



Asset-Building Comes of Age

From IDAs to comprehensive community wealth-building, the number of strategies to increase personal and collective assets is growing.

By Gar Alperovitz, Steve Dubb and Ted Howard

In the past decade, individual and collective asset-building has increasingly become a central goal in the community-development field. As a result, asset-building approaches have proliferated: The most common is the individual development account (IDA), which builds the financial assets of low-income individuals through matched-savings plans offered by community development groups. But the IDA is only one example of a growing number of strategies

aimed at increasing both individual wealth and the collective assets of a community.

In under-funded communities across the country nonprofits and local governments have begun to implement more asset-building strategies for communities, from nonprofit-owned businesses to new municipal enterprises. The critical challenge that remains is to integrate the various wealth-building activities, a step which could significantly boost both the capacity and revenue of nonprofits and communities.

New Types of Asset-Building

Many asset-building strategies combine individual and community wealth-building. “Community wealth” arises when an institution uses the wealth or assets it owns to benefit the community at large. Community land trusts, for example, do this through homeownership. A land trust is a locally based nonprofit that owns land on behalf of the community. The trust sells houses on its property using a restricted deed but retains ownership of the

land underneath. The trust and the purchaser share equity through a formula that allows for some equity accumulation for the family (although less than with direct homeownership) but limits the resale price to preserve permanent affordability.

A study of the land trust in Burlington, Vt., found that the average land-trust homeowner gained between \$5,000 and \$8,000 in equity in about six years, allowing the majority to “step up” to traditional homeownership. The equity gain retained by the trust enabled it to provide affordable housing to future generations—a type of community wealth of great significance as public subsidy funds become more limited. Chicago, Ill., and Irvine, Calif., are among the many cities now developing land trusts. By 2025, Irvine expects to develop almost 10,000 units of land-trust housing, which will represent 10 percent of its total housing. (See “City Hall Steps In,” page 12.)

Collective forms of business ownership are also thriving across the country. Today, more than 120 million Americans are members of at least one cooperative or credit union. Credit unions alone have assets exceeding \$600 billion. Non-financial cooperatives are also growing. Retail food cooperatives, if grouped together, would constitute the fourth largest chain in the natural-foods industry.

The expansion of employee ownership, once seen as a radical demand but now commonplace, is even more impressive. A modest federal tax credit (\$2 billion per year) has encouraged increasing numbers of retiring owners to investigate employee stock-ownership plans (ESOPs). The credit reduces their capital-gains taxes if they sell at least 30 percent of their enterprises to their employees. Today, there are more than 10 million employee-owners in ESOPs, up from 250,000 three decades ago.

The wealth-building importance of ESOPs is dramatic: The assets owned by employees in ESOPs are worth an estimated \$600 billion—about \$60,000 per employee-owner. In comparison, the most recently available CFED survey found that in 2003 the number of participants in IDA programs totaled roughly 50,000, and the amount of money leveraged in purchases supported by IDA matches had reached a relatively modest \$168 million.

ESOPs also support community wealth-building in a variety of ways: They provide stable, well-paying jobs, anchor capital locally and contribute to a stable economic base that generates tax revenue and supports public services. In this age of global capital mobility, when

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jobs are moved from America’s cities to South America or Asia, workers in employee-owned firms do not vote to ship their own jobs abroad.

A study by the Ohio Employee Ownership Center at Kent State University found that in Ohio 58 percent of all conversions to employee ownership occur because of succession issues, which arise when a retiring owner needs to cash out. This pattern seems to hold true around the country. Because of the impending retirement of the baby-boom generation, there is a clear opportunity for many additional conversions. In the next five years, 30 percent of family-owned firms are expected to experience a change in leadership because of retirement or semi-retirement. Cornell economist Robert Avery estimates that the nation will experience a net \$10.4 trillion transfer of family-owned business assets by 2040.

The looming threat of *not* responding to this opportunity is also clear: Many viable community businesses will simply be closed or purchased by large corporations that will shift operations elsewhere. Local governments can use policy approaches, such as tax credits or technical-assistance programs, to promote employee ownership and take advantage of this opportunity.

Social enterprises owned by nonprofits are also expanding in size and impact. As of 2005, annual revenues of members of the Social Enterprise Alliance, a trade association founded only a few years ago, had grown to \$1.6 billion, of which nearly a third (\$525 million) was from earned income. Along with providing direct benefits, social enterprises build the assets of nonprofits, making them a more stable presence in the community and freeing charitable dollars for other work.

Local and state governments can directly own businesses that both generate revenue and provide needed services. Close to 2,000 localities own their own electric utilities, and many of these have diversified beyond power production. According to the American Public Power Association, as of the end of 2005, 105 municipal utilities provided cable television, 175 leased fiber optic networks, 132 provided Internet services, 272 offered municipal data

networking, 47 provided long-distance telephone service and 57 provided local phone service. The business revenue generated by such enterprises can be an important source of income for cash-starved city coffers, and thereby a source of relief to highly taxed city residents. *Cleveland Magazine* reports that public ownership of Cleveland Public Power saved city taxpayers \$185 million between 1985 and 1996.

Hundreds of cities derive revenue by generating energy from landfill gas. Riverview, Mich., recovers 4 million cubic feet of methane gas daily, contributing 40,000 megawatt-hours per year toward the city’s residential electricity needs, with royalties flowing back to the city.

Cities are also generating revenue and providing services through real-estate ownership. Boston, seeking to promote urban revitalization, invested in the Faneuil Hall Marketplace retail complex in the early 1970s. The development helped revitalize Boston’s downtown, and the annual lease revenues the city earned over the next decade were an estimated 40 percent higher than would have been generated simply from property taxes on the complex. Boston’s achievement has inspired city officials around the country. In many localities, transit authorities are generating lease income by developing publicly owned real-estate assets around transit stations.

Local governments can also direct dollars they are already spending or investing in ways

Continued on page 44



that build local assets and community wealth. Nationwide, public-sector pension-fund assets total over \$2 trillion. Increasingly, a portion of these funds is being targeted to fill capital gaps that would otherwise retard local economic growth. Retirement Systems of Alabama invests in numerous Alabama-based industries, including a statewide golf-course network that has raised tourist revenues while earning a strong return for the pension fund. CalPERS, California's largest employee pension fund, invests part of its more than \$200 billion in community-investment funds, such as Pacific Community Ventures, which in turn make venture-capital investments in local businesses deemed likely to generate high-wage jobs.

Anchor institutions such as churches, universities, museums, community foundations and nonprofit hospitals can support community wealth-building through their purchasing and investment policies. Higher education institutions collectively spend \$350 billion a year, and the total of their endowments now tops \$300 billion. If these organizations focus even a small amount of their purchasing and investment decisions on supporting local asset-building, it can make a huge difference. For example, the University of Pennsylvania increased its purchasing from local vendors in West Philadelphia from \$20.1 million in 1996 to \$61.6 million in 2003; this helped leverage an additional \$370 million in private investment.

The Role of CDCs

Community development corporations (CDCs) are major players in asset-based strategies. They have traditionally anchored capital locally by promoting homeownership and developing community-owned and -controlled businesses. With the increased interest in asset-building strategies, many have expanded their efforts. According to the 2006 National Congress for Community Economic Development (NCCED) industry survey, the percentage of CDCs offering IDAs climbed from 9 percent in 1998 to 22 percent in 2005. CDCs also administer micro-lending programs and, as of 2005, had 116,000 loans (valued at \$1.5 billion) to micro-enterprises on their books. This expansion of CDC financing programs has helped fuel the rapid growth of a new type of organization, the community development financial institution (CDFI). CDFIs—banks, credit unions, loan funds and equity funds that have a community development mission—have become proficient providers of direct loans, capital and technical assistance to low-income individuals and communities.

CDCs are also increasing their involvement in collective asset-building through business ownership and investment. NCCED's 2005 industry survey estimated that 17 percent of CDCs have equity investments in businesses (up from 12 percent in 1998), 21 percent operate businesses and 24 percent own businesses.

"CDCs have come a long way since their origin in the '60s as an outgrowth of the civil rights movement and the War on Poverty," said Ron Phillips in a January 2007 *Community-Wealth.org* e-newsletter interview. Phillips is the CEO of Coastal Enterprises, Inc., a statewide CDC and CDFI in Maine. Phillips went on to note that, "community-based development and finance entities number over 4,000 today, managing billions in housing, real-estate and small-business assets and investments." The growth has indeed been remarkable. Three decades ago, there were roughly 200 CDCs, and the term "CDFI" had yet to be invented. As of 2005, there were 4,600 CDCs, and the CDFI industry is now poised to top \$20 billion in assets.

Increasingly, CDCs and CDFIs, as well as some forward-thinking community foundations, have sought ways to expand their "asset-related" work across a range of sectors. This has helped facilitate what Heather McCulloch, founder of Asset Building Strategies, calls a developing continuum of asset-building efforts—beginning at the individual level and moving steadily wider to encompass various forms of community-benefiting enterprises.

McCulloch is working with a group in San Francisco's Mission District to develop a multifaceted wealth-building strategy. The program includes family and individual programs (such as IDAs), efforts to develop common assets through shared-equity housing (such as community land trusts or limited-equity cooperatives) and funds to develop resident-owned businesses (such as worker cooperatives) and enterprises in which ownership is restricted to community members. (The community-owned enterprise model echoes the Green Bay Packers franchise in the National Football League, which has been owned by the residents of Green Bay, Wis., for more than 80 years.)

One of the most innovative integrated efforts in the country is the Market Creek Plaza project in San Diego. Market Creek is a \$65 million commercial and cultural complex, anchored by a shopping center. It is located in the Diamond neighborhood in southeastern San Diego and was developed by the Jacobs Foundation. Drawing on the results of an extensive public planning process, the founda-

tion created a project that consciously links individual and collective asset-development. On the one hand, individuals were able to become direct owners and accumulate assets by purchasing shares in the shopping center through a limited, initial public offering restricted to community members. Twenty percent of the equity is owned this way. A new neighborhood foundation also owns 20 percent of the shopping center, which it will use to provide future community wealth-building efforts with a sustainable source of funding. The Jacobs Foundation, which currently retains 60-percent ownership, intends to turn over full ownership of the project to the community owners by 2018.

Looking Forward

Asset-based strategies can be particularly appealing in a time of ever-tightening budgets, because most of them do not rely on large public expenditures. Even those that do require some government spending can capitalize on the broad political appeal of promoting investment and creating assets.

There is evidence that asset-based strategies can achieve broad bipartisan political support. At a 2006 policy roundtable sponsored by the Democracy Collaborative of the University of Maryland and the Aspen Institute, a range of asset-building and community wealth-building strategies won support from liberal, moderate and conservative participants—including Robert Borosage, co-director of the liberal Campaign for America's Future; William Galston, a senior fellow at the Brookings Institution and a centrist "New Democrat" adviser in the Clinton White House; and Stephen Goldsmith, former Republican mayor of Indianapolis and George W. Bush's domestic policy adviser in his 2000 campaign.

But local groups need to coordinate their efforts to make the most of this political promise. Often groups working in the same city know little about the asset-building efforts of others. Fortunately, attempts to break down the "silo" problem have begun. PolicyLink, based in Oakland, Calif., has undertaken various regional equity initiatives around the country. Statewide asset-policy coalitions are growing in a number of states, including Alaska, California, Hawaii, Illinois, Michigan and Pennsylvania.

The Democracy Collaborative hosted two community wealth-building roundtables in the fall of 2006 in an effort to encourage more cooperation. In Scranton, Pa., 30 business, labor, community and nonprofit leaders came togeth-

er, including the mayor, the head of the city council and two college presidents. Scranton has lost a significant percentage of its population in recent decades due to a lack of employment opportunities, so using ESOPs as a strategy for job retention garnered significant interest. Participants were also very interested in the role the city's major public institutions could play by targeting their procurement locally.

The second roundtable took place in Cleveland, Ohio. Approximately 50 community leaders representing all aspects of local asset development gathered for a day and a half. Among others, Cleveland's newly hired economic development director showed strong interest in "across the board" strategies and encouraged conference participants to work with his office to submit proposals that could be incorporated into the city's strategic plan. Following the event, participants launched plans to further cross-sectoral collaboration by making employee-ownership information more available to traditional community development groups and by incorporating asset-building goals into negotiated community benefit agreements with local developers.

A Historic Transition

In a 2003 article in *Shelterforce*, Michael Sherraden, widely acknowledged as the founder of the IDA concept, wrote that we are "very likely [in the midst of] a historic transition toward asset accounts as a main social policy instrument—a transition from Social Welfare State to Social Investment State." We agree. What is striking is that such a strategy promises to move well beyond IDAs and other family and individual wealth-building approaches to encompass a wider range of community wealth-building strategies. If the promising experiments at integration continue, and if the political possibilities of these strategies are realized, we may soon see a significant shift toward broad-spectrum asset-based social policy across the country. ♦

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The Changing Landscape of Resale-Restricted, Owner-Occupied Housing

John Emmeus Davis
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Shared Equity Homeownership The Changing Landscape of Resale-Restricted, Owner-Occupied Housing

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