015/02/what-works-cleveland-115324\\_Page3.html#.V6krjdc\\_k6Y](http://www.politico.com/magazine/story/2015/02/what-works-cleveland-115324_Page3.html#.V6krjdc_k6Y)>

that financial challenge in a co-op's beginning years is to be expected for small and larger-scale worker co-op businesses, as is the case for conventional businesses. A lower cost-per-job may be sustainable in cities where cooperative entrepreneurs have personal savings to bring to the table or, perhaps, when dealing with conversions of businesses already established in the market. Otherwise, building a supportive infrastructure appears necessary for optimizing the chances that startup businesses can succeed, as Richmond is currently doing (See Information Box, bottom of page).

**High Cost, Price of Innovation.** When cities accept a heavy financing role, the cost basis is going to be justifiably higher, especially when new technologies, equipment, and special facilities are part of start-up ventures as they were in Cleveland. Still, the Evergreen Cooperatives was more expensive to establish than many cities wish to consider, a point that seems to be understood by the City of Cleveland as well as the Democracy Collaborative. In an interview, Tracey Nichols mentioned much of the high cost related to the start-up of the greenhouse business; in hindsight "We could have done five or six projects for what we spent," so large-scale projects introduce trade-offs for cities to consider. In large measure, the high start-up costs in the earliest effort can be considered the price of innovation and learning through experience, with the lessons now benefitting other cities.

The Democracy Collaborative, the main consultancy developing anchor-linked worker co-op projects for city governments, has been working with Rochester to bring costs down. While all of the Evergreen businesses were multi-million dollar ventures (\$15 million for the greenhouse, \$5.5 million for the laundry, and \$10 million for the energy company),<sup>25</sup> only one of the proposed businesses, a food processing facility, is conceived as such for Rochester. The rest of the proposed businesses for Rochester require less than \$500,000 to start, including the transit service (estimated at \$175,000); the light construction/energy efficiency company; the community health worker program; and a producer cooperative of in-home day care providers at less than \$250,000 (but only one or two staff positions created).<sup>26</sup> For city governments assuming a role in financing, mixing higher capitalization and lower capitalization projects is a way to diminish per-job expenditures and also help keep development

**INFO BOX: FUTURE DIRECTIONS.** Richmond, California has faced setbacks in stabilizing a worker co-op sector, but leaders are using those setbacks as learning opportunities. To help make things easier for worker-owners getting new businesses going, they are planning to start a worker co-op incubator.

The California Endowment awarded the Richmond Worker Cooperative Revolving Loan Fund a \$10,000 grant through the Healthy Richmond Program to write a business plan for the incubator. They plan to hire staffing capable of doing community outreach work, as well as help worker-owners with market research, business planning, identifying in-demand sectors with higher profit margins, and doing

case management interventions in the event of difficulties. The incubator will also maintain the revolving loan.

In addition to the incubator, there is a contingent in City Council eager to ramp up city policies to support worker co-ops. Once there is a critical mass of viable worker co-ops, McLaughlin and other Council progressives would be interested to pursue a preference ordinance. Another promising development is that the University of California has plans to open a campus in Richmond, and the community is already mobilizing to secure Buy Local agreements. McLaughlin sees this planned campus as an opportunity for Richmond to develop anchor-linked worker co-ops.

<sup>25</sup> Capital Institute, *Field Guide to Investing in a Regenerative Economy*.

<[http://fieldguide.capitalinstitute.org/uploads/1/3/9/6/13963161/\\_\\_\\_fs2-evergreenarticle-c.pdf](http://fieldguide.capitalinstitute.org/uploads/1/3/9/6/13963161/___fs2-evergreenarticle-c.pdf)>

<sup>26</sup> Bonnano et al, pp. 36-43.

projects within spending ratios comfortable for City Councils.

***Modest Cost, Extensive Aid and Outreach.*** New York's cost per opportunity created was just about \$8,500, and this included the kind of full service technical support that relates to co-op business success. Also included in the cost were service provision for existing worker co-ops, as well as broad education and general outreach efforts. The WCBDI provided worker co-op education to 938 individuals, and this resulted in 141 worker-owners or a 15% worker-ownership yield. New York's instinct to fund intensive technical support and assistance seems to be the right one, as New York saw a doubling of its worker co-op population in one year. Future cost efficiencies may materialize if the worker co-op form becomes more intuitive for entrepreneurs and less outreach is required to get the same yield.

### WRAP UP

City spending to develop worker cooperatives has paid off: businesses have been created as have employment and worker ownership opportunities. Twenty-five new worker co-ops exist through the efforts of the three cities, which is significant given a national worker co-op population of around 400. Furthermore, growth should continue. Significantly more worker co-op starts are expected in the second and any subsequent funding years of the WCBDI in New York. New York's worker cooperative ecosystem approach has been very fast-growing both in the number of business establishments and employment/ownership opportunities, but these have been micro-businesses typically. Richmond and Cleveland are also likely to see new worker cooperative business starts and employment growth in the coming years but likely at a slower pace. Moreover, in Cleveland, growth in worker cooperatives will most likely be in the form of larger workplaces designed for gradual increase in the numbers employed.

The costs to start and fund municipal worker co-op development programs have been variable, with the highest cost basis reflecting a substantial financing role assumed by city government. New York's one job per \$8,500 spent may be a reasonable entry point for other cities interested in jump-starting a worker co-operative development infrastructure, but this does not include the costs of financing particular physical plants or business, something that may be desirable given the particularities of local projects. Cleveland's high cost per job reflected the price of innovation, and those costs are likely to be minimized in subsequent anchor-linked worker co-op development efforts. Richmond, California's initial cost basis was too low to optimize the chance of business viability, and efforts to establish a worker co-op sector suffered setbacks that Richmond's public and private sector actors continue to think through. The cost of learning is something the cities highlighted in interviews and continue to anticipate as they mature in their worker cooperative efforts.

## Chapter Five:

### Implementing and Institutionalizing Municipal Worker Co-op Programs

Worker cooperatives are creating value and new values in the areas where they are establishing, and this is likely to build if worker co-op sectors consolidate and reach critical mass in local or regional economies. Certain city governments are making investments that are pushing worker cooperatives forward, investments ranging from loans or other financial commitments, to front-line city agency involvement in technical assistance or cooperative business development; to helping worker co-op competitiveness in city bidding; to symbolic statements about the desirability of worker cooperatives in the local economy. This entails new work for city governments that must be accommodated, as well as considering whether and how to make worker co-op promotion a permanent part of municipal economic development.

#### FIRST STEPS FOR CITIES IMPLEMENTING WORKER CO-OP PROMOTION AND DEVELOPMENT

For cities implementing worker co-op promotion- whether permanently, in a time-limited way, or even in an ad hoc way- finding a location within the city bureaucracy, determining appropriate staffing, and facilitating some form of community involvement have been among the first steps.

**City Agency Location.** In the majority of cases, cities place their programs to promote worker cooperatives or cooperatives more generally in economic development or small business service departments.

Economic Development Department	Small Business Service Department
Austin Berkeley Cleveland Madison Oakland	Minneapolis New York

In contrast, Rochester and Richmond, Virginia have situated worker co-op projects within newly created city divisions tasked with reducing poverty in their cities. In Rochester, this division is called the Mayor’s Office of Innovation and Strategic Initiatives and is geared to creating what the city is calling “stairways” out of poverty in a targeted pilot area. Worker cooperatives are intended to be part of the stairway, but another key concept involves collocating comprehensive case management and wrap-around services to individuals seeking stable conventional employment. Richmond’s initiative to reduce poverty is similar. The new division, located in the Human Services department, is called the Office of Community Wealth Building. As in Rochester, anchor-linked worker cooperatives are just one part of a comprehensive plan focused on improving access to employment, education, and housing, according to Director Thad Williamson. Richmond has taken proactive steps to make the poverty reduction plan a permanent city initiative that will live beyond the current Mayor’s term. Specifically, the City Council made the Community Wealth Building department a permanent city agency reporting directly to the Mayor.

### ADDITIONS TO STAFFING

In a certain number of cities, the promotion of worker cooperatives has been folded into existing staff duties. A minority of the cities have created new staff positions tasked with managing or facilitating directives on worker cooperatives. New York and Richmond, Virginia both added a staff position to carry out the various details involved in implementing worker co-op initiatives. Oakland and Berkeley, too, are in the early stages of trying to get City Council approval for staffing positions in the executive branch to do all of the intra-governmental work involved in establishing the bidding preferences and educational programming established by ordinances. In Oakland, the new staff would be housed in the economic development department. In Berkeley, however, the proposal is to initiate a small business division within the planning or economic development office, and worker co-op programming would be handled through that new division.

According to Brandi Campbell, Chief of Staff in Berkeley Council district 4, this position, if approved, would be important not only in carrying out day to day tasks but also in program evaluation. Given the newness of worker cooperatives in economic development, small business, or poverty-reduction strategies, there are a lot of unknowns. The implementation of worker cooperative programming is likely to be a matter of adaptive management, or constant reflection and readjustment of objectives, plans, and activities given staff assessments of developments on the ground. The staff in this position is expected to develop and provide worker co-op specific expertise within planning or economic development.

### COMMUNITY INVOLVEMENT

Few cities have developed community participation structures outside of the regular participatory channels; however it is worth mentioning efforts in Rochester and Richmond, Virginia. Both cities developed community navigator components as part of their broader poverty-reduction initiatives. Navigators are local people paid to serve as contacts or mentors for neighborhood residents receiving city services. In Richmond, the navigator's program was not an idea coming from city staff but from a citizen advisory board convened to contribute to poverty-reduction efforts. In an interview, Thad Williamson said that Richmond's citizen advisors have participated in social enterprise planning. While neither city has created navigator positions dedicated solely to worker cooperatives, such positions could be helpful in terms of recruiting worker-owners to take jobs in what are meant to be engines of opportunity for specific neighborhoods, as well as plugging local consumers into cooperative businesses.

### MAKING WORKER COOPERATIVES A PERMANENT FOCUS IN ECONOMIC DEVELOPMENT

City governments have been among the most important investors in worker cooperatives, making possible large-scale projects that would certainly have been delayed if not forestalled without city backing. Long-term or permanent municipal commitments to worker cooperatives would certainly be a boon for emerging worker co-op market sectors, especially since proponents are conceiving of worker cooperatives as transformative innovations able to initiate an alternative strand in the

economy.<sup>27</sup> Historically, transformative innovations including “laissez-faire” capitalism have depended on government policies and investments,<sup>28</sup> a dependence that continues to this day.<sup>29</sup>

At this moment in time, it is unknown whether city governments will institutionalize or make permanent their commitments to worker co-op promotion. The city governments making investments in worker cooperatives are doing so in a spirit of experimentation and learning. In New York, for instance, Small Business Services is waiting to gauge how well the WCBDI fits in with other small business entrepreneurship programs. Multi-year funding may be possible eventually but, currently, the WCBDI is funded on a yearly basis. When asked whether the initiative may be made permanent, New York’s Rodrigo Camarena said, “I think we’ll see over the next couple of months and years; it’s still very new.” The thinking in Rochester is similar. Rochester’s Henry Fitts described the current planning for worker cooperative business start-ups as “a starting point” that could be continued “if we can demonstrate that this is a feasible and effective method of capturing some of the economic energy, that it can be replicated, and that we can continue to grow businesses of this kind.”

Most certainly, performance will have a lot to do with the institutionalization of municipally-supported worker co-op development going forward but so will philosophy. In Jackson, Mississippi, mayoral turnover ended municipal engagement in worker cooperative development projects, suggesting more work to do to make the worker cooperative idea a consensus idea spanning political ideologies or parties.

In addition, there is a school of thought even among very co-op friendly city officials that the city role in promoting a worker co-op sector should be time-limited. Said Richmond, California’s Marilyn Langlois in an interview, “The whole premise of worker cooperatives is to exist sustainably on their own without being too closely dependent on government.” The City of Madison is approaching cooperatives through this lens, as well. While naming worker cooperatives as a focus for its ten-year economic development plan and making business conversion part of its ongoing business retention work, Madison put firm limits on its financial support of worker co-op ecosystem building. Madison’s Ruth Rohlich explained that the city has no plans to extend the five-year budget allocation committed to worker cooperatives. Instead, the idea is for the ecosystem emerging in that time period to continue well beyond the five years of city funding but privately. The City of Madison is building in measures to help facilitate the eventual independence of the worker co-op ecosystem it is jumpstarting, mostly by expecting funded organizations to develop ongoing fundraising plans to supplant city support; securing matching dollars; building partnerships with lending institutions; and reporting on progress beyond the five years of committed city funding so that the city can help problem-solve if necessary.

Cities may have reasons to prefer time limitations on budget allocations, while a permanent or long term city role may be more important in areas without a local co-op culture percolating organically. Whatever the approach, cities need performance as well as ways of overcoming certain challenges:

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<sup>27</sup> Gar Alperovitz, “Worker-Owners of America, Unite!” *New York Times*, Dec 14, 2014 <<http://www.nytimes.com/2011/12/15/opinion/worker-owners-of-america-unite.html>>

<sup>28</sup> For the important role of government policy and institutions in the development of capitalism, see Karl Polanyi 2001. *The Great Transformation: The Political and Economic Origins of Our Time*. New York: Beacon Press.

<sup>29</sup> Mariana Mazzucato, 2015. *The Entrepreneurial State: Debunking Public Vs. Private Sector Myths*. New York: Public Affairs.

### → Challenge 1: Preventing Displacement Effects

On the whole, city governments have encountered little political or community opposition to their efforts to incentivize and grow worker cooperatives. Nonetheless, two of the city governments expressed care to prevent, in the words of Oakland City Councilperson Annie Campbell Washington, “unintentional conflict between small businesses and worker cooperatives.” In all types of economic development, there is a risk that new ventures created duplicate or, possibly, displace existing local businesses and the jobs they support. In Oakland, Campbell Washington has worked to make sure the legislation she writes maintains a level playing field for all small businesses; as she said in an interview, “As a locally elected official, I see it as my role to advocate for local independent businesses at the same time I am advocating for worker cooperatives.” Rochester’s Henry Fitts is similarly motivated to structure the Rochester worker co-op project around “goods and service demand that is not being met by current businesses and employees in our city or our region.” While Fitts and Campbell Washington have found ways to address the risk of existing business displacement in anchor-based and bidding preference approaches, it may be more difficult for cities to prevent competition between emerging co-ops and existing small businesses in the more decentralized ecosystem –building approach.

### → Challenge 2: Resource Limits and Competition with Other Projects

The various cities approach worker co-op projects with very different resource bases and financial capacity. Four of the cities- Richmond, Virginia, Richmond, California, Oakland, and Austin- mentioned budget considerations as big challenges to moving forward or institutionalizing worker co-op promotion within city agencies. In Richmond, California, for instance, the state dissolved a main source of revenue for urban redevelopment in 2012, so Richmond can only afford to staff a part-time economic development position out of the City Manager’s office. Adding innovative projects is taxing for that city. Austin also faces a tight budget, with 80% or more of the budget typically slated for public safety. According to Sylnovia Holt-Rabb, it has been difficult for the economic development department to get new programs allocated by City Council, so Austin will need to attract outside funding or risk its proposal failing to make it through City Council.

In Richmond, Virginia, Thad Williamson described a city “with a lot of smart people that always has a cool project popping up.” Like Austin, getting projects off the ground depends on outside funding, as well as weighing available resources against project feasibility. Within his Community Wealth Building agency, for instance, there are two social enterprise projects being conceptualized, the anchor-linked worker co-op project and a culinary arts training program with possible enterprise components. Given budgetary constraints, Williamson is unsure whether he can initiate both social enterprises at the same time, or which will come first. Even in Madison where there is a good budget for cooperatives, ideas beget ideas. Madison’s Rohlich mentioned that “We’re realizing this money could disappear really quickly if we included a housing project or two.” In Madison, City Council has been able to authorize separate funds for other types of cooperative projects, including a grocery consumer cooperative forming in a food



desert. Cities with less slack resources may find themselves having to find outside support or make hard choices between deserving projects given a vigorous social imagination at the moment.

### → Challenge 3: Combining Social and Business Motives

Worker cooperatives are complex forms that combine social vision with the need to make profits. Officials in Minneapolis and Richmond, Virginia mentioned this as a specific challenge that could complicate success in their cities. For Daniel Bonilla, the City of Minneapolis is developing tools to balance this possible tension, by understanding the social mission underlying cooperatives but also making sure co-ops can function as businesses in a competitive marketplace. The tension is the inverse in Richmond where city government is taking care that business values do not trump social mission. Richmond's Thad Williamson understands public support for the worker cooperative project depends on accountability and transparency but, as he says, there needs to be "flexibility in the working model," with business willingness to absorb employees with work readiness challenges. In Williamson's words, "We're looking at (this) for the social reasons," so the businesses will need to operate on that premise, too.

### WRAP UP

Innovative economic development, including that focused on worker cooperatives, requires implementation. Most of the cities with worker co-op policies or programs are placing them in economic development or small business departments, with a minority running them as part of poverty-reduction initiatives linked closely to the Mayor's Office. Most of the cities fold new work into existing agencies, although four of the cities have concrete plans to add new staffing specializing in worker cooperatives.

City governments are open to making worker co-op development permanent or long term, but final decisions will take more direct experience with these programs. Making municipal involvement in worker co-op development permanent would, most likely, accelerate worker cooperatives as disruptive innovation in cities with strong commitments to more equitable local economies. City governments, however, are waiting to gauge the performance of worker cooperative initiatives and collaborations over time, as well as evaluate unintentional effects on local small businesses, how worker co-op promotion could affect spending on other programs, and whether it is possible to balance social and business purposes within the worker cooperative business form.

## Conclusion

City governments are tapping into the contemporary social imaginary and looking at worker cooperatives as ways to build equity and inclusion into their local economies. By helping foster worker co-op startups or business conversions, the ten U.S. cities with initiatives or projects in place aspire to reach individuals and communities under-served by traditional economic development practice. City government entry into the field has been a boost for worker co-ops as transformational strategy; in several cases municipal governments are making the investments and building up the infrastructure that would have faced difficulties finding private sector financing.

It is too early to tell whether worker co-ops, at scale, could produce the sorts of beneficial outcomes- outcomes like improved income equality, job quality enhancements, labor upgrading, better environmental practice- that proponents hope for. Nonetheless, given the democratic nature of worker cooperatives as alternative business forms, much potential is there.

The city governments, so far, have devised three different approaches to worker co-op development that certainly could be combined in practice, if conditions were right. These include:

- **Anchor Approach-** City governments provide business loans and other supports to worker cooperatives linked through a corporate umbrella to tap into procurement spending by anchor institutions.
- **Ecosystem Approach-** City governments, through seed funding and direct programmatic delivery, stoke the local capacity to provide educational, outreach, technical assistance, and financial supports for worker co-op business starts or conversions.
- **Preference Approach-** City governments develop bid preferences for verified or certified worker cooperatives able to meet city procurement needs, and may also offer other supports like tax forgiveness, financing, or fast tracking permits.

Few cities have programs mature enough to allow generalizations about the relative performance and outcomes of the various approaches or even of municipally-supported worker co-op efforts as a whole. What the track record in New York, Cleveland, and Richmond, California- the three cities furthest along in the application of worker co-op development projects or programs- convey are the following:

1. *Cities should expect a slight amount of job/ownership creation in initial years.* Cleveland saw 119 positions (113 in for-profit ventures) created by the seventh year, while New York saw 141 worker-owner opportunities generated in one year. These short term gains may produce long term benefits, especially if continued employment growth and multiplier effects accrue over time.
2. *Comparing the results, city-led ecosystem development with intensive technical and business assistance has yielded the fastest growth of worker cooperative businesses.* This growth has been spread across a number of very small (less than 10 employed on average) mostly service-sector companies and may see some normal business attrition as time goes on.

3. *The anchor approach has also yielded substantial job/opportunity creation staggered over a few years through relatively large workplaces.* The longer timeline is likely due to the centralized structure built into the approach leading to a more conservative approach to new business starts compared to the more decentralized ecosystem approach that spreads risk more diffusely. Coordination and planning by a corporate umbrella has translated to the creation of larger workplaces primed for additional gradual growth, as well as the ability to focus business starts pointedly on areas of unmet market demand.
4. *Per job spending depends on the type of approach pursued by cities.* Anchor approaches may cost more per job/opportunity created given the substantial city role in accessing financing for business starts and facilities, but much or even all of the city expenditure is from external federal programs or block grants. Cities making substantial financial commitments to worker co-op startups can take measures to minimize underwriting risk, including the creative use of TIFs and city government steering of business planning processes.
5. *Ecosystem building is less costly to cities and is supported by city/internal funds.* The basic costs include the bolstering of an extensive network of private or nonprofit sector supports for worker cooperatives, as well as some economic development or small business programming handled by city agencies.
6. *Worker co-op business challenges and even failures should be anticipated.* Intensive business and social supports for worker cooperative businesses, as well as emergency funding, are costs city governments can build into their efforts as ways of mitigating the risk of business failures.
7. *The city governments are aware that they are doing something new to them with worker co-op projects and initiatives.* Their attitude is one of learning from experience so expectations are modest or even open-ended.

Through their work with worker co-ops, the ten city governments are engaging deeply with the problems of inequality and labor downgrading in the contemporary economy. They are using their ingenuity, creativity, and energy to innovate and experiment with untested urban development approaches at relatively low cost, an impulse that should be applauded. Long term, performance will determine future directions for worker cooperative development by these ten city governments, or whether and how efforts to boost worker cooperative businesses will be routinized. In the meantime, additional city governments joining the wave can only help build momentum and contribute to the learning and reflection that should strengthen worker cooperatives as a solution for the 21<sup>st</sup> century economy.

## AT A GLANCE: Municipally-Supported Approaches to Worker Co-op Development

	Anchor	Ecosystem	Preference
City Motivations	To promote an equitable and inclusive economy	To promote an equitable and inclusive economy	To promote an equitable and inclusive economy
Possible in any city but especially suited to:	Cities with major “eds and meds;” cities with poverty-reduction initiatives	Cities with local social enterprise cultures	Cities with “Buy Local” commitments; cities with preference bidding experience
Organizational Structure and Coordination	Centrally Coordinated; co-ops linked by overarching umbrella corporation	Diffuse	Diffuse
City Spending	Typically includes financing startups; may include supporting a nonprofit umbrella	Typically includes support for nonprofit sector capacity-building; often includes city programming, materials, and management roles	Typically includes city programming, materials, and management roles
Source of City Expenditures	Typically external; May include internal funds	Internal funds; may include external funds	Internal Funds
Speeds of Growth in Worker Co-op Businesses, Examples to date	Fast	Fastest	Unknown but may be slower
To Date Typical Worker Co-op Size	Over 25 employed	Under 10 employed	Unknown
Strengths	Control over market sectors and focus where there is unmet demand; planning for gradual employment growth; targeting business creation in specific neighborhoods	Risk is spread over more businesses; new ventures arise quickly; co-ops focused where expertise is currently held by co-op members.	Market linkages to city spending; ability to ameliorate displacement effects or competition between small businesses and worker co-ops.
Challenges	Growth might have to wait for profitability of earlier ventures.	More difficult to prevent duplication of business services or displacement effects.	Must wait for worker co-ops to form in areas of city procurement.
Main Consultancy	Democracy Collaborative	There are numerous worker co-op technical assistance providers operating locally and regionally; Democracy at Work Institute operates nationally.	Sustainable Economies Law Center

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## Appendix One: Documentation of City General Fund Operating Budgets

Austin, Texas

[https://assets.austintexas.gov/budget/15-16/downloads/Budget\\_Highlights\\_FY\\_16.pdf](https://assets.austintexas.gov/budget/15-16/downloads/Budget_Highlights_FY_16.pdf)

Berkeley, California

[http://www.ci.berkeley.ca.us/uploadedFiles/Manager/Budget/BudgetBookPRINT\\_102313.pdf](http://www.ci.berkeley.ca.us/uploadedFiles/Manager/Budget/BudgetBookPRINT_102313.pdf)

Cleveland, Ohio

[http://www.city.cleveland.oh.us/sites/default/files/forms\\_publications/2015Budget.pdf](http://www.city.cleveland.oh.us/sites/default/files/forms_publications/2015Budget.pdf)

Madison, Wisconsin

<https://www.cityofmadison.com/finance/documents/2015OpBud/Adopted/BudgetWeb>.

Minneapolis, Minnesota

<http://www.ci.minneapolis.mn.us/www/groups/public/@finance/documents/webcontent/wcms1p-136969.pdf>

New York City

<http://www.nyc.gov/html/records/pdf/govpub/OMB%202015%20Exec%20Budget%20Summary.pdf>

Oakland, California

<http://www2.oaklandnet.com/oakca1/groups/cityadministrator/documents/policy/oak055628.pdf>

Richmond, California

<http://www.ci.richmond.ca.us/DocumentCenter/View/34449>

Richmond, Virginia

[http://www.richmondgov.com/Budget/documents/BiennialPlans/2014-15\\_AdoptedBiennialAndCIP\\_FY14-FY18.pdf](http://www.richmondgov.com/Budget/documents/BiennialPlans/2014-15_AdoptedBiennialAndCIP_FY14-FY18.pdf)

Rochester, New York

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