CASE STUDY: CLEVELAND, OH

The Cleveland Evergreen Cooperatives
Building Community Wealth through Worker-Owned Businesses

Background
The Evergreen Cooperatives model is simultaneously helping marginalized communities create wealth and local jobs while providing sustainable products and services to meet the needs of local institutions. The resulting cooperatives represent promising examples of how rigorous planning and collaborative action have led to an innovative approach to business.

The project team began by envisioning a range of thriving, worker-owned, environmentally sensitive businesses, which provide quality, competitively priced green services to educational and medical institutions of Cleveland’s University Circle. Since 2009 they have worked to bring that vision to life. Today, there are three Evergreen Cooperatives—the Evergreen Cooperative Laundry, Ohio Cooperative Solar, and Evergreen Business Services, LLC, with a fourth—the Green City Growers Cooperative—coming online in October 2011. By 2015, they envision a network of about 10 cooperatives, owned and managed by about 500 area residents.

Process

*Developing the Model.* Evergreen was born out of a broader project called the Greater University Circle (GUC) Initiative. Catalyzed by the Cleveland Foundation, the initiative seeks to address widespread community development issues, such as transportation, housing, open space, and economic development in some of Cleveland’s poorest neighborhoods. Just four miles outside of downtown, but within the city limits, the GUC area is characterized by a concentration of “anchor institutions,” including major educational, cultural, and medical amenities, and is directly adjacent to six communities with a median household income of $18,500 and where 25-30% of residents live in poverty. Although the institutions currently spend over $3 billion dollars on goods and services combined, historically very little of it has stayed in the area. Having funded many economic and community development programs for years, the Cleveland Foundation realized that status quo
approaches were not working and sought a new approach in collaboration with key stakeholders, one that would not only create jobs and generate new business, but also keep the wealth and assets within the community long-term.

In December of 2006, the Cleveland Foundation, along with two other local funders, awarded a grant to The Democracy Collaborative to organize a 1.5-day Community Wealth Building Roundtable for a broad range of stakeholders concerned with community and economic development, including representatives from the Mayor’s office, the Chamber of Commerce, community development corporations, employee-owned companies, anchor educational and medical institutions, and the Ohio Employee Ownership Center at Kent State University. Here, the idea of connecting the needs of anchor institutions to the need for local jobs sparked the imagination of many attendees, because of its potential for long-term impact and job creation. Previous efforts, including the Empowerment Zone program, had failed to create lasting change: companies that had been heavily subsidized to locate in a low-income community would often relocate after tax breaks expired. The idea of cooperatives was discussed as a mechanism that could create neighborhood-stabilizing enterprises likely to remain in the community for the long-term and promote asset accumulation for the community.

The Cleveland Foundation invited The Democracy Collaborative to return to conduct a feasibility analysis and engage in strategy development for what has come to be known across the nation as “the Cleveland model.” During the latter half of 2007, the Collaborative interviewed about 125 people in all levels of the participating organizations in order to identify mutually beneficial strategies for moving forward, a short menu of business ideas, and to measure the interest of anchor institutions in participating.

The result of the analysis was a ‘three-legged stool’ strategy:

1) Leveraging the purchasing needs of anchor institutions;

2) Developing a network of community-based cooperatives owned and run by GUC residents geared towards meeting those procurement needs; and

3) Taking advantage of the strategic opportunities emerging in the green economy space, given the sustainability commitments of the anchor institutions.

In the Cleveland model, the cooperatives are designed to be completely owned and managed democratically by workers (all of whom must live and work in the GUC). After a six-month
probability period, employees are invited to become members of the coop, are given a raise of about $2.00/hour, and then become investors in their company through a payroll deduction of $0.50/hour over the course of three years, they are able to complete the total ownership stake of $3,000. At this rate, employee-owners could earn a potential equity stake of $65,000 after about eight years. As the businesses become profitable, company earnings are distributed into “capital accounts” owned by each worker. The businesses follow the “one member, one vote” rule, with some input from Evergreen partners and representatives from local institutions who hold seats on the board of directors. In this way, they stand apart from typical businesses, where workers are not necessarily from a particular geographical area, and where decisions are made based on amount of equity invested.

Launching the First Cooperatives. The Evergreen Cooperative Laundry was the first business launched in October of 2009. The laundry currently employs 21 people, and provides an affordable, water-efficient green laundry service for local institutions. Initial capitalization proved challenging because the banks were at first hesitant to fund startups. The City’s Economic Development Department stepped in to provide the Laundry access to a long-term, low-interest federal loan and help structuring an innovative $5 million New Market Tax Credit deal. The strong finance background of City staff and the support the Laundry had from anchor institutions and the Cleveland Foundation were instrumental in getting the project off the ground in spite of the difficult credit situation.

Funding allowed the cooperative to invest in state-of-the-art washers, which require only 0.8 gallons of water per pound of laundry compared to the industry standard of 3 gallons. In conjunction with energy conservation measures installed to reduce heat used for water, dryers and ironing, the facility was also able to achieve LEED silver certification. As they bring on new clients, the laundry expects to expand to 50 workers.

The Ohio Cooperative Solar (OCS) launched soon thereafter and leases, installs, and maintains photovoltaic arrays on institutional, government, and commercial buildings with a staff of 22 employees. Through their business model, the cooperative owns and installs solar arrays and enters into a Power Purchase Agreement with the anchor institution and then sells the generated power to those clients at a fixed rate. The first round of contracts—with the Cleveland Clinic, University Hospitals, Case Western Reserve University, and the City of Euclid (a nearby suburban community)—sell the customers power for a fixed rate of 12 cents/kWh—higher than what the purchasers are currently paying for power, but lower than what they would otherwise expect to pay over the 15 years of the contract. The arrangement offers cost stability and savings to the purchaser, uses none of the purchaser’s capital, and helps them meet their social missions and environmental commitments. For the cooperative, the credit of the revenue stream from power purchase agreements helped them obtain loans from banks, necessary to help close the gap left once federal, state, and philanthropic sources were applied. The current business plan includes 30 installations of 100 kW each over 5 years.

Ohio Cooperative Solar has also worked to diversify their portfolio by training employees in weatherization services ensuring year-round projects for the business. By taking advantage of federal money available for weatherizing low-income homes, the cooperative can offer the services for free to residential customers. The program has helped OCS take on projects beyond anchor institutions and increase the scope of their work, creating a future opportunity to bring solar installations to residential properties as Ohio moves forward legislation for Property Assessed Clean Energy (PACE) finance districts. Through these programs, OCS has far exceeded their first year growth expectations—management is now about 75 jobs will be created in the next 3-4 years.

The Green City Growers Cooperative, the next green business of the network, is set to break ground in October 2011 with a four-acre greenhouse and capacity to produce about four million heads of
lettuce and 300,000 pounds of herbs year-round through hydroponic agriculture—the largest such project based in any American city. The cooperative has commitments to sell produce to GUC-area hospitals and schools currently shipping these items from California, Colombia and Hawaii, along with grocery store chains and food service companies within a 150-mile radius.

Each of the above businesses was selected for its potential to provide competitively priced services and products to anchor institutions while helping these institutions meet their sustainability commitments. In this way, the project is not about corporate philanthropy for the local community; it makes business sense. The Evergreen Cooperatives are therefore able to generate economic profit while providing a genuinely sustainable engine for community-based wealth creation.

**Assessing Market Demand.** The Cleveland Foundation knew the businesses they created would need to meet the needs of local institutions, create a good number of livable wage jobs, and be profitable enough to be able to generate equity for each of the employees. In the case of both laundry and solar cooperatives, the idea for these services came directly from dialogue with leaders from local anchors. With further analysis it was found that by leveraging federal funding, loans and tax credits, the businesses could thrive.

In the case of the laundry, the CEO of the soon-to-be-build Cleveland Veterans Administration Medical Center noted that the Center would need a laundry service provider. Given the interest area institutions had in environmentally friendly services, the development team researched other potential customers, including area nursing homes, and found that there was strong demand for such services because of the high costs of doing laundry in-house.

The idea of a solar cooperative was also a direct response to the suggestion of an anchor institution. In this case, the Cleveland Clinic planted the idea for a solar installer co-op. Clinic administrators were very interested in having solar on their roofs but had discovered that as a nonprofit, the Clinic could not take advantage of the public incentives available for solar installations. Thus, the financing did not make business sense. The cooperative created a model that would allow the Clinic to have an array and buy the power that was generated at a reasonable price.

According to Steve Dubb, research director for The Democracy Collaborative, the environmental nature of these businesses was driven by the demand of the anchor institutions: “The strategic priority of the institutions was to reduce their carbon footprints. Although Evergreen’s initial goal was focused on equity primarily, we adjusted it to focus on green business because of the interest of the anchor institutions. We didn’t want it to be green jobs just because it was politically correct, but because it would actually make business sense—and it did.” The solar cooperative was profitable within five months of opening, and was able to allocate funds into each of their employee’s capital accounts by the end of its first fiscal year.

**A Governance Structure to Support the Mission.** In order to remain true to the social equity components central to Evergreen’s work, the Cleveland Foundation is launching the Evergreen Cooperative Corporation, a kind of “holding company” that will tie together and provide long-term sustainability for the growing network of Evergreen cooperatives, and other related entities, including...
the Evergreen Land Trust, the Evergreen Cooperative Development Fund, and Neighborhood Connections (which runs a hyper-local community newspaper called the Neighborhood Voice). These organizations, each of which serves a supportive role for the project, build on the Evergreen vision. The land trust will work to ensure the availability of strategically located property both for future business expansion and to maintain affordable housing and protect against gentrification—a distant concern in these highly disenfranchised communities, but a possibility the project team wanted to confront head-on. The land trust could also step in and protect Evergreen investments in the case of a business failing and facing foreclosure. The development fund helps leverage loans, institutional commitments, and tax credit opportunities with private and public dollars while Evergreen Business Services provides administrative services to the network, such as human resources and accounting. Neighborhood Voice, meanwhile, engages the wider community in conversations around economic inclusion and wealth-building, helping foment support across the GUC.

Finally, and possibly most importantly, the Evergreen Cooperative Corporation is meant to uphold the Evergreen vision through a board of directors that includes members representing the cooperative businesses, representatives of the public sector and socially responsible business community, and Evergreen’s investors, including the Cleveland Foundation. Once finalized, the corporation will own 20% of each cooperative business and will even have veto rights in case a cooperative attempts to exit the network by selling out or liquidating. This is meant to increase open governance, mitigate any activities that might put the Evergreen system at risk, and uphold the broader approach to triple bottom line sustainability and community ownership.

**Lessons Learned**

*Leveraging Procurement of Anchor Institutions.* Cleveland’s University Circle institutions procure billions of dollars worth of goods and services every year. They are also highly unlikely to relocate. One of Evergreen’s catalyzing insights was that business plans for new local ventures could be linked to the procurement needs of these institutions: doing so would give them long-term viability. Developing such grounded business plans required taking time to understand the needs of these anchor institutions, but resulted in profits and stability for the cooperatives. For their part, anchor institutions were able to procure quality products and services at competitive rates while achieving sustainability goals.

*Sound Financials.* It is worth reiterating how the GUC Initiative frames its goals: wealth accumulation, neighborhood stabilization, economic inclusion. To accomplish these goals, the stakeholders know that the Evergreen Cooperatives cannot be another charity program, but must be profitable businesses able to operate for the long-term. This ensures that business opportunities are put through a rigorous financial feasibility assessment and planning process before the project team commits capital. In addition, Evergreen recruits quality managers, closely monitors results, and provides technical assistance to startups to ensure continued success.

Stephen Kiel, who helped write the first two business plans, also noted in hindsight that the two-year lag between having ‘the good idea’ and the first hires could have been shortened had the laundry brought in people with more experience in capitalizing the business. Had they known that the banks would not fund startups, the team could have geared their financing efforts towards unconventional mixes from the outset.

*Using Green Economic Development to Alleviate Poverty.* Cleveland realized that wealth could not be created for people being trained for jobs that didn’t exist. So partners have been using the strategy of
creating viable businesses in the Evergreen Cooperatives first, and then training the local workforce to operate them. In addition, these businesses are tuned into the current marketplace advantage in employing green standards and practices. For example, one of the collaborators, Cleveland Sustainability Director Andrew Watterson, assists the development of new Evergreen Cooperative opportunities by identifying particular roles they might play in Cleveland’s emerging green economy.

**Workforce Training Beyond Technical Skills.** For most of the employees (who must live in one of the six neighborhoods that the Evergreen Cooperatives are working to stabilize), the opportunity to have ownership in a local business is unheard of. Considering the high unemployment rate of these communities and the fact that most of the unemployed population fall into the “hard to employ” category (due to criminal history or other factors that arise from being chronically unemployed), the prospect of being a worker-owner is seen as much more than just a job.

One goal of the cooperatives is to achieve a different employment relationship. According to Stephen Kiel, CEO of the solar cooperative, “They’ve likely had no voice in previous employment situations, were disrespected, and did not trust their previous employers. We’re trying from day one to establish honesty and truth and respect for leadership and among each other.” The prospect of building significant equity and having pride of ownership is a positive incentive for new employees, but doesn’t avert the need for a complex range of training and professional development, including basic work skills (e.g. punctuality), how to manage life responsibilities outside of work such that they don’t disrupt work responsibilities, cost reduction and cost containment, environmental sustainability, and employee ownership. Attendance problems (stemming from spousal issues, childcare, and parole issues), fighting, accused thefts, or simply the lack of a driver’s license have all been challenges that cooperative managers have been working through with the new employees.

This approach to management and workforce development issues is consistent with the Evergreen cooperatives’ community-based mission. Kiel shares, “Part of the job of the CEO is to get to know the people really, really well. The person running the business has got to know something about the problem set or you can’t manage it; and then it’s frustrating for both parties.” Hence, Evergreen’s commitment to training the second generation of CEOs from within the current workforce. This is no easy task, requiring careful grooming of internal leadership and educating both worker-owners and start-up CEOs on the cooperative model of shared governance and decision-making, something neither group is well-versed in. On the other hand, this is at the heart of the Evergreen approach and a strongly held ethic among all involved, so management and employees alike share a strong investment in putting in the work to solidify their process and continue to build the Cleveland model.

**Key Relationships.** The Evergreen Cooperatives are the result of the work of many entities: anchor institutions, locally oriented philanthropic funders, city government officials, community groups, and mission-driven experts. What allows the Evergreen Cooperatives to yield fruit for the Greater University Circle area is not any formal organization of this assemblage, but the spirit of collaboration under which they work and the strong leadership of Case Western University, University Hospitals, the Cleveland Clinic, the Mayor of Cleveland, and the Cleveland Foundation. Staff members at all levels understand the value of the model and pitch in when needed—whether to create a training program, find money, or identify land.

Relationships are important in other ways too. Two of the individuals at the Cleveland Foundation who have been thought leaders in this effort have previously been staff at city hall, and so not only understand Cleveland’s bureaucracy, but can draw on relationships to advance the effort. The Evergreen Cooperatives story is also about the value of fostering relationships, not just taking advantage of existing ones. One example is the relationship between employee-owners and management mentioned above. Fostering relationships was also instrumental to the genesis of the
effort: in October of 2008, many of the people convened for the original roundtable in 2006 visited the Mondragon Cooperative in Spain, described below. Two subsequent trips to Mondragon have involved another 20 leaders from Cleveland. The relationship building and co-learning that these trips enabled has continued to pay dividends over time.

The Cooperative Model as a Means for Achieving Social and Financial Equity. The Evergreen Cooperatives were inspired by the Mondragon Cooperatives in the Basque region of Spain. These co-ops began small, like the Evergreen Cooperatives, but after 50 years of self-development by a historically marginalized ethnic minority, the current Mondragon Cooperative Corporation now includes 120 industrial, financial, and retail cooperatives with 90,000 employees. These stories exemplify how cooperatives can fairly organize and capitalize entrepreneurial pursuits that create good jobs and wealth for disadvantaged communities.

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