The Evergreen Cooperative Initiative of Cleveland, Ohio

Writing the Next Chapter for Anchor-Based Redevelopment Initiatives

by

Ted Howard, Lillian Kuri and India Pierce Lee
The Cleveland Foundation

White Paper Prepared for
The Neighborhood Funders Group Annual Conference
Minneapolis, MN
September 29 – October 1, 2010
The Evergreen Cooperative Initiative of Cleveland, Ohio

I. Introduction

Cleveland’s University Circle area is home to many of the city’s wealthiest and most important “anchor institutions” that are a legacy of the city’s industrial past. These include, for example, the Cleveland Clinic, Case Western Reserve University, the University Hospitals, the Veterans Administration Medical Center, and numerous cultural organizations. Together, they employ more than 50,000 people and represent the “economic engine” of Northeast Ohio.

Yet the neighborhoods surrounding these multi-billion dollar institutions are among the most underserved and disadvantaged in the city (Glenville, Hough, Fairfax, Buckeye/Shaker, Little Italy, and the eastern portion of East Cleveland). Annual median household income in the area is low, and there is a paucity of retail and service outlets, as well as many other amenities. Unemployment is high, educational attainment low, housing is distressed, and relatively few job opportunities exist within the neighborhoods. Individual families are in general asset poor, as are the neighborhoods as a whole.

In 2005, the Cleveland Foundation catalyzed a partnership of Cleveland’s major anchors, community-based organizations, and other civic leaders to form the Greater University Circle Initiative. Over time, the Initiative has become a comprehensive community building and development strategy designed to transform Greater University Circle by breaking down barriers between institutions and neighborhoods. The goal of this anchor-based effort is to stabilize and revitalize the neighborhoods of Greater University Circle and similar areas of Cleveland.

The Initiative works on a number of fronts: new transportation projects and transit-oriented commercial development are being implemented; an Employer-Assisted Housing program open to all employees of area nonprofits is encouraging people to move back into the city’s neighborhoods; an education transformation plan has been developed in partnership with the city government; community engagement and outreach efforts are promoting resident involvement. The most recent strategic development has been the launch in 2007 of an economic inclusion program known as the Evergreen Cooperative Initiative.

II. The Evergreen Cooperative Initiative

The Evergreen Cooperative Initiative is working to cause an economic breakthrough in Cleveland by creating living wage jobs and asset building opportunities in six low-income neighborhoods (43,000 residents with a median household income below $18,500) in the Greater University Circle area. At the center of the Initiative is a strategy aimed at leveraging the procurement and investment power of local anchors to build a
network of cooperatively-owned, community-based businesses that supply goods and services to the institutions.

Rather than a trickle down strategy, Evergreen focuses on economic inclusion and building a local economy from the ground up; rather than offering public subsidy to induce corporations to bring what are often low-wage jobs into the city, the Evergreen strategy is catalyzing new businesses that are owned by their employees; rather than concentrate on workforce training for employment opportunities that are largely unavailable to low-skill and low-income workers, the Evergreen Initiative first creates the jobs, and then recruits and trains local residents to take them.

While drawing on precedents and experience gained in cities around the country, it is the first attempt to bring together anchor institution economic power to create widely shared and owned assets and capital in low-income neighborhoods. It is also the first significant effort to create green jobs that not only pay a decent wage and benefits, but also build assets and wealth for employees through ownership mechanisms.

Although still in its early stages of implementation, the Evergreen Cooperative Initiative is already drawing substantial support, including multi-million dollar financial investments from the Federal government (particularly HUD) and from major institutional actors in Cleveland. It is also capturing the attention and interest of officials and philanthropy in a number of other cities seeking to replicate the “Cleveland model” (interested cities include Detroit, Atlanta, Newark, Pittsburgh, Baltimore, and a number of cities across Ohio). Recent positive media coverage of the Initiative has appeared in the Economist, Business Week, the Nation, and Time; on NPR; and NBC Nightly News (to be aired later this year) and the forthcoming PBS series hosted by journalist David Brancaccio, “Fixing the Future.” There are also important State and Federal policy implications and opportunities related to the effort which are now being pursued with the Administration (in particular with HUD and the White House Office of Urban Affairs, and in Congress (through the office of Senator Sherrod Brown).

III. Vision and Broad Goals

The Evergreen Cooperative Initiative seeks to respond to a set of difficult economic questions facing Cleveland (and, indeed, many of America’s other great cities):

- How do we create good quality jobs at a time of growing job dislocation and disinvestment in our urban areas?
- How do we anchor capital, particularly in underserved, low-income neighborhoods, so that it doesn’t get up and leave, as so many corporations have?
- Where do we find financing for job creation at a time of ever more-constrained resources for urban economic development?
- How do we address the lack of economic opportunity that is endemic in many urban neighborhoods where unemployment is at double-digit levels even in the best of times, and where as many as 30% of residents live below the poverty line?
- How do we turn the vision and promise of green jobs into real employment opportunities that are available to urban workers today?
- Most important of all, how do we rebuild the economies of our inner cities in order to stabilize and revitalize disinvested neighborhoods
The Evergreen Cooperative Initiative is based on a vision of “community wealth building.” Community wealth strategies aim at improving the ability of communities and individuals to increase asset ownership, anchor jobs locally, strengthen the municipal tax base, prevent financial resources from “leaking out” of the area, and ensure local economic stability.

The strategic pillars on which the Initiative is built are: (1) leveraging a portion of the multi-billion dollar annual business expenditures of anchor institutions into the surrounding neighborhoods; (2) establishing a robust network of Evergreen Cooperative enterprises based on community wealth building and ownership models designed to service these institutional needs; (3) building on the growing momentum to create environmentally sustainable energy and green collar jobs (and, concurrently, support area anchor institutions in achieving their own environmental goals to shrink their carbon footprints); (4) linking the entire effort to expanding sectors of the economy (e.g., health and sustainable energy) that are recipients of large-scale public investment; and (5) developing the financing and management capacities that can take this effort to scale (that is, to move beyond a few boutique projects or models to have significant municipal impact).

The near-term goal (over the next 3 to 5 years) of the Evergreen Cooperative Initiative is to catalyze the creation of up to 10 new for-profit, worker-owned cooperatives based in the Greater University Circle area of Cleveland. Together, these 10 businesses will employ approximately 500 residents of six low-income neighborhoods. Each business will be designed as the greenest within its sector in NE Ohio. Our financial projections indicate that after approximately 8 years, a typical Evergreen worker-owner will possess an equity stake in their company of about $65,000.

The longer-term objective is to produce 5,000 new direct jobs for Clevelanders over the next 10 to 15 years. The ultimate goal is to stabilize and revitalize Greater University Circle’s neighborhoods.

IV. Progress to Date

The first two businesses – the Evergreen Cooperative Laundry (ECL) and Ohio Cooperative Solar (OCS) – launched in October 2009:

- ECL is the greenest commercial-scale health care bed linen laundry in Ohio. When working at full capacity, it will clean 10 to 12 million pounds of health care linen a year, and will employ 50 residents of GUC neighborhoods.
- Ohio Cooperative Solar is a community-based clean energy and weatherization company that will ultimately employ as many as 75 residents. In addition to home weatherization, OCS installs, owns, and maintains large-scale solar generators (panels) on the roofs of the city’s biggest nonprofit health and education buildings. The institutions, in turn, purchase the generated electricity from OCS over a 15-year period. Within 3 years, we project that OCS will have more than doubled the total installed solar in the entire State of Ohio. The first 110Kw installation was completed in June on the roof of a Cleveland Clinic building; two
more solar generators are being installed at University Hospitals and Case Western Reserve University this summer.

The next two businesses – Green City Growers (GCG) and the Neighborhood Voice (NV) – will launch in the coming months:

- GCG will be a year-round, large-scale, food production hydroponic greenhouse. The greenhouse will be sited on 10 acres in the heart of Cleveland, with 5 acres under glass (making it the largest urban food production facility in America). GCG will produce approximately five million heads of lettuce per year, along with other crops such as herbs. GCG will employ approximately 45. We anticipate that we will break ground in early 2011.
- NV will be an innovative, “hyperlocal,” community-based information source (integrating print and online media) serving the Greater University Circle neighborhoods, as well as the anchor institutions. NV is designed to be the centerpiece of an ongoing community-building and engagement process. The first issue of NV will be published in October 2010.

Another dozen anchor-related business ideas are now being vetted for feasibility and we anticipate that at least two will launch in the first half of 2011.

V. Strategic Principles of the Evergreen Cooperative Initiative

A. Leverage anchor institution financial flows

In many mid-size and large American cities, anchor institutions are among the largest employers and purchasers in the municipal area. These institutions are rooted in place; unlike corporations, they rarely “get up and leave.” As such, they have (at least in theory) a self-interest in helping to ensure that their surrounding neighborhoods are stable, vibrant and healthy. A central element of the Evergreen strategy has been to work closely with Cleveland’s largest anchors (in particular, the Cleveland Clinic, University Hospitals, and Case Western Reserve University) to devise ways in which their business decisions, particularly procurement, could be focused to produce greater neighborhood and city-wide benefit. This has resulted in the identification of a large number of new business opportunities that can be developed within the community. The potential here is enormous: the city’s three largest anchors alone purchase an aggregate of more than $3 billion in goods and services annually. To date, little of this “spend” has been targeted locally.

A systematic attempt to shift the procurement needs of these institutions not only in one neighborhood – but in the city and the municipal area as a whole – could target jobs and increase the leverage and potential power of these institutions in overall urban rebuilding. It should be possible to reach a quite significant share of the jobs of the city both directly and indirectly through a serious refocusing of procurement.
B. Jobs alone are not enough; ownership and stability are essential

In low-income neighborhoods, such as those of Greater University Circle, there is a crying need for jobs, but jobs alone are not enough. Given the relative asset poverty of local families, a way must be found not only to provide living wage jobs but to increase the asset/wealth accumulation of local residents. Cooperatives and employee-owned businesses are a proven vehicle for asset building: over time, workers increase their equity in the firms in which they work through distributions of profits into capital accounts. Financial projections for the Evergreen Cooperatives show a per employee asset accumulation level of approximately $65,000 within 8 years (this is in addition to an above-industry standard living wage and no-cost health benefits).

In addition to the wealth building potential, the cooperative model has another important virtue: because companies are owned by those who work within them, such firms are inherently more anchored in place than businesses that are externally owned (since workers will rarely vote to send their jobs away to another city or country). Thus, the Evergreen strategy not only builds productive capital within underserved neighborhoods, but structures it in a way (by virtue of its ownership) so that it will remain in place over time. This, in turn, helps stabilize neighborhoods by ensuring good quality employment opportunities remain.

C. For-profit, not subsidy-based

One of the greatest challenges facing low-income urban areas has been the decline since 1980 of Federal funding for community/economic development. Philanthropy has been unable to fill this gap.

The Evergreen Initiative made a conscious decision at the outset to pursue a model of economic development that would not require ongoing subsidy. Philanthropic dollars are used to provide initial seed funding for each cooperative business, but the businesses are then expected to be able to turn a profit and stand on their own. Importantly, foundation resources are also used to leverage additional sources of financing (e.g., bank loans, New Markets Tax Credits, HUD 108 funds, state renewable energy investments). By way of example, $750,000 in grant funds from The Cleveland Foundation leveraged a total of $5.7 million in funding to launch the Evergreen Cooperative Laundry. A $1.4 million investment by the Evergreen Fund leveraged a total of $10 million in HUD grant and loan, $1.0 million in an ARRA grant, and, along with an $18 million New Markets Tax Credit Allocation, to launch Green City Growers.

As for-profit businesses, the Evergreen Cooperatives will also contribute much-needed tax revenues to fund city services.

D. Link strategy to growing sectors of the economy

Many American cities have been hard-hit by the decline of the manufacturing sector and the flight of jobs overseas. At the same time, there are new opportunities for growth in expanding sectors, such as health care and renewable energy (which are also recipients of
large public investments). Evergreen focuses in large measure on linking its businesses to these expanding sectors.

This strategy of tapping into the procurement streams of anchor institutions (such as hospitals and other health care centers) that are linked especially to growing sectors of expanding national public investments, suggests a new possibility: the greater Cleveland metropolitan area has more than 50 significant-scale hospitals and more than 250 nursing homes and other types of health-care institutions, along with scores of universities and large-scale cultural and other anchor institutions. Many of these institutions, like the Cleveland Clinic and University Hospitals with which we are now working closely, probably could be brought into focused alignment to achieve significant metropolitan-wide impact. University Hospitals, for example, has already initiated a complementary supply chain-attraction strategy which will award contracts to local businesses that relocate into a newly designated “Health Tech Corridor” adjacent to Greater University Circle.

E. Green businesses, green jobs, green ownership

Environmental sustainability is an essential element of the Evergreen strategy: our goal is to build a network of cooperatives businesses that are the greenest firms within their sectors. Because the anchor institutions which Evergreen links to are themselves working to shrink their carbon footprints, our green strategy gives us a competitive advantage with these institutional clients: they cannot do business with a greener company than an Evergreen firm.

We also seek to take advantage of the growing national momentum around green collar jobs and the green economy. As green businesses, the Evergreen Cooperatives have access to Federal and State funds related to a variety of green concerns.

The Evergreen strategy also offers a new approach to creating green jobs:

First: traditional workforce development trains low-income workers for green jobs, yet all too often the green jobs don’t yet exist, or are not available locally for the people who receive the training. The Evergreen approach is to identify a new green business opportunity, build the business, and then recruit and train local residents to take the jobs.

Second: Evergreen is seeking not just to create green jobs, but green ownership that leads to significant wealth accumulation for the people who hold these jobs.

F. Achieving scale

A limitation of most community economic development efforts is that they are unable to reach scale. An extraordinary individual project might be created, but its impact is limited. Given our initial target area – six neighborhoods with 43,000 low-income residents – a handful of Evergreen businesses is simply inadequate to the need at hand.
The near-term goal of the Evergreen Initiative is to prove the viability of this model of economic development by building an initial portfolio of ten cooperative businesses that will generate roughly 500 jobs within the next 3 to 5 years.

The issue of “moving to scale” – far beyond the initial 500 jobs – is central to the Evergreen strategy. Put simply, given the need for good jobs in Cleveland – and in many other urban areas – launching a handful of small businesses is simply insufficient. How do we move from 500 jobs to 5,000 jobs? A central problem is access to capital.

To address this critical issue, we have established the Evergreen Cooperative Development Fund, a nonprofit revolving loan fund, to provide financing and strategic direction for the overall Initiative. The Fund has two primary functions: (1) providing low-interest, long-term financing to start-up cooperative businesses in the Greater University Circle area of Cleveland; and (2) providing technical assistance and management support to the start-ups to help ensure their success.

The Fund was capitalized with initial grants totaling more than $5 million, and we expect to raise another $10-12 million over the course of the next year – which in turn will leverage up to approximately $75 million in investment funds over the next three years. Each cooperative that receives initial financing from the Fund will re-pay the loan over time (at 1% interest) so that financing is available to other start-ups. Importantly, each of the Evergreen cooperatives is obligated to pay 10% of their earnings back into the Fund to help seed the development of new jobs through additional cooperatives. Thus, each business has a commitment to its workers (through living wage jobs, no-cost health benefits, and asset accumulation) and to the general community (by creating new businesses within the Evergreen portfolio that can provide stability to neighborhoods).

The Fund’s development program is supported by the work of its technical assistance arm, Evergreen Business Services (EBS). EBS provides various forms of management, administrative, operational, and other support to Fund-financed companies (including new venture incubation, market research, initial feasibility study, business plan development, and recruitment of interim and permanent management).

G. A network, not just individual businesses

Related to the point above, the Evergreen Initiative is designed to build a network of inter-connected and related businesses. Each Evergreen Cooperative is part of a larger structure that ties them together into a network that is coordinated and managed by the Evergreen Cooperative Corporation (ECC) (which will be formally incorporated in 2010). ECC is responsible for ensuring that the vision of community stabilization and building wealth in our target neighborhoods remains a core principal of the Evergreen Cooperatives. ECC shares ownership in each cooperative with its worker-owners, and provides ongoing leadership and expertise for success through representation on their Boards, working side-by-side with the company’s worker-owners.

As a recipient of low-cost, start-up financing, each Evergreen cooperative commits to contributing 10% of its annual profit to ECC’s Evergreen Cooperative Development Fund (ECDF). These annual contributions will be used by ECC to help strengthen the
overall Evergreen system and to start new cooperatives that will provide jobs and wealth building opportunities for more residents of Greater University Circle. ECDF may also direct a portion of these funds to charitable activities that benefit the larger community.

Perhaps most important, the network structure will provide safeguards to prevent “demutualization” through which cooperative businesses risk being taken private. By privatizing, while a handful of employee owners who sell their business might individually gain, the community as a whole would lose the benefit of initial investments made in the company along with wealth building opportunities for future employees. Given the overall community stabilization and revitalization mission of Evergreen, it is essential that our businesses remain broadly owned and based in the neighborhoods.

H. Capture local financial flows to increase multipliers

The Evergreen strategy seeks to substitute local goods and services for those currently imported from other regions. By way of example, NE Ohioans purchase some $7 billion in food each year. Yet only a few hundred million dollars worth of this food is actually grown in our region. Our lettuce comes from California and Arizona; our herbs from as far away as Hawaii and Colombia.

By building local businesses to meet the needs of Cleveland’s major anchor institutions, as well as more generally, Evergreen seeks to capture more of the area’s financial flows so that they are internally circulated in our city and neighborhoods. Studies show that this could lead to a multiplier on the order of 2 or 3, which would expand business and jobs beyond the Evergreen network to help other local companies and entrepreneurs.

I. Broad partnership based on a shared vision

The Evergreen strategy requires the active partnership of many of Cleveland’s most institutional actors – local philanthropy, major anchor institutions, key elements of the banking and business communities, City Hall, and others. Building this partnership around a shared vision of possibility has been essential to success. The CEOs and senior leaders of many of our major institutions convene quarterly to assess progress and explore new initiatives. A steady stream of briefings and updates is provided.

Evergreen draws heavily on the experience of the Mondragon Cooperative Corporation in the Basque Country of Spain, the world’s most successful large-scale cooperative model (now employing 100,000 workers in a network of more than 120 industrial, service, and financial cooperatively-owned businesses). An important element in building a shared vision within Cleveland has been organizing study visits by local civic leaders to Mondragon so that they can experience first hand the successes achieved through this model.

The proposed Evergreen Cooperative Corporation will be the vehicle for institutionalizing this partnership. ECC will be governed by a board of directors comprised of our anchor institution partners, local philanthropy, and representatives of the Evergreen cooperatives. This same structure will be replicated in the governance of the individual cooperatives as well. Through this structure, Evergreen represents an
institutional advance in cooperative structures – rather than more traditional worker, producer, or consumer cooperatives, Evergreen is a multi-stakeholder cooperative in which multi-billion dollar anchor institutions and local residents of some of the city’s most disadvantaged neighborhoods are inextricably linked in creating a new future for their community.

J. Plan for success

We are committed to taking the long view and planning for success. While our initial target neighborhoods are among the most underserved and distressed in Cleveland, we envision a day when Evergreen’s investments will help transform this area into one of the most desirable places in our city. That successful development will inevitably result in rising land values. This often leads to gentrification as residents who have historically lived in the area are forced to relocate due to higher rents, property taxes, etc.

To ensure ongoing income diversity among residents, as well as rational land utilization for cooperative economic development, we are now working to put in place a community land trust that will be directly linked to the Evergreen Initiative.

The Evergreen Land Trust will not be a stand-alone entity; it will be fully integrated into the overarching Evergreen structure. It will be the first land trust in the nation whose mission is fostering stability and revitalization for the community as a whole (not just for the specific participants in the land trust). While ELT will eventually become involved in ensuring permanent housing affordability, the cutting edge of its stabilization/revitalization activity for the foreseeable future will be on a set of economic development/job creation activities.

VI. Conclusion

Something important is happening in Cleveland: a model of community-owned enterprises targeted at sectors that are inherently heavily financed by the public has begun to develop powerful momentum. It is a momentum that suggests new principles both for local development and for longer-range structural changes in the American economy. If successful, Cleveland may be the place where innovative, green, and wealth-sharing economic efforts will open an important new dimension in national economic strategy.

VII. Additional Resources about the Evergreen Cooperative Initiative

The Economist: “The Hopeful Laundry: Micro-projects aim to restore a shattered area”

Business Week: “Buying Local on a Large Scale”
http://www.businessweek.com/smallbiz/content/feb2010/sb20100212_832582.htm

The Nation: “The Cleveland Model”
http://www.thenation.com/doc/20100301/alperowitz_et_al
Time: “In Cleveland, Worker Co-ops Look to a Spanish Model”
http://www.time.com/time/business/article/0,8599,1947313,00.html

Apollo Alliance:

Evergreen Cooperative Video:
http://www.youtube.com/watch?v=Gt_ZHUDhKjs

Ohio Cooperative Solar Video:
http://www.youtube.com/watch?v=f8gClGjBYns

For more information, contact:

Ted Howard
Steven Minter Senior Fellow for Social Justice
The Cleveland Foundation
thoward@clevefdn.org
216-685-2007