



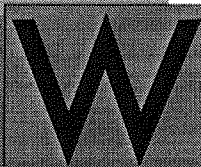
FIELD GUIDE TO INVESTING IN A RESILIENT ECONOMY

...a Capital Lab Initiative

FIELD STUDY No. 2:

THE EVERGREEN COOPERATIVES

The great challenge before us is to unlock the human creative potential for hundreds of place-based Evergreens to flourish, thereby restoring much needed resiliency to our economic web.



Evergreen Cooperatives Field Study

We are constantly told that we live in a competitive global economy, and it's true. But it's not the whole truth. We actually live in a complex global-regional-local economic web with often opposing pressures and objectives. The interplays inside this web are far more nuanced than conventional economic wisdom suggests.

The exercise of free trade suits the interests of politically influential global corporations and their shareholders whose capital moves across borders without restraint to exploit local competitive advantages, most notably labor costs and more lenient environmental regulations. In the name of global efficiency they have often contributed to heightened social injustice abroad, further degraded the global ecosystem, and sacrificed domestic economic resiliency.

The conceivers of the Evergreen Cooperatives see the challenge of economic development and sustainable prosperity differently, through the lens that renowned urban activist and unconventional economist Jane Jacobs articulated so well, identifying cities rather than nations as the core organizing instruments of economies, and drawing parallels between healthy, place-based economies and healthy ecosystems. Central to Jacob's framing is the resilient demand creation of local anchor institutions—the hospitals, universities, and government agencies that all have a strategic long-term interest in the health of their local communities. The properly harnessed energy of these anchor institutions is a vital source of resiliency in place-based economies. And resilient place-based economies provide the strong foundation that is the necessary pre-condition for successfully engaging in the competitive global economy.

Our economic system's drive for efficiency has achieved much, but has also resulted in a host of unintended consequences—chronic underemployment, financial distress, declining health, and erosion of community. We must begin to invest instead in resiliency, and would do well to study, in depth, the holistic elegance of the Evergreen Cooperative's approach to it.

Investing in a resilient economy means investing “upstream.” Capital does not naturally flow upstream, but like the nutrient restoring activities of the salmon teach us, investing upstream is essential to restore and retain system health. After 200 years of pressing for greater and greater efficiency, it is time we initiate a strategic shift on a massive scale.

—John Fullerton,
Founder and President, Capital Institute



Can we see in Evergreen
a way forward for a great
diversity of communities
to build resiliency and to
redefine wealth through...
shared purpose and respect
for the limits of the earth's
regenerative capacities?

A New Collaborative Vision Emerges from the Rustbelt

It is surely a case of poetic justice that one of the most promising models of locally based wealth building is incubating in an impoverished rustbelt community ravaged and abandoned by the global economy. Cleveland's Evergreen Cooperatives have emerged as a beacon of hope for civic leaders around the country searching for grassroots solutions to the crisis of poverty and hopelessness that has taken down their inner cities. It is now high on the radar screens of several U.S. government departments and has been extolled in numerous articles in the national business press. Ronald Sims, Deputy Secretary of HUD, has called Evergreen's wealth building strategy "brilliant" and the leaders of the venerable Mondragon Cooperatives of Spain now call Evergreen the "point of reference for all cooperative development in North America."

The Evergreen Cooperative initiative is indeed a remarkable experiment in worker-ownership, anchor-institution-based "green" job creation, and wealth building in a city experiencing the collateral damage of globalization, the foreclosure crisis, and the lingering legacies of racial injustice. But if the Evergreen model succeeds in Cleveland could it not be replicated in more affluent suburban or urban enclaves experiencing a different kind of impoverishment, of spirit rather than of purse, or in rural "single employer" towns where agribusiness has otherwise decimated the local economy? Can we see in Evergreen a way forward for a great diversity of communities to build resiliency and to redefine wealth through hands-on ownership of capital, a more creative and productive use of internal assets, and through shared purpose and respect for the limits of the earth's regenerative capacities?

We hope you will read this story of Evergreen—which describes both its great promise and its real challenges — with an openness to imagining all these possibilities.

*Above photo of East Cleveland
courtesy of Greater University Circle
Neighborhood Voice.*

*Cover: Cortez Ellis and Lloyd Hyatt,
worker/owners at Evergreen
Cooperative Laundry.*

*Opposite page: Lillian Kuri, an
Evergreen Cooperatives strategist, and
Ted Howard in Mondragon, Spain.*

*Other photos courtesy of Janet Century
and Evergreen Cooperatives.*

BUILDING ON THE GREATER UNIVERSITY CIRCLE INITIATIVE

The Evergreen Cooperatives grew out of Cleveland's Greater University Circle Initiative, an anchor institution strategy spearheaded by the Cleveland Foundation aimed at breaking down the barriers between the major anchor institutions of Cleveland's Greater University Circle and surrounding communities. These neighborhoods are home to 43,000 people whose median household income is less than \$18,500. Unemployment rates are now well over 25 percent.

The focus of the Greater University Circle Initiative was initially on new, transit-oriented development and employer-assisted housing to encourage employees of local nonprofits to return to the neighborhoods. But true wealth building for the poverty-stricken community was proving elusive. "We have struggled to find ways over many, many years to help change people's lives measurably," reports Tracey Nichols, director of the Department of Economic Development for the City of Cleveland. "In economic development you create jobs by offering incentives to companies to relocate and a company is here for 10 years and then moves away, and you have to ask yourself, are these people measurably better off? They had a low paying job for ten years and they paid their bills but they didn't build equity." Initiative strategists were looking for more transformative solutions. Out of their search the model of the Evergreen Cooperatives emerged.

A "GREEN," ANCHOR-BASED COOPERATIVE MODEL

Evergreen represents an unusual partnership among the Cleveland Foundation, the Democracy Collaborative at the University of Maryland, the Ohio Employee Ownership Center at Kent State University, and the anchor institutions of Cleveland's Greater University Circle.

They collaborated on a business model that focused on three legs of economic development and wealth building:

- Leveraging procurement from local anchor institutions
- Catalyzing the development of a network of worker-owned, community-based businesses linked to that procurement system
- Ensuring each cooperative business would be the greenest in its sector



LEARNING FROM THE MONDRAGON COOPERATIVES

Many aspects of the Evergreen Cooperatives are modeled on the Mondragon Cooperatives of Spain. A remarkable success story in worker-owned enterprise, established by an activist Catholic priest in 1956 with the goal of lifting the Basque region of Spain out of the poverty it experienced in the aftermath of the Spanish Civil War, Mondragon has grown into a network of over 120 worker-owned cooperatives generating more than \$20 billion in annual revenue and employing 100,000 workers. It is now Spain's fourth largest industrial and seventh largest financial group.

A number of trips to Mondragon were organized by the Cleveland Foundation to give community leaders a chance to observe first hand how a successful large-scale cooperative operated. Like Mondragon, Evergreen hopes to inculcate a culture of "solidarity," not as it is defined by the tired slogans of the communist era, but in the sense of a deep commitment to collective wealth creation and well-being. "What we have learned from Mondragon is a way of relating to capital, a sense of our responsibility as stewards of it," says Ted Howard, cofounder of the Democracy Collaborative and a key Evergreen strategist. "That means preserving and enhancing it and passing it on to the next generation rather than maximizing short-term return, flipping ownership or breaking it up. It is an extraordinary vision with sustainability at its heart."

Evergreen is also establishing an umbrella organization, modeled on Mondragon's, to be the keeper of its "vision" and a source of continuity for all of its cooperative enterprises. "We will set up the mission at the top so it incubates the next generation of businesses," says Lillian Kuri, one of the Cleveland Foundation's in-house Evergreen strategists. "This structure will allow us to preserve the mission of Evergreen long after all of the founding people working on it are gone."

"The value of this new fund structure is it creates a broader context and an understanding of how a particular enterprise feeds into a larger vision," says Key Bank's Paul Ettorre. "I would argue it is critical to creating a sustainable pipeline of new Evergreen companies."

IDENTIFYING THE FIRST COOPERATIVE BUSINESSES

The first two Evergreen cooperative businesses — the Evergreen Cooperative Laundry and Ohio Cooperative Solar—were launched in October 2009. The third, Green City Growers, a hydroponic food production greenhouse—the largest to date in any downtown in the country—is slated for its first planting in the fall of 2011. The Neighborhood Voice, a not-for-profit community newspaper, has already become a key vehicle for communicating the Evergreen vision.

The first for-profit Evergreen businesses were selected based on their potential to:

- meet the procurement needs of the local anchors
- employ, at maximum build out, at least 50 workers
- support workers at an hourly wage of at least \$10.50 plus healthcare at no cost to workers
- operate in a sector where "green" credentials could be leveraged to competitive advantage
- be profitable enough to allow workers to accumulate at least \$65,000 into their personal capital accounts at the end of 8 years.

NURTURING THE EVERGREEN VISION

In 2009 the Cleveland Foundation began exploring options to create the framework for a new independent legal entity, the Evergreen Cooperative Corporation. The ECC will be a 501(c)(3) "holding company" that will house the for-profit coop enterprises, an Evergreen Business Services unit that will provide shared services to the coops, the Evergreen Land Trust, and a restructured Evergreen Cooperative Development Fund.

A 15-member board of directors will govern the ECC, including anchor institution executives, representatives from Evergreen cooperatives, local and national financial institutions and investors, and the keepers of the vision including the Cleveland Foundation. The ECC will in turn be represented on the board of directors of each cooperative enterprise and will own 20 percent of each. Most critically, it will have the right to veto any cooperative's attempt to exit the Evergreen system—either to sell out to a private interest or liquidate—or to engage in other activities that might put the entire system at risk. The Evergreen Cooperatives, nested as they will be within this nonprofit entity and "keeper of the vision," will operate unlike traditional worker cooperatives.

The Evergreen Capital Tool

The new ECDF will act as fund manager and aggregator for all cooperative enterprises and will seek CDFI certification, enabling it to apply for grants and access other sources of financing from the US Treasury's CDFI Fund. Although it will be incorporated as a limited liability corporation, because the not for profit ECC will be its sole member, it will be "disregarded" for tax purposes.

The new ECDF structure offers lenders and investors a means to invest in a portfolio of companies rather than assume the undiversified risk of a single start up or coop enterprise. "The value of this new fund structure is it creates a broader context and an understanding of how a particular enterprise feeds into a larger vision," says Key Bank's Paul Ettorre. "It potentially provides a much deeper balance sheet and can allow for credit enhancements to be brought in as a jump starter. I would argue it is critical to creating a sustainable pipeline of new Evergreen companies."

Forsyth Street Advisors partner Henry Lanier, who advised Evergreen and also helped structure the highly innovative New York City Acquisition Fund as well as WHEEL, a new funding structure for energy efficient loans in Pennsylvania, notes that the new ECDF may function as the "lynchpin" for similarly highly structured hybrid financings. It can layer different sources of funding with a variety of risk return parameters: from philanthropic and government agency grants and credit guarantees; to foundation program- and mission-related investment notes that provide long-term patient capital; to shorter-term debt instruments offering higher rates of return to high net worth individuals; to standard, market rate commercial debt. "There are many permutations of how this can work," says Lanier, "but we can put it all in the box of the Evergreen Development Fund—we will have all the tools ready to receive the cash."

PROTECTING THE COMMONS

To ensure ongoing access to affordable real estate, the Evergreen Land Trust LLC will acquire land for existing Evergreen coops, and identify and acquire logistically advantageous sites for future enterprises. Cooperative businesses will enter into 99-year land leases with the ELT, with escalation clauses pegged either to an index or the coop's profitability. Buildings will be owned and managed by the coops.

Separating land from building ownership provides a substantial measure of protection for the Evergreen Cooperatives from individual coop failure, explains John Emmeus Davis, a partner with Burlington Associates, a nationally recognized land trust consultancy that is advising Evergreen. In the event of a business failure, the ELT will have the residual right to step in and buy the building out of foreclosure or to forestall foreclosure and intervene to slow down the seizure of the building. Even if creditors seize the building of a failed business, the ELT as owner of the underlying real estate will be in a strong negotiating position vis-à-vis the future use of the building. The ELT also protects Evergreen against attempts by an individual cooperative to "demutualize."

REDEFINING AND SHARING THE WEALTH

The CEO of an Evergreen coop can earn no more than 5 times the lowest earning entry-level employee and once employees pass their six-month trial period and are accepted as a cooperative member, they receive a \$2 an hour raise and qualify for health care at no cost to them. Owner members must invest \$3000 into the cooperative, which they fund through a 50-cent per hour payroll deduction. Out of the percentage of each coop's profits that go to worker members, each worker is paid based on a formula that includes length of employment, annual hours worked, and salary. Twenty percent of profit payout to workers is made in cash and 80 percent in "capital credits."

Evergreen takes advantage of slow times for on the job training and financial skills building. Each month all worker owners meet for an open book financial management discussion and business analysis session. In addition to free health care, worker owners have access to courses provided by the Ohio Employee Ownership Center in personal finance and skills training. OEOC credit counselors advise employee/owners on how to improve their credit scores and bankers visit coops to set up debit cards and checking accounts for workers. At OCS employee/owners are given advances against paycheck to clear up parking fines to

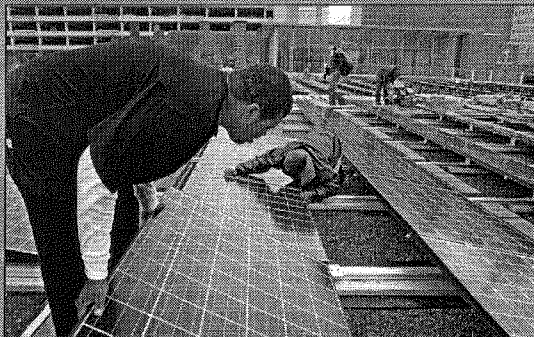
Evergreen Cooperative Laundry

The laundry, which will employ 50 workers when it reaches full capacity, has turned what is the typical inner city green job training model—where there is no job at the end—on its head. Instead Evergreen created the laundry, recruited the labor and trained on the job. Housed in a Leed Silver Certified building, the laundry operates with state of the art equipment—it takes only 0.8 gallons of water to wash a pound of laundry at Evergreen versus the standard 3 gallons—and consumes far less energy to heat wash water, dryers, and in the ironing process than its competitors.

While the laundry earned almost \$1 million in revenues washing 1.9 million pounds of laundry last year it failed to meet its projected end-of-year breakeven as the anchor-based contracts have been slower to materialize than anticipated. "This is a very high fixed-cost business built for a capacity of 10-12 million pounds of laundry annually," says Stephen Kiel, who helped develop the business plan for the laundry and is now CEO of Ohio Cooperative Solar. "We project we will break even at 4 million pounds."

Despite the challenges, morale remains high among laundry worker-owners. "Everyone at the laundry understands it is going to be a struggle to make this work," says Medrick Addison, the laundry's operations manager. "We talk a lot about it internally and remind ourselves that this could be pivotal to other cities facing poverty and foreclosures. We know how big this is."





Ohio Cooperative Solar

When Christina Vernon, Director of the Office for a Healthy Environment at the Cleveland Clinic, began exploring the idea of installing solar panels on the hospital's rooftops she ran into a roadblock when she discovered the clinic would be unable to access the associated government incentives because of its not-for-profit status. So Vernon asked Evergreen if they would be interested in creating a for-profit company to do the installation. Out of this unfulfilled procurement need, rather than an existing one, Ohio Cooperative Solar was born.

Thus far Ohio Cooperative Solar has installed panels on the rooftops of the Cleveland Clinic, Case Western and University Hospital, and entered into service contracts and 15-year power purchase agreements with each of these anchor institutions. OCS is also installing panels on two of the municipal buildings in Euclid, Ohio. "Our business strategy is to get sufficient experience and certification through our PPA model to become a commercial contract installer where the host will own the equipment and we install for a fee," says CEO Steve Kiel.

To keep workers employed year round, OCS has diversified into the weatherization business through the federal Low Income Home Energy Assistance Program. OCS was profitable within the first five months of operation. At the end of the current fiscal year, approximately \$7300 of its profits, after meeting commitments to capital providers, will be allocated to each OCS employee owner's capital account.

ensure that every worker holds a driver's license. The coop has also hired attorneys to help negotiate child support agreements.

Wealth building at Evergreen is not defined merely in terms of dollars saved in a worker's capital account. It is also about the empowerment workers experience being part of an enterprise that has as its goal both to heal the earth they inhabit and the fragile community in which they reside. "So many workers, without prompting, say how much they are attracted to this vision of being green and caring about the environment," says Ted Howard. "They have lived in these neighborhoods and seen the degradation and they are beginning to express themselves as leaders of renewal, as working for something that is inspiring hope. They are experiencing pride of place. This is about how we unleash the energy of people to become actors in history in their own lifetimes."

CULTIVATING RESILIENT LEADERSHIP

"We are like a close-knit family here and we all support each other," says Loretta Bey, inventory manager at Ohio Cooperative Solar. "The wonderful thing about working for OCS is I get to make decisions within the company and grow with a company that is just starting off. I never got that opportunity before. Every Monday morning we have a meeting where we discuss the business financially. They don't just make decisions without us, we get to take a vote."

"So many employees have been misled by their employers who don't want a disgruntled work force, they have been lied to when the company is falling apart to keep them in place and that results in distrust between management and employees," says OCS CEO Kiel. "It is important for our folks as owners to have a true picture of what is happening inside the business."



Although it is part of Evergreen's strategy to hire experienced management to get its new enterprises off the ground, all senior managers are expected to come from internal promotion within three years of a company's launch. It is thus essential to identify early and cultivate leadership from within. "We have to be able to give everyone a chance," says Kiel, "you never know where you will find talent."

Loretta Bey at an Evergreen reception for Senator Sherrod Brown

LEVERAGING PUBLIC SUBSIDIES

The census tracts from which Evergreen hires and in which it sites its businesses give it access to an array of government subsidies that translate into a lower cost of capital than its competitors'. "When people say these businesses can't exist without a subsidy I say you are paying it anyway," says Tracey Nichols, Cleveland's Economic Development Director. "We have a huge issue in Cleveland, in regard to both poverty and returning convicted felons to our community. When these people are unemployed you have high amounts of recidivism and you are spending taxpayer dollars for prisons or drug treatment or Medicaid. Or you can spend a smaller amount up front to help a worker-owned business get started that will employ and train those people with prison records. Those tax dollars come out of the economic development administration instead of a state prison budget but the bottom line is people can turn their lives around, move up in an organization, build equity and spend it in the community, and educate their children. It is a huge win-win."

That said, notes Howard, at some point in time, the subsidies that are supporting Evergreen in its early years may no longer be needed and no longer be accessible to coop enterprises. "We hope that if we succeed these census tracts over time won't be eligible for this money," he reports. "And we envision a day when we will get enough internal juice going and increased buy in from the anchors that we will be able to put these companies together without the subsidies."

A MODEL ALIGNED WITH JANE JACOB'S FORMULA FOR A HEALTHY ECONOMY

The Evergreen Cooperatives are aligned with the principles of organic development and dynamic stability that renowned urban activist Jane Jacobs believed were critical for a healthy economy. In her book *The Nature of Economies* Jacobs likens economic systems to ecosystems: "The more different means a system possesses for recapturing, using, and passing around energy before its discharge from the system, the larger are the cumulative consequences of the energy it receives." Just as a forest absorbs sunlight, converts it into energy, and passes it from organism to organism to process and recycle for use and reuse, Evergreen is harnessing the purchasing power of local anchor institutions, enabling viable economic, social, and environmental investments in an ever-expanding number of place-based businesses. Through utilization of the economic principles articulate by Jacobs, the Evergreen Cooperatives engage in resilient community based wealth-building.

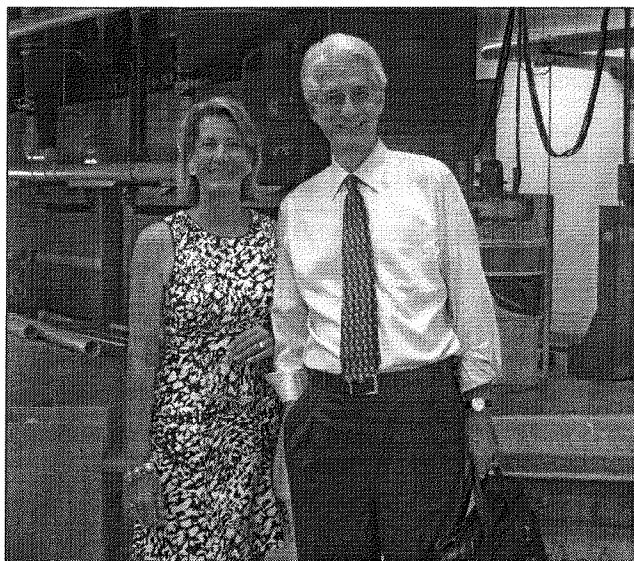
Green City Growers

Green City Growers is Evergreen's most capital intense project to date and perhaps its most ambitious — a 4.4 acre, year-round hydroponic greenhouse and 16,000-square-foot packinghouse located on 11 acres of assembled land parcels, a portion of which was a city-owned, land-banked "light" Brownfield. When fully operational Green City Growers will produce 5 million heads of lettuce and 300,000 pounds of herbs annually, employing between 30 and 40 workers year round. It is expected to harvest its first crop in the spring of 2012.

Green design principles have been driven into all elements of the Green City Growers business model. To reduce energy use, lettuce and herb crops have been chosen for their ability to thrive in slightly colder temperatures than crops like tomatoes and peppers. A double energy curtaining system, keeping heat out on hot sunny days and retaining heat at night, will also help reduce energy consumption. Illumination curtains will keep light in during the evening to prevent light pollution into adjoining neighborhoods.

"We want this greenhouse business to be not only a good place to work in terms of financial success and career opportunities but also to be a company that helps people to be well physically, and where health and wellness is part of the business culture," says CEO Mary Donnell. Green City Growers plans to partner with a local foundation to develop educational outreach and to ensure the surrounding community has affordable and easy access to produce grown in the greenhouse.





Ted Howard with Ellen Mavec, Evergreen Advisory Fund member and president of Kelvin and Eleanor Smith Foundation.

CASTING EVERGREEN SEEDS

Learning from Cleveland's legacy as a "steel town," and the associated risks of such concentration, Evergreen's goal is to build a diversified portfolio of small enterprises rather than a few large ones, thus ensuring the long-term survival of the cooperative vision. Also, very much in the sharing spirit of the Mondragon Cooperatives, Evergreen has been providing outreach and advice to civic leaders around the country who are interested in adapting its anchor-institution-based coop model. Howard has consulted with leaders in Atlanta, where, with support from the Atlanta Community Foundation and the Annie E. Casey Foundation, a team is at work on the "Atlanta Wealth Building Initiative." In February 2011 Howard visited the city of Richmond, CA, where he met with the mayor and her senior leadership about positioning the municipal government as a key anchor for a coop strategy, starting with a contract for solarizing the city's major buildings.

Ronald Sims, Deputy Director of the Department of Housing and Urban Development, recently announced plans to adapt the Evergreen model to HUD's Section 3 financing program. The Department of Homeland Security, which is consolidating its offices in Anacostia, a low-income area of Washington, DC, in the largest government construction project since the Pentagon was built, is also looking at the Evergreen model. "The Obama administration has tasked the Department with figuring out how they can do this in a way that builds wealth in this desperately poor community," says Howard. This would be a new advance on the anchor strategies that are typically linked to universities and hospitals. In the nation's capital, Howard suggests, "eds and meds" could be supplemented by the "Feds."

EVERGREEN'S ROLE IN SHAPING THE NEW ECONOMIC MODEL

Gar Alperovitz, cofounder of the Democracy Collaborative maintains that the Evergreen model addresses profound ecological questions about the limits to growth: "Can we sustain the growth paths we have become accustomed to in an era of limited resources? I don't think it is possible over the long haul. To me the design principles in Evergreen represent a model that can be taken to scale but that is not driven by fear that someone will take your market if you don't grow. You have an economic structure that is permitting and supporting rather than antagonistic and destabilizing."

Jeffrey Hollender, founder of Seventh Generation, echoes these views: "When you look at the challenges that our economy faces most of the things we do as solutions are akin to fixing a broken system. So yes you can raise some money and invest in some good businesses that create good jobs and make good products but what differentiates Evergreen from virtually every other project I have looked at is its holistic and systemic approach to dealing with the fundamental problems with our economic system— from ownership issues to individual wealth building to sustainable products to creating community wealth to looking at the challenges of starting up businesses. To me it is indicative of exactly the direction we need to go and need to go as quickly as possible and on a much larger scale. I think this model can work in virtually any community."

Indeed Evergreen's anchor-based, worker ownership structure has a potentially far-reaching role to play in shaping the new economic model. "It is about building your community with the assets you already have in place," says Ted Howard, "leveraging them, doing import replacement, and being mindful of the environmental consequences of your business decisions. All of this is relevant to any community. This is now our work, to prove that it can first be done in Cleveland."

Medrick Addison sums up these hopes and aspirations: "The eyes of America are upon us. We have to make this work."

To find out more ...
a resource guide, an in-depth narrative about Evergreen
Cooperatives and more about the Field Guide series can
be found at the Capital Institute website:

www.capitalinstitute.org



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