Sharing the Wealth:

Resident Ownership Mechanisms

A PolicyLink Report
2001

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A PolicyLink Report
by Heather McCulloch, Senior Associate
with Lisa Robinson

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PolicyLink

101 Broadway
Oakland, California 94607
tel 510.663.2333 fax 510.663.9684

1350 Broadway, Suite 1901
New York, New York 10018
tel 212.629.9570 fax 212.629.7328

www.policylink.org

Financial support from the Fannie Mae Foundation, the U.S. Department of Housing and Urban Development (HUD), and from the Ford Foundation, the Rockefeller Foundation, the Annie E. Casey Foundation, and the Open Society Institute.

The work that provided the basis for this publication was supported by funding under a grant with the U.S. Department of Housing and Urban Development. The substance and findings of the work are dedicated to the public. The author and publisher are solely responsible for the accuracy of the statements and interpretations contained in this publication. Such interpretations do not necessarily reflect the views of the government.

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Preface from PolicyLink

We believe that in this new economy, achieving equity requires a multifaceted approach that connects socially and economically isolated residents to the region, the economy, technology, and ultimately, to full participation in democracy. Making these connections demands the integration of people- and place-based strategies so that regional opportunities of all kinds are more fairly distributed. At PolicyLink, we are advancing a framework to achieve this outcome that we call "equitable development." Equitable development is achieved through policies and practices that enable low-income and low-wealth residents to participate in and benefit from regional economic activity. It grows out of the theory and practice of community building and community development.

Equitable development requires multifaceted strategies that we call "Community Equity Mechanisms" (CEMs) to ensure that development policies and projects benefit low-income/low-wealth residents. Community Equity Mechanisms (CEMs) include a broad set of tools—in the areas of housing, transportation, education, workforce, and economic development—to help achieve equitable outcomes for all residents of metropolitan regions.

Sharing the Wealth: Resident Ownership Mechanisms (ROMs) describes one set of CEM tools. ROMs contribute to equitable development by providing low-income/low-wealth residents with opportunities to obtain a financial stake and voice in economic activity in their communities. ROMs enable residents to participate—as stockholders, not just stakeholders—in development projects. They include residents as vested partners—with the public, private and nonprofit sectors—in the process of building strong, healthy communities in which they and their families can live and prosper.

We are very grateful for financial support from the Fannie Mae Foundation; the U.S. Department of Housing and Urban Development (HUD); and our core supporters, the Ford Foundation, the Rockefeller Foundation, the Annie E. Casey Foundation, and the Open Society Institute.

We wish to give a special acknowledgment to Lisa Robinson for her immense contribution to the report in terms of research, writing, and creative thought. In addition, this work has been greatly enriched by the critical thinking of the many people who gave their time to be interviewed and to review documents. We are especially grateful to Xavier de Souza Briggs at Harvard University and Jessica Gordon Nembhard at the University of Maryland for their contributions to the initial phases of the research and their thorough critique of draft documents.

We would like to give special thanks to PolicyLink board members James O. Gibson and William Julius Wilson for their thoughtful critique of the work and timely and helpful guidance, and to PolicyLink advisors J. Phillip Thompson and Elliott Sclar of Columbia University, who have given enthusiastic support and a critical eye. We are especially grateful to Carl Anthony, formerly of the Urban Habitat Program and now with the Ford Foundation, for his inspiration and encouragement. And, finally, we thank the PolicyLink team members who worked so intensively on the project including, in particular, Vice President Judith Bell, Senior Communications Associate Zita D'Azalia Allen, and Program Assistant Sujata Roashan.

Angela Glover Blackwell
President

Heather McCulloch
Senior Associate

A Note from Funders
Fannie Mae Foundation

The current surge of advocacy for market-based approaches to revitalize distressed communities has sparked growing attention to the need to more effectively anchor lower-income residents to the economic enhancement of their communities. Failure to directly and explicitly link residents to the growing prosperity of their neighborhoods, as a result of successful community revitalization efforts, can lead to gentrification and destabilization of the traditional cultural and social fabric of communities.

Sharing the Wealth: Resident Ownership Mechanisms provides a comprehensive overview of various financial and economic tools and strategies, existing or conceptual, that can be used to leverage market forces for the benefit of lower-income community residents. They are grouped into six broad categories based on the neighborhood assets upon which these mechanisms would be built. The report also includes a review of the literature on the relationship between asset/wealth development and individual economic development, as well as the relevance of ownership as an asset building strategy. This report makes clear the fact that lower-income status should not be a barrier to the participation of local residents in the economic advancement of their communities. Further, the numerous potential resident ownership mechanisms presented in the report demonstrate that resident involvement does not have to be limited to political organizing.

The concepts and ideas in this report, reinforce and promote the broader concept of Value Recapture introduced by Fannie Mae Foundation Senior Vice President, James H. Carr, in a 1999 *NeighborWorks Journal* article titled "Community, Capital, and Markets." In that paper, he argued that linking residents to the economic benefits of successful community investment efforts was not only possible, but also essential, to avoid simply shifting problems from one neighborhood to another. Ensuring lower-income residents directly benefit from successful community revitalization initiatives is also the most effective manner by which a community's social capital can be leveraged to support development activities.

The report offers an excellent starting point for a national dialogue about ways to expand ownership options to residents of low-income communities as part of market-based approaches to community investment. The Fannie Mae Foundation is pleased to have supported this report and looks forward to continuing to explore ways in which lower-income households can more effectively become owners of the engines of economic opportunity and prosperity.

Stacey Davis *President*
Fannie Mae Foundation

A Note from Funders

U.S. Department of Housing and Urban Development (HUD)

For more than 35 years, the U.S. Department of Housing and Urban Development (HUD) has focused on helping low-income communities revitalize and improve the housing and economic opportunities of low-income residents. Through older programs, such as Urban Renewal, Urban Development Action Grants, and Community Development Block Grants, as well as more recent programs, such as Empowerment Zones and the soon-to-be-implemented Renewal Communities, HUD has provided billions of dollars that low-income communities have used to leverage other public and private investment in redevelopment strategies.

This experience has provided many valuable lessons. HUD has come to recognize a number of the factors that help promote successful redevelopment and has incorporated this knowledge into its programs. Partly as a result of these economic development efforts, many distressed communities have experienced significant turnaround. However, even well-intentioned redevelopment efforts can have substantial adverse effects if they do not appropriately address the needs of the community's poorest residents. The result is the redevelopment of "place," but the worsening of the conditions of the "people" that once lived there.

The need to simultaneously address people and place remains one of the most daunting challenges in community redevelopment. It is an issue that has become increasingly important as a decade of record growth has led to reinvestment in some of the country's most impoverished areas—a trend that provides both opportunities and challenges.

This report on Resident Ownership Mechanisms provides valuable information for stimulating a national conversation on how best to address the nexus of people and place in community development. It provides the first comprehensive inventory of promising models for ensuring that low-income residents benefit from community revitalization and discusses reasons why such approaches should be made a fundamental part of a long-term redevelopment strategy.

The report is important, but it is only a first step. Next steps include evaluating models to determine factors of success or failure, defining the context in which they may be most effective, and assessing their potential impact. It may also be important to consider how these models interact with federal, state, and local policies. It is hoped that this report will both inform readers and inspire dialogue on this important issue.

Lawrence L. Thompson

General Deputy Assistant Secretary for Policy Development and Research, U.S. Department of Housing and Urban Development

Executive Summary

"Resident Ownership Mechanisms" (ROMs) are strategies and tools to enable low-income/low-wealth residents to gain an ownership stake in the revitalization of their communities.

Overview

For decades, economic development policy in the United States, at all levels of government, has focused on attracting private investment into poor urban and rural areas. While these policies have sometimes succeeded in changing the physical environment of communities, they have been less successful at benefiting the people who live in them. In large part this is because many residents of poor communities *do not own assets* in their communities.

Sharing the Wealth: Resident Ownership Mechanisms examines a range of strategies and instruments to increase opportunities for residents to become owners in the development process—to be stockholders, not just stakeholders, in local economic activity. Ownership can increase residents' financial assets and ensure that they have voice and influence in decisions about their communities. This report explores opportunities for residents to be included as active and vested partners—with the private, public, and nonprofit sectors—in economic development activities in their communities.

Disconnection Between People- and Place-Based Strategies

Historically, there has been a disconnection between place-based (e.g., community development) and people-based (e.g., social services) strategies for addressing poverty. For over 40 years, community development theory and practice have focused on attracting public and private investment to revitalizing places, while U.S. social policy has focused on providing income and services to low-income individuals and families, with no direct link to the places where they live. Only recently has there begun to be interest in linking place- and people-based policies and practices.

While public dollars are used to subsidize private investment in low-wealth communities (through direct subsidy, tax credits/abatements, loan guarantees, etc.), the subsidies rarely come with a quid pro quo to ensure an economic return for residents. As a result, when these public and private investments spark neighborhood revitalization and asset values appreciate, residents without assets do not benefit. In fact, low-income and low-wealth residents are the first to be displaced when revitalization results in rising rents and real estate values. Historical, as well as recent, waves of displacement in cities experiencing rapid reinvestment demonstrate this predicament.[1]

Few economic development projects in low-income/low-wealth communities include explicit mechanisms to ensure that residents gain economic benefits. Typically, the primary beneficiaries of public incentives aimed at encouraging investment in poor communities are private-sector investors, developers, and entrepreneurs. In many cases, urban and rural reinvestment is being fueled by public policies that encourage private investment (such as Empowerment Zones and redevelopment policy); but, rarely, have the direct beneficiaries of these policies included the low-income/low-wealth residents of the target communities.

The development of economic assets offers an opportunity for low-income and low-wealth residents to build their assets. But, today, these opportunities are not being realized.

Asset Poverty

At the same time, an ominous trend that is challenging all poverty alleviation efforts is the growing wealth gap. Recent data have demonstrated the widening divide between rich and poor, in terms of income and ownership of assets. In 1998, the richest 1 percent of U.S. families (as ranked by financial wealth) owned 47 percent of total household financial wealth; the richest 20 percent owned 91 percent.[2] At the same time, the top 10 percent held almost 90 percent of the total value of stocks, bonds, trusts, and business equity.[3]

Some analysts blame decades of social policy focused on income instead of assets. Others blame inequities in the tax structure that deliver subsidies for middle- and upper-income families and largely leave the poor behind. Whatever the causes, being low-income and low-wealth limits an individual's or family's future options. Without assets, poor individuals and families cannot take advantage of economic opportunities; nor can they resolve crises—a rent increase or job loss—without severe consequences.

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[1] Maureen Kennedy and Paul Leonard, *Dealing With Neighborhood Change: A Primer on Gentrification and Policy Choices,* Discussion Paper from PolicyLink and the Brookings Institution Center on Urban and Metropolitan Policy (Washington, DC: The Brookings Institution and PolicyLink, April 2001). This report reviews the literature on gentrification and provides several recent case studies of cities where rapid investment threatens the stability of lower-income residents and the businesses that have served them.

[2] Edward N. Wolff, "Recent Trends in Wealth Ownership, 1983-1998" (New York: Jerome Levy Economics Institute Working Paper 300, 2000), p. 4 at http://www.levy.org/docs/wrkpap/papers/300.html. Wolff defines financial wealth as "…net worth minus net equity in owner-occupied housing (the difference between the value of the property and its outstanding mortgage debt)."

[3] *Ibid.*

Emerging Opportunities

Successful strategies are emerging that help low-income and low-wealth individuals and families accrue financial assets. These strategies, including Individual Development Accounts (IDAs), have been effective at demonstrating the capacity of low-income/low-wealth individuals to save, given appropriate incentives and institutional structures. This report offers additional opportunities to link revenues from community development to building individual and family assets. It provides a survey of mechanisms being used by community development practitioners, identifies innovative ideas in the field, and proposes new strategies that could be developed by building from models in the nonprofit, public, and private sectors.

Sharing the Wealth: Resident Ownership Mechanisms was produced by PolicyLink with support from the Fannie Mae Foundation and the U.S. Department of Housing and Urban Development (HUD), along with funding from the Ford Foundation, the Rockefeller Foundation, the Annie E. Casey Foundation, and the Open Society Institute. The Fannie Mae Foundation support was provided under its Market Paradigm Agenda, which promotes market-based approaches to community investment. Specifically, the report contributes to the Foundation's value recapture research, a component of its Market Paradigm Agenda that focuses on tools and strategies to ensure that lower-income residents benefit from redevelopment efforts in their communities.

The Research

The mechanisms examined in this report go beyond traditional asset building strategies, such as single family homeownership and individually-owned small businesses. They include a mix of the following characteristics:

- Leverage economic activity to produce resident benefits;
- Target low-income/low-wealth community residents as beneficiaries;
- Enable residents to be owners of economic development activities;
- Build the financial assets of residents; and
- Give residents a voice in decision-making.

Existing and emerging resident ownership mechanisms are described, and conceptual models that could be built from practical or policy precedents are proposed. The ROMs presented in the report embody a continuum of mechanisms, some of which provide residents with opportunities to participate in decision-making and make a financial return from investments, and others, at the opposite end of the continuum, that include full ownership and control of economic institutions.

Quick Reference Guide to Models

This guide displays the full range of models discussed in this report. Model descriptions include background information, examples underway in the field, an assessment of how the model currently meets ROM criteria, and suggestions for strengthening resident ownership components.

Commercial Real Estate Development

- CDC Development with Resident Partners
  - CDC Projects with Resident Shareholders
- Resident Ownership of Real Estate Trusts
  - Value Recapture Framework
  - Community Building Trust
  - Community Building REIT
- Mechanisms to Support Resident Investment
  - Individual Development Account
  - Community Building IDA
    Development-Supported IDA

Business Development

- Shared Resident Equity in Business Development
  - Resident Ownership of Community Businesses
  - Resident Stock Ownership Plan
  - Customer Stock Ownership Plan
- Cooperative Ownership Models
  - Employee Ownership
    - Worker-Owned Cooperative
    - Employee Stock Ownership Plan
  - Producer Cooperatives
    - Agricultural Cooperatives Serving Low-Wealth Farmers
    - Craft Cooperative
  - Aggregation and Networking Among Cooperatives
    - Regional Cooperative Network
- Public Enterprise
  - Public Ownership with Resident Dividends

Financial Institutions and Resident Ownership

- Community Development Credit Unions
- Community and Individual Investment Corporations

Home Equity: Expanding Equity-Building Opportunities

- Community Land Trust
- Limited Equity Housing Co-op
- Leasing Cooperative
- Section 8 Homeownership Program

Natural Resources: Capturing and Preserving Value for Residents

- Alaska Fund
- General Stock Ownership Corporation
- Fair Exchange Fund
- Sky Trust

Highlights of Models and Examples

Commercial Real Estate Development

The report found a number of strong models of resident ownership mechanisms tied to commercial real estate development. One strategy is the sale of shares to residents in development projects led by community development corporations. Another is the use of individual development accounts (IDA)—savings accounts matched by philanthropic, public, or private resources—as a tool for community investment in home buying, small business, and real estate development.

Sharing the Wealth also explores conceptual real estate approaches. One such strategy, a Community Building Trust (CBT), builds on the notion of value recapture advanced by the Fannie Mae Foundation and involves the creation of a trust of local real estate assets in which residents are shareholders in and managers of the trust. The other builds from the existing legal construct of a Real Estate Investment Trust (REIT) and calls for the creation of a local or regional Community Building REIT (CB/REIT) that would target residents as shareholders.

One example that pulls from elements of several models is the Market Creek Plaza project in San Diego, California.

***Market Creek Plaza** is a 20-acre, mixed-use commercial and cultural center in the heart of one of San Diego's most ethnically and culturally diverse—and most distressed—urban neighborhoods. A product of an extensive community planning process, Market Creek is among the nation's first real estate development projects to be owned by community residents.*

Market Creek is anchored by a grocery store and includes a multiplex theater, multicultural restaurants, retail and office space and a 500-seat open-air amphitheater. In the fall of 2001, community residents will have the opportunity to transition from stakeholders to stockholders in the development. To facilitate this transition, a limited liability corporation has been set up to sell shares (units) directly to residents.

Neighborhood investors will be included as a special class of stockholders (members). The Jacobs Center for Nonprofit Innovation has provided comprehensive support for this resident ownership strategy, including the provision of training in the economics of investment to maximize the skills, knowledge, and information access of resident investors, as well as supporting the establishment of several related entities to expand community asset development and capacity building in connection with the project.[4]

[4] Description based on interview with Jennifer Vanica, Executive Director of the Jacobs Center for Nonprofit Innovation, March 2001, and Jacobs Center document: "Market Creek Plaza—Community Ownership: Building Individual and Community Assets While Rebuilding a Neighborhood," undated, used with permission.

Business Development

The business models include a broad mix of existing, emerging, and conceptual strategies. One innovative strategy, described below, involves resident ownership of community businesses.

Other business development models included in the report are worker-owned cooperatives and employee stock ownership plans in which workers are owners of firms; and producer cooperatives, in the areas of agriculture and crafts, which benefit low-wealth residents, primarily in rural and tribal communities. The report expands on these approaches by examining regional cooperative associations. It also examines public enterprises that include residents as primary beneficiaries. Finally, conceptual models explored in this chapter include innovative approaches to resident ownership in local businesses: Resident Stock Ownership Plans (RSOPs) and Customer Stock Ownership Plans (CSOPs).

***B.I.G. Wash** is a community business started and owned by residents of the low-income Columbia Heights neighborhood in Washington, DC. The idea for the business was born when a group of friends were discussing the need for a laundromat in their neighborhood. With technical assistance facilitated by the local Hope Housing Development Corporation, they researched the market, secured financing, and ultimately raised $30,000 to start a laundry in 1995. They were able to do this by selling shares of stock in the company for $100 per share, payable in increments, to others in the neighborhood.*

The original investors received dividends equal to 185 percent of their holdings over three years. In 1999, one member sold a share for $600. They have not missed a payment on their debt and by the end of 1999 had paid off one loan. The increased equity and annual dividends increased the financial stability of the shareholders and even enabled some to purchase homes in the neighborhood.[5]

[5] Information for this description was derived from several sources: a telephone interview with Rita Bright, B.I.G. Wash founder and board member, March 2001; David Montgomery, "A Neighborhood Cleans Up: Community Laundry Sells Shares," *Washington Post,* March 8, 1999; and Jessica Gordon Nembhard, "Entering the New City as Men and Women, Not Mules: Democratic and Humane Economic Development Strategies for Revitalizing Inner Cities" (unpublished manuscript, 2000), pp. 15–16.

Financial Institutions

The research found no models of resident ownership mechanisms targeting large national or regional financial institutions (banks, insurance companies, etc.), but it did uncover models of resident ownership in community development financial institutions (CDFIs), such as community development credit unions (CDCUs).

One innovative model, promoted by the U.S. Department of Housing and Urban Development (HUD) in the late 1990s, is the Community and Individual Investment Corporation (CIIC). In its original conception, the CIIC initiative aimed to "…demonstrate the feasibility of new, community-oriented financial institutions…owned by the residents of selected Empowerment Zones (EZs), Enterprise Communities (ECs), and other eligible communities."[6] CIICs were a new form of resident-owned financial institution designed to provide access to capital in inner-city communities. The model was designed both to build assets for low-income residents and to provide them with a stronger voice in running an institution dedicated to the development of their community.

Described in the box at left, the City First Bank of DC is being structured in a way that includes key elements of the HUD CIIC model, including the resident ownership component.

City First Bank of DC
Washington, DC

City First Bank of DC is a community development bank that opened its doors in 1998 when a small group of individuals concerned about the scarcity of banking services for smaller businesses in the District's distressed areas, determined that they wanted to start a bank. They responded to the CIIC funding opportunity through HUD. City First Bank received $3.5 million in Economic Development Initiative (EDI) grants and $5 million in Section 108 loan funds.

The bank provides credit and financial services to individuals and businesses in lower-income, underserved areas. It is unique in that it will eventually enable area residents and businesses to control the bank through owning shares of stock.

While City First Bank of DC is in a stable financial position, banks generally take several years to achieve profitability. Consequently, the Board has decided to offer stock to residents when the bank becomes profitable, which could be as early as 2002.[7]

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[6] Department of Housing and Urban Development (HUD), Office of Community Planning and Development, *The Community and Individual Investment Corporation: A guide to a new economic partnership between citizens, government, communities, and the private sector* (Office of Community Planning and Development, 1996), p. 1.

[7] Based on a telephone interview with Peggy Delinois, General Counsel of City First Bank, January 2001, and an article by Gwendolyn Flowers, "What Can We Expect from Community-based Lending for the District of Columbia," *American Economic Review,* 89:2 (1999), pp. 367–371.

Home Equity

The home equity section includes a number of ROM models that help to expand home ownership opportunities to lower-income community residents. These models include Community Land Trusts (CLTs), Limited Equity Housing Cooperatives (LEHCs), Leasing Cooperatives, and HUD's Section 8 Homeownership Program. LEHCs enable residents to share ownership of a building by purchasing shares in a cooperative corporation. They preserve ongoing housing affordability by limiting the price at which shares can be resold. Leasing cooperatives broaden ownership opportunities by enabling residents to build their ownership stake over a leasing period. HUD's Section 8 Homeownership Program facilitates accumulation of home equity by providing assistance for mortgage payments, as opposed to rental payments.

The following example highlights a CLT, a ROM that aims to build individual and collective ownership of property in low-income/low-wealth communities. "Community land trusts are democratically controlled nonprofit organizations that own real estate in order to provide benefits to local communities—and in particular to make land and housing available to residents who cannot otherwise afford them."[8] CLTs "unbundle" the package of rights commonly attributed to homeownership. They maintain ownership of the land while residents own the buildings and other structural improvements.

Burlington Community Land Trust
Burlington, Vermont

One of the largest and most influential Community Land Trusts is located in Burlington, Vermont. Since the early 80s, Burlington has become an increasingly desirable—and expensive—place to live. With active support from city government, Burlington Community Land Trust (BCLT) was established in 1984 to produce and preserve affordable housing for local residents.

In sixteen years, BCLT's holdings have grown to nearly 500 units of housing, including single-family homes, housing cooperatives, condominiums, and varied rental options. All of BCLT's housing is affordable not just for the first residents but for all residents thereafter. BCLT Director Brenda Torpy says, "We're old enough to have had a number of resales, and we've seen it really work. The second time around we don't need any additional government subsidy and we typically serve a lower-income family. We're doing that at the same time that the seller is taking equity with them and has had all the tax benefits and all the security that homeownership offers."[9]

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[8] Institute for Community Economics (ICE), "An Introduction to the Community Land Trust Model," undated.

[9] This description is from the Institute for Community Economics website at http://www.iceclt.org/clt/cltprofiles.html.

Alaska Permanent Fund
Alaska

The Alaska Permanent Fund began operations in 1976. Its original charge was to invest a portion of the royalties and other fees that the state collected from oil companies drilling on its public lands. The Fund was created by state constitutional amendment and ratified by voters.

The Alaska Permanent Fund Corporation, guided by a six-person board of trustees appointed by the governor, invests Fund assets in stocks, bonds, and real estate to earn income. Although the Fund is best known for its dividend payments to Alaskan citizens, its initial focus was simply to preserve the fruits of the state's oil wealth for future generations. The amendment stipulated that at least 25 percent of each year's oil royalties must go to the Fund, later raised to 50 percent for fields drilled after 1980. As of June 2000, total assets of the Fund exceeded $28.1 billion.

The dividend program was established in 1982. Since then, the Fund has made an annual payment to every Alaskan residing in the state for at least one year (including children). In 1984, each resident received just $331.29; in the year 2000, each resident received $1,963.86. The amount of the dividend varies each year based on the Fund's performance that year and for the four previous years.[10]

Natural Resources

The natural resources section examines strategies—existing and emerging—to capture the value of natural resource development to help residents build financial assets. One example, the Alaska Permanent Fund, is highlighted as a business and natural resource development model.

This report also includes a number of conceptual models—the General Stock Ownership Corporation (GSOC), the Fair Exchange Fund, and the Sky Trust—that build on current thinking about leveraging the preservation and development of natural resources to benefit community residents.

[10] Information for this example has been summarized from two sources: Alaska Permanent Fund Corporation, "Frequently Asked Questions" at http://www.apfc.org/indexinc.cfm?p=faqindex.cfm&, and Eric Laursen, "The 20-Year Gusher" in *Asset Development International*, 1998, at http://www.assetpub.com/archive/ps/97-02psfeb/feb97ps28.html.

Report Organization

Sharing the Wealth is organized into five chapters:

Chapter I

Framework, Approach, and Methodology provides an overview of the policy context for undertaking ROMs, the equitable development framework, and the general approach and specific methodology used to carry out the research. It proposes the use of a simple screen—the posing of the question "who benefits?"—to assess how low-wealth residents are served by economic development initiatives in their communities.

Chapter II

Background: Historical Perspective and Literature Review examines historical strains of the community development movement relevant to ROMs and links them to contemporary work on equitable development, other community equity mechanisms, and to the concepts of value recapture and social capital. It includes a survey of relevant literature, including research and analysis of asset development, alternative ownership, business/finance, community development, and community building theory and practice.

Chapter III

Models and Infrastructure includes descriptions of existing ROM models. Wherever possible, the descriptions include case studies from different communities, in the United States and abroad. It also includes conceptual models that could be designed to enhance existing models to better reach ROM goals. The second part of the chapter explores infrastructure issues—the web of resources, stakeholders, skills, and experience necessary for ROMs to advance in the current political and economic contexts.

Chapter IV

Perspectives from the Field includes highlights of interviews with over 75 community development practitioners and other stakeholders from around the country. The section includes a discussion of policy opportunities and challenges and identifies key next steps to advance the development and implementation of ROM concepts and models. All of these chapters were informed by a symposium, held in April 2001, which gave interviewees and other stakeholders an opportunity to assess the draft research findings.

Chapter V

Conclusion: Findings and Closing Comments discusses key ingredients to ROM design, development, and implementation. It clarifies important ingredients for creating effective ROMS and for maximizing their outcomes; finally, it offers closing comments from the authors.

Key Ingredients of ROM Design, Development, and Implementation

The research uncovered a range of resident ownership mechanisms, covering five areas of economic development activity: real estate, businesses, financial institutions, home equity, and natural resources. The research revealed a number of key ingredients in designing models that meet the ROM goals and that are relevant to all phases of ROM planning and implementation:

Ongoing and meaningful resident education, participation, and leadership:
Residents—the ultimate beneficiaries of ROMs—need to become engaged early and to stay involved throughout the planning and implementation processes. Such involvement can be catalyzed by diverse stakeholders and take a variety of forms. It can be initiated by a group of residents or by an established organization. Participation can build a broad sense of ownership. Meaningful resident leadership will ensure that the selected ROM addresses real community needs.

Access to high-quality technical support:
The design, development, and implementation of ROM models require specialized technical expertise in a mix of finance, real estate, law, tax accounting, and other areas. Access to high-quality technical assistance can make the difference in planning and operating a ROM.

Adequate funding and financing for planning and implementation:
Whether adapting an existing model or designing a new one, ROM development involves a substantial commitment of time and resources. ROMs must meet local needs and priorities, and the requisite adaptation incurs costs. Developing ROMs requires early and ongoing investment by funders who are willing to support a range of planning, development, and implementation activities.

Active engagement in the political process:
Much as other private developers, business owners, and local financial institutions are active players in the political process, so too are successful ROM developers. Most of the planning and development processes that led to the ROM models described in this report included outreach to local elected officials. Other ROM developers worked with academic institutions to gather the data necessary to ensure that their story was being told.

Strong accountability systems:
In the long term, the credibility of a ROM model will depend on effective and transparent monitoring and evaluation systems.

Finding ways to tell the story:
Telling the story of how a ROM was created and how it is operating helps to build financial, political, and public support. In addition, documentation helps to spur replication and interest in exploring mechanisms that can expand ROM operations.

The following points should be considered in order to maximize the impact of ROMs:

- ROMs will have a greater impact if they are part of comprehensive community planning efforts.
- Community-based organizations are integral to the design, development, implementation, and management of successful ROM models.
- Low-income/low-wealth residents will require subsidies and technical assistance to gain access to some ROMs.
- Public policy measures will be needed to produce large-scale benefits from ROMs.

Private markets are recognizing that poor communities hold a wealth of undervalued assets—buildings, infrastructure, and human capital—with the promise of a strong return on investment. Traditional approaches to economic development have not included an explicit return for residents because residents were not seen as active partners—stockholders—in the development process. ROMs offer new solutions for building collaborative, community-building approaches to development, producing win-win solutions for all stakeholders. ROMs benefit low-income/low-wealth residents, who become vested in their community's successful development, as well as private investors and developers, who are able to profit from their work with residents as partners. ROMs are integral to establishing equitable development policies and practices that ensure benefits for low-income/low-wealth residents.

Resident ownership mechanisms, alone, will not lift people out of poverty, but they can be part of the solution. They are an important and innovative approach to expanding asset building opportunities for community residents. Like other asset building strategies, ROMs will help to increase individual and family wealth *and* help to build strong, organized communities.

Framework, Approach, and Methodology

Chapter I

Policy Context

Historically, U.S. policy has not focused on building the assets and wealth of low-income/low-wealth people as a strategy to move people from poverty to opportunity. While the national tax structure encourages citizens to build financial assets through a package of incentives and subsidies that support savings and investment, these policies are often inaccessible to low-income wage earners.[11] The dearth of policies and strategies to increase saving and investment opportunities for poor families has severely constrained their ability to gain a foothold in the economic mainstream, while stagnant or falling wages have made income-focused strategies increasingly ineffective in addressing persistent poverty.[12]

Instead, poverty alleviation efforts have moved along two separate tracks of policy activity. One track has produced a set of strategies intended to

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[11] Examples include home mortgage tax deductions, tax-favored retirement accounts, and low capital gains taxes.

[12] J. Larry Brown and Larry W. Beeferman, "From New Deal to New Opportunity," *The American Prospect*, February 12, 2001, pp. 24–25.

improve the lives of poor people, regardless of where they live. These strategies aim to mitigate the effects of poverty through income supports and services. The other track includes strategies that fall under the rubric of "community development," "economic development," or "community economic development." These strategies aim to improve the neighborhoods where poor people live—usually areas of concentrated poverty—with the hope of improving the lives of the people who live in them.

These disparate policy tracks only occasionally intersect and are rarely linked to asset building policy.[13] For low-income/low-wealth residents of the targeted communities, the results range from lost opportunities to displacement. For example, when local economic development projects are not accompanied by services to enable residents to take advantage of emerging job opportunities, such as transportation and job placement or training, then residents do not benefit from those opportunities. When economic development projects result in rising real estate values with no asset building opportunities for low-income renters and homeowners, then these residents are typically forced to move because they can no longer afford to pay the rent or taxes on their homes.

Problems Point to New Opportunities and New Challenges

Increasing awareness of the implications of a growing wealth gap has triggered recent efforts to expand access to savings and investment opportunities for low-income citizens. Relevant policy successes include expansion of the Earned Income Tax Credit (EITC) and the child tax deduction, which include a refundable tax credit for low-income families. At the same time, community development practitioners have continued to strengthen strategies that more explicitly link place-based (community development) and people-based (social services) policy and practice in ways that enable low-income/low-wealth individuals and families to build their financial assets while contributing to the improvement of their communities.

Some such strategies—low-interest loans for homeownership and small and/or micro-enterprise business development—have included direct subsidies and support services to enable low- and moderate-income residents to invest in their communities. These savings and investment strategies are producing measurable outcomes in terms of enabling lower-income residents to save and invest in ways that are improving their communities; but they are still accessible to only a subset of residents—those with the resources, capital, and skills required to make the up-front investment. In the meantime, newer strategies, like Individual Development Accounts (IDAs), are opening up savings and investment opportunities to a broader array of residents and paving the way for more creative approaches to asset-based policies.

[13] Empowerment Zones offer one example of where people- and place-based approaches do intersect.

Leveraging Opportunities to Seek Solutions

Recent interest in the undervalued assets of America's "emerging markets" is presenting new opportunities for a convergence of these disparate policy solutions to persistent poverty. This interest has been fueled by a strong demand for affordable housing, while favorable rates of return experienced by Community Reinvestment Act (CRA) investors have catalyzed recognition of investment opportunities in low-income/low-wealth communities.

Many community development analysts are seizing this opportunity to think about how to leverage economic development in ways that both address poverty among low-income/low-wealth residents and benefit multiple sets of stakeholders. "Smart growth" planning efforts underway at the local, regional, state, and national levels are one example in that they include diverse stakeholders—equity advocates, environmentalists and business—working together around common reinvestment goals. A new generation of venture capital funds—in California, Massachusetts, Oregon, and Florida—that aim to produce a "double-bottom line" of financial returns and social equity outcomes are another example.

These efforts are helping to move discussions about economic development policy and practice from a "zero-sum game" comprised only of winners and losers to new "win-win" solutions that produce mutual benefits for a broad range of stakeholders. But, efforts to address poverty in the target communities are still constrained by the limited number of tools available to enable low-income/low-wealth residents to gain an equity stake in the development process. Without these mechanisms, it is difficult if not impossible for many residents to participate in the benefits of economic growth in their communities.

Responding to Need and Opportunity

Sharing the Wealth offers a "menu of opportunities" for community residents, developers, investors, and other stakeholders to consider new forms of community development partnerships—ones that include residents as stakeholders *and stockholders* in the development process.

The mechanisms examined go beyond traditional asset building strategies, such as homeownership and business development, and suggest ways for community residents to gain a shared economic stake in their communities—in real estate, businesses, financial institutions and natural resources. It accomplishes this task by examining a range of existing, emerging, and conceptual resident ownership mechanisms.

Sharing the Wealth is targeted to a diverse audience of community development practitioners, researchers, policy analysts, foundations, and investors interested in leveraging economic development opportunities to benefit multiple stakeholders, including community residents and institutions. It does not pretend to offer any one solution. But, it does aim to contribute to the national dialogue about the array of strategies necessary to enable low-wealth families to move from poverty to economic opportunity, building both people and places, simultaneously, as part of healthy communities.

Framework

Equitable Development, Community Equity Mechanisms, and Resident Ownership

The concept of resident ownership mechanisms has emerged from PolicyLink efforts to develop the elements of a practical and policy framework for regional economic development or "equitable development." Equitable development aims to:

- Engage and direct market forces to benefit low-income/low-wealth residents and communities;
- Include multifaceted strategies designed to ensure individual and community benefit from neighborhood improvement;
- Support meaningful resident participation in decision-making; and
- Integrate people-oriented services with place-oriented neighborhood and regional development.

Equitable development, however, is merely a framework. Achieving equitable development requires a broad set of tools that can be used to inform, guide, and support the work of community builders around the country. These tools, broadly defined as "Community Equity Mechanisms (CEMs)," include a range of strategies and practices that enable low-income/low-wealth community residents to advance a regional equity agenda.[14]

CEM tools are being developed to address regional inequity in areas such as housing, employment, job training, social services, investment, and savings. They include a broad range of mechanisms such as those that enable low-income/low-wealth residents to access suburban jobs; derive benefits from public investment; obtain access to affordable housing throughout metropolitan regions, etc. Resident ownership mechanisms are one form of community equity mechanisms.

PolicyLink staff chose to conduct research on ROMs as part of the CEM toolkit for several reasons:

- Resident ownership is a direct and an enduring way to ensure that residents obtain financial benefits from—and a voice in—the development process, factors that are critical for promoting equitable development;
- ROMs are tools that can help the public and private sectors to partner with community stakeholders;
- ROMs give residents a vested interest in the success of economic development ventures in their community;
- There is a dearth of applied research on the ownership mechanisms that could be applied to economic development policy and practice; and
- Discussion and consideration of resident ownership opportunities draw attention to the issue of how community residents do or do not benefit from economic development at all levels of planning and decision-making.

[14] In this context, "equity" is defined as "justice according to natural law or right; specifically: freedom from bias or favoritism," *Merriam Webster Collegiate Dictionary, Tenth Edition.*

Who Benefits?

The long-term objective of the ROM research—and the equitable development work—is to catalyze a shift in the way that community residents, leaders, intermediaries, academics, policymakers, and the public view "success" in the realm of economic development in the nation's low-income/low-wealth communities. The first step towards this goal is to ask: *who benefits?*

- *Who benefits* from community-based development policies, strategies, and projects?
- *Who benefits* from municipal economic development policy and practice that offer incentives and technical support to encourage and facilitate private-sector investment?
- *Who benefits* from regional, state, and federal policies that result in subsidies to encourage the flow of public and private capital into low-wealth communities?
- *Who benefits* from the range of public- and private-sector investments in low-wealth communities?

The long-term goal of the equitable development work underway at PolicyLink is to ensure that the answer to these questions is: *low-income/low-wealth residents of communities throughout metropolitan regions.*

Important Considerations Regarding the ROM Framework

ROMs embody a continuum of mechanisms, some of which provide residents with elements of voice and financial return, and others—at the opposite end of the continuum—that include full ownership and control of economic institutions. Broadened ownership can play an important role in enabling residents to have a voice and decision-making authority in the economic development process; but even the level of ownership associated with the most fully developed ROMs is insufficient, by itself, to achieve equitable development. Local economic development planning processes and institutions that include residents as leaders in the planning process are also critical to producing equitable outcomes. In the final analysis, strong organized communities—the product of community outreach, resident education, and organizing—are also essential to building the political power and public will necessary to ensure equitable development outcomes.

ROMs are a unique form of community equity mechanism that focus on building a direct financial stake for individuals and families in economic development projects.

Some readers may perceive a tension between individual and collective ownership, but this tension should not be assumed. By creating opportunities for larger numbers of residents to gain an ownership stake in a broader range of community assets, ROMs are actually building the collective ownership of community assets. For example, community building real estate investment trusts would ensure that investment in community real estate development is opened to a broad range of community residents, while resident stock ownership plans would create ways for residents to own a stake in business development.[15]

Other models, such as community land trusts, maintain collective assets (affordable housing) and at the same time offer opportunities for individual asset building. The value placed on maintaining affordability versus enabling residents to build financial assets is an important decision to be made by local stakeholders in response to the circumstances and priorities of each community.

[15] See "Chapter III. Models and Infrastructure" for details.

Approach and Methodology

Approach

The findings regarding resident ownership mechanisms, as described in this report, are the product of a nine-month PolicyLink national research project. The short-term goal is to help build the knowledge base for ROMs specifically and community equity mechanisms generally. The long-term goal is to apply this knowledge base so that communities can use ROMs as a tool toward achieving equitable development.

Hypotheses Guiding Research

The research for this survey of ROMs is guided by the following set of hypotheses about the relationship between community development and individual asset building/accumulation strategies. Additional research is required to fully test these hypotheses:

- Local/community economic development offers opportunities to build the financial assets of low-income/low-wealth individuals and families;
- Increasing opportunities for residents to build their financial assets, through the development process, will increase their ability to achieve family economic security;
- Greater economic security among residents and families will contribute to the social stability of the neighborhood;
- If community residents have an economic stake in the development process, they are more likely to engage—and be heard—in decisions affecting their community;
- It is in the interest of private- and public-sector developers, business owners, and financial institutions to provide ownership opportunities to community residents. When residents have a direct stake they become partners in ensuring the success and vitality of economic development projects in their community;
- Resident ownership mechanisms help build social capital by creating opportunities and incentives for often adversarial parties to come together over win-win strategies that revitalize local communities.

Levels of Investigation

Research involved three primary levels of investigation, including examination and analysis of:

- *Existing wealth-building approaches* that enable residents of low-income/low-wealth communities to obtain an ownership stake in community assets;
- *New ownership and wealth creation mechanisms* that could be developed by applying existing models—in the public, private, and nonprofit sectors—to the community development arena; and
- *Infrastructure*—financial resources, technical assistance, organizational support, financial training/education, etc., needed to support and expand opportunities for residents to build financial assets through the revitalization process.

Model Selection Criteria

A working set of criteria was used in the research process. The models all met the following criteria, to varying degrees.

- Leverage economic activity to produce resident benefits;
- Target low-income/low-wealth community residents as beneficiaries;
- Enable residents to be owners of economic development activities;
- Build the financial assets of residents; and
- Give residents a voice in decision-making.

What Is and Is Not Covered

The ROM research focuses on models that build the financial assets of community residents through the development of real estate, businesses, financial institutions, and natural resources in their communities. Conventional strategies attempting to build resident ownership of single-family homes, small businesses, and micro-enterprises are strong examples of ROMs, but are not featured in this report, because a large body of literature already exists on these topics. Only homeownership strategies specifically targeted to increasing opportunities for the lowest-income residents through shared approaches to building home equity have been included.

Institutional ownership of community assets was not the *focus* of this report; but the research does examine the roles of community-based institutions in helping advance ROMs in ways that are responsive to broader community building goals. The infrastructure section highlights the need to build the capacity of community-based institutions to enable them to serve as initiators, facilitators, service providers, and intermediaries in ROM development.

The research raises issues that require additional investigation, including:

Risk/reward:
Additional research is needed to assess the potential levels of risk and reward and to identify risk mitigation strategies associated with each ROM.

Documentation of the link between resident ownership and civic engagement:
Anecdotal evidence and some research data suggest a causal relationship between resident ownership and civic engagement that requires further evaluation and documentation.

Demand for resident ownership mechanisms:
A more systematic "market analysis" would serve to document the demand for different types of ROMs at the local level. Such an analysis should include an assessment of the economic viability of different models.

Impact, scale, and effectiveness of models:
This report offers an overview of a cross-section of resident ownership mechanisms. Those mechanisms deemed most promising by practitioners (informed by the market analysis mentioned above) will require additional evaluation regarding their past and present effectiveness and the potential for replication and expansion.

Assessment tool:
Communities will need a tool to help them assess which ROMs are most appropriate given local conditions, assets, capacities, and needs. Such a tool would enable communities to make informed decisions regarding which ROMs to integrate into a broader portfolio of equitable development strategies.

Policy tools and opportunities:
The policy discussion in Chapter IV proposes a general framework for advancing ROMs. Additional research is needed to identify specific opportunities and tools at the local, regional, state, and national levels.

Attention to rural issues and priorities:
While this report includes a preliminary investigation of rural ownership models, further investigation is required to identify models that adequately address the needs and priorities of rural communities.

Investigation of models from other countries:
Models from other countries were referenced during the research process, but the team did not have sufficient time or resources to adequately explore them. Additional research is needed to gain insight from resident ownership mechanisms in other countries and to determine how that research may be relevant to international economic development policy and practice.

Methodology

The research process leading to this report included a nine-month investigation:

Literature Review:
The research team conducted an environmental scan and compiled a bibliography of academic, policy, and practitioner writings. The literature survey is included in Chapter II.

Interviews:
The PolicyLink research team conducted over 75 interviews with key informants at the national and local levels to answer a number of questions:

- How does the ROM framework relate to historical and contemporary community development and community building theory, policy, and practice?
- How are the models under investigation relevant to activity underway in communities across the country?
- What additional models, concepts, or approaches should be included as part of the research?
- What type and level of technical assistance is needed to support ROM strategies?
- How does the contemporary economic and political context affect the environment for advancing ROMs?

Symposium to Review Draft Findings:
An integral step in the research process was a symposium held April 10, 2001, in Washington, DC, where interviewees and other stakeholders reviewed and discussed the draft research findings. Participants included national and local practitioners in community building and development, finance, real estate, housing, public policy, philanthropic funding, and other areas of expertise. Their comments and recommendations served to strengthen the report and to give direction to a broader policy, research, and action agenda.

In addition to publishing and distributing *Sharing the Wealth*, PolicyLink is authoring a series of related articles for policymakers, the media, and the general public.

Chapter II

Background: Historical Perspective and Literature Review

This chapter includes background information relevant to the research, including an overview of the trends in community development that have set the stage for the development of ROMs, and a review of relevant literature.

Historical Perspective: Connecting People and Place

The Continuing Evolution of the Community Development Movement

> *Community development…has come to encompass a large number of different place-targeted interventions that have never quite added up to a coherent, comprehensive strategy.*[16]

The community development movement is one that has grown and evolved in response to changing community priorities, funding streams, and political and economic opportunities. At the heart of the movement are community development corporations (CDCs) that grew out of community-led efforts in black neighborhoods in the early 1960s. With roots in the movement for black economic self-determination, the early CDC movement embodied concepts of resident ownership and control of community assets. Many CDCs were founded by community activists focused on the civil and economic empowerment of community residents; many were led by community-based leaders of various social movements, including the civil rights movement, economic rights groups, organizing networks, and faith-based groups.[17]

By the late 1970s CDCs, with strong ties to neighborhood activism and organizing, numbered between several hundred and a thousand.[18] However, beginning in 1981, large federal funding cuts reduced CDCs' ability to rely on federal funds for core support, thereby diminishing their capacity to take on a range of community improvement activities. In response, the generation of CDCs that grew up in the 1980s and 1990s specialized in the development of affordable housing, for which funding was available and increasingly tied to private capital investment through mechanisms such as the Low Income Housing Tax Credit.[19] Most CDCs retained neighborhood-focused strategies and included resident representation/voice in their organizational structures, but few developed or advanced strategies to build resident ownership opportunities.

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16 Alice O'Connor, "Swimming Against the Tide: A Brief History of Federal Policy in Poor Communities," in *Urban Problems and Community Development,* Ronald F. Ferguson and William T. Dickens, eds. (Washington, DC: Brookings Institution Press, 1999), p. 77.

17 Sara E. Stoutland, "Community Development Corporations: Mission, Strategy, and Accomplishments," in *Urban Problems and Community Development,* Ronald F. Ferguson and William T. Dickens, eds. (Washington, DC: Brookings Institution Press, 1999), p. 197.

18 Stoutland, 1998. The author also cites Robert Zdenedk, "Community Development Corporations," in *Beyond the Market and the State,* Severyn Bruyn and James Meehan, eds. (Philadelphia: Temple University Press, 1987), pp. 114–115; and Neal Pierce and Carol Steinbach, *Corrective Capitalism: The Rise of America's Community Development Corporations* (New York: Ford Foundation, 1987), p. 27.

19 Stoutland, 1999, and Christopher Walker and Mark Weinheimer, *Community Development in the 1990s* (Washington, DC: The Urban Institute, 1998).

Community Building as an Evolution of the Movement

In the 1990s, the community building movement began to articulate a new way of thinking about community development. It began to refocus attention on the need to link the development of *place*, low-income/low-wealth communities, with *people*, the residents of those communities, within the context of broader community planning efforts. The community building movement sought to strengthen the community revitalization process in a way that builds a new civic dialogue about poverty issues. It aimed to expand the range of stakeholders in the dialogue to include community residents, community-based developers, service providers, foundations, academics, policymakers, and private sector actors.

The approach of community builders brought renewed emphasis to the centrality of resident voice and agency (decision-making authority) in the community revitalization process.[20] The hallmark of community building is the integration of services and development strategies in ways that are responsive to the complex lives of those living in concentrated poverty. Community builders also began to routinely incorporate enrichment activities (sports, cultural events, family support) as essential components of comprehensive approaches to change.

The Increasing Importance of Asset Accumulation Strategies

Out of the community building movement, a number of practitioners and academics began emphasizing the importance of building assets of all types as a strategy to enable low-income/low-wealth families to escape poverty. Broadly defined, assets can be thought of as "a special kind of resource that an individual, organization, or entire community can use."[21] While this report focuses principally on the importance of accumulating financial assets as a means to overcoming poverty, assets of all types have relevance to the development of resident ownership mechanisms.

In his comprehensive review of asset concepts, Larry W. Beeferman describes a range of asset types, including: financial, income, human capital, community, social capital, enterprise, and common assets.[22] John B. Kretzmann and John L. McKnight, in particular, pioneered the strategy of a community recognizing or "mapping" diverse assets as a foundation for community development. Relevant assets include the individual skills, gifts, and capacities of residents; neighborhood religious, cultural, athletic, and recreational associations; and more formal institutions within the community such as private businesses, schools, libraries, parks, police and fire stations, hospitals, and social

[20] G. Thomas Kingsley, Joseph B. McNeely, and James O. Gibson, *Community Building Coming of Age* (Washington, DC: Development Training Institute and Urban Institute, 1997), and Joan Walsh, *Stories of Renewal: Community Building and the Future of Urban America* (New York: Rockefeller Foundation, 1997).

[21] Melvin L. Oliver, foreword to *Securing the Future: Investing in Children from Birth to College,* Sheldon Danziger and Jane Waldfoge, eds., (New York: The Russell Sage Foundation, 2000), p. xii. Cited in Larry W. Beeferman, "Working Paper on Asset Development Policy: Beyond the New Deal and Devolution" (draft in progress, 2000), p. 10.

[22] See Beeferman, pp. 12–15.

service agencies.[23] Others describe "social energy" as an important asset in the development process, as a strategy that "allows community members to combine their energy and willingness to work together with unconventional and alternative resources."[24]

As the 1990s produced increasing evidence of a widening wealth gap in America, community development practitioners, policymakers, and academics paid increased attention to financial asset accumulation strategies in addressing poverty. Recent research and practice have demonstrated that the poor indeed have the ability to accumulate financial assets. For example, Hernando de Soto describes the tremendous stock of undocumented assets held by the poor in developing countries, which take the form of undeeded homes, unregistered businesses, and other undocumented holdings.[25] In the United States, the American Dream Policy Demonstration has shown that low-income participants are able to save, accumulating an average of $900 per year through Individual Development Accounts (IDAs).[26]

Several strategies are emerging to facilitate asset accumulation by the poor. Developed by the Corporation for Enterprise Development (CFED) and the Center for Social Development, IDAs are a mechanism modeled after the Individual Retirement Account (IRA). IDAs help residents to build individual assets by matching savings with subsidies from the philanthropic sector, individual donors, and, more recently, the public sector. These accumulated funds can typically be used for the purchase of a home, education, or small business development. IDA programs helped to attract attention to the importance of asset building and accumulation for individual residents and families. The IDA movement established a precedent for philanthropic and, ultimately, public subsidies to support low-income/low-wealth individuals to accumulate financial assets.

Another strategy, advanced by the federal Department of Housing and Urban Development (HUD), is the Family Self-Sufficiency (FSS) program. FSS is a government-supported asset accumulation model that enables low-income families in Section 8 or public housing to have part of their rental payment put in an escrow account and retrieve it at the end of a designated period. The FSS model is relevant to the ROM discussion in that it is a mechanism whereby public agencies (HUD and public housing agencies) are subsidizing savings by low-income/low-wealth individuals and families. Approximately 1,200 public housing agencies are implementing the FSS program, with about 50,000 families enrolled.

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[23] See John B. Kretzmann and John L. McKnight, *Building Communities from the Inside Out: A Path Toward Finding and Mobilizing a Community's Assets* (Evanston, IL: Institute for Policy Research, 1993), pp. 1–11.

[24] Jessica Gordon Nembhard, "Entering the New City as Men and Women, Not Mules: Democratic and Humane Economic Development Strategies for Revitalizing Inner Cities" (unpublished manuscript, 2000), p. 7. She cites Haynes' definition of social energy as "nonmaterial resource stimulated by the strategic use of cooperative action and consensus seeking." See Curtis Haynes, Jr., 1993, "An Essay in the Art of Economic Cooperation: Cooperative Enterprise and Economic Development in Black America," Ph.D. dissertation, University of Massachusetts, Amherst.

[25] Hernando de Soto, *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else* (New York: Basic Books, 2000).

[26] Amanda Moore et al., *Saving, IDA Programs, and Effects of IDAs: A Survey of Participants*, research report (St. Louis: Center for Social Development, Washington University, 2001), p. 7. The American Dream Policy Demonstration is a joint endeavor of CFED and CSD to assess the effectiveness of IDAs. It includes 14 sites, 2000 participants, and runs from 1997 to 2001.

Micro-enterprise and Capital Access Strategies Contribute to the Movement

Two parallel movements began to emerge in the 1980s and 1990s of significance to resident ownership mechanisms. The micro-enterprise development movement in the 1980s and the Community Development Financial Institution (CDFI) movement in the 1990s helped to bring the issues of individual ownership and access to capital to the center of community planning and revitalization discussions.

The history of these two movements is described, in Lisa Servon's *Bootstrap Capital: Microenterprises and the American Poor.*[27] Micro-enterprise development is a community development strategy that, for the most part, grew up in the developing world. Initiated in Bangladesh in the late 1970s with the establishment of the Grameen Bank, the approach spread in the early 1980s throughout portions of Asia, Africa, and Latin America before it gained widespread attention as a poverty-alleviation strategy in the United States.

By the mid-1980s, domestic practitioners and policymakers began to see the strategy as a way to address the lack of access to credit among low-income/low-wealth entrepreneurs in the United States.[28] The United States had a history of lending programs available to entrepreneurs, but the introduction of micro-enterprise development programs focusing on lower-income populations was a novel concept. Spurred on by grassroots leaders—many with a focus on women entrepreneurs—micro-enterprise programs began to take hold in the United States in the late 1980s. The emphasis on access to credit and the need for financial literacy training added significant new strains to the community development dialogue.

In the early 1990s, a number of federal policy initiatives strengthened the connection between individual credit access and training strategies and the community development movement.[29] In 1994, a major piece of legislation, the Community Development Bank and Financial Institutions Act, fueled the establishment of a network of CDFIs. Supported by the CDFI Fund, a wholly owned government corporation within the U.S. Department of the Treasury, these institutions include micro-enterprise funds, community development credit unions, community development banks, community development loan funds, and community development venture capital funds.

By the late 1990s, CDFIs had become a major part of the community development landscape. They had successfully drawn attention to the lack of access to capital in low-income communities, and they had succeeded in bringing new forms of social capital into the community development movement.

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[27] For the full history, see Lisa Servon, *Bootstrap Capital: Microenterprises and the American Poor* (Washington, DC: Brookings Institution Press, 1999), pp. 16–28.

[28] It should be noted that some observers dispute the fact that the strategy came from abroad by citing the establishment of the Women's Economic Development Corporation (WEDCO) in 1983 in Minneapolis. See Servon, p. 22, for details.

[29] Servon, p. 24.

Connecting Community Development to Community Residents

Taken together, by the late 1990s these currents of theory and practice moved the dialogue about community planning and revitalization to a new level. Focusing attention on the connection between people- and place-based strategies, they helped raise awareness about the value of integrated approaches. At the same time, a growing emphasis on building resident and family assets served to strengthen the link between community stability and the economic security of residents and their families. And increased interest in credit access and financial literacy helped highlight the "market imperfections"; i.e., the gap between the supply and demand for capital at the neighborhood level that in the past had severely constrained the options of community residents, entrepreneurs, and developers.

ROMs and Value Recapture

In 1999 new frameworks, ideas and terminology were added to the community development field through a discussion about "value recapture," spearheaded by the Fannie Mae Foundation, under the Foundation's broader Market Paradigm agenda.[30] Value recapture is a broad development concept that promotes the establishment of internal wealth-generating mechanisms within communities that are undergoing revitalization to ensure that "lower-income residents benefit from redevelopment efforts in their communities."[31]

According to the value recapture approach, any community currently with assets—physical, social, and financial—that are undervalued relative to their full market potential can recapture the increased value that might be generated from revitalization, given the appropriate tools. Instead of allowing market forces to take their own course and displace existing residents, these same forces can be leveraged to benefit community residents. While it promotes market-based strategies for community revitalization, value recapture also emphasizes community control and participation for its management.

Value recapture mechanisms (VRMs) are specific tools and strategies that channel market-generated funds into "activities that benefit residents, either individually or collectively."[32] Sources of funds primarily include "rising real estate values, but can also include non-real estate business revenues or fees."[33] VRMs can take many forms, depending on a variety of factors, including socioeconomic character of the targeted neighborhoods, organizational strength of the community residents, regional economic trends, federal and state regulations informing revitalization efforts, available infrastructure and finances, etc.

The development of ROMs has the potential to contribute to and enrich the broader concept of value recapture in that ROMs promote asset development and ownership opportunities for individual residents and families in the context of the community economic development process.

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[30] James H. Carr, "Community, Capital and Markets: A New Paradigm for Community Reinvestment," in *The NeighborWorks Journal*, vol. 17, no. 3 (1999): 20-23.

[31] Carr, p. 20.

[32] Fannie Mae Foundation, "Value Recapture Mechanisms" (Annual Housing Conference Binder, 2000), p. 3.

[33] *Ibid.*

ROMs and Social Capital

Resident ownership mechanisms are directly linked to contemporary discussions about building social capital. The term "social capital" is "a broad term encompassing the norms and networks facilitating collective action for mutual benefit."[34] The term has been widely applied to the work of community builders as they have explicitly focused on the value of relationships—among residents and between residents and institutions—in addressing quality of life issues in low-income/low-wealth communities.

> *Strategies to build and use social capital must strive to make constructive connections with the financial and political institutions that play a critical role in community well-being. Scholars studying the role of social capital in developing countries have used the term synergy to characterize the situation where local organizations, economic actors, and state institutions work together for positive developmental outcomes (Evans 1997; Woolcock 1998)….Synergy demands the creation of constructive connections, a form of social capital, between organized residents of poor communities and the officials and staff of public and private institutions.*[35]

By offering residents opportunities to invest in and own economic institutions in their communities, in partnership with other stakeholders, resident ownership mechanisms provide community builders/developers with tools to forge economic relationships between community residents and those institutions. Applied within the context of comprehensive community building efforts, these tools provide practitioners with the means to build new forms of social capital that are critical to the health of their community.

Today, comprehensive community building efforts are weaving the evolutionary strands of community development together by bringing residents back to the forefront of the movement as leaders, decision makers, policy advocates, and ultimately, beneficiaries, of community revitalization efforts. The resident ownership mechanisms highlighted in this report can help to continue this evolutionary process by offering new strategies to link low-income/low-wealth community residents to the benefits of community revitalization.[36]

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[34] Michael Woolcock, "Social Capital and Economic Development: Toward a Theoretical Synthesis and Policy Framework," in *Theory and Society*, 27 (1998): 151.

[35] Mark R. Warren, J. Phillip Thompson, and Susan Saegert, "Social Capital and Poor Communities: A Framework for Analysis," (paper delivered at the Conference on Social Capital and Poor Communities: Building and Using Social Assets to Combat Poverty, 1999), p. 23.

[36] "Community builder" describes a range of stakeholders in the community revitalization process—residents, community-based development and financial institutions, community development corporations, public and private sector stakeholders, and private philanthropy.

Contemporary Challenges

Contemporary challenges are putting the issue of resident ownership at the center of the community development/building dialogue. Multiple forces are catalyzing this shift: a growing recognition of the wealth gap, and the importance of asset accumulation for low-wealth individuals and families, and recognition of new opportunities to leverage public and private sector investment into previously disinvested markets in ways that benefit community residents. The remainder of this section highlights key reasons for community builders to prioritize the creation of an expanded menu of asset building opportunities in their poverty alleviation efforts.

The Growing Significance of the Wealth Gap

A growing body of research about the American wealth gap is drawing attention to the issue of asset poverty in communities. This research shows that community builders cannot fully address issues of poverty without paying attention to the dearth of assets among low-income community residents.

> *Economic circumstances, now reinforced by recent changes in public policy, compel the poor to "work first" in jobs that are seldom ladders of opportunity….For many American households, this set of realities means uncertain employment, as well as wages that hover at a subsistence level. It often means a future with no prospect of significant social mobility—a pathway of low-wage, low-skill, and low-benefit jobs with no opportunity to gain the skills and supports to move up.*[37]

Described in greater detail in the literature review, numerous researchers helped to contribute to the growing body of knowledge about the gap in financial assets within America; among them: Melvin Oliver, formerly at the University of California, Los Angeles and now at the Ford Foundation; Thomas Shapiro at Northeastern University; Dalton Conley of Yale University; Michael Sherraden at Washington University in St. Louis, Missouri; and Edward Wolff at New York University.

These researchers use numerous definitions of wealth in their data gathering and analysis. One definition offered by Wolff is:

> *Wealth is found by adding together the net worth of the household. Wealth is found by adding together the current value of all the assets a household owns—financial wealth such as bank accounts, stocks, bonds, life insurance savings, mutual fund shares; houses and unincorporated businesses; consumer durables like cars and major appliances; and the value of pension rights rights—and subtracting liabilities—consumer debt, mortgage balances, other outstanding debt.*[38]

Selected highlights of their research findings:

- "Equalizing trends of the 1930s–1970s reversed sharply in the 1980s. The gap between the haves and the have-nots is greater now than at any time since 1929."[39]

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[37] J. Larry Brown and Larry W. Beeferman, "From New Deal to New Opportunity," *The American Prospect*, (February 12, 2001): 24–25.

[38] Edward N. Wolff, *Top Heavy: The Increasing Inequality of Wealth in America and What Can Be Done About It* (New York: The Twentieth Century Fund. 1995), p. 1.

[39] Wolff, p. 2. Wolff's sources include the following: "Data on the size distribution of household wealth in the United States are available principally from estate tax records and cross-sectional household surveys. The existing information can be pieced together to document the historical trends. A reasonably consistent series of estate tax records for the very wealthy collected nationally exists for selected years between 1922 and 1986. Comparative estimates of household wealth inequality are also provided from four surveys conducted by the Federal Reserve Board, in 1962, 1983, 1986…and 1989. As indicated above, these are based on strategic samples and are reasonably consistent over time. In addition a figure for 1979 is obtained from the Income Survey and Development Program (ISDP) of that year.

- "In 1998, the top 1 percent of families (as ranked by marketable wealth) owned 38 percent of total household wealth, and the top 20 percent of households held 83 percent."[40]
- As of 1998, financial wealth was even more concentrated, "with the richest 1 percent owning 47 percent of total household financial wealth and the top 20 percent owning 91 percent."[41]
- "In 1994, the median white family held assets worth more than seven times those of the median nonwhite family."[42]
- "Nearly three-quarters of all black children, 1.8 times the rate for whites, grow up in households possessing no financial assets."[43]
- "In the end it may be the economically disadvantaged family backgrounds of young African Americans more than the color of their skin that hurt their efforts to accumulate wealth."[44]
- By far the bulk of the assets relating to business, real estate, and a range of financial enterprises is held by the few. "[The richest one percent of households (as ranked by wealth) invested about 80 percent of their savings in investment real estate, businesses, corporate stock, and financial securities in 1995.]"[45]
- Those same households [above] "held half of all outstanding stock and trust equity, almost two-thirds of financial securities, and over two-thirds of business equity, and 35 percent of investment real estate."[46]
- In 1995, "the fraction of households with zero or negative wealth [was]…29 percent."[47]

The wealth gap is relevant to a broad range of public policies and particularly relevant to contemporary community development/building discussions. If community builders do not pay attention to asset accumulation and focus only on income generation and service delivery strategies, in the long run they will not be able to gain access to economic opportunities for the vast majority of low-income/low-wealth residents. Resident ownership mechanisms are one set of mechanisms that can help low-wealth residents accrue financial assets.

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[40] Edward N. Wolff, "Recent Trends in Wealth Ownership, 1983-1998," (New York: Jerome Levy Economics Institute, Working Paper 300, 2000), p. 4 at http://www.levy.org/docs/wrkpap/papers/300.html. Wolff defines marketable wealth, or net worth, "as the current value of all marketable or fungible assets less the current value of debts. Net worth is thus the difference in value between total assets and total liabilities or debt," p. 3.

[41] *Ibid.*, p. 4. Wolff defines financial wealth as "net worth minus net equity in owner-occupied housing….It thus reflects the resources that may be immediately available for consumption or various forms of investments," p. 3.

[42] Dalton Conley, *Being Black, Living in the Red: Race, Wealth, and Social Policy in America* (Berkeley and Los Angeles: University of California Press, 1999), p. 1. Conley cites the Panel Study of Income Dynamics (PSID), 1994 Wealth Supplement as the source for these data.

[43] Oliver and Shapiro, p. 90.

[44] Conley, p. 49.

[45] Larry W. Beeferman, "Working Paper on Asset Development Policy: Beyond the New Deal and Devolution," (draft in progress, 2000), p. 17. The author cites Edward N. Wolff, "Recent Trends in Wealth Ownership" (paper delivered at the Conference on Benefits and Mechanisms for Spreading Asset Ownership in the United States, New York, 1998), pp. 12–13.

[46] Beeferman, p. 17. The author cites Wolff (1998), p. 14.

[47] Beeferman, p. 17. The author cites Wolff (1998), pp. 15–16.

Displacement— The Achilles Heel of Community Development Theory and Practice

By the late 1990s, a continuous wave of reinvestment in select regions and communities was presenting serious challenges to community-based institutions, leaders, and residents. Some communities began to experience the soured fruits of "successful" revitalization efforts in the form of widespread displacement of low-wealth residents to other disinvested areas of the region.

> *If not an explicit intention of cities' redevelopment efforts, gentrification can be a byproduct, particularly in cities with little vacant land or few unoccupied buildings. For the benefits it can bring, gentrification can impose great financial and social costs on the very families and business owners who are least able to afford them.*[48]

While the displacement phenomenon of the 1990s was limited to a subset of the nation's formerly disinvested, low-wealth communities, one of its primary causes—low rates of asset ownership among community residents—is by no means unique to these communities. The severe consequences of asset poverty in revitalizing communities offer critical lessons for community builders.

Summary

Contemporary challenges point to the need for the community development/community building movement to pay closer attention to asset poverty. Not only is asset poverty limiting the economic choices of low-income families, but it is also making them vulnerable to displacement when revitalization is successful.

Described in Chapter III, resident ownership mechanisms are tools that can be used to leverage economic activity in low-wealth communities to build the assets of low-income/low-wealth residents. These tools can help the community development movement proceed in a new direction—one that links people and place by leveraging economic activity for the direct economic benefit of community residents.

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[48] Maureen Kennedy and Paul Leonard, *Dealing With Neighborhood Change: A Primer on Gentrification and Policy Choices* (Washington, DC: Brookings Institution Center on Urban and Metropolitan Policy and PolicyLink, 2001), p. 2.

Literature Review

The concept of resident ownership mechanisms draws on several different areas of thought and practice, including asset development, alternative ownership, business/finance, and community building/community development. This literature review highlights works that best illustrate a current of thinking pertinent to resident ownership. It also highlights works that address the contemporary economic and policy context of renewed private investment in America's "emerging markets" and the ensuing consequences for low-income/low-wealth residents.[49]

Wealth Inequality and the Importance of Assets

Consideration of resident ownership mechanisms is emerging following a period of sustained *prosperity* and growing *inequity* in terms of how the nation's abundance is distributed. Wolff (1995) brings this inequity to light through an analysis of wealth data in the United States, focusing on the 1980s. During the period 1983–1989:

> *The share of the top 1 percent of wealth holders rose by 5 percentage points. The wealth of the bottom 50 percent showed an absolute decline. Almost all of the absolute gains in real wealth accrued to the top 20 percent of wealth holders.*[50]

The sharpest inequality lies in the distribution of financial wealth and is particularly striking when one examines how *increases* in financial wealth are dispersed.[51] During the same "boom" period of 1983–1989, gains in financial wealth were distributed in the following way: "66 percent of the growth accru[ed] to the top 1 percent and 37 percent to the next 19 percent. *The bottom 80 percent collectively lost 3 percent*"[52] (emphasis added). The growing disparity is "compounded by the stark reality of a growing proportion of households with zero or negative net worth."[53]

It is important to note that these trends were not confined to the 1980s. In a follow-up study, Wolff found that wealth inequality continued to increase through the 1990s.[54] Indeed, he found that:

> *The average wealth of the poorest 40 percent fell by 76 percent between 1983 and 1999….The ownership of investment assets was still highly concentrated in the hands of the rich in 1998. About 90 percent of the total value of stocks, bonds, trusts, and business equity were held by the top 10 percent.*[55]

[49] For a more comprehensive compilation of relevant literature, refer to the bibliography in Appendix B.

[50] Edward N. Wolff, *Top Heavy: The Increasing Inequality of Wealth in America and What Can Be Done About It* (New York: The Twentieth Century Fund, 1995), p. 7.

[51] Wolff identifies three concepts of wealth: marketable wealth, augmented wealth, and financial wealth. "Marketable wealth (or net worth)…is the current value of all marketable or fungible assets ('fungible' ones are defined as liquid assets plus stocks and other equities) less the current value of debts….Augmented wealth [is] defined as the sum of household wealth, pension wealth, and Social Security wealth….Financial wealth [is] defined as net worth minus net equity in owner-occupied housing (the difference between the value of the property and its outstanding mortgage debt). Financial wealth is a more 'liquid' concept than marketable wealth, since one's home is difficult to convert into cash in the short term. It thus reflects the resources that may be directly available for consumption or various forms of investments," pp. 59–60.

[52] Wolff, p. 13.

[53] Wolff, p. 51.

[54] Edward N. Wolff, "Recent Trends in Wealth Ownership, 1983–1998" (New York: Jerome Levy Economics Institute Working Paper 300, 2000) at http://www.levy.org/docs/wrkpap/papers/300.html.

[55] *Ibid.*, pp. 4–5.

Within the context of the wealth gap, ROMs are predicated on the importance of asset ownership as a strategy for overcoming poverty. In this sense, they build on the research and analysis of Michael Sherraden and the Center for Social Development, Washington University in St. Louis, Missouri. In particular, Sherraden (1991) argues that contemporary welfare policy has failed because of its emphasis on income, instead of assets, as a measure of economic well-being. He counts among assets both tangible goods such as money savings, stocks, bonds, real property, and natural resources, as well as less tangible items such as human capital, cultural capital, political capital, and social capital.[56]

According to Sherraden, policies such as tax subsidies for corporate and individual retirement pensions and homeownership have enabled the non poor, rather than the poor, to build wealth and well-being.[57] Welfare recipients, on the other hand, have actually been prevented from accumulating assets because of the limitations stipulated by income transfer programs.[58] Sherraden makes the case for a significant asset building strategy: federally supported individual development accounts that would provide matching funds or subsidize deposits for the poor, with the specific purpose of supporting long-range savings and investment.

De Soto (2000) highlights the asset accumulation capacity of even the most impoverished people in developing countries. He finds that the asset holdings of the poor are largely undocumented and include "houses but not titles; crops but not deeds; businesses but not statutes of incorporation."[59] De Soto estimates that undocumented property holdings throughout the developing world approach a value of $9.3 trillion. However, the absence of a legally integrated property system makes it nearly impossible for the poor to transform their assets into useful capital.

Oliver and Shapiro (1997) address the importance of financial assets in particular through an analysis of persistent wealth disparities among blacks and whites, including blacks and whites with similar incomes. The authors stress the importance of addressing current wealth inequality, since "wealth is closely tied to individual and family access to life chances."[60] They maintain that wealth reflects both current circumstances and historical patterns of unequal access to material assets.[61]

> *When black workers were paid less than white workers, white workers gained a benefit; when black businesses were confined to the segregated black market, white businesses received the benefit of diminished competition; when FHA policies denied loans to blacks, whites were the beneficiaries of the spectacular growth of good housing and housing equity in the suburbs.*[62]

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[56] Michael Sherraden, *Assets and the Poor* (Armonk, NY: M.E. Sharpe, 1991), pp. 101–105.

[57] Sherraden, p. 68.

[58] Sherraden, p. 6.

[59] Hernando de Soto, *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else* (New York: Basic Books, 2000).

[60] Melvin L. Oliver and Thomas M. Shapiro, *Black Wealth/White Wealth* (New York: Routledge, 1997), p. 2.

[61] *Ibid.*

[62] *Ibid.*, p. 51.

Oliver and Shapiro outline a number of policy changes that would serve to democratize asset accumulation. Among them, they suggest reform of the mortgage-interest deduction and modification of the capital gains tax so that capital gains are taxed at the same rate as earnings—capital gains are currently taxed at a lower rate, a policy that benefits wealthier taxpayers.

Conley (1999) builds on Oliver and Shapiro's argument regarding racial disparities in wealth holdings by creating a model of "the black-white wealth discrepancy in a multigenerational framework."[63] After progressively analyzing and factoring out a number of potential causes, Conley concludes that:

> *In the end it may be the economically disadvantaged family backgrounds of young African Americans more than the color of their skin that hurt their efforts to accumulate wealth.*[64]
>
> *While young African Americans may have the opportunity to obtain the same education, income, and wealth as whites, in actuality they are on a slippery slope, for the discrimination their parents faced in the housing and credit markets, which sets the stage for perpetual economic disadvantage.*[65]

Conley also pinpoints the effects of black-white disparities in "liquid" vs. "illiquid" assets. The dichotomy between these two types of assets holds special relevance for analysis of new and existing ROMs. In addition to possessing fewer overall assets than whites, black families possess fewer liquid assets (stocks, bonds, and cash accounts). What assets black families do have tend to be "illiquid," i.e., home or vehicle equity. In times of unemployment or other unforeseen problems, it is much more difficult to convert these to cash and thus such assets are less helpful in sustaining a family through a crisis.[66]

Finally, in another argument emphasizing the importance of financial assets, Ackerman and Alstott (1999) propose that every American receive a "stake" of $80,000 as he or she reaches early adulthood. They maintain that this economic stake is consistent with capitalism's preeminent value on the importance of private property. Granting a stake to all eligible adults would redistribute private property in such a way that would "enable all Americans to enjoy the promise of economic freedom that our existing property system now offers to an increasingly concentrated elite."[67]

ROMs are also based on recognition of the less tangible, but equally significant asset of social capital, both as a prerequisite to building resident control of assets and as an outcome of this process. Putnam (1993) conceives of social capital as networks and norms that enable participants to act together effectively to pursue shared objectives.[68]

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[63] Dalton Conley, *Being Black, Living in the Red: Race, Wealth and Social Policy in America* (Berkeley and Los Angeles, CA: University of California Press, 1999), p. 43.

[64] *Ibid.*, p. 49.

[65] *Ibid.*, p. 152.

[66] *Ibid.*, p. 28–29.

[67] Bruce Ackerman and Anne Alstott, *The Stakeholder Society* (New Haven: Yale University Press, 1999), p. 12.

[68] Ross J. Gittell and Avis Vidal, *Community Organizing: Building Social Capital as a Development Strategy* (Thousand Oaks, CA: Sage Publications, 1998), p. 15. See Robert Putnam, with Robert Leonardi and Raffaella Y. Nanetti, *Making Democracy Work: Civic Traditions in Modern Italy* (Princeton, NJ: Princeton University Press, 1993).

Using Putnam's characterization as a point of departure, Gittell and Vidal (1998) identify measures for social capital that include individual capacities, neighborhood organizational capacity, and network or "linkage" capacity.[69] In the same vein, Gittell and Thompson (1999) examine how social capital and other community assets interact for successful economic development.

> *Enhanced community networking can improve access to financial capital, political influence, and other resources which in turn sustain human capital. Where "action agents," such as promising entrepreneurs, within communities and outside institutions can be identified, networked, and supported, a virtuous cycle of development can ensue.*[70]

Based on the importance of assets of all kinds, Beeferman (2000) argues for an asset development policy that would "assure universal access to those assets that enable independence, initiative, and growth."[71] Towards this end, he proposes initiatives such as assuring low-income households access to financial services that enable savings and asset accumulation; creating broadened ownership opportunities for employees and other stakeholders at the workplace; and leveraging social capital as a means of increasing access to financial assets and institutions.[72]

Broadened Ownership

Making resident ownership mechanisms accessible to low-income/low-wealth residents requires broadening access to equity building opportunities as well as strengthening alternative ownership forms. In his study of ownership forms in the United States, Hansmann (1996) notes that while investor-owned firms are the most prevalent, this choice of ownership structure is also contingent upon circumstances. One contingency, government regulation, frequently allows investor-owned firms to flourish where cooperatives or nonprofits would otherwise be dominant.[73] In addition, Hansmann finds that forms of ownership that are efficient within any given industry frequently change as the industry evolves. The author concludes that despite the apparent dominance of investor ownership, a variety of ownership types—partnerships, cooperatives, and consumer-owned companies—are effective in different circumstances and each "has its appropriate niche in the economy."[74]

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[69] Ross J. Gittell and Avis Vidal, p. 25.

[70] Ross J. Gittell and J. Phillip Thompson, "Making Social Capital Work: Blending Social Capital and Other Community Assets in Community Economic Development" (paper presented at the Conference on Social Capital and Poor Communities, 1999), p. 26.

[71] Larry W. Beeferman, "Working Paper on Asset Development Policy: Beyond the New Deal and Devolution" (draft in progress, 2000), p. 19.

[72] Beeferman, pp. 23–37.

[73] Henry Hansmann, *The Ownership of Enterprise* (Cambridge, MA: The Belknap Press of Harvard University Press, 1996), p. 294.

[74] Hansmann, p. 287.

Gates (1998) raises concerns about the increasingly concentrated ownership patterns in the United States as well as in the rest of the world. He contends that concentrated ownership is no accident because "capitalism is not designed to create more capitalists; it is designed to finance more capital for existing capitalists."[75] Letting this growing disparity in ownership proceed unchecked carries dangerous implications worldwide.

> *The UN reported in 1996 that the assets held by the world's 358 billionaires now exceed the combined incomes of countries with 45 percent of the world's people. These findings led UN development experts to conclude* "Development that perpetuates today's inequalities is neither sustainable nor worth sustaining" *[emphasis added by Gates]….The UN offers the most dramatic assessment, concluding that, if this rich-poor divide continues, it will produce a world "gargantuan in its excesses and grotesque in its human and economic inequalities."*[76]

According to Gates, U.S. social welfare policy has failed because it has emphasized ineffective "downstream" redistribution strategies focused on income, while ignoring "up-stream" strategies that would broaden access to income-producing assets.[77] He identifies a multitude of ways to distribute ownership more broadly, arguing for a reengineering of the system to make it possible for more people to participate as capitalists."[78] Focusing mainly on public incentives and programs to encourage employee ownership and similar ownership mechanisms for a firm's customers, suppliers and other stakeholders, Gates has been instrumental, in the United States and abroad, in drafting legislation to facilitate expanded ownership. Many of these ownership concepts are highlighted elsewhere in this report.

Gates' concern with broadening ownership takes up the ideas advanced by Kelso and Hetter (1967) regarding universal capitalism, or "an economic system in which all citizens (either as members of families or as individuals) own or have effective opportunity to own viable holdings of productive capital."[79] Kelso and Hetter argued for the creation of a "second economy"—through various tax and corporate policy tools regarding transfer of ownership and wealth—so that those currently excluded from capital ownership would gain access to wealth-producing capital.[80] One of these tools, originally conceptualized by Kelso, was the modern Employee Stock Ownership Plan (ESOP).

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[75] Jeff Gates, *The Ownership Solution* (Reading, MA: Addison-Wesley, 1998), p. 22.

[76] *Ibid.*, p. 7. Gates cites *Forbes* magazine, 28 July 1997 for his data on the world's billionaires. Also cited in this section is *Human Development Report 1996* (New York: United Nations Development Program), p. 3.

[77] *Ibid.*, p. 33.

[78] *Ibid.*, p. 15.

[79] Louis O. Kelso and Patricia Hetter, *Two-Factor Theory: The Economics of Reality* (New York: Vintage Books, 1967), p. 7.

[80] Kelso and Hetter, p. 68.

Alperovitz (1999) cautions that broadening ownership based primarily on a worker-ownership model as suggested by Gates may leave out those who are not employed and could favor "sectoral and institutional interests as against the community as a whole."[81] He advocates for a range of equity building strategies and affirms the important role of such contemporary efforts as community land trusts, ownership of income-producing enterprises by community development corporations, and municipally owned enterprises. Howard (1999) describes how many of these alternative ownership efforts are working.[82]

Nembhard (2000) suggests the viability of cooperative ownership in particular as a means to foster economic development and wealth creation in low-income/low-wealth neighborhoods. She argues that wealth creation results from collective, not individual, effort and, therefore, more inclusive ownership forms are necessary.

> *The current methods of organizing private enterprise through sole-propriety, partnerships, and corporations, based on traditional models, are too limited to fulfill community needs for wealth and empowerment….They only reward a chosen few, when wealth creation is actually a collective effort for which all should be rewarded. Individuals and corporations do not make money on their own. Individuals and corporations use the earth's water and air often without paying for it or without paying for having to clean it up after they pollute it (although this is changing). Our tax money pays for the roads and electricity they use, and other amenities and infrastructure. Our tax money also pays for the subsidies they get not to plant something, or to sell overseas, or to hire welfare recipients, and the other corporate welfare our public policies support and promote. Wealth creators also use society's collective knowledge, our public education system, and the hard work of employees and coworkers—whose collective productivity is greater than the sum of its parts.*[83]

Nembhard maintains that cooperatives offer an ideal ownership form for revitalizing inner-city neighborhoods as evidenced by their track record of success in other parts of the world; their emphasis on democratic participation; and their pooling of resources and sharing of wealth.[84]

Fondation, Tufano, and Walker (1999) contribute by examining strategies that would facilitate ownership and investment opportunities on the part of the inner-city poor. Finding that many inner-city residents are impeded by a poor or nonexistent credit history as well as limited available assets, they suggest that residents may need a "bridge" to participate in asset building opportunities. The authors argue that local churches can play a key intermediary role by combining the small investment capacities of individual members into a large pool with significant investment potential. At the same time, the authors recognize the need to address the issue of risk.

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[81] Gar Alperovitz, "Who Owns Capital?," *Boston Review*, February/March (1999): 2.

[82] See Ted Howard, "Ownership Matters," *Yes! A Journal of Positive Futures*, Issue 9 (1999).

[83] Jessica Gordon Nembhard, "Entering the New City as Men and Women, Not Mules: Democratic and Humane Economic Development Strategies for Revitalizing Inner Cities" (unpublished manuscript, 2000), p. 5.

[84] Nembhard, p. 8.

> *Financial engineering can be used to create investment vehicles that allow low-income individuals to enjoy some of the appreciation of high-risk, high-return investments like equities while eliminating the risk of principal loss. Simple index-linked schemes, which have become popular vehicles to sell stock to blue-collar employees in European privatizations, could be adapted to create more attractive vehicles for risk-averse investors than low-yielding bank accounts.*[85]

Megson and O'Toole (1993) contribute to resident ownership concepts through their assessment of ESOPs not only as a strategy to broaden ownership but also as a tool to build a community-based economy. They distinguish between ESOPs where the employees own a majority of the corporation and exercise their rights of control ("democratic ESOPs") and ESOPs in which employees own a minority of shares and do not have voting rights, arguing that it is the former that offers greatest potential contribution to community development theory and practice. Megson and O'Toole maintain that companies controlled by local workers have incentives to plan and invest for the long term, rather than produce short-term results for outside shareholders. Such ESOPs contribute to retaining and building jobs and an economic base and thus counteract the effects of disinvestment.[86]

The Community Land Trust (CLT) approach to ownership is also significant to the development of ROMs. Abromowitz (2000) advances a concept of ownership that differs from the traditional "all or nothing" proposition. Some CLTs do allow members greater access to equity appreciation—allowing a seller in a CLT to receive up to 50 percent of the increase in appraised value of the home. Abromowitz describes how the CLT model affords low-income residents access to the security and autonomy of homeownership, while limiting how much those residents can benefit from the appreciation of the equity:

> *The essence of the limited equity concept is that by properly reallocating one of the typical attributes of ownership…the right to sell in the market to anyone at the highest price—a lower-income homeowner can affordably achieve most of the ownership benefits without precluding the next low-income buyer from the same opportunity.*[87]

The Institute for Community Economics (ICE, forthcoming) sheds light on the tensions inherent in the dual goals of maintaining affordability and allowing for a fair return on investment in the context of a discussion of formulas to limit equity. CLTs hold relevance to resident equity mechanisms in that they play an important role in facilitating institutional ownership of land by the community; removing land from the speculative market; providing those at risk of displacement—low-income/low-wealth people—access to homeownership; and, in some cases, providing certain wealth accumulation opportunities.

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[85] Larry Fondation, Peter Tufano, and Patricia Walker, "Collaborating with Congregations: Opportunities for Financial Services in the Inner City, *Harvard Business Review*, July–August (1999): 6.

[86] James D. Megson and Michael O'Toole, *Employee Ownership: The Vehicle for Community Development and Local Economic Control* (Boston: ICA Group, 1993), p. 8.

[87] David Abromowitz, "Essay on Community Land Trusts," in Charles Geisler and Gail Daneker, eds. *Property and Values: Alternatives to Public and Private Ownership* (Washington, DC: Island Press, 2000).

Integrating People and Place

ROMs seek to integrate people-based strategies (building opportunities for individuals) with place-based strategies (efforts to improve the economic vitality of low-income/low-wealth communities). The ultimate goal in bringing these strategies together is to build vibrant, healthy neighborhoods where current residents have the options and necessary assets, of all types, to determine their individual and collective destinies.[88]

Much of the community development literature is place-based and focuses on the physical and economic accomplishments of community development corporations in low-income communities. In a study of the activities of 130 CDCs, Vidal (1992), for example, finds that CDC development activity has made tangible "bricks and mortar" contributions to the quality of neighborhood residential and commercial areas.[89]

Stoutland (1999), however, points out the relative weakness of the CDC literature, for the most part, in examining issues of resident participation and control.

> *Although there is much talk about the importance of residents in community development, there is surprisingly little research that attempts to document the process of resident participation….[T]here are no recent comparative data on whether boards with community representation are more likely to have more successful development programs or more likely to empower residents than boards without community representation. Given the centrality of community control and resident participation to the CDC mission, more research on these subjects is called for.*[90]

Furthermore, Stoutland notes that most inquiry has been limited to the scenario of resident membership on CDC boards,[91] ignoring other strategies whereby residents could or do exercise voice. Finally, there is little mention in the contemporary literature of scenarios for low-income/low-wealth resident ownership of community assets as a means to increasing voice or building wealth.

At the same time, an important emerging body of literature is moving beyond physical development statistics to focus on the social processes and community building outcomes of neighborhood development efforts. In their examination of the work of three CDCs, Briggs and Mueller (1997) find on the one hand that CDC activities do not automatically lead to broader community building outcomes such as greater social connection among residents or increased activism. On the other hand, they discover that when CDCs explicitly invest in efforts to build connections among residents and to involve them as stakeholders in the

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[88] Gittell and Vidal, p. 25. "Control indicates the degree to which community residents influence relations, activities, and ultimately outcomes. The integrity of many community development efforts …is dependent on increasing local community control….Without local control of community development processes and outcomes, it would be very difficult to sustain local commitment and capacity building and to achieve long-term community development outcomes."

[89] Avis Vidal, *Rebuilding Communities: A National Study of Urban Community Development Corporations* (New York: Graduate School of Management and Urban Policy, New School for Social Research, 1992), p. 10.

[90] Sarah E. Stoutland, "Community Development Corporations: Mission, Strategy, and Accomplishments," in Ronald F. Ferguson and William T. Dickens, eds. *Urban Problems and Community Development* (Washington, DC: Brookings Institution Press, 1999), pp. 225–226.

[91] *Ibid.*, p. 223.

CDC, there are some positive impacts. Residents report that they know more of their neighbors, feel safer in their community, and are more optimistic about their ability to collectively improve their conditions.[92]

Walsh (1997) examines the community building field as a constellation of efforts that builds community institutions, social networks, and residents' self-reliance. These efforts are informed by the recognition that urban poverty is "not just about money, [but] about relationships" and requires solutions that are equally complex.[93] She describes how community building seeks to integrate community development and human service strategies, forge partnerships, build on community strengths, and foster broad community participation.[94]

According to Kingsley, McNeely, and Gibson (1997), community building gives higher priority to social and human capital development than did earlier neighborhood improvement programs. In its essence, community building seeks to "obliterate feelings of dependency and to replace them with attitudes of self-reliance, self-confidence, and responsibility."[95] In this sense, community building focuses on building on community strengths, fostering broad and meaningful resident involvement in improvement efforts, and forging partnerships with outside institutions that will serve community interests.[96]

Several authors establish a foundation for ROMs by focusing on financial asset development strategies within the context of community revitalization. Carr (1999) brings this dimension to community development through his concept of "value recapture."

> *Capital market tools can be combined with innovative "value recapture" mechanisms, such as strategically designed land trusts, to generate funding for housing rehabilitation and home-ownership for a neighborhood's low-income residents. This internal wealth-generating mechanism can help ensure that lower-income residents benefit from redevelopment efforts in their communities.*[97]

Carr's concept of value recapture is related to studies of "land value capture" in developing countries characterized by weaker planning and fiscal mechanisms. For example, Doebele (1998) describes a law passed in Colombia that permits municipalities to recover "socially created" land values. The law provides for determination of property value before and after certain municipal actions to modify zoning, other land use regulations, or allowable densities governing a parcel. Based on this valuation, the municipality may demand that it "recapture" 30 to 50 percent of the increase in value. Municipalities must then designate the revenues for specific purposes, such as

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[92] Xavier de Souza Briggs and Elizabeth J. Mueller with Mercer L. Sullivan, *From Neighborhood to Community: Evidence on the Social Effects of Community Development Corporations* (New York: Community Development Research Center, Robert J. Milano Graduate School of Management and Urban Policy, New School University, 1997), pp. 239–250.

[93] Joan Walsh, *Stories of Renewal: Community Building and the Future of Urban America* (New York: Rockefeller Foundation, 1997), p. 14.

[94] Walsh, p. 25.

[95] G. Thomas Kingsley, Joseph B. McNeely, and James O. Gibson, *Community Building Coming of Age* (Washington, DC: The Development Training Institute and the Urban Institute, 1997), p. 3.

[96] Kingsley, McNeely, and Gibson, pp. 6–8.

[97] James Carr, "Community, Capital and Markets: A New Paradigm for Community Reinvestment," in *The NeighborWorks Journal*, vol. 17, no. 3 (1999): 20.

acquiring land for affordable housing or open space or financing mass transit.[98]

Land value capture is pertinent to ROMs in the sense that local governments have engineered a mechanism for the public to reap some of the returns from publicly created value, rather than having private landowners be the sole beneficiaries. The ROM approach aims to go the next step of connecting these economic assets directly to community residents.

Like Carr, Briggs (2000) explicitly addresses the disconnection between private capital investment in low-income communities and the residents of those communities. According to Briggs, policy strategies must move beyond the provision of expanded capital access and business technical assistance that are designed to increase jobs and incomes in low-income communities.

> *…[A]dditional steps are typically needed to help build the assets of people in low- and moderate-income communities, both urban and rural, across America. That is, without careful attention to equity participation in economic development deals by residents or by organizations that are community based, new capital access incentives could expand the job and tax bases in distressed neighborhoods without doing much about the "wealth gap" that separates workers and would-be workers in these communities from the broader society.*[99]

Summary

Additional research and practice are needed to further develop the role that resident ownership mechanisms can play in enabling low-income residents to accumulate assets and wealth and to exercise greater leverage in the broader economic development and policy-making processes affecting their communities. The subsequent chapters of this report aim to contribute to that discussion.

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[98] William A. Doebele, *The Recovery of "Socially Created" Land Values in Colombia* (Lincoln Institute for Land Policy website at http://www.lincolninst.edu/landline/1998/july.html, 1998), p. 2.

[99] Xavier de Souza Briggs, "A Piece of the Action: Community Equity in the New Economy" (paper prepared for the Social Venture Network, 2000), p. 1.

Chapter III

Models and Infrastructure

"Resident Ownership Mechanisms" (ROMs) are strategies and tools to enable low-income/low-wealth residents to gain an ownership stake in the revitalization of their communities.

Models

This section presents a scan of existing, emerging, and conceptual ROMs. The scan includes diverse resident ownership models that cut across a variety of theoretical and practical approaches. It provides an overview of mechanisms to present a range of possibilities for building resident ownership of community assets. The models represent a heterogeneous mix of approaches, but they all meet the following criteria, to varying degrees. They:

- Leverage economic activity to produce resident benefits;
- Target low-income/low-wealth community residents as beneficiaries;
- Enable residents to be owners of economic development activities;
- Build the financial assets of residents; and
- Give residents a voice in decision-making.

The models are presented in five categories:

- Commercial Real Estate Development;
- Business Development;
- Financial Institutions;
- Home Equity; and
- Natural Resources.

Readers should envision ROM models as falling along a continuum. At one end of this continuum are models that present a baseline for development of a resident ownership mechanism. These models present a promising strategy or tool but lack the critical combination of community and individual asset development components that are key to ROMs' definition. With the suggested changes, these models could develop into promising ROMs.

Along the center and at the other end of the continuum are actual models of resident ownership mechanisms. These strategies and tools include a mix of the ROM criteria, some with a partial fulfillment of the criteria, others with a strong compilation.

The scan also includes conceptual ROM models. These examples take a current operating model and suggest modifications to strengthen ROM characteristics. The proposed modifications are drawn from practical precedents and are designed to improve the model's impact on resident ownership and to facilitate implementation. While the conceptual models hold promise, they have not yet been implemented in a particular community.

The description of each model addresses the following set of questions:

- What is the model?
- How does it relate to the definition of resident ownership mechanisms used in this report?
- What are emerging opportunities to strengthen, expand, and/or link the model to other community building efforts?
- What are examples of the model working on the ground?
- What are the practical or policy barriers to advancing the model at the local or national level? How can these barriers be addressed?
- What are the implications for advancing ROM opportunities?

To increase the effectiveness of ROMs as strategies that help to move people from poverty to prosperity in strong healthy communities, the following points should be considered. They are discussed in more detail in Chapter V.

- ROMs will have a greater impact if they are part of comprehensive community planning efforts.
- Community-based organizations are integral to the design, development, implementation, and management of successful ROM models.
- Low-income/low-wealth residents may require subsidies to gain access to ROMs.
- Public policy measures will be needed to produce large-scale benefits from ROMs.

Quick Reference Guide to Models

This guide facilitates easy access to models discussed in this report.

A. Commercial Real Estate Development

Resident ownership of commercial real estate development provides opportunities for increasing residents' assets and for strengthening their voices in local economic and public policy decisions. Especially at the local level, owners of land are considered key stakeholders in public decision-making processes and frequently are consulted and included in planning decisions before residents are involved. Property earnings, in the form of both rental payment and capital gains, have served to build the wealth of generations of families throughout U.S. history,[100] but property ownership remains concentrated: in 1995, the richest one percent of households held 35 percent of investment real estate in the United States.[101]

Existing and conceptual models highlighted in this chapter identify ways to broaden the base of property ownership to include more low-income/low-wealth residents as owners of real estate investments in their communities. While the models differ in the degree of financial stake, voice, and ultimately ownership given to community residents, they share a common goal of capturing the value of community real estate assets in a way that directly benefits existing residents.

CDC Development with Resident Partners

CDC Ownership of Development

Community Development Corporations are set up under Section 501(c)(3) of the Internal Revenue Code like other nonprofits, with the broad mission of "improving the quality of life in low-income neighborhoods."[102] CDCs are established by local stakeholders—residents, business owners, faith-based institutions, service providers, etc.—whose goal is to revitalize a targeted low- or moderate-income community. According to a national census of CDCs conducted by the National Congress for Community Economic Development (NCCED), through 1998 CDCs had produced 550,000 units of housing and 247,000 private sector jobs in the United States.[103] To a lesser extent, CDCs have engaged in commercial development and operation of for-profit businesses: by 1993, CDCs had developed more than 23 million square feet of office space in the United States.[104]

The standard CDC model—in which the local CDC engages in housing or real estate projects with profits accruing to the corporation, not to individual residents—does not meet the ROM definition. CDCs offer benefits to community residents,

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[100] Michael Sherraden, *Assets and the Poor* (Armonk, NY: M.E. Sharpe, 1991), p. 101.

[101] Larry W. Beeferman, "Working Paper on Asset Development Policy: Beyond the New Deal and Devolution" (Asset Development Institute, Brandeis University, 2000, draft in progress), p. 17. The author cites Edward N. Wolff, "Recent Trends in Wealth Ownership" (paper prepared for the conference on Mechanisms for Spreading Asset Ownership in the United States, New York University, December 10–12, 1998), p. 14.

[102] Sara E. Stoutland, "Community Development Corporations: Mission, Strategy, and Accomplishments," in Roland F. Ferguson and William T. Dickens, eds. *Urban Problems and Community Development* (Washington, DC: Brookings Institution Press, 1999). p. 193.

[103] Roy Priest, "Cooperative Approaches to Community Economic Development," *Journal of Cooperative Development,* Fall (1999): 14, and NCCED website at http://www.ncced.org.

[104] Walker and Weinheimer, p. 14.

in the form of access to housing, jobs, retail, or community services, but most CDC developments do not sell shares to residents, nor do they offer them direct *financial* benefits. Although the level of resident involvement and control of CDCs varies around the country, most include some form of voice, leadership, and, in some cases, control by community residents. A seat on the CDC board of directors and community involvement on CDC advisory boards are common forms of resident involvement.[105]

According to Roy Priest, NCCED president and CEO, many CDCs have explored the concept of resident ownership in CDC development projects but have been discouraged by the level of technical expertise and associated costs required to establish the appropriate mechanisms. This point is discussed in more detail below.[106]

CDC Projects with Resident Shareholders

Several CDCs have recently begun to explore the creation of mechanisms that offer stock to community residents. While these models are still under development, as described in the following two examples, they offer important precedents for the field.

Good Hope Marketplace
Washington, DC

The Anacostia Economic Development Corporation (AEDC) acquired Good Hope Marketplace, a shopping center development, from the Safeway supermarket chain in 1997. AEDC created two for-profit subsidiaries for the purchase: Anacostia Marketplace Inc., the managing partner, and the Anacostia Community Investment Corporation (ACIC). AEDC plans to make 10 percent of the project's equity available to residents through the shares held by the ACIC. Because of financing requirements, which include putting a percentage of revenues into a maintenance and security reserve, AEDC will not sell stock until after the fifth year of the project (2002), when revenues should increase.

The intent of AEDC to sell stock to residents is based on the premise that ownership will give residents a personal stake in maintaining and supporting the Good Hope Marketplace and that it will also help residents to obtain tangible economic benefits from neighborhood revitalization efforts. AEDC expects to use ACIC as the mechanism to sell stock to the community in future development projects in which ACIC is an investor.[107]

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[105] According to Walker and Weinheimer, "CDCs are controlled by residents and located in the neighborhoods they serve," p. 6.

[106] Roy Priest, NCCED interview, Washington, DC, December 2000.

[107] This information is based on an interview with Albert "Butch" Hopkins, president and CEO, Anacostia Economic Development Corporation, September 2000, and on research by the National Economic Development and Law Center for "Communities Gaining Access to Capital," a report by PolicyLink and the Urban Habitat Program, December 2000.

Jack London Gateway Plaza
Oakland, California

Jack London Gateway Plaza is a 50,000-square-foot shopping center in West Oakland. The plaza had been struggling for years as a result of the overall disinvestment and decline in West Oakland. In 1998, the West Side Economic Development Corporation, along with its partners, was awarded the development rights for the shopping center from the city of Oakland and received a $7 million grant and loan package from Oakland's Enhanced Enterprise Community Program.

Under new ownership, the plaza began to change. West Oakland residents had long expressed the need for a grocery store; they had to leave the community to buy fresh produce and other necessities. Today, Gateway Plaza is home to a large grocery store that is well stocked with fresh produce and is well patronized by residents. Other tenants of the plaza include a shoe store, a discount clothing store, a community development credit union, several fast food franchises, and several other small businesses. The plaza is completely leased save for one remaining space.

West Side formed a for-profit subsidiary, Real Community Partners, which currently co-owns the center with East Bay Asian Local Development Corporation (a local nonprofit developer) and Portfolio Property Investors. The co-owners have agreed that within a five-year period, Real Community Partners, as a West Oakland community organization, will acquire the ownership stake of the others and become the sole owner of the plaza.

West Side is committed to finding a way to offer West Oakland residents a direct ownership stake in Gateway Plaza and/or provide direct financial benefits, once the CDC's subsidiary is the sole owner. Mechanisms currently under consideration include making a certain percentage of shares in the shopping plaza available to residents or providing financial benefits through a matching program whereby residents would receive a yearly dividend based on how much they spend at the shopping center. Westside is currently grappling with questions of how to define who benefits, i.e., whether an ownership and/or financial stake should be extended to all families, based on residence within a geographic area, or whether to target families at a particular income level. The bottom line for the CDC is finding a mechanism for directing profits from Gateway Plaza back to the community.[108]

[108] This information is based on a telephone interview with John Melvin, Project Manager, West Side Community Development Corporation, March 2001.

Assessment of CDC Model

Many CDCs have considered resident ownership strategies as a way to build resident benefits and voice in the development process; but key deterrents include:

- The cost of legal and real estate expertise needed to develop the models;
- A lack of staff and organizational capacity to implement ownership opportunities, given the need for increased levels of outreach, education, and engagement of community residents; and
- Concern about the lack of resources to provide for the requisite levels of financial literacy education and training needed in order for residents to gain access to ownership opportunities.

Appropriate model development that is responsive to community interests and concerns requires the active engagement of community residents at the beginning of the project design phase. To facilitate this connection, CDCs can join ongoing community building efforts. However, where efforts are not already underway, CDCs need additional resources to engage community residents and leaders and to educate them about ownership opportunities and all of the relevant risks and rewards available to shareholder participants.

Broadening the use of this model will require specialized forms of technical assistance, which could be prohibitively costly for many CDCs. National technical assistance intermediaries may be needed to provide technical assistance in a way that offers economies of scale, thereby making services more affordable to individual CDCs.

CDCs could be encouraged to take the initiative in designing, developing, and implementing resident equity models through incentives offered by private philanthropy and the public sector. For example, incentives for ROM development could be tied to philanthropic grants and Project Related Investments (PRIs). In addition, public subsidies for private developers could be tied to partnerships with CDCs.

Resident Ownership in Real Estate Trusts

Value Recapture Framework

As described in Chapter I, value recapture is a general concept advanced by the Fannie Mae Foundation that promotes the establishment of internal wealth-generating mechanisms in communities that are undergoing revitalization. Value recapture's purpose is to ensure that "lower-income residents benefit from redevelopment efforts in their communities."[109] Value Recapture Mechanisms are specific tools and strategies that channel market-generated funds into "activities that benefit residents, either individually or collectively."[110] While sources of funds primarily include rising real estate values, it can also include non-real estate business revenues or fees. A Value Recapture Trust (VRT) is one kind of value recapture mechanism that directs an income stream from market-rate investment in a low-income area to uses that assist current residents and strengthen the community infrastructure.

The value recapture trust is an emerging idea that has not been widely tested. It offers an innovative way for community builders to create a sustainable stream of resources for community residents. Some of the VRT models described by the Fannie Mae Foundation, such as Community Land Trusts (CLTs) and Fannie Mae's concept of a "community REIT," include ROM elements and are discussed in more detail in this report. Other examples of value recapture trusts provide benefits for low-wealth residents of target communities, but do not necessarily include key ROM elements of ownership, voice, or asset building opportunities.

Battery Park City highlights the concept of a value recapture trust. The development of Battery Park City offers a unique model of how public lands can be leveraged to produce benefits for low-income residents in a targeted region. The example also offers important lessons about the need to ensure that appropriate accountability mechanisms are built into the value recapture structure.

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109 James H. Carr, "Community, Capital and Markets: A New Paradigm for Community Reinvestment," *The NeighborWorks Journal,* vol. 17, no. 3 (1999): 20.

110 Fannie Mae Foundation, "Value Recapture Mechanisms" (Annual Housing Conference Binder, 2000), p. 3.

111 BPCA was authorized to allocate revenues and/or issue bonds for affordable housing but not outside of Battery Park City.

112 Eric Lipton, "Battery Park City is Success, Except for Pledge to Poor," *New York Times,* January 2, 2001.

113 *Ibid.*

114 The Fannie Mae Foundation case study was researched by Shereen Aboul-Saad with the Atlanta Neighborhood Development Partnership and presented at the Fannie Mae Foundation Annual Housing Conference on "The Market Power of Emerging Communities," in September 2000. Used with permission.

Battery Park City
New York City, New York

Battery Park City includes 92 acres of land in Lower Manhattan, owned by a state agency, the Battery Park City Authority (BPCA). In the mid-1980s, New York City was in the grips of a major affordable housing crisis, which prompted Mayor Ed Koch, Governor Mario Cuomo, and the state legislature to agree on an innovative approach to capturing the value of development on BPCA lands to leverage the development of affordable housing in other parts of the city.

In 1986, Housing New York Corporation (HNYC) was created to sell bonds for the rehabilitation and construction of low- and moderate-income housing in poor neighborhoods throughout New York City.[111] These bonds were backed by BPCA lease revenues, with authority to determine the use of the funds granted to the city's housing division.

In 1987, $143 million was earmarked for the development of affordable housing as a direct result of the "value recapture" structure. The funds resulted from the bond issuance, backed by $400 million in BPCA lease revenues. The city's housing division used the funds to convert city-owned property into new housing. A portion of the funds was dedicated directly to the development of "New Settlement Apartments" in the Bronx. As reported by the Fannie Mae Foundation, because of the funds the project was completed with no debt, thereby freeing up revenue from rental units to be used to support community programs.

It should be noted that the model included some structural flaws that undermined its continued implementation. In January 2001, a New York Times *article revealed a number of shortcomings in how the original agreement had been followed: "Ultimately, despite the promising start made with the $143 million generated by the first burst of bond revenues, none of the remaining $257 million promised under the agreement was paid to the city….The second mechanism by which Battery Park City was going to deliver on its stated mission—direct payments of $600 million in surplus revenues to the city government to support housing projects—has also been far from fully realized."[112]*

According to Fannie Mae Foundation research, the city's financial difficulties in 1990 led Mayor Dinkins to obtain the state's approval to use the funds to support the city's budget deficit. When BPCA subsequently tried to issue housing bonds, the issuance was delayed because of investor concerns over one of the leaseholders; in 1995, HNYC's ability to issue bonds was ended because of language in the enabling legislation.

Although the New York Times *cites BPCA records showing that a total of $276.2 million of the $600 million promised in surplus revenues has indeed been turned over to the city since 1992, in recent times "the Guiliani administration has not felt compelled to spend the money on housing programs, asserting that the commitment made years ago is neither legally binding nor fiscally smart."[113] In 1999 funds turned over by BPCA were used to maintain general city services, in spite of that year's unprecedented $3.2 billion city budget surplus.[114]*

The following example illustrates the concept of a value recapture trust in that value is captured from the development of a parcel of land in the community and used to benefit low-income/low-wealth residents. The model is an expansion of the Battery Park City example in that it includes community representatives in the decision-making process. It diverges from ROMs in that it does not channel financial benefits directly to individuals and families; nor does it offer resident ownership opportunities. Residents are not included in the ownership structure in either the Battery Park or Oakland Army Base examples.

Community Development Fund/
Oakland Army Base
Oakland, California

The Oakland Army Base is a 422-acre parcel of prime commercial real estate on the waterfront of the San Francisco Bay. When the base was earmarked for closure by the Department of Defense in 1995, it triggered a federally mandated local reuse planning process.

Unlike other bases around the country that were handicapped by environmental contamination and outdated infrastructures too costly to improve, the Oakland Army Base had little contamination, and a rising real estate market enhanced the development potential despite high infrastructure costs. As a result, the reuse planning process included multiple stakeholders vying for the land, including the city and port of Oakland, private developers, and a coalition of community residents, nonprofits and public agencies known as the West Oakland Army Base Task Force (the Task Force).[115]

Rather than compete with local developers, the Task Force began to work with a local developer, early in the process, around the concept of developing the base in a way that would produce clear benefits for community members. This partnership suited the developer, who was in competition for the land with other stakeholders and needed community support; and it benefited community residents who had long been frustrated by a legacy of exclusion from the benefits of economic development in their neighborhood.

After years of negotiation, a final agreement between the city and port of Oakland and Opus West, the master developer for the base, included a dedicated funding stream for a "Community Development Fund," based on a percentage of the profits from the development.[116] *Delayed by the complication in the transfer process at the federal and then local level, the deal is still under negotiation, but the funding stream has been approved by the local reuse authority.*[117]

Community Building Trust (CBT)

A Community Building Trust (CBT) embodies the value recapture framework advanced by the Fannie Mae Foundation with the addition of resident ownership as a key feature. CBTs include community residents as shareholders and primary beneficiaries of the trust. As shareholders, residents have a voice in the policy and operational decisions related to the trust and have opportunities to accrue financial benefits from development proceeds. The trust "captures value"—i.e., receives a portion of the profits from a development project—with residents having decision-making control over how the funds are allocated.

The following example (see page 52) demonstrates the concept of value recapture since a portion of the profits from a community development project will be "captured" and used to provide benefits for low-income residents of the surrounding community. The example demonstrates a key characteristic of a resident ownership mechanism in that it includes residents as owners in the limited liability corporation that owns the development and offers them a voice in the decision-making process.

Assessment of Community Building Trust Models

A key challenge to the design and implementation of a community building trust is the need to ensure that the target beneficiaries have a voice in the management of the trust; strong and transparent accountability mechanisms are in place to monitor its activities; and an ongoing system of public evaluation ensures that it is accountable to those it is created to serve.

Challenges relevant to the design, development, and implementation of a CBT are:

- The cost of legal, financial, and real estate expertise that will be necessary to establish the trust, create resident ownership opportunities, and guide its ongoing operations;
- Geographic, purchasing, or demographic qualifications that will determine who benefits from the trust;
- The transferability of "shares" or other ownership mechanisms within the community;
- Establishing accountability systems, including the cost of credible monitoring and evaluation of the trust's activities;
- The vulnerability of the trust to shifting economic and political conditions.

Community building trusts, like most other types of value recapture trusts, are challenged by the need to compete for land. In response to the previous challenges, they might focus their energies on accessing public lands—held by cities, counties, ports and airports, state and/or federal entities—as an opportunity where they would be able to leverage the political clout of community residents, leaders, and institutions to gain access to the properties. For example, local governments often possess large holdings of vacant, abandoned, or tax-delinquent properties that could be made available to community builders, working in collaboration with local government, to assemble land for CBTs.[118]

The successive rounds of military base closures in the 1990s also provided opportunities for

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[115] The West Oakland Army Base Task Force was a unique collaboration of homeless providers from throughout the region, local community-based organizations, public agencies, and a private developer. The lead organizations included the Alameda County Homeless Collaborative and the Coalition for West Oakland Revitalization. Other nonprofits included job training and other service providers. Public agencies included the Oakland Unified School District and various county agencies.

[116] According to James Thomas of the Alameda County Homeless Collaborative and leader of the West Oakland Army Base Task Force, the deal includes 10 percent of profits to support the Community Development Fund, but the details of how "profits" would be measured is still under negotiation.

[117] Case study detail based on interviews with James Thomas in January and February 2001.

[118] Fannie Mae Foundation, p. 5.

Market Creek Plaza
San Diego, California

Market Creek Plaza is a 20-acre, mixed-use commercial and cultural center in the heart of San Diego's "Diamond Neighborhood" business improvement district. Catalyzed by the Jacobs Foundation for Nonprofit Innovation, Market Creek Plaza promises to be a national model of real estate development planned, designed, and owned by community residents.

The Diamond is a diamond-shaped district set within a network of culturally diverse communities that include African-American, Latino, Laotian, Samoan, Filipino, Somalian, and Guamanian families. With a current poverty rate of 23 percent, the Diamond has experienced little or no commercial investment for the past 25 years.

A product of a community planning process that included 700 surveys, hundreds of community meetings, and a network of eight working teams, Market Creek Plaza is anchored by a Food 4 Less grocery store, which opened in January 2001. It includes a multiplex theater, multicultural restaurants, 42,000 square feet of retail space, 160,000 square feet of office space, and a 500-seat open-air amphitheater that opened in February 2001.

In the fall of 2001, community residents will have the opportunity to transition from stakeholders to stockholders (members) in the development. The plan includes the formation of three community-based entities to capture benefits of the development for community residents. The first entity, a community development limited liability corporation (LLC) called Market Creek Partners (MCP), has been set up as the owner of Market Creek Plaza. MCP is in the process of applying to the California Department of Corporations to sell units directly to residents through a California public offering.[119] Neighborhood investors, "Diamond Community Investors," will be included in a special class of stockholders (members). Units will be sold to residents for $10 per unit. Restrictions on unit sales include a 10-unit minimum, which can be waived by MCP, and a limit on total investment to a maximum of 10 percent of any investor's net worth. In order to ensure a clear understanding of the community investment

communities to obtain public property. When the Department of Defense declared the bases to no longer needed by the military, the property went through the federal land transfer process. An economic development conveyance (EDC) was one of the land transfer mechanisms created through special federal legislation and regulatory measures. Local governments can apply for an EDC to obtain surplus federal property for local economic development purposes. While community-based organizations cannot apply directly for an EDC, they can work with their local government to gain control of the land. Alternatively, a similar mechanism could be created through future base closure legislation to enable community-based institutions to apply directly to the federal government to obtain surplus property for a community building trust.

Another item for consideration is risk. Real-estate development markets are volatile and include a large degree of risk related to potential asset value depreciation. One way to mitigate that risk is to build a diversified trust portfolio with properties in different real estate markets. For example, the trust could hedge its local exposure

[119] A unit is a share in the development.

arrangements, the special provisions for MCP community investors are spelled out in a charter. The project includes training in the economics of investment and basic business economics to maximize the skills, knowledge, and information access of resident investors.

Diamond Community Investors will exercise their voice in the day-to-day decision making of MCP through an advisory council comprised of four resident investors, to be increased to seven, selected from the investor group. A member of Diamond Management, Inc., MCP's managing company, will serve on the Advisory Council for five years to inform, train, and advise resident advisory board members. The board of Diamond Management, Inc., will include one member of the Advisory Council selected from the group.

Two other entities identified and established by Jacobs in response to community leadership include a community foundation, the Neighborhood Unity Foundation, that will be funded by development proceeds; and a community-based capacity-building corporation that will provide training for local stakeholders in leasing, property management, and project management.

Additional benefits to local stakeholders include:

- *A goal of 65 percent of the $45 million in construction contracts to minority- and women-owned businesses (the average in San Diego is 2 percent; the project has already achieved 70 percent);*
- *A Mentor-Protégé Program for local contractors;*
- *A planned 1,700 new jobs in the neighborhood, linked to residents through a system of employment development services;*
- *Space and services for local entrepreneurs;*
- *Training in leasing and property management, etc.*

The Jacobs Center is the operating foundation supported by the Jacobs Family Foundation. Dr. Joe Jacobs is chair of the boards of the Jacobs Center and of Jacobs Engineering, one of the world's largest engineering firms. Jacobs and other family members have been actively engaged in and supportive of the innovations in resident ownership advanced by the Market Creek Plaza project.[120]

by purchasing additional real estate assets outside of the community or by purchasing equity in a Real Estate Investment Trust (REIT), described in the next section, that includes geographically dispersed real estate assets. This approach would depart somewhat from ROM purposes, which is for residents to gain control of *local* assets. Another challenge would be the cost of legal and real estate expertise needed to develop the model effectively.

The challenges just described are common to the creation of many forms of legal entities to guide ownership/property rights. Trust mechanisms would need to be structured in a way that meet standards of legal and fiduciary responsibility and that are responsive to and reflective of the interests and priorities of community residents. The former require the availability of specialized expertise and resources; the latter require a level of time, energy, and resources that are characteristic of most comprehensive community building efforts.

[120] Description based on interview with Jennifer Vanica, Executive Director of the Jacobs Center for Nonprofit Innovation, March 2001, and Jacobs Center document: "Market Creek Plaza—Community Ownership: Building Individual and Community Assets While Rebuilding a Neighborhood." Undated. Used with permission.

Real Estate Investment Trust (REIT)[121]

A Real Estate Investment Trust (REIT) is a corporation or business trust that owns a portfolio of properties (for example, apartments, shopping centers, offices, and warehouses).[122] Congress created REITs in 1960 to provide opportunities for small investors to invest in large-scale, revenue-generating real estate assets. Today, REITs are widely used real estate investment vehicles: there are about 300 REITs in the United States with assets totaling approximately $250 billion.[123] Most REITs are publicly traded on a major stock exchange; of the private REITs—that are not currently traded publicly—some plan for eventual public stock offerings while others opt to remain private.

The structure of REITs could serve as a promising ROM model. Like a mutual fund, a REIT enables investors to own shares in and gain benefits from a diversified portfolio of real estate assets (reduced risk is one such benefit). REITs require no minimum investment. The stable income stream from property rents typically provides for high dividends to investors. In addition, REITs avoid the double taxation of corporate and individual returns. Investors benefit from current income distributions and also from the liquidity of REIT shares.[124]

Community Development Trust
New York, New York

Community Development Trust (CDT) is the nation's first REIT to specialize in preserving affordable housing. Using similar investment practices to those of mainstream REITs, CDT "purchases fixed-rate mortgages on multi-family rental projects for lower-income people and then packages the loans into securities to be resold to investors at a profit."[126]

These activities differ from mainstream REITs in that the goal is not simply to make a profit for REIT shareholders. Because of their smaller size or other characteristics, mortgages purchased by CDT often do not fit the requirements of other entities active in the secondary mortgage market. CDT contributes to making overall lending for low-income housing projects more attractive for commercial lenders by helping to create a market for the sale of these loans.

In addition to purchasing mortgages, CDT specializes in acquiring multi-family properties where Section 8 contracts are expiring. Current owners stand to lose subsidies and thus such properties are vulnerable to conversion to market-rate units, leaving low-income tenants at the mercy of market forces. CDT offers such property owners a viable exit strategy.[127] *Most important, once acquired by CDT, the multi-family properties are maintained as affordable.*[128]

According to Michael Grupe, Vice President of the National Association of REITs (NAREIT), some REITs have a local/regional geographic focus in terms of properties held, while others are broader or even national in scope. In general, however, even national players still focus on key regional markets in establishing their niche.[125]

Community development practitioners have recently begun to see the value of the REIT structure in attracting capital to low-income communities. To date, the REIT model has not been applied in a way that meets the criteria of a ROM, but it has the potential, for a number of reasons. REITs offer direct financial benefits to stockholders in the form of dividends. As previously described, they must distribute 95 percent of taxable income to shareholders, thereby offering direct financial benefits to shareholders. The management of a REIT is hired by and accountable to a board of directors that is elected by shareholders. Resident shareholders in a REIT would be able to have a voice in decision-making through electing or serving on the board of directors.

Finally, REITs are portfolios of assets held by a minimum of 100 shareholders. A private REIT could sell shares to residents of a targeted geographic area. With this model, residents could gain an ownership stake in a portfolio of properties. (A public REIT, in contrast, would be open to all investors as the stocks are publicly traded). Given the low minimum investment requirement, the opportunity to invest could be open to a wide range of resident investors.

A recently established REIT in New York is dedicated to acquiring and preserving affordable housing properties. While this is not a ROM model, it does point to innovative thinking within the field about the utility and application of REITs to community development projects.

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121 Information for this section is summarized from two sources: the National Association of Real Estate Investment Trust (NAREIT) website: http://www.nareit.org; and from an article by Michael Grupe and Chuck DiRocco, 2000, "Investing in Real Estate Investment Trusts," *American Association of Individual Investors Journal* posted on the NAREIT website.

122 There are several variations on the REIT concept. Most REITs are "equity REITs" meaning that they own real estate. "Mortgage REITs" (about 5 percent of REITs) derive their income mainly through interest earned on their mortgage loans. "Hybrid REITs" own properties and make loans to real estate owners and operators.

123 NAREIT website at http://www.nareit.org.

124 "Frequently Asked Questions about REITs," NAREIT website at http://www.nareit.com/changingfacesite.fawtext.htm.

125 Michael Grupe, telephone interview, January 2001.

126 Patricia Lamiell, "Low-Income Group Uses Expert Tactics," *Associated Press*, June 8, 1999.

127 In order to facilitate a REIT's acquisition of property from a seller through the provision of tax benefits to the seller, the Umbrella Partnership REIT (UPREIT) emerged in 1992. In the typical UPREIT, the partners in an existing real estate partnership and a REIT become a new partnership, termed the Operating Partnership. In exchange for their property interests, the existing partners receive units in the Operating Partnership (OP units). This exchange of partnership interests generally does not result in a taxable transaction and provides an attractive tax-deferred exit strategy for sellers of real estate who may incur significant tax liabilities in a cash sale. For more information, see the Community Development Trust website at http://www.commdevtrust.com/programs/equity4.html.

128 Information from this description was obtained from CDT written materials as well as the CDT website at http://www.commdevtrust.com.

Community Building REIT (CB/REIT)

Researchers found no existing model of a REIT adapted as a resident ownership mechanism. However, if structured appropriately, a REIT could provide a powerful tool for low-income/low-wealth community residents to obtain an ownership stake in local or regional real estate development. Based on the twin notions of reducing risk and providing opportunities for small-scale investors embodied in the REIT structure, a community building REIT (CB/REIT) could include a comprehensive portfolio of real estate projects within a community, number of communities, or metropolitan region.[129]

A CB/REIT could be structured as a private REIT that targets the sale of shares to residents of the communities in which it holds property. It could limit the sales to residents or target a mix of residents and other investors, thereby increasing the REIT's access to capital.

Given the fact that REITs have no restrictions on minimum investment amounts, they could be open to a large number of community residents. Similar to investment clubs that pool the individual financial capacities of low-income residents, a CB/REIT could enable those traditionally excluded from the stock market to generate income from a small initial investment. If linked to a community building IDA (CB/IDA), described in the following section, low-wealth investors could leverage their investment with matching funds, and the pool of potential resident investors—and capital for the REIT—would be increased. By investing in a portfolio of properties including properties in the neighborhood, residents would obtain a direct economic stake in their neighborhood's future development.

[129] See Fannie Mae Foundation, p. 12, for a discussion of REITs in the context of value recapture trusts.

Assessment of CB/REIT Model

There are several key issues and challenges regarding this model.

Limited diversification:

While a key benefit of a CB/REIT is that it would enable residents to control some of the real estate assets in their community, the concentration of investments in one community would increase the risk of investment. The standard REIT model includes a portfolio of properties that is geographically diverse—with investments in a range of communities, and real estate markets, across the region or nation. To mitigate risk, a CB/REIT could be somewhat diversified by acquiring a portfolio of properties throughout a metropolitan region or multiple regions. Ownership could then be targeted to residents of the multiple communities in which property is held.

Limited capital:

An essential component of the CB/REIT model is that it provides residents a voice in decisions pertaining to neighborhood real estate. However, a private REIT targeted to low-wealth investors limits the capital available for investment. While selling CB/REIT shares to outside investors would bring in additional capital, it would dilute the voice of resident shareholders. According to NAREIT, it may be feasible for a private REIT to provide voting shares only to residents and nonvoting shares to outside investors,[130] but outside investors might be discouraged from investing in a REIT that imposed limitations on their voting rights.

Political challenges:

It may be politically difficult for a community-based REIT to reject deals proposed by community members. For a REIT to be financially successful, it would have to make decisions based on strict financial criteria and a transparent review process.

Investment risk:

Real estate markets can fluctuate tremendously. In order to make informed investment decisions related to a CB/REIT, residents would need financial education and ongoing professional advice. This could be accomplished through a number of institutional mechanisms, including an affiliated community-based organization, CDC, CDFI, or community building initiative, or through a private-sector professional hired by community-based institutions to provide resident services.

Resident investment resources:

Finally, many low-wealth residents simply lack the resources to invest in a REIT or any other type of real estate investment vehicle. Providing opportunities for all residents to have access to investment opportunities requires subsidy and other creative approaches.

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[130] Since REIT shares need to be fully transferable, the IRS would need to rule on certain details such as whether requiring voting shares to be transferred only among residents of a particular geographic area meets the share transferability criteria.

Mechanisms to Support Resident Investment

Note: The models described herein are included in this chapter because of their direct connection to the discussion of acquiring real estate assets. However, these models are not limited to real estate investment and will be referenced in relation to resident investment in local businesses and financial institutions, described later in this report.

Individual Development Account (IDA)

By enabling low-wealth residents to accumulate assets, IDAs represent an important departure from traditional income-transfer strategies to alleviate poverty. IDAs are incentive-based savings accounts designed to encourage low-income people to save for designated purposes. Deposits made by the account holder are matched by funds from public or private sources, based on a specific ratio. Sources providing matching funds include private foundations, financial institutions, employers, religious institutions, private contributors, and the federal government.[131] The accumulated funds can typically be used by the individual for investment in the local community, including buying a home, starting a business, or education/training for a job opportunity.

Professor Michael Sherraden at the Center for Social Development (CSD) at Washington University developed the IDA concept, based on original research about the importance of accumulating assets to overcome poverty.[132] In collaboration with CSD, the Corporation for Enterprise Development (CFED) has played a major role in setting up IDA programs around the country in partnership with community-based organizations.

More than 250 IDA programs are serving approximately 5,000 account holders. Thirty-six states have authorized IDA programs via direct appropriation of funds: tax credits, Temporary Assistance for Needy Families (TANF) funds, Community Development Block Grant (CDBG) funds, and other mechanisms.[133] IDA demonstration projects are underway in 13 sites. Preliminary results from this and other research include the following:

> *1,326 low-income families participating in [the demonstration] saved $378,708 as of June 30, 1999, and these savings leveraged another $741,609 in matching funds. Monthly deposits typically range from $30-$75.*[134]

Also, research summarized by the Center for Social Development demonstrates many beneficial aspects of assets: they promote economic household stability and educational attainment; decrease the risk of intergenerational poverty transmission; increase health and satisfaction among adults; and increase local civic involvement.[135]

The following example illustrates how IDAs are working.

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[131] Corporation for Enterprise Development (CfED) website at http://www.cfed.org.

[132] See Michael Sherraden, *Assets and the Poor,* (Armonk, NY: M.E. Sharpe, 1991).

[133] Center for Social Development, Washington University in St. Louis website, at http://gwbweb.wustl.edu/Users/csd/ida/whatareidas.html.

[134] Corporation for Enterprise Development website, http://www.cfed.org.

[135] *Ibid.*

Bay Area IDA Collaborative
San Francisco Bay Area, California

The Bay Area IDA Collaborative, led by East Bay Asian Local Development Corporation (EBALDC), is designed to give low-income families in the San Francisco Bay Area a comprehensive and supportive structure in which to accumulate savings for homeownership, education, or business development. Begun three years ago, the collaborative consists of 17 community-based organizations that provide a variety of resources and services to participants. It has 400 individuals currently enrolled or recently graduated from the IDA program.

To qualify for the program, participants must be at no more than 60 percent of area median income. They save between $10 and $80 per month, deposited in a savings account at a local bank with which the program is partnering. The collaborative provides a 2:1 match. Matching funds are kept in a parallel account and managed by the IDA collaborative. In two years, a participant can accumulate a maximum of $5,760 including both savings and the match.[136] *Participants graduate from the program when they have reached their savings goal and have drawn down their combined savings and matched funds to purchase their asset.*

Twenty families have recently closed escrow on homes as a result of their participation in the program. Combining participants' IDA savings with resources offered by the collaborative's partners has been an essential strategy for success. For example, the collaborative was able to leverage individual savings with the affordable housing development activities of EBALDC. Eight IDA participants now own homes in a recently constructed development project for first-time homebuyers consisting of 70 single-family homes in the $175,000–$200,000 range.

In addition, collaborative partners have steered program participants to local government downpayment assistance programs; helped participants obtain mortgage credit certificates; provided training in homeownership and entrepreneurship; and connected members to the Federal Home Loan Bank's IDEA program, which has enabled additional participants in the collaborative to save at the highest rate (and receive the corresponding matching funds) in order to purchase homes.[137]

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136 The collaborative manages several different IDA programs, and this maximum savings figure applies to the American Dream Demonstration.

137 Information for this example was obtained from two sources: from a telephone interview with Pam Salsedo, former director of Asset Building Program at East Bay Asian Local Development Corporation (EBALDC), February 2001, and from the IDA Collaborative's website at http://www.ebaldc.com/organization/econ/idea.htm.

Community Building IDA/ Development-Supported IDA

The existing IDA structure is a resident ownership mechanism in that it enables residents to own community assets, including homes and new businesses. This model could be expanded into a community building IDA (CB/IDA) that allows residents to invest either all or a proportion of IDA savings in a broader array of community assets such as existing or expanding community businesses or real estate development projects.

A CB/IDA is a matched savings account that could be drawn down for the purpose of investment. It would, in effect, serve as a tool to support resident investment in community assets and thus address one of the key challenges of implementing ROMs—the lack of available investment capital on the part of many residents in low-income/low-wealth communities. As is the case with a standard IDA, the account could be matched by funds from individuals, foundations, and the public or private sectors.

One source of matching funds for a community building IDA could be proceeds from local real estate development projects in the community.[138] A development-supported IDA (DS/IDA) would be a new or expanded form of IDA account that derives matching funds from a funding stream from one or more local development projects. The DS/IDA structure could augment the existing supply of matching funds for IDAs and enable a broader range of lower-wealth residents to invest in the various resident ownership models described in this report. While a DS/IDA would not necessarily have to be formed in connection with a CB/IDA, if they were linked, residents could acquire a stake in the developments that are funding their IDA accounts. Such linkages would enhance residents' support for the developments; and it would increase the supply of capital available to a range of economic development projects, with resident investors as the bridge between projects.

Using their IDA savings, residents could become stakeholders in economic development initiatives in their community traditionally outside their reach. Such IDAs would also serve existing local businesses by providing them with access to additional sources of local investment capital. Finally, they would create new community building opportunities by giving businesses a mechanism and incentive to partner with community residents.

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[138] The Fannie Mae Foundation has advanced a version of this concept in relation to the value recapture concept. See Fannie Mae Foundation, pp. 5 and 12. The CB/IDA includes and expands on the value recapture notion by including an income stream of capital and mechanisms for resident investment in community assets.

Assessment of New IDA Mechanisms

Together, these approaches—the community building IDA and the development-supported IDA—could create opportunities to build new community partnerships serving multiple stakeholders: They would:

- Provide a mechanism to subsidize resident investment in community assets;
- Provide local businesses with new sources of capital to grow their businesses; and
- Offer developers and entrepreneurs tools to build alliances with community residents.

Variations on IDAs would require additional research to design and develop appropriate structures and to address legal, policy, and capacity challenges. Also, IDAs that allow residents to use their savings to invest in real-estate development projects would require careful attention to the risks inherent in real estate investment. Once again, quality information, education, training, and professional assistance for community residents are critical ingredients to the successful design and implementation of these and other models.

Concluding Comments: Commercial Real Estate Development

The commercial real estate ROM models explored in this section represent potent but largely untested mechanisms for providing a direct equity stake in community real estate for low-income/low-wealth residents. Additional research and testing are needed to move any of these models to the point where they can be useful to large numbers of communities. Nonetheless, the examples highlighted demonstrate the level of innovation underway and offer promising seeds of hope for other communities seeking guidance in the development of appropriate models.

B. Business Development

Whereas the previous section explored ways for residents to gain an ownership stake in real estate development, this section examines ways that residents can be involved, as partners and stockholders, in the growth, stability, and expansion of businesses in their community.

Shared Resident Equity in Business Development

Resident Ownership of Community Businesses

The following model is characterized by community residents working together to build a local enterprise that addresses community needs. Residents hold an equity stake in the business that offers a potential return on their investment.

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[139] Jessica Gordon Nembhard, "Entering the New City as Men and Women, Not Mules: Democratic and Humane Economic Development Strategies for Revitalizing Inner Cities" (unpublished manuscript, 2000), p. 16.

[140] Information for this description was derived from several sources: a telephone interview with Rita Bright, B.I.G. Wash founder and board member, March 2001; David Montgomery, "A Neighborhood Cleans Up: Community Laundry Sells Shares," *Washington Post,* March 8, 1999; and Jessica Gordon Nembhard, "Entering the New City as Men and Women, Not Mules: Democratic and Humane Economic Development Strategies for Revitalizing Inner Cities" (unpublished manuscript, 2000), pp. 15–16.

Community Business Development: B.I.G. Wash Columbia Heights, Washington, DC

B.I.G. Wash, a coin-operated laundry, is a community business venture in the low-income Washington, DC, neighborhood of Columbia Heights; it has been in existence since 1995. The business concept and plan grew out of the collective efforts of community residents, led by Rita Bright and her neighbor Henry Gibson, along with her husband Michael; Magnolia Brown; Joe Pearson; and Ruben MacCormack, the executive director of the local nonprofit Hope Housing Development Corporation.

Many of the original investors lived on Belmont Street and worshiped at the nearby Community of Hope Church. With technical assistance facilitated by Hope Housing, the group hammered out a business plan over a two-year period and searched for investors. Finally they initiated a public offering that involved the group's selling neighbors shares in the venture at $100 each, raising $30,000 among community residents. The biggest stakeholder then was a Postal Service custodian and president of the board who owned 74 shares. As of 1998–99, "B.I.G. Wash had revenues of about $240,000 and a payroll of about $70,000—exceeding all expectations. The original investors received dividends equal to 185 percent of their holdings over three years. In 1999, one member sold a share for $600. They have not missed a payment on their debt, and by the end of 1999 had paid off one loan. The increased equity and annual dividends increased the financial stability of the members and even enabled some to purchase homes in the neighborhood."[139]

B.I.G. Wash, Inc., is located in a neighborhood mall developed by the Columbia Heights CDC. Today, it employs neighborhood residents—all part-time—serving as bookkeepers, auditors, CPAs, and monitors. Members of the board are exploring ways to expand their unique business model to benefit other residents and have talked about branching out and establishing spin-offs in other areas of the city.

At the same time, there are challenges. The neighborhood is experiencing gentrification that has driven up property taxes by as much as 25-30 percent for some homeowners. Rent in the neighborhood has also been increasing rapidly. Bright believes that shareholders have a unique opportunity to reinvest the dividends they have accrued, both for their own benefit and that of the community. "Most of our stockholders use their money to supplement their Social Security and other checks. They aren't thinking about reinvesting that money. But, we need to look at ways that they can reinvest those funds in the community, and we need to find ways to educate them about the value of doing that."[140]

Assessment of Shared Equity Model

Community businesses that have low-income residents as investors/shareholders are clear examples of ROMs. This model offers financial benefits to those members of the community who have assets to invest and opportunities for resident owners to have a voice in decisions pertaining to the business. It offers clear and direct ownership mechanisms in the form of stock held by resident investors.

Key issues to be addressed in considering this model:

Risk:

Since less than half of small businesses last more than four years, risk is an important issue to address.[141] Risk is inherent in all business ventures; however, careful business planning, technical assistance, and support can increase the chances for success. Furthermore, as demonstrated in the B.I.G. Wash example, successful risks can bring financial rewards.

Lack of investment capital under local control:

As is the case with many ROM models, this model could be limited by the fact that only those residents with expendable assets could afford to invest. Utilizing the strategies proposed for increasing shareholder participation, such as community building IDAs and other subsidy mechanisms, would help to address this challenge.

Long-term growth and control:

As the company grows, so too will the markets for the shares. This liquidity is good for investors but may ultimately result in a loss of community control of the business. The model allows for bylaws to be written with restrictions on the sale of shares. The original investors must determine the trade-off between the potential for stock appreciation and ongoing community control.

Accountability:

The need for trade-offs between individual and community interests is common to all types of business ventures. But resident ownership offers a greater chance that business decisions will reflect broader community priorities since residents' accountability to other members of the community is probably greater than that of outside investors.

[141] This figure is from the U.S. Small Business Administration (SBA) Office of Advocacy website, at www.sba.gov/advo/stats/sbfaq.html#q6.

Resident Stock Ownership Plan (RSOP) and Customer Stock Ownership Plan (CSOP)

Another strategy to ensure resident benefits, while building new partnerships between residents and local businesses, is for residents to obtain shares in businesses that serve the community but are owned and operated outside of it. A Resident Stock Ownership Plan (RSOP) would give residents a direct economic stake in the business and voice in business decisions, in partnership with other stockholders.

Researchers found no existing model of a stock ownership plan offered to community residents; but a model could be developed from the underlying concepts of offering stock to a preferred class of investors used in Employee Stock Ownership Plans (ESOPs) and Related Enterprise Share Ownership Plans (RESOP), described later in this section. Stock could be made available based on community residence (i.e., geographic) or on resident use of the local business, as consumers, as opposed to being based on employment or service. The latter, consumer-based approach bears a relationship to customer cooperatives and Customer Stock Ownership Plans (CSOPs), a model that is being explored in many places as a way to provide an ownership interest for customers of certain enterprises.

CSOPs have been considered in Britain in connection with the privatization of the British Broadcasting Corporation (BBC).[142] The CSOP concept has also emerged in the debate about California's energy crisis and the near bankruptcy of utility companies in the state. (At one stage in the crisis, the concept was floated of offering customers the option of obtaining stock in the utility companies, in return for higher electricity bills.) A variation on the CSOP model is the ownership structure of the Green Bay Packers professional football team, which is owned by a nonprofit corporation in which local residents and fans own all the shares:

> *The Packers' ownership resides in a not-for-profit corporation (first established in 1919) whose 4,634 shares are valued today at the same $25 as when issued. Shares can be left to relatives but cannot be sold to outsiders without first offering them to the team. No one can own more than 200 shares. If the team were sold (major league franchises routinely fetch upwards of $150 million), the proceeds are required to be used to construct a war memorial at the local post of the American Legion.*[143]

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[142] Gates, p. 74.

[143] Gates, pp. 68–69. Replication of this model could require clarifying legislation, depending on the legal definitions and restrictions for nonprofit corporations found in state laws.

Assessment of RSOP and CSOP Models

Each of these conceptual models requires additional research to determine the legal, political, and economic challenges associated with implementation. While not insignificant, many of these challenges could be addressed through enabling legislation, as occurred with other innovative investment tools, such as mutual funds, REITs, and ESOPs.

Using these ownership models would increase the opportunities for residents to own an equity stake in local businesses and provide an alternative mechanism for raising capital. If the model were tied to a community building IDA or other saving/investment mechanism, it would leverage additional financial resources and allow a larger number of resident investors to participate.

Risk:

Resident investment in the stock of any company includes an element of risk. Risk levels may be higher with newer companies that do not yet have an established track record or accessible financial information. As described earlier, the issue of risk is one that is inherent in all forms of investment. Selling shares at a discount to resident investors would mitigate the risk, but it would not eliminate it. ROMs are meant to offer an expanded "menu of opportunity"; i.e., greater choices for community residents to be able to build individual and family assets. The choice of whether to take a risk is ultimately up to local residents, guided by sound financial information and advice.

Incentives for businesses to adopt ROMs:

Another obstacle to advancing these models is the lack of tax or other public policy incentives for companies to make stock available to community residents. ESOPs, for example, trigger significant tax advantages in some cases, providing a key motivation for companies to pursue them.[144] They include advantages directly to firms that set up ESOPs and to employees in the way that stock options are taxed.[145] With sufficient tax inducements, companies may be open to establishing RSOPs and CSOPs in negotiating a community benefits package with local government and/or community representatives, in return for special tax advantages, incentives, or services from the public sector and/or local foundations.

The definition of beneficiaries:

As is true for all models, the identification of target beneficiaries is a challenge. For example, should the beneficiaries of this ROM strategy only be low-income/low-wealth residents in the community or should all community residents benefit? And how should "community" be defined—is it just the immediate neighborhood surrounding the business, a number of neighborhoods, or the entire city or county? As is the case with many of the models proposed in this report, the answers to many of these questions should be resolved as the models are explored and developed by local community builders.

Support infrastructure:

A major challenge for community builders, funders, and other stakeholders interested in advancing these and other ROM models is building an infrastructure of support for resident investors. These supports include access to information, education, and professional advice about the businesses so that they can make informed investment decisions.

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[144] While some of the ESOP incentives have been weakened over time, "they allow companies to borrow money and repay it in pre-tax dollars. They provide a way for owners of closely held businesses to sell all or part of their interests and defer taxation on the gain." For more information, see the National Center for Employee Ownership website, http://www.nceo.org.

[145] See Margaret M. Blair and Douglas L. Kruse, "Worker Capitalists? Giving Employees an Ownership Stake," *Brookings Review,* Fall (1999): 24. Blair and Kruse argue that the only significant tax benefit to establishing an ESOP currently is the special tax treatment of stock options.

Cooperative Ownership Models

A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.[146]

The cooperative sector comprises a large and growing sector of the U.S. economy. The first cooperative was established in the United States in 1752, when Benjamin Franklin formed the Philadelphia Contributionship, for the Insurance of Houses from Loss by Fire.[147] In 1844, members of a cooperative in Rochedale, England articulated a set of cooperative principals which set the stage for the modern cooperative movement. Today the worldwide cooperative sector includes over 48,000 cooperatives, with combined annual revenues exceeding $150 billion.[148] These cooperatives comprise over 120 million members in the United States alone. The industry is divided into three ownership categories: worker-owned cooperatives, consumer-owned cooperatives, and producer-owned cooperatives.

Cooperatives operate according to a common set of principles, adopted by the International Cooperative Alliance in 1995. They include: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training, and information; cooperation among cooperatives; and concern for community.

The cooperative sector is important to the ROM discussion in that many of the businesses within the sector embody key ROM characteristics: financial benefits, voice, and ownership. According to the National Cooperative Business Association (NCBA), the cooperative model embodies the following aspirations:

A cooperative operates for the benefit of its members. These member-owners share equally in the control of their cooperative—they meet at regular intervals, review detailed reports, and elect directors from among themselves. The directors in turn hire management to manage the day-to-day affairs of the cooperative in a way that serves the members' interests. Members invest in shares in the business to provide capital for a strong and efficient operation. All net savings left after bills are paid and money is set aside for operations and improvements are returned to co-op members.[149]

Worker ownership models include an array of structures with varying degrees of financial benefits, voice, and control on the part of workers. At one end of the spectrum are worker cooperatives that are democratically organized on the basis of one-member, one-vote. At the other end are certain types of ESOP companies that operate as traditional, top-down corporations with a token amount of stock available to employees. This section includes examples of different types of worker ownership and their relationship to a comprehensive community development strategy.

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[146] "Cooperatives Are…Cooperative Business in the United States," National Cooperative Business Association (NCBA) brochure, undated.

[147] *Ibid.*

[148] "NCB Co-op 100: National Cooperative Bank Presents America's Top 100 Co-op Companies," brochure, undated.

[149] *Ibid.*

Employee Ownership

Worker-Owned Cooperative

Worker-owned co-ops enable workers to control their workplace and obtain financial benefits as shareholders of the business. The membership elects the board of the co-op, and the board appoints the general manager. While worker co-ops are relatively simple to set up and provide tax benefits, they are not widely used.[150] They represent a largely untapped potential in community economic development and revitalization and have much to offer ROM research and practice.

In *Employee Ownership: The Vehicle for Community Development and Local Economic Control*, Megson and O'Toole succinctly describe how worker co-ops operate:

> *Profits are allocated to each member at the end of each year on the basis of either the number of hours worked or salary. In addition, a proportion of the profits is allocated to a common account to provide the co-op with some cushion against future losses. Generally, only a portion of the profits allocated to each member will actually be distributed to that member. The remainder is allocated to his/her "internal capital account," a funding account the member retains within the co-op. Losses are similarly allocated to members. In this way, the wealth generated by the co-op and its employees is retained in the co-op to increase the capital base, net worth, and borrowing power.*
>
> *A member's share of the value of the co-op is reflected in the balance of his/her capital account. When a member leaves, he or she is able to reclaim this value from the co-op. In practice this value represents the member's share of the book value of the co-op rather than the market value. In the event that a co-op is terminated, debts are paid off first, then the internal capital accounts are paid off, and any surplus is distributed among the membership according to a predetermined formula outlined in the bylaws.*[151]

Only a subset of worker-owned co-ops—those that target low-income/low-wealth community residents—can be classified as ROM models. Following are examples of such models.

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[150] Megson and O'Toole, p. 5

[151] *Ibid.*

SSC Employment Agency
Baltimore, Maryland

SSC Employment Agency, Inc., is a worker-owned cooperative temporary agency, based in Baltimore, Maryland, that was established in 1997. Guided by a commitment to providing optimum employment opportunities to its workers and giving them a direct stake in client satisfaction, SSC began with ten workers drawn from a pool of those considered the hardest to employ. In 2000, SSC placed some 260 workers in jobs, mainly in Baltimore's hospitality industry.

In addition to client satisfaction, SSC's mission is to give its workers both ownership and voice in the agency. After 160 hours as employees, workers are eligible to apply to become members of the cooperative. If the cooperative board, made up of other worker-owners, approves their application, a $100 membership fee is deducted from their paychecks. Currently, SSC has seventeen worker-owners who receive dividends from the company's profits and elect the company's board of directors.

Jobs range from janitorial and job-site cleanup to assembly and light clerical. Assignments encompass one-event placements, such as a football game where workers might be employed as stadium cleanup crews, to office assignments that last several weeks at 40 hours per week. A local business management and development firm, R&B Unlimited, Inc., provides management assistance to SSC.[152]

[152] Information for this description was derived from a telephone interview with Avis Ransom of R&B Unlimited, Inc., March 2001.

Las Flores Metalarte
Coamo, Puerto Rico

Metalarte is a worker-controlled, democratically-run producer of household furniture and wood and Formica kitchen cabinets. Established 25 years ago as a social action project through the initiative of local residents and a priest, Metalarte is located in Coamo, Puerto Rico, 70 miles southeast of San Juan.

Since its modest beginnings, Metalarte has mushroomed into "one of the largest and most successful furniture manufacturers on the island."[153] Both worker-owners and community representatives sit on the board of directors and influence how the company is run, an arrangement that contributes to Las Flores' strong roots in the community. "With one vote each, workers elect board members who decide the future direction of the firm and determine how profits are used. They hold a general assembly of all workers that meets once a year and elect the board of directors every two years. Eight workers and five community representatives comprise the board, and [the] CEO holds a nonvoting seat."[154]

The company currently employs 180 worker-owners. A new worker at Metalarte has a one-year probationary period, after which he or she becomes a full owner-member with voting rights. Currently all profits are reinvested into the company.

Metalarte has several facilities in Coamo that total 140,000 square feet of space and is building an additional 35,000-square-foot building to house the heart of the operation, the cutting and processing area. The company's clients include the Home Depot in Puerto Rico; a number of small family-owned furniture stores throughout the island, and several furniture stores in the Virgin Islands.[155]

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[153] Rebecca Bauen, "Las Flores Metalarte: Creating Community Jobs in Puerto Rico" Case study (Boston: ICA Group, 1995), p. 16.

[154] *Ibid.*, p. 8.

[155] Information for this example was derived from the following sources: Rebecca Bauen, former staff member of the ICA Group, telephone interview, March 2001; Jaime Pfeiffer, Metalarte CEO, telephone interview, March 2001; and Bauen, "Las Flores Metalarte."

Employee Stock Ownership Plan (ESOP)

Employee Stock Ownership Plans (ESOPs) enable employees to own all or part of a company's stock. ESOPs are used widely by U.S. companies and are an important model for distributing ownership. According to surveys, as many as one-third of large corporations in America now offer stock option plans to all or most of their employees.[156] The National Center for Employee Ownership estimated in 1996 that over ten thousand corporations had ESOPs, covering almost 9 million employees.[157] Major ESOP companies include United Airlines, where its 85,000 workers own 55 percent of the stock; and Hallmark Cards, whose 22,000 employees own at least one-third of company stock.[158]

Integrating ESOPs with a place-based community building strategy creates a powerful tool. Megson and O'Toole describe the range of ESOPs in the following way:

> *…ESOPs that provide "first class" employee ownership and pass voting rights through to their employees are generally controlled on the basis of one-share, one-vote. Consequently, long-serving employees who have accumulated more capital, and therefore more shares, will get more votes than a new employee. A small number of "democratic" ESOPs are controlled on the basis of one-member, one-vote.*
>
> *…Profit is allocated to the members in the form of new stock and dividends on the stock the members already hold.*
>
> *…Ownership of the value of the company is typically acquired in two ways. When employees borrow money to purchase a company, they receive their ownership over time in the form of stock allocations as the loan is paid off. In addition, they may receive additional stock as their share of the profits generated by the company. The company's stock is valued annually, which ensures that the employees do receive the advantage (or disadvantage) of changes in the market value of the company. When a person leaves an ESOP company, he or she can either sell their stock on the open market (in the case of a publicly traded company) or sell it back to the company for cash. In ESOP companies that wish to remain owned and controlled by their work force, the stock of people leaving the company must be repurchased by the company.*[159]

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[156] Margaret M. Blair and Douglas L. Kruse, p. 23.

[157] Jeff Gates, *The Ownership Solution* (Reading, MA: Addison-Wesley, 1998), p. 60.

[158] *Ibid.*, p. 61.

[159] Megson and O'Toole, p. 6.

First enacted in 1973, U.S. tax policy facilitating the formation of ESOPs has been an important factor in their expansion. Tax benefits include the following:

- When a company borrows money to set up an ESOP with company stock, it gets a tax deduction for its payments of both principal and interest.
- The capital gains tax from a sale of stock to an ESOP can be deferred.
- Employees do not have to pay taxes on stock held in an ESOP until the holdings are paid out upon termination or retirement.
- In "S" corporations, the ESOP does not have to pay taxes on its share of the company's profit. Hence, if the ESOP owns 100 percent of the company's stock, the company will not have to pay corporate taxes at the federal level.[160]

ESOPs can come into being through different processes: ESOPs can be used as a succession strategy for a firm whose founder is retiring or whose initial equity investors need an exit strategy. ESOPs can also be used as an equity-raising strategy for a company that is expanding but may not be able to raise sufficient capital through other means. In addition, workers can develop a new ESOP company. In this scenario, local community-based organizations can play a role in capitalizing the company and getting it off the ground. Once the company is stabilized and making a profit, ownership can be transferred to the employees.[161] The ICA Group in Boston has been a key force behind this approach.

Finally, employees can purchase an existing company that the owners wish to sell (an "employee buy-out"). In these cases, ESOPs are sometimes used as an alternative to bankruptcy, which often poses challenges to the new owners. Workers buy the company in order to retain their jobs and gain some measure of control of their workplace. The following example describes an employee buy-out of a financially solvent company.

[160] Megson and O'Toole, Appendix III.

[161] The preceding discussion of ESOPs is based on Megson and O'Toole, pp. 8–10.

[162] The description is based on an account in the ICA Group's May 2001 newsletter and a telephone interview with Andrew Weaver, ICA Group Senior Business Consultant, May 2001.

Normandeau Associates
Bedford, New Hampshire

Normandeau Associates is an environmental consulting firm based in New Hampshire with nine regional offices. Its 130 employees include water quality and natural resource scientists and technicians who work with industry and governmental agencies to minimize the environmental impacts of new construction. Current company projects include the evaluation of a "fish friendly" turbine designed to improve the survival of young salmon at the Bonneville Dam in the Pacific Northwest and the development of a 100-acre wetland mitigation site to reduce the environmental impact of a highway expansion in New Hampshire. Founded in 1970, the company was later acquired by the Thermo Electron Corporation, which subsequently elected to sell the company.

In July 2000, with the help of Boston's ICA Group, the employees of Normandeau Associates successfully purchased 80 percent of their company: Senior managers put up capital to buy 17 percent of the company, and the ESOP secured a loan to buy 63 percent, giving the employees ownership of 80 percent of the company. The remainder is held by an outside investor and Thermo-Electron. The ESOP will eventually purchase the equity owned by management and outside investors, making Normandeau a 100 percent employee-owned company.

Normandeau employees participate in the company in various ways. As shareholders, they elect the board of directors. They also exercise their ownership and governance rights through the ESOP Advisory Committee, the body that advises the trust that holds the workers' shares. On issues requiring a shareholder vote, there is "pass through" voting; that is, the trustees are obligated to vote as directed by the worker-shareholders. In addition, Normandeau is exploring avenues to increase worker participation in routine operations and management. Employees have already received training on how to interpret the value of their internal accounts over time and how this is related to company performance.[162]

Related Enterprise Share Ownership Plan (RESOP)

Building on the ESOP concept, Related Enterprise Share Ownership Plans (RESOPs) provide ownership opportunities for a broader array of stakeholders than the employees of one firm.[163] A RESOP enables a firm's suppliers and distributors to gain an ownership stake in the firm. The model has been applied in Jamaica, as described herein, where the firm's suppliers and distributors were smaller, more marginal businesses. Providing these micro-entrepreneurs with an ownership stake in the larger firm helped to stabilize their financial position.

The RESOP model is relevant to ROMs since it expands ESOPs beyond workers to a broader set of beneficiaries. Workers become owners in a RESOP based on their employment in the primary business or based on their relationship as suppliers or distributors to the business. The ownership stake provides opportunities to accumulate capital and exercise control of the business.

Currently, a RESOP is not a geographically based model. A community-oriented model could be developed and could include incentives for ownership by community-based organizations providing education, training, placement, or other services to the business.

Jamaica Broilers
Jamaica

Jamaica Broilers is the largest chicken processing operation in Jamaica. It relies on a network of predominantly small family farmers to raise the chickens and on another network of small trucking companies to take the processed chickens to supermarkets. When a foreign investor made the decision to withdraw his 25 percent stake in the company in the 1970s, Jamaica Broilers secured a loan to buy his shares. The company also used some of the loan funds to help upgrade the operations of the farmers and the truckers it depended upon.

The loan was the basis for establishing a RESOP. The company repaid the loan through its earnings. To aid in repayment, employees participated in a payroll deduction arrangement while the truckers and the farmers had a small amount deducted from each invoice they presented to the company for payment (e.g., the value of two chickens). The employees, farmers, and truckers were compensated with company stock. As the loan was repaid, the shares became owned by both the company's employees and by its network of contract farmers and truckers.[164]

Assessment of Employee Ownership Models

Not all employee ownership models are ROMs, but most exhibit a large number of ROM criteria. Although employee ownership models do not necessarily target beneficiaries geographically, many have most of their members in a fairly small geographic area. Worker ownership models provide potential financial benefits to participating workers, but those benefits are not guaranteed since they are tied to the company's health.

As described, worker ownership models vary widely in the level of voice, ownership, and control that workers are able to exercise. "True 'first class' employee ownership is where the employees own a majority of the corporation and exercise their rights as owners to control the corporation."[165] As of 1992, workers owned a majority of the voting stock in about 1,000 ESOPs in the United States; of these, about one-third are democratically organized.[166]

The examples highlighted in this section meet ROM criteria and offer important lessons regarding expansion and replication of the models in a way that targets residents of low-wealth communities. Furthermore, all of the models offer important lessons regarding the many ways that public policy can be used to advance innovative ideas and practices.

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163 This description of the RESOP models is summarized from points made in Gates, pp. 71–73.

164 *Ibid*, pp. 72–73.

165 Megson and O'Toole, p. 3.

166 Len Krimerman and Frank Lindenfeld, eds., *When Workers Decide* (Philadelphia: New Society Publishers, 1992), p. 6. The authors cite the National Center for Employee Ownership for this figure.

Producer Cooperatives[167]

Producers, individually or as a group, own and operate cooperatives that provide members with expanded marketing and production capacity. Many smaller producers lack the production volume to do direct business with wholesalers and retailers of their products. Through their cooperatives, producers can market their products efficiently and meet consumer demand. Producer cooperatives in the United States that are most related to ROMs are primarily found in rural communities.

Agricultural Cooperative

The most common form of a producer cooperative is the agriculture cooperative. According to the National Cooperative Business Association (NCBA), there are over 4,000 agricultural cooperatives in America with almost 4 million members. In recent years, consolidation in the industry has reduced the overall number of agriculture cooperatives.[168]

Agricultural co-ops fall into three general types: marketing cooperatives, where member/owners collectively market their produce; supply coop-

Indian Springs Farmers Association
Hattiesburg, Mississippi

The Indian Springs Farmers Association was created in the early 1980s as a marketing and buying co-op of fruits and vegetables. It emerged from the informal efforts of twelve farmers to collectively sell watermelons in several large cities. "The five goals of the Indian Springs Farmers Association were first defined as: (1) raise the standard of living among small farmers who are members of the cooperative, (2) increase income received from crop production, (3) cut transportation costs to get products to market, (4) expand marketing capabilities, and (5) create new job opportunities."[171]

Today, the cooperative has 48 producer-owners of varying production capacities. The cooperative markets a wide range of fresh produce, including turnips, collards, squash, bell peppers, watermelon, and cucumbers. Its customers include Kroger's in Nashville and Louisville as well as Winn Dixie. Along with servicing these large retail grocers, the cooperative continues its direct sales of produce through churches in Chicago and other major cities in addition to participating at the New Orleans Farmers Market.

Recently, the cooperative won a contract valued at $400,000 to sell cucumbers to a firm that supplies pickles to Burger King. The one-year contract will more than double co-op sales and represents about three million pounds of cucumbers or the production from 200 acres. Indian Springs is also exploring possible diversification into processing as a way to add value to its products. Indian Springs is a member of the Mississippi Association of Cooperatives as well as the Federation of Southern Cooperatives.[172]

eratives, where they pool resources to purchase supplies and services; and service cooperatives, where member/owners work together to provide services. They are organized into three operational sub-categories: centralized co-ops, where members are individual producers; federated co-ops, or "regionals," where two or more cooperatives are members; or mixed cooperatives, where individual producers and cooperatives are members.

Agricultural co-ops help farmers and other agricultural producers pool their resources to increase capacity to produce, market, and distribute their products. Members benefit from economies of scale, collective learning, and greater negotiating power in the marketplace.

As cooperatives, they embody democratic principles in all aspects of their operations: they are controlled by member/owners who elect the board of directors through a democratic, one-member/one-vote process. The responsibilities of the board include budgeting, hiring, policy oversight, and decision-making regarding the distribution of profits.

While agricultural cooperatives comprise the largest segment of the cooperative sector and a large segment of the agriculture industry, not all of them can be classified as ROMs because they do not all target low-wealth community residents as primary beneficiaries. The agricultural co-op model that is most relevant to the ROM discussion is serving small family farmers in low-wealth rural communities.

Agricultural cooperatives enable small farmers in low-wealth communities to overcome their isolation through developing linkages outside the immediate area, increasing their access to advanced technology, work-force training, adequate capital, and markets.[169] In this way, co-ops help farmers increase the yields and profitability of their acreage and represent a strategy to help them maintain the security of their land tenure. Maintaining land tenure is particularly critical to black farmers in the South: the number of black landowners has declined from about 100,000 owning six million acres in 1969 to fewer than 19,000 owning under 2.5 million acres today.[170]

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[167] Sources for this section include the National Cooperative Business Association website at http://www.ncba.org and the Cooperative Life website at http://www.cooplife.com/coopstoday.htm.

[168] This discussion draws on information in "Agricultural Cooperatives," NCBA brochure, undated.

[169] "Why Cooperatives and Rural Development?," *Journal of Cooperative Development*, 1, no. 3 (1999): 10.

[170] "What is the Federation of Southern Cooperatives/Land Assistance Fund?," *Journal of Cooperative Development,* 2, no. 2 (2000): 3.

[171] Paul Darby, "Indian Springs Farmers Association is helping small farmers reach new heights," *Journal of Cooperative Development*, 2, no. 2 (2000): 5.

[172] This description is based on an article authored by Paul Darby in *Journal of Cooperative Development*, Spring 2000.

Craft Cooperative[173]

Craft cooperatives are designed to help individual and family craft producers work collectively to get their products to market. According to the National Cooperative Business Council, services provided by craft co-ops may include any of the following: market research, merchandising, catalogue sales, sales representation, or retail and wholesale operations.

Craft cooperatives help member/owners to improve their efficiency of production and product quality, along with providing joint opportunities for education, training, and professional growth. They may be local or regional, and they are particularly known for meeting the needs of low-income/low-wealth producers and among minority, rural, and senior communities (hence their particular relevance to ROMs). Regional cooperatives are usually formed to pool resources to cover the costs of marketing, training, or other professional services.

Assessment of Producer Co-op Models

The primary purpose of a producer cooperative is to serve its members as producers, rather than investors; hence, they are not structured to produce a return on investment. But by increasing the profitability of individual producers, they do in fact help member/owners to build their financial assets. Furthermore, as is true for all cooperatives, the model embodies ROM criteria in terms of voice in the decision-making process.

The producer co-op model is particularly relevant to the ROM discussion wherever it can be applied to serving low-income/low-wealth residents in disinvested urban, rural, and tribal communities. For example, it has direct applicability for enabling small micro-entrepreneurs to increase their sales, marketing, and distribution capacity. Producer cooperatives also provide a way to aggregate demand for technical assistance that is cost effective for community development intermediaries and other professional service providers.

[173] Information for this description was summarized from "Craft Cooperatives," NCBA brochure, undated.

[174] Information for this description was derived from a telephone interview with Rennie Miller, Freedom Quilting Bee manager, March 2001, and from the Freedom Quilting Bee website at http://www.ruraldevelopment.org/FQB.html.

Freedom Quilting Bee
Alberta, Alabama

Initiated in 1966 during the civil rights era, the Freedom Quilting Bee is a handcraft cooperative located in the small rural town of Alberta. The Quilting Bee originated as a creative response to the retaliation of white landowners against blacks who participated in civil rights and voter registration activities. Civil rights participants, often local farmers, were sometimes put off their lands or driven from their homes, and the Quilting Bee represented a strategy towards economic independence for financially strapped residents.

The group specializes in top-quality, traditional quilts and provides the machinery, fabric, and marketing infrastructure for its members. Members sew quilts for minimum wage and then receive a share of the cooperative's profits. The cooperative membership is currently ten women.

The activity level of the cooperative is variable. In 2000, the group sold 100 quilts, mostly in response to special orders. Freedom Quilting Bee is a member of the Federation of Southern Cooperatives and works with the Rural Development Leadership Network.[174]

Aggregation and Networking among Cooperatives

Regional Cooperative Network

Networking among cooperatives represents an essential element of their development. Cooperatives are strengthened both by creating links of economic exchange between one another and through regional support organizations. According to William Foote Whyte and Kathleen King Whyte:

> *The long-run prospects for a cooperative trying to survive in a sea of private enterprises are very poor. One aid to survival is to group cooperatives so that they can exchange services and share expenses….[A] financially successful cooperative can stimulate the creation of cooperatives in fields that support the interests of both the parent cooperative and one another.*[175]

Mondragon Cooperative Corporation Basque Region, Spain

Mondragon Cooperative Corporation (MCC) is an integrated cluster of cooperative companies in the Basque region of Spain with over 30,000 workers and over six billion dollars in annual sales. Known throughout the world, MCC consists of 86 production cooperatives, averaging several hundred members each, that make products ranging from automotive parts to domestic appliances to prefabricated homes; 44 educational institutions; seven agricultural cooperatives; 15 building cooperatives; several service cooperatives; a network of consumer cooperatives with 75,000 members; and the system's bank, Caja Laboral Popular.

Mondragon's roots go back to 1956 when five engineers formed a small business to produce oil stoves. Its evolution into the powerful regional cluster that it is today was based on the original owners' commitment to aggregation and integration among newly forming cooperatives. "When [the founders] needed further capital for expansion, they formed a bank following the same principles of cooperative ownership. As each enterprise became successful and grew, it divided and subdivided to create a complex of interrelated worker-owned enterprises that is still growing….Although the founders …were attracted to the democratic principles of the cooperative business tradition, they were realistic. They recognized the weakness of traditional cooperatives in their tendency to be isolationist and marginal in the main economy. To prevent debilitating fragmentation in their new enterprises, they insisted that each of the new businesses they set up would remain linked as associated cooperative businesses. To this day, unity is maintained through interlinked boards and joint agreements."[176]

This integrated network enables each individual enterprise to remain small and yet enjoy the advantages of economies of scale.[177]

Federation of Southern Cooperatives

The Federation of Southern Cooperatives was established three decades ago to meet the needs of low-income/low-wealth rural communities and cooperatives in the southern United States in training, technical assistance, and advocacy. Founded by community organizations and leaders emerging from the civil rights movement of the 1960s, the Federation has helped to build a community-based movement of organizations "experienced in fighting exploitation and knowledgeable in the tools, tactics, and techniques needed to help people build their own property and progress."[178] Membership is spread across ten southern states from southern Virginia to east Texas and includes seventy cooperative groups and 20,000 farming families.

The Federation supports the development of agricultural cooperatives and credit unions and assists black family farmers with land retention through helping them develop alternative agricultural and forestry enterprises to sustain land ownership. Specifically, the Federation helps members with cooperative purchasing and marketing mechanisms that allow smaller producers to have the economies of scale and market impact of bigger producers. It also provides technical assistance in developing alternative crops, such as vegetables and fruits, where there is more potential for profit on the smaller farm acreage held by Federation members.

Another key focus of the Federation since its inception has been the introduction of "value added" agriculture that enables producers of a commodity to become the supplier of an end-use product. The Federation facilitated direct links between a number of black farmers raising vegetables and urban consumers; in addition, one cooperative in particular began bundling its firewood in order to sell it directly to individual customers. The Federation also offers training in farm management, business planning, and financial analysis that, along with its technical assistance, is designed to help small farmers make their land as productive and value generating as possible.

In addition to working directly with members, the Federation advances a public policy agenda addressing the needs of its low-wealth constituency. In the 1980s, the Federation developed the basic outline of a "Minority Farmers Rights Bill" to assist people of color family farmers across the nation. The Federation sponsored a Caravan of Black and Native American Farmers to Washington, DC, in September 1992, which included demonstrations at state capitols, the U.S. Capitol, and at the U.S. Department of Agriculture. Through these efforts and in collaboration with other groups, the Federation succeeded in having portions of its advocacy agenda incorporated in national farm legislation.[179]

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175 William Foote Whyte and Kathleen King Whyte, *Making Mondragon Work: The Growth and Dynamics of The Worker Cooperative Complex* (Ithaca, NY: Cornell University, 1991), p. 293.

176 Greg MacLeod, *From Mondragon to America: Experiments in Community Economic Development* (Sydney, Nova Scotia: University College of Cape Breton Press, 1997), p. 20.

177 *Ibid.*

178 Retrieved from http://www.federationsoutherncoop.com.

179 Information for this description was derived from a telephone interview with John Zippert, Director of Program Operations for the Federation for Southern Cooperatives, June 2001, and from the Federation's website at http://www.federationsoutherncoop.com.

Networking allows cooperatives to share training, suppliers, distribution, marketing, and financial services that they would not be able to afford individually, thus achieving important efficiencies and benefits of scale.

The two examples emphasize the importance of two types of cooperative networks. Spain's Mondragon system represents a model of growth through horizontal exchange rather than vertical hierarchies, illustrating the advantages of sharing goods and services among autonomous organizations at the regional level.[180] In the southern United States, the Federation of Southern Cooperatives functions as an effective support and advocacy organization for cooperatives and small family farmers in underserved, low-wealth communities.

Assessment of the Cooperative Network Model

Cooperative networks hold special significance as ROM models. By achieving efficiencies and economies of scale otherwise unavailable to individual co-ops, they enhance the financial asset development of members. Based on their democratic structure, cooperative associations also provide members with opportunities for voice beyond their local community, a particularly important benefit for traditionally marginalized and underserved residents. Further, cooperative associations both honor and build upon the conception of place. Individual cooperatives maintain their local character and focus that benefit resident members, and concurrently, through associating with similar entities, they are able to reap the benefits of operating at a regional scale.

Public Enterprise with Resident Dividends

Government entities are vested with the authority to establish for-profit business ventures with the goal of generating revenues for government operations and services. Municipally owned businesses such as telecommunications networks, as well as casinos owned and operated by tribal governments, are notable examples.

It is less common for a government entity to actually allocate a portion of the proceeds from its business operations to its constituents. In a development particularly relevant to the ROM discussion, the State of Alaska established a business corporation that pays citizens dividends generated by the investment of state oil revenues. Each resident receives an equal-sized dividend based on his or her status as a "shareholder" in the state and its natural resources. Along the same lines, some tribal governments make direct "per capita" payments to tribal members from gaming revenues based on each member's status as a stakeholder in the tribe and its business ventures.

Payment of dividends to residents from a government-initiated profit-making venture clearly meets the criteria of financial asset development. Payment is based on residency or tribal membership and gives beneficiaries an ownership stake in government-sponsored development activities. Such an arrangement also meets the criteria of voice: Alaskans can shape how the Permanent Fund works through the power of their votes, and tribal members generally participate in decisions about how to distribute gaming revenues.

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[180] *Ibid.*, p. 296.

[181] Information for this example has been summarized from two sources: Alaska Permanent Fund Corporation, *Frequently Asked Questions* at http://www.apfc.org/indexinc.cfm?p=faqindex.cfm& and Eric Laursen, "The 20-Year Gusher" in *Asset Development International*, 1998, at http://www.assetpub.com/archive/ps/97-02psfeb/feb97PS28.html.

Alaska Permanent Fund
Alaska

The Alaska Permanent Fund began operations in 1976. Its original charge was to invest a portion of the royalties and other fees that the state collected from oil companies drilling on its public lands. The Fund was created by state constitutional amendment and ratified by voters.

The Alaska Permanent Fund Corporation, guided by a six-person board of trustees appointed by the governor, invests Fund assets in stocks, bonds, and real estate. Although the Fund is best known for its dividend payments to Alaskan citizens, its initial focus was simply to preserve the fruits of the state's oil wealth for future generations. The Amendment stipulated that at least 25 percent of each year's oil royalties must go to the Fund, which was later raised to 50 percent for fields drilled after 1980. The first deposit of dedicated oil revenues ($734,000) was placed in the Fund in early 1977.

Governor Jay Hammond and the state legislature established the dividend program in 1982. Since then, the Fund has made an annual payment to every Alaskan residing in the state for at least one year (including children). In 1984, each resident received just $331.29; in the year 2000, each resident received $1,963.86. The amount of the dividend varies each year based on the Fund's performance that year and for the four previous years. As of June 2000, total assets of the Fund exceeded $28.1 billion.

The dividend program has not been without controversy. Opponents argue that the funds would be better used to bolster the state's operating budget. Current forecasts indicate that the state's oil revenues will taper off over the next twenty years, resulting in a severe impact to the state budget, which receives 50 percent of its income from oil revenues. Alaska is further constrained in its income-generating capacity because it abolished its income tax in 1980. Annual budget deficits are already frequent occurrences.

Some Alaskans propose capping the dividend payments so that more of the Fund's returns can be used to underwrite education or rebuild infrastructure. Proponents of capping see this as a strategy to release funds for governmental purposes without increasing the tax burden. Others favor a return of the income tax rather than drawing on the Permanent Fund. They emphasize the important role of the dividend in helping low-income Alaskans acquire subsistence assets such as fishing boats and snow plows and creating college savings accounts for their children. A proposal from the mid-1990s called for a constitutional amendment to set up an educational endowment financed by the Fund. Discussion and debate continue on these themes today.[181]

Assessment of Public Enterprise Model

Dividend payments from public enterprises is a promising model that brings together the ROM principles of building financial assets and voice in a place-based context. At the same time, the potential for controversy and politicization is higher than with other ROMs, partly because governmental entities are directly involved in the ownership structure. Governments involved in dividend payments face the challenge of balancing enhanced asset development for individuals on the one hand, with funding collective services and programs on the other.

These debates are playing out in Alaska, as described, as well as in Indian tribes with gaming operations. Nearly 200 tribal governments have gaming operations and of those, just 47 make per capita payments to tribal members.[182] While many tribal members support per capita payments, some tribal leaders argue that per capita payments have not been successful in fostering asset development and that gaming revenues are better spent providing basic services such as roads, electricity, and other infrastructure.

Other tribal leaders and advocates raise concerns that per capita payments highlight inequities among tribes as well as contribute to misconceptions of Indian gaming in general.[183] Still, most tribal gaming operations are not yet making a profit. In this often politically charged context, those defending the rights of tribal governments to own gaming operations are encouraged that some tribal governments are using gaming revenues to endow tribally-controlled foundations specializing in education and youth development.

To advance the model, government entities will need to be innovative in leveraging economic development potential to create opportunities and benefits for community stakeholders. Furthermore, individual asset development activities need not be pitted against collective public services in an either/or dichotomy. In both the Alaska and the gaming cases, dividend payments are just one use of the revenues generated. In Alaska, approximately 20 percent of the state's total oil earnings have gone into the Permanent Fund, with the rest going to other uses. Just 4 percent of Indian gaming proceeds were allocated for direct payments to tribal members.[184]

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[182] National Indian Gaming Association website at http://www.indiangaming.org.

[183] In the case of extremely successful casinos, individual dividends can approach $1 million per year.

[184] According to the National Indian Gaming Association, in 1994, the most recent year for which data are available, 53 percent of gaming revenues were allocated to tribal investments; 13 percent to education and social services; 13 percent to non-gaming capital construction; 8 percent other; 5 percent land acquisitions; 4 percent to direct payments to tribal members; 3 percent payments to government agencies; 2 percent health care and 1 percent charitable contributions.

Concluding Comments: Business Development

The wealth of experience described in this section provides a strong foundation for developing and expanding ROMs in the business arena. Grassroots efforts such as the B.I.G. Wash laundromat exemplify the resourcefulness and creativity of residents in raising equity capital for, and launching, an enterprise that meets a local need. Through its long and varied history, cooperative enterprise in all its forms has a key role to play in building resident equity and has particular potential in combination with place-based community development/community building approaches. A number of expanded ownership concepts are redefining ownership based on one's relationship to a firm as consumer, supplier, distributor, or neighbor. Additional discussion and practice, in combination with public policies supporting some of these approaches, will expand the toolkit of business-related ROMs.

C. Financial Institutions and Resident Ownership

The 1990s saw the consolidation of a new sector of community building intermediaries, commonly known as Community Development Financial Institutions (CDFIs). CDFIs include community development banks, community development credit unions, nonprofit loan funds, micro-enterprise loan funds, and community development venture capital funds. CDFIs contribute to low-income/low-wealth communities through the kinds of loans and equity products that they offer to individuals, businesses, and institutions.

Two types of CDFIs are highlighted in this section as being particularly relevant to the ROM discussion: community development credit unions and a model promoted by the federal Department of Housing and Urban Development (HUD) in the mid-1990s called "Community and Individual Investment Corporations (CIICs)." Though distinct in their approaches, both of these models illustrate how residents are being offered a direct ownership stake in community-based financial institutions.

CDCUs and CIICs exemplify work underway to tackle the challenges associated with resident ownership that can be expanded to a broader range of financial institutions, including those that must meet obligations under the Community Reinvestment Act (CRA).

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185 University of California at Davis, Center for Cooperatives, "What is a Co-op?" at http://cooperatives.ucdavis.edu/what/credit.html.

186 CDFI Coalition website at http://www.CDFI.org.

187 Information for this description provided by Michael Chan, Board President, Northeast Community Credit Union, telephone interview, March 2001.

Community Development Credit Unions

Community Development Credit Unions (CDCUs) are geographically based ownership models "organized in predominantly low-income communities. In addition to providing for consumer needs, they have an explicit mission of community reinvestment and revitalization."[185]

CDCUs have the following characteristics.

- "They are financial cooperatives owned and operated by lower-income persons.
- They promote community ownership of assets and savings and provide affordable credit and retail financial services to lower-income people with special outreach to minority communities.
- They are federally and state regulated and insured by the National Credit Union Administration.
- Their capital sources include member deposits and limited nonmember deposits from social investors.
- They offer consumer banking services (e.g., savings accounts, check cashing, personal loans, and home rehab loans)."[186]

Northeast Community Credit Union
San Francisco, California

Northeast Community Credit Union was chartered in 1981 in San Francisco's Chinatown neighborhood. The credit union began with assets of $24,000, with headquarters consisting of a shared office above a restaurant. Northeast originally worked closely with social service agencies as its client base. Today, Northeast has two branches, one in Chinatown and one in the Tenderloin neighborhood, with assets totaling some $7.1 million.

Northeast serves a diverse population. The majority of its 1,200 members are of Chinese descent, including both recently arrived immigrants and those whose families have been in California for several generations. The Tenderloin branch members are predominantly African American, followed by whites and Vietnamese. According to Northeast's President of the Board, Michael Chan, some of the Tenderloin branch members are among the homeless population.

Northeast has a tiered dividend system that pays interest at close to market rate, unusual for a CDCU of a relatively small size. For deposits of $100–$1,000, members receive dividends of two percent. Northeast pays dividends of 4.5 percent on deposits of $10,000 and above. This strategy has provided an incentive for area residents to save at the credit union and has helped provide Northeast with greater capital for its lending programs. Lending products include small business loans, second mortgages, first mortgages for first-time homebuyers, consumer loans, auto loans, personal loans, and credit restoration loans. Northeast has been active in various community initiatives, including a financial literacy program for residents of area women's shelters, and is in the process of launching its first IDA program.[187]

CDCUs provide loans in the following categories: unsecured, share-secured, personal, small business, home equity, mortgage, automobile, agricultural, and credit consolidation.[188] The model emerged in the 1930s and 1940s, largely in impoverished black communities in the South. During the War on Poverty in the 1960s, the Office of Economic Opportunity, working in partnership with the Credit Union National Association, spearheaded the establishment of additional credit unions. Many of these failed, in part because they did not emerge from community-based efforts and did not become part of the community fabric. During the ensuing decades, there was a consolidation within the CDCU industry; some credit unions merged and others closed their doors. At the same time, a number of new CDCUs initiated operations that were more closely tied to the community.[189]

According to John Isbister in *Thin Cats: The Community Development Credit Union Movement in the United States*, "…[M]ost recently, the chartering of new CDCUs has begun again, and interesting innovations in cooperative community finance are springing up around the country."[190] Today there are approximately 200 CDCUs in the United States.[191]

Assessment of the CDCU Model

CDCUs are relevant to ROMs in that they are institutions committed to community development, committed to serving low-income residents, and controlled by community residents. Often, they are filling unmet market demands by providing the only banking services available to low-income/low-wealth residents in their communities.

CDCUs deviate from the ideal ROM primarily because they are not designed to provide significant financial returns to individual investors. The primary goal of CDCUs is to provide access to credit by directing resident deposits back into the community. Financial benefits for member-shareholders are further limited by the challenges of banking in poor communities that have led many commercial institutions to abandon these areas.

According to John Isbister, CDCUs have relatively high operating expenses and they devote a high proportion of their income to reserves in order to compensate for loan defaults, leaving them with significantly less to return to their members in dividends.[192] This dynamic mitigates the direct financial benefits—lower costs for banking services, the payment of dividends, and earnings on their savings deposits—that would otherwise be able available to CDCU members as owners of the institution. At the same time, many CDCUs do pay dividends that are comparable to market interest rates paid on savings accounts at mainstream financial institutions. In addition, CDCUs provide

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[188] North Carolina Minority Support Center, "What are Credit Unions" at http://www.ncmsc.org.

[189] The preceding history summarizes a number of points made in John Isbister, *Thin Cats: The Community Development Credit Union Movement in the United States* (Davis, CA: University of California Center for Cooperatives, 1994), pp. 62–65.

[190] Isbister, p. 75.

[191] Figure from National Federation of Community Development Credit Unions, telephone interview with Cliff Rosenthall, Executive Director, May 2001.

[192] Isbister, p. 146.

indirect financial benefits to residents in that they offer an alternative to the exorbitant rates that check-cashing outlets charge for basic banking services.

In terms of resident voice, "CDCUs are non-profit financial cooperatives owned and operated by low-income persons."[193] Member-owner status is obtained by making a deposit. CDCUs operate as other cooperatives on a one-person, one-vote basis. Members elect the board of directors that sets institutional policy. CDCUs, therefore, have significant relevance for ROMs in that they offer both voice and ownership for low-income residents in an institution dedicated to investing in the community.

CDCUs are a place-based, resident-controlled institution and function as important vehicles for community lending and revitalization. While many CDCUs provide loans for "personal" uses such as auto purchase or debt consolidation, their portfolios also include significant levels of business loans. "Business loans can help to transform a community by providing decent jobs to low-income people and by giving people an ownership stake."[194]

In addition, CDCUs contribute to resident-directed investment by keeping money in, rather than draining it out of low-income communities as has occurred historically with some corporate financial institutions. A number of local CDCUs have initiated IDA programs, thus providing additional infrastructure and support for asset accumulation on the part of low-income residents. Finally, some 15 CDCUs have developed youth outreach programs that promote financial literacy and skills for young people.[195]

Although CDCUs do not represent a significant return on investment model, with the proper support they could offer greater financial benefits through increased earnings on deposits, lower charges for banking services, and increased dividends. The key to CDCUs' helping residents to accrue financial assets appears to be increased access to capital. CDCUs face a challenge in amassing sufficient capital because they rely largely on the deposits of low-income residents. Clients making smaller deposits require comparable levels of banking services as those making larger deposits; yet they provide less capital for the bank to lend.[196]

CDCUs currently get supplementary capital from social investors as well as loans/grants from public sources, such as state funds and the national CDFI Fund. In North Carolina, for example, "CDCUs were able to more than double small business lending through state-funded economic development deposits."[197] Policies that result in greater capital support for CDCUs would enable them to expand their loan portfolios and receive interest on a greater number of loans, thus increasing funds available for operating expenses and possibly for dividends.

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[193] The Coalition of Community Development Financial Institutions, *Comparison of Community Development Financial Institution Types* at http://www.CDFI.org/cdfitype.html.

[194] Isbister, p. 172.

[195] National Federation of Community Development Credit Unions, *Outreach* at http://www.natfed.org/outreach.html.

[196] Isbister, p. 33.

[197] North Carolina Minority Support Center website at http://www.ncmsc.org.

Community and Individual Investment Corporation (CIIC)

The Community and Individual Investment Corporation (CIIC), introduced in 1996 by HUD, demonstrate how residents can gain an equity stake in financial institutions in their community. HUD's goal was to: "…demonstrate the feasibility of new, community-oriented financial institutions …owned by the residents of selected Empowerment Zones (EZs), Enterprise Communities (ECs), and other eligible communities."[198]

CIICs allow community builders to develop resident-owned financial institution that would provide access to capital in inner-city communities. It was assumed that the role of a CIIC would vary from that of a "retail lender," making loans directly to borrowers, to that of a "wholesale lender," providing patient capital, loan guarantees, etc., depending on local demand and market conditions.[199]

City First Bank of Washington, DC

City First Bank of DC is a community development bank that opened its doors in 1998. It provides credit and financial services to individuals and businesses in the District's lower-income, underserved areas. City First Bank is unique in that it will eventually enable area residents and businesses to control the bank through owning shares of stock.

The bank originated through a small group of individuals who were concerned about the scarcity of banking services for smaller businesses in the District of Columbia's distressed areas. Once the group determined that it wanted to start a bank and had incorporated, it responded to the CIIC funding opportunity through HUD. City First Bank received $3.5 million in EDI grants and $5 million in Section 108 loan funds.

While City First Bank is in a stable financial position, banks generally take several years to achieve profitability. In the interest of supporting asset building and wealth creation for local residents, the board has elected to delay offering residents stock until the bank becomes profitable, which could be as early as 2002. In order to reach low-income residents, the board may conduct a grassroots campaign through community-based organizations to promote the stock offering.[203]

The model was designed to both build assets for low-income residents and provide them with a stronger voice in running an institution dedicated to community development.

> *Owning assets gives people a stake in the future. Through the CIIC, the federal government will join with local residents and their city governments to create resident-owned financial institutions which make business and development loans in inner-city communities. The CIIC provides a model that draws on the lessons learned from the past and incorporates them into a new paradigm of community self-reliance and innovation. The principles behind this approach are important: integrate local residents in the market economy; fully engage participants in both its risks and its potential rewards; and build community through economic incentives.*[200]

In the 1996 fiscal year, HUD set aside up to $20 million in Economic Development Initiative (EDI) funds for CIICs. In the Notice of Funding Availability, applicants were given a 10-point preference if their CDFI proposal included the resident ownership of the institution. In December 1996, HUD awarded funds to establish CIICs in three Empowerment Zones in Washington, DC; Baltimore, Maryland; and in rural Mississippi.[201] However, only one recipient, City First Bank in Washington, DC, has been successful at moving the model forward.

In Baltimore, the CIIC did not succeed because the community board of Baltimore's Empowerment Zone was not strongly supportive of the resident share ownership concept.[202] The funds awarded to form that CIIC were never expended. In Mississippi, a necessary prerequisite for establishing the CIIC was the state's providing Section 108 loan guarantees. Because of previous venture failures, the state was reluctant to take the risk of using its loan authority as a guarantor for the HUD funds, and the effort was halted.

In subsequent years, HUD no longer developed and funded the CIIC model. Congress failed to fund EDI grants to HUD, which had combined Section 108 loans with EDI grants to lower the cost of capital to CIICs so that the return to resident investors would be greater.

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198 Department of Housing and Urban Development (HUD), Office of Community Planning and Development, *The Community and Individual Investment Corporation: A guide to a new economic partnership between citizens, government, communities and the private sector* (Washington, DC: Office of Community Planning and Development, 1996), p. 1.

199 *Ibid.*

200 *Ibid.*

201 HUD, "Mrs. Clinton Joins HUD in Launching New Community Empowerment Banking Initiative to Revitalize Impoverished Areas," Press release, December 19, 1996.

202 The following account of the outcomes of the three CIIC awards and other characteristics of the CIIC concept is based on a telephone interview with Michael Freedberg, Senior Policy Analyst in HUD's Office of Policy Development and Research, March 8, 2001.

203 This information is based on a telephone interview with Peggy Delinois, General Counsel of City First Bank, January 2001, and an article by Gwendolyn Flowers, "What Can We Expect from Community-based Lending for the District of Columbia," *American Economic Review* 189: 2 (1999): 367–371.

Assessment of the CIIC Model

Proponents of the CIIC argued that it could prove to be a lucrative investment for low-wealth residents because of their expanded access to capital and the quality of the proposed investments. CDCUs, on the other hand, were not set up as lucrative investments for residents, but rather as a way to recycle resident deposits to the community. Furthermore, CIICs differed further from credit unions in that they would have an "IDA feature," whereby resident investors could borrow up to nine times the value of their shares in the bank for purposes of education, homeownership, or business development. This unique feature would serve as a mechanism for residents to leverage their shares in the CIIC for further asset development.

Concerns were raised about the regulatory structures governing the CIIC model. Because of their unique nature, CIICs would not fall under either the Securities and Exchange Commission or the Federal Deposit Insurance Corporation. Michael Freedberg, Senior Policy Analyst at HUD, recalls that there were "several layers of security" regarding the CIIC and that it would be regulated by the local government, community development block grants, and HUD itself. Provisions were to be put in place so that in the event of losses, community shareholders would be the first to be paid (i.e., those with Class A stock).

A key challenge to the CIIC model is that it faces a long-time horizon before it will produce profits for resident owners. By design, the CIIC model serves less profitable markets, with the goal of filling demand that is not being met by the private sector. Given low profit margins, the profit potential is less—and time horizon longer—than for other forms of financial institutions. Furthermore, as with other ROM models, the design, development, and implementation of the legal and organizational structure necessary to offer equity to resident owners are challenges faced by the CIIC model. These challenges include the need to create education, outreach, and financial literacy services to adequately address the needs of potential investors. Risk is also relevant to investment in a CIIC.

The original CIIC concept embodies all of the ROM criteria. It includes opportunities for residents to leverage economic activity to produce resident benefits. It targets low-income/low-wealth residents and enables them to be owners in financial institutions. It builds residents' financial assets, while giving them opportunities to have a voice—as shareholders—in policy and operational decisions. Further analysis of the model's shortcomings—and evaluation of its success in the City First Bank example—would be helpful for expanding and replicating this model.

**Concluding Comments:
Financial Institutions**

The credit union and CIIC models are promising ways to expand the ownership of community-based financial institutions to residents. While CDCUs are not designed to serve as lucrative investments for their individual member-owners, their relevance to ROMs will expand as they demonstrate an ability to pay dividends that are competitive with—or superior to—interest rates offered at commercial banks.

City First Bank is significant as the nation's first community development bank that includes residents as stockholders. Key outcomes to monitor that would offer tremendous value to future replication of the model include assessing the returns on investment that shareholders derive and whether being involved as shareholders serves to increase members' engagement in neighborhood development and organizing.

D. Home Equity: Expanding Equity-Building Opportunities

Homeownership has long been understood to be the major source of wealth among American families. As documented by Michael Sherraden at Washington University, huge disparities exist between the net worth of homeowners and renters across the country.[204] Strategies to increase homeownership rates among low-income families have recently been an important focus of the community development field; this focus has assisted many to become first-time homeowners.

It is beyond the scope of this report to review the existing body of literature regarding low-income homeownership opportunities.[205] This section, however, provides a scan of strategies to expand home equity-building opportunities to a broader array of low-wealth community residents. These models, especially community land trusts and limited equity housing co-ops, go the greatest distance in providing home equity opportunities for those who would not otherwise be able to afford them and, at the same time, contribute to stabilizing housing markets and neighborhoods. The HUD Section 8 Homeownership Program offers a unique example of a government-subsidized effort to enable low-wealth families to accumulate assets in the form of home equity.

Community Land Trust

Community Land Trusts (CLTs) facilitate homeownership for low-income/low-wealth people who would not be able to afford it by other available means. CLTs also contribute to neighborhood affordability and stability by removing land from the speculative market.

"Community land trusts are democratically controlled nonprofit organizations that own real estate in order to provide benefits to local communities—and in particular to make land and housing available to residents who cannot otherwise afford them."[206] Traditionally, CLTs have been used to maintain housing affordability for low-wealth residents of target communities. "Sometimes CLTs buy undeveloped land and arrange to have new homes built on it; sometimes they buy land and buildings together."[207] CLTs maintain ownership of the land while residents own the buildings and other structural improvements on the land.

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204 Sherraden, p. 114.

205 For a detailed description and case studies of two leading strategies to provide homeownership opportunities for low-income people—community land trusts and limited equity co-ops, see Charles Geisler and Gail Daneker, eds., *Property and Values: Alternatives to Public and Private Ownership* (Washington, DC: Island Press, 2000), and Allan Heskin and Jacqueline Leavitt, eds., *The Hidden History of Housing Cooperatives* (Davis, CA: Center for Cooperatives, University of California, 1995).

206 Institute for Community Economics (ICE), "An Introduction to the Community Land Trust Model," undated.

207 ICE, "Introducing Community Land Trusts," booklet, 2000.

208 Institute for Community Economics (ICE), "Community Land Trust Activity in the United States," data sheet, 1999.

209 Institute for Community Economics, "Designing a Resale Formula," in *The Community Land Trust Legal Manual*, ed. Kirby White (Springfield, MA: Institute for Community Economics, forthcoming).

210 ICE, "Introducing Community Land Trusts," booklet, 2000.

211 This description is from the Institute for Community Economics website at http://www.iceclt.org/clt/cltprofiles.html.

As of mid-1999, there were 90 operating CLTs in the United States that included a total of 4,778 housing units. CLTs reach low-income residents: half of all CLT residents earn less than 50 percent of area median income, and 40 percent are at 51–80 percent of the median.[208]

The CLT ground lease governs the price at which buildings and improvements in the CLT may be resold. The ground lease includes a "resale formula" that places limits on the resale price of a dwelling unit.

> *Underlying the CLT approach to resale formulas is a fundamental distinction between two sources of appreciation. One source is the dollars, materials, and labor that the owner invests in the home over time to develop or improve it. The other source is a variety of social and economic factors that are beyond the control of the individual property owner: changes in the level of private investment in the surrounding neighborhood; public investment in streets, sidewalks, streetlights, parks, schools; changes in transportation patterns [etc.]....Value produced by the homeowner is allocated to the homeowner and adds to the owner's equity. Value produced by other social and economic factors is retained by the CLT for the continuing benefit of the community.*[209]

CLTs are democratically controlled organizations. Members include both CLT residents and others in the community who may wish to join. Members have a voice in the operation of the CLT in their ability to elect and/or serve on the board of directors. Most boards are comprised of directors representing three different constituencies: representatives of homeowners and tenants who live on the CLT's land; representatives of individuals who reside in the CLT's target community who do not live on the CLT's land; and representatives of broader public interests.[210]

Burlington Community Land Trust
Burlington, Vermont

One of the largest and most influential Community Land Trusts is located in Burlington, Vermont, a university town of about 40,000 on the shore of Lake Champlain. Since the early 80s, economic growth and progressive public policies, combined with an attractive setting, have made Burlington an increasingly desirable—and increasingly expensive—place to live. With active support from city government, BCLT was established in 1984 to produce and preserve affordable housing for local residents.

In sixteen years, BCLT's holdings have grown to nearly 500 units of housing, including single-family homes, housing cooperatives, condominiums, and varied rental options. In the process, BCLT has had a major impact on conditions in a low-income neighborhood, while expanding housing opportunities for low-income people in that neighborhood—and in outlying suburban areas as well.

All of BCLT's housing is affordable, not just for the first residents but for all residents thereafter. BCLT Director Brenda Torpy says, "We're old enough to have had a number of resales, and we've seen it really work. The second time around we don't need any additional government subsidy and we typically serve a lower-income family. We're doing that at the same time that the seller is taking equity with them and has had all the tax benefits and all the security that homeownership offers."[211]

Assessment of the CLT Model

The CLT model meets a range of ROM criteria: It leverages community development to benefit low-wealth residents; it offers ownership, voice, and financial returns to resident investors. The degree to which each of these criteria is highlighted varies, according to local adaptations of the CLT model, as described next.

CLTs provide opportunities for permanently affordable homeownership, but the trade-off is that residents do not get the maximum equity out of their property. They do, however, build equity by paying down a mortgage rather than renting and, under most resale formulas, by receiving a significant share of their home's appreciating value. Resale formulas seek to strike a balance between maintaining affordability for future buyers and providing the homeowner with a fair return on investment. The most limited formula possible would allow the seller to recoup no more than his/her initial capital investment.

Although CLT resale formulas come in many varieties, the most commonly used are those that are based on changes in the appraised value of the house. In many of these, the sellers of CLT homes receive 25 percent of the increase in the appraised value over the homeownership period, but some appraisal-based formulas go as low as 20 percent and a few go as high as 50 percent. (The Borealis Community Land Trust in Fairbanks, Alaska, for example, has a 50 percent resale formula.)[212] By limiting the seller's equity, the CLT is able to repurchase the home at a below-market price and to resell it to another low-income or moderate-income family at a price it can afford.

CLTs that are more focused on the preservation of affordable housing for future lower-income buyers utilize a more restrictive (lower) formula, and CLTs wishing to support accrual of equity to the seller use a higher formula. To encourage longevity, some CLTs offer an incrementally larger resale formula the longer the tenure of the resident in the unit.

CLTs thus offer residents a voice in the policies and practices of the land trust. CLTs provide opportunities for individual homeownership and some equity building as part of a community-controlled initiative.

> *For low-income communities suffering from disinvestments…the primary goal [of CLTs] is to sustain owner-occupancy and prevent a return to absentee ownership. For communities where property values are rising…the primary goal is to limit resale prices so the homes will continue to be affordable for lower-income households.*[213]

In addition, individual CLTs have been involved in a diverse array of community building activities. For example, the community land trust in Concord, New Hampshire, is working with the Neighborhood Reinvestment Corporation on an IDA program to help families save for homeownership. North Camden CLT in New Jersey has spearheaded a comprehensive community planning initiative. Durham Community Land Trust in North Carolina provides construction job training for community residents. The Burlington Community Land Trust has been a mainstay of the city's Enterprise Community, cleaning brownfield sites, developing community facilities for various social service organizations, and redeveloping abandoned commercial buildings. OPAL Community Land Trust in Orcas Island, Washington, is actively involved with open space planning and preservation.[214]

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[212] Jeff Yegian, ICE Technical Assistant, telephone interview, February 2001.

[213] ICE, "Introducing Community Land Trusts," booklet, 2000.

[214] Julie Orvis, Network/Events Coordinator, Institute for Community Economics, telephone interview, March, 2001.

Housing Co-ops

Housing co-ops represent an extensively applied and well-developed model for building home equity through group ownership. There are approximately one million cooperative housing units in America today.[215] Not all housing co-ops are ROM models because they do not all target low-income/low-wealth residents; but housing co-ops geared to low-wealth residents are an important element of the ROM framework because they provide home equity opportunities to those that could not otherwise afford them, thereby increasing neighborhood affordability and stability.

Residents of a housing co-op share ownership of the building through purchasing stock in the cooperative corporation.

> *Upon purchasing stock, the tenant-stockholder signs a perpetual lease that gives the tenant-stockholder a legal and an exclusive right to occupy a dwelling unit as long as all obligations to the cooperative are met....By altering the basic legal and finance structures, many different types of housing cooperatives can be developed.*[216]

Housing co-op models most relevant to the ROM discussion are presented below.

Limited Equity Housing Co-ops

Limited Equity Housing Co-ops (LEHCs) make homeownership affordable to low-income people by limiting the maximum price at which member shares in the co-op can be sold. When a member wishes to leave the co-op and sells his/her shares, restrictions on the value are built into the transaction by corporate bylaws. These restrictions consider the inflation index, value of improvements, mortgage amortization, and maximum interest rate.[217]

LEHCs represent an ownership model that, similar to community land trusts previously discussed, "unbundles" the package of rights commonly attributed to ownership. While the owner is able to enjoy most ownership rights such as housing stability, control over the property, and ability to pass the property on to heirs, the owner's right to resell the unit at the highest price the market will bear is restricted.[218] Restricting the resale price through limiting the value of the co-op shares maintains affordability for the next lower-income buyer.

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[215] National Cooperative Business Association website, http://www.ncba.org.

[216] *Ibid.*

[217] Herb J. Cooper-Levy, "Limited Equity Housing Co-ops," manuscript, undated.

[218] Cooper-Levy refers to the "bundle of rights" concept in his essay, "Limited Equity Housing Co-ops." For more detail, see David Abromowitz, "Essay on Community Land Trusts," in Charles Geisler and Gail Daneker, eds., *Property and Values: Alternatives to Public and Private Ownership* (Washington, DC: Island Press, 2000). Abromowitz attributes the following "bundle of rights" to the traditional notion of ownership: "the right to exclude others, the right to sell the property when and to whom the owner chooses, the right to profit from its sale, the right to enjoy the property, the right to develop or change it, the right to minerals beneath its surface, and the right to the air and sunlight overhead."

Assessment of the LEHC Model

LEHCs represent a strategy both to build equity and to keep neighborhoods affordable, but they place greater weight on preserving affordability than they do on enabling residents to accrue equity. While low-wealth people benefit significantly from LEHCs, LEHCs' primary value lies in making most of the benefits of homeownership available to low-wealth residents, rather than actually fostering wealth accumulation.

LEHCs are relevant to the ROM discussion in other ways. Besides the fact that they fit all of the ROM criteria, there is some evidence that limited equity co-ops result in greater community pride among residents, as well as a sense of empowerment and security. LEHC residents also take better care of their units and have higher levels of satisfaction.[219] More research is needed to assess whether these benefits are widespread and, in particular, the extent to which they apply to LEHCs whose members are predominantly very low-income residents.

Leasing Cooperative

"A leasing cooperative leases the property from an investor on a long-term basis, sometimes with an option to buy. The residents operate the property as a cooperative."[220] In instances where ownership of the property is not possible or affordable, a leasing cooperative may be an acceptable alternative. Leasing cooperatives are relevant to ROMs in that they increase the control of low-income/low-wealth residents over their living conditions and sometimes lead to ownership opportunities without the need for a down payment or financing.

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[219] See William M. Rohe and Michael A. Stegman, "Converting Public Housing to Cooperatives: Lessons From Nashville," in Allan Heskin and Jacqueline Leavitt, eds. *The Hidden History of Housing Cooperatives* (Davis, CA: Center for Cooperatives, University of California, 1995), pp. 105 and 106. Rohe and Stegman cite the following works in their discussion of social benefits of limited equity cooperatives: J. Birchall, *Building Communities the Cooperative Way* (London: Routlege, 1998); Kegan Paul, *Cooperative Housing: A Handbook for Effective Operations* (Ann Arbor, Michigan: Midwest Association of Housing Cooperatives, 1997); W. Peterman and A. Young, *Alternatives to Conventional Public Housing Management* Technical Report No. 1-91 (Chicago: Voorhees Center for Neighborhood and Community Improvement, The University of Illinois at Chicago, 1991); S. Franklin, "Housing Cooperatives: A Viable Means of Home Ownership for Low Income Families," *Journal of Housing* 38 (1981), no. 7: 392-398; and J. Leavitt and S. Saegert, *From Abandonment to Hope: Community Households in Harlem* (New York: Columbia University Press, 1990).

[220] NCBA website at http://www.ncba.org.

Assessment of the Leasing Cooperative Model

A major benefit of leasing cooperatives is that they are better able than LEHCs to take advantage of the low-income housing tax credit. A frequent scenario is that an investor will use the tax credit to start an affordable housing project and lease the property to tenants with an option to buy. The tenants form a cooperative corporation and operate the property as a cooperative. Over the 15-year tax credit compliance period, the tenants build equity as they pay the lease (1/15 of the purchase price is "set aside" each year as the lease is paid). Once the 15-year tax benefit period is over, the original investor often has no more interest in owning the property and sells it to the tenants.[221]

A well-crafted lease agreement is an essential tool toward the goal of residents eventually becoming owners of the property. Key provisions include a lease term that coincides with the term of the tax credit and a mechanism to transfer ownership of the property to the co-op under specified terms.[222]

Section 8 Homeownership Program

The Section 8 Homeownership Program, designed by HUD and implemented by local housing agencies, provides income assistance for families to make the transition from rental housing to acquiring their own homes.[223] Effective as of October 2000, the program operates similarly to Section 8 rental vouchers. The housing agency provides monthly assistance for mortgage payments (rather than rental payments) and thus facilitates accumulation of home equity for low-income families. The program is optional for housing agencies and does not involve approval of additional funds for homeownership. Rather, the housing agency has the option to provide homeownership assistance using its existing voucher funds.

While the program is relatively new, some fifteen housing agencies began homeownership assistance earlier as part of a limited demonstration program.[224] Initial information indicates that, often because of poor credit history, it takes significant time for a family to close on a home. Eight of the housing agencies involved in the demonstration have had at least one closing to date.[225]

The program provides monthly mortgage assistance according to a formula based on the difference between the "total tenant payment" and the standard mortgage payment. Total tenant payment is defined as "the higher of the minimum rent, 10 percent of monthly income, 30 percent of monthly adjusted income, or the welfare rent."[226] To participate, families must meet eligibility requirements regarding minimum income and a history of full-time employment. Families are also required to undergo homeownership counseling covering the areas of budgeting and money management, obtaining credit and financing, negotiating the purchase price of a home, and finding a home. Local housing agencies are free to include additional requirements, such as enrollment in the five-year Family Self-Sufficiency Program.[227]

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221 This account of leasing cooperatives is summarized from a telephone interview with Herb J. Cooper-Levy, September 2000.

222 Herb J. Cooper-Levy, "Leasing Cooperatives," manuscript, undated.

223 Information for this section was summarized from Department of Housing and Urban Development, "Section 8 Homeownership Program; Final Rule," *Federal Register, 24 CFR Parts 5, 903 and 982*, September 12, 2000, at http://www.hudclips.org/sub_nonhud/cgi/pdf/22829a.pdf, and from a telephone interview with Michael Dennis, HUD, March 2001.

224 These housing authorities had expressed interest in the program after HUD published the proposed rule in April 1999. HUD allowed them to proceed, using demonstration authority. The housing authorities participating in the demonstration include Syracuse, Burlington, Philadelphia, Charlottesville, Las Vegas, and Yonkers.

225 Michael Dennis, HUD, telephone interview, March 2001.

226 Department of Housing and Urban Development, "Section 8 Homeownership Program; Final Rule," *Federal Register, 24 CFR Parts 5, 903 and 982*, September 12, 2000, http://www.hudclips.org/sub_nonhud/cgi/pdf/22829a.pdf.

227 See Chapter III, page 24 for details.

HUD anticipates that most participants will be current recipients of Section 8 rental assistance and that the prospect of Section 8 homeownership assistance will have a positive impact on lender's decision to provide a mortgage. The family is also free to complement Section 8 homeownership assistance with subsidized home financing under Community Development Block Grant (CDBG) funding or other programs. Homeownership assistance has a time limit of fifteen years for families with a mortgage of twenty years or longer and ten years for families possessing a mortgage with a term under twenty years.[228] For a family buying into a housing cooperative, the program works slightly differently; it assists those acquiring shares in a cooperative for the first time (i.e., first-time homebuyers), and also those families who *already* own shares in a housing cooperative.

Homeownership Assistance Program, Burlington Public Housing Authority Burlington, Vermont

The Burlington Housing Authority initiated its Section 8 Homeownership Program in November 1999 under the HUD interim rule. To date sixteen families have purchased homes and forty-six other families are in the pipeline. Those families that have closed receive monthly income assistance towards their mortgage payment. To qualify, families must be at 40 percent of area median income. Families usually take about six months from entering the program to closing on a house.

The Housing Authority contracts out with the local Homeownership Center for the homeownership training portion of the program. The Homeownership Center, funded through the National Reinvestment Corporation, provides orientation, an in-depth workshop, and one-on-one counseling to prospective homebuyers. The Center also assists the families in cleaning up credit problems, which have proven to be the primary barrier to homeownership for many families.[229]

The Burlington Housing Authority's Section 8 Homeownership Program also provides an example of synergy among various local initiatives with ROM characteristics. Half of the families who have closed on homes have purchased them in the Burlington Community Land Trust, which provides a grant of $26,000 to income-eligible families towards homeownership in the land trust. A number of families in the Section 8 Homeownership Program also participate in an IDA program at a local credit union, which has helped them accumulate enough savings for the down payment. Others have used savings from their escrow account accumulated as part of the housing authority's Family Self-Sufficiency program. Additionally, participants have obtained low-interest loans and grants for down payment and closing costs from a local community development credit union and the Homeownership Center.

Assessment of the Section 8 Homeownership Program Model

A strength of this model is that it enables recipients of Section 8 rental vouchers to transfer rental payments into home equity, enabling them to own assets and giving them greater voice, as homeowners, in decisions related to their community.

The Section 8 Homeownership Program has not yet been implemented on a broad scale, and HUD is synthesizing results from the initial demonstration program. These results will prove important in identifying barriers and solutions for advancing the model.

Concluding Comments: Expanding Home Equity Opportunities

The home equity models examined in this section are relevant to the ROM discussion in that they offer yet another avenue for low-wealth community residents to gain an equity stake in their community. By providing asset-poor residents with shared and incremental ownership opportunities, these models help to move them from renters to homeowners. Home equity models offer low-wealth families housing affordability, economic security, roots in a community, and avenues for broad engagement in the community's development.

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[228] HUD's final rule makes exceptions on these term limits for elderly and/or disabled families.

[229] Information for this example was summarized from a telephone interview with Emily Vaupel, Homeownership Coordinator, Burlington Public Housing Authority, March 2001.

E. Natural Resources: Capturing and Preserving Value for Residents

Natural resources are a source of enormous wealth that rarely benefits those residents of the areas from which they are extracted. Around the world, examples abound of resource-rich areas where community residents live in poverty. The concept of connecting the development and stewardship of natural resources to resident benefits is not new, but it has not yet been widely applied.

The domestic model most often cited is that of the Alaska Permanent Fund, which enables residents to receive dividends from the state's oil revenues. In addition, several innovative conceptual models with relevance to resident ownership mechanisms are herein explored.

(Readers should consult the previous discussion of the Alaska Fund in the section "Public Enterprise with Resident Dividends.")

General Stock Ownership Corporation

The General Stock Ownership Corporation (GSOC), described by Jeff Gates in the *The Ownership Solution*, is a conceptual model aimed at capturing resident benefits from natural resources.

> *Ownership [would be] based on geography or citizenship….A GSOC could readily be adapted to "owner-ize" government-owned natural resources such as mining deposits or drilling rights located on public land….The scope of participation in a GSOC need not be national or even statewide; it could be regional or even community-based. For instance, a GSOC could be used to create community-wide individual ownership of a local industrial or business park. Some GSOC shares could be allocated to fund education or infrastructure….The GSOC's unusual blend of individual ownership and community-wide participation makes it easily adaptable to situations in which people wish to have a shared stake in the development of common resources.*[230]

Gates cites a version of GSOC legislation enacted into federal law in 1978 that allows a state-chartered corporation to operate tax free if it includes the state's citizens as shareholders and pays 90 percent of current earnings to those shareholders. An effort was made to use this legislation in Alaska to acquire a stake in the TransAlaska Pipeline Service Corporation; however, the Alaska Permanent Fund was established instead.[231]

If the GSOC model were applied to low-wealth urban, rural, and tribal communities that include or are adjacent to natural resource assets, it could have major implications for asset building among large numbers of low-wealth residents and families throughout the country.

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[230] Gates, pp. 75–77.

[231] *Ibid.*, p. 76.

Fair Exchange Fund

The Capital Ownership Group, an informal "online think tank" funded by the Ford Foundation, has generated proposals to broaden ownership of public resources to residents. A concept put forward by Deborah Olson and Alan Zundel is the Fair Exchange Fund:

> *This proposal offers a way to promote both wealth creation for families and protection of public resources at the same time. It's based on the principle that when business extracts natural resources, uses up clean air or water, receives tax abatements, or enjoys other public subsidies or contracts, it should provide a fair exchange to the public. It's a matter of quid pro quo, which in Latin means "this for that." We propose this fair exchange be a provision of corporate stock. The stock would be placed in non-governmental community trust funds, with individual accounts for families. Since all taxpayers have made the investment in companies, all should get some benefit. The community trust can reinvest in the community, and pay out a portion to citizens. At one blow, this structure would deter local governments from competing for corporate location, build a diverse stock portfolio for every citizen, and secure a vote in corporate decisions by a diverse citizenry.*[232]

Like the GSOC model, the Fair Exchange Fund offers a strong conceptual framework for leveraging natural resource assets in low-income/low-wealth communities to benefit community residents. A Fair Exchange Fund could provide mechanisms to build the assets of community residents directly, as matching funds for a community building IDA, or through other wealth-building strategies. Furthermore, it could be structured to give voice to community residents.

Sky Trust

The Corporation for Enterprise Development (CFED) has been working on the concept of a "Sky Trust," a permit system for taxing carbon emissions. According to the model, companies that release carbon into the air would pay a fee to the Sky Trust. Those effected by the carbon emissions; i.e., all citizens, would receive a dividend.

> *The Sky Trust is modeled after the Alaska Permanent Fund. It would sell a gradually declining number of carbon emission permits and divide its income equally among all Americans.*[233]

In effect, the concept places a value on the atmosphere's capacity to receive and store carbon emissions. Companies needing to avail themselves of that capacity would pay. Those affected by the atmosphere's diminishing capacity would receive compensation. Proponents argue that a Sky Trust would be a more equitable way of addressing pollution than current regulations and would provide greater incentives for reducing emissions.[234]

While not targeted to low-wealth community residents, the Sky Trust concept could provide a mechanism to leverage natural resources to benefit low-wealth individuals and families in a way that gives representatives of low-wealth residents a voice in decision-making.

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[232] Deborah Olson and Alan Zundel, "A Half-Dozen Bold New Ideas for Spreading Capital Ownership," 1999, posted on the Capital Ownership Group website at http://www.cog.kent.edu.

[233] From "You Deserve Dividends," http://progress.org/cd26.html, no date.

[234] The description of Sky Trust was summarized from http://www.cfed.org/sustainable_economies/common_assets/equity_globewarm.html.

Concluding Comments: Natural Resources

Many low-wealth communities hold natural resource assets that represent a source of value that could be leveraged—through development or preservation; but traditionally this value has been captured by outside investors and/or developers. The natural resource models explored in this report are not exhaustive and could be augmented by research on model from other countries, but they do offer promising examples for application in low-wealth communities across the United States.

Models and Infrastructure

Infrastructure: Opportunities and Challenges to Advancing Resident Ownership Mechanisms

The preceding section has highlighted innovative models for building resident ownership. Taking these models to scale in a way that produces clear, measurable, and sustained benefits for community residents requires a community infrastructure. This infrastructure would enable local groups to draw on a menu of strategies and approaches and to move them forward at the local level—from design, to development, to implementation, and, ultimately, to scale.[235]

[235] Note that the authors build on the discussions from previous sections. Where there is repetition, it is meant to give readers context for the discussion that follows.

Demand: Capacity Challenges

Interviews with over 75 key informants at the local and national levels demonstrated strong and growing interest in community ownership concepts, strategies, and models. They also revealed widespread concern—at the national and local levels—about the capacity of community-based leaders and institutions to move these strategies forward without additional resources, technical assistance, and support.

Detailed in the next chapter, "Perspectives from the Field," common neighborhood organizational capacity issues raised by interviewees include a lack of information, models, financial resources, technical support, and political power to advance resident ownership mechanisms at the local level. Resident capacity concerns pointed to the need for an array of support services including, but not limited to, outreach/education about alternative investment options, financial education, and ongoing professional advice about risks and potential rewards related to different types of ROMs.

Following are suggestions to address these capacity concerns. The components of infrastructure examined include the systems that have supported and continue to support the growth and expansion of the following movements: cooperatives (co-ops); community development corporations (CDCs); comprehensive community building initiatives; community development financial institutions (CDFIs); and individual asset building efforts, as represented by individual development accounts (IDAs). These approaches overlap and intersect considerably and were selected because they include existing, or have the potential to support, ROM models.[236] Collectively, they represent a significant segment of the community revitalization sector, and they have characteristics, as described in the Models section, that make them conducive to incorporating ROM approaches.

This snapshot of the community revitalization infrastructure is by no means exhaustive. It aims to offer readers a sense of the opportunities from which to build and it argues that ROMs should become an integral part of—rather than an addition to—this existing infrastructure.

[236] The order of the descriptions follows a rough chronology of the emergence of the movements.

Potential Supply: The Existing Infrastructure

ROMs and the Cooperative Movement

A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.[237]

Cooperatives, both in the United States and overseas, are supported by a fabric of technical assistance providers and associations. Key elements of the national infrastructure are described below.

The National Cooperative Business Association (NCBA), the trade association for the entire co-op industry, was founded in 1916 as the Cooperative League of the USA (CLUSA). Its mission is to support and advance "all forms of cooperative enterprise." The NCBA Fund supports the growth of cooperatives in the United States and abroad, both through funding cooperatives directly and through supporting education, training, and public education to advance the cooperative movement.[238]

Cooperative Works is a "unified system of cooperative development centers and development partners, cultivating cooperation as a cornerstone of prosperous, sustainable communities."[239] Started by the NCBA in 1988 and funded by the U.S. Department of Agriculture, the network includes 16 centers that provide technical assistance to co-ops nationwide. The network is focused primarily on agricultural co-ops, but many of them also work in urban communities.[240]

The National Cooperative Bank, based in Washington, DC, provides a range of financial products and services to cooperatives throughout the nation. It was chartered by Congress in 1978. In 1981, it was restructured to become a private financial institution that is owned by its member-borrowers. Its activities are focused on commercial, real estate, small business, and nonprofit lending. It also offers capital market and depository services.[241]

The ICA Group is a primary provider of technical assistance to the cooperative movement in urban areas. Founded in 1978, ICA provides a range of assistance for businesses, workers, and community groups to build worker-owned cooperatives. ICA offers business and legal guidance, financing, and work-force education to a diverse cross-section of new and existing cooperatives, covering a wide range of industries in the public and private sectors.[242]

Regional co-op associations, national associations, and intermediaries targeting specific sectors provide another layer of support for co-ops. For example, the Federation of Co-ops for the North East supports a cross-section of cooperatives in the northeastern United States.[243] The cooperative housing sector is supported by the National Association of Housing Cooperatives, the Cooperative Housing Foundation, the Center for Housing and Training, and other intermediaries already referenced.[244]

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237 "Cooperatives Are…Cooperative Business in the United States," National Cooperative Business Association brochure, undated.

238 "The NCBA Fund: Promoting and Supporting Cooperatives in the United States and Around the World," NCBA pamphlet, undated.

239 NCBA 1999 Annual Report.

240 Herb J. Cooper-Levy, Cooperative Works, interview, Washington, DC, December 2000.

241 "NCB Co-Op 100," undated brochure.

242 "Introducing the ICA Group," ICA Group brochure, undated. Also, Jim Megson, President and Executive Director, ICA Group, telephone interview, January 2001.

243 Lynn Benander, CEO of the Cooperative Development Institute, telephone interview, February 2001.

244 "Housing Cooperatives: Cooperative Business in the U.S.," undated NCBA brochure.

Building from the Successes

The cooperative movement represents one of the oldest and largest institutional embodiments of the ROM criteria: a structure that provides ownership, voice, and benefit for members. Yet the movement has been historically disconnected from the national community development movement. One factor that has clearly influenced the separate paths of development is that the U.S. co-op industry has been primarily a rural phenomenon, while community development, historically, has been more focused on inner-city, urban communities, with some major exceptions.

According to many key informants, another reason for the disconnection is the dearth of funding for inner-city cooperative development.[245] While the federal government has played a large and an historic role in the development of rural co-ops, both in the United States and abroad, little public support has gone to the development of co-ops in urban areas. Hence, few U.S. cooperatives are owned and operated by low-income/low-wealth residents of inner-city neighborhoods. At the same time, there are growing exceptions to this rule, such as SSC Employment, described previously in the Models section.

Implications for Emerging ROM Approaches

The size, diversity, and reach of the cooperative movement offer immense opportunities to advance concepts of community ownership in low-income communities in America. According to the NCBA, co-op values are as follows:

> *Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility, and caring for others.*[246]

These values parallel ROM criteria, strategies, and approaches, as do the international cooperative principles listed in the Models section: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training, and information; cooperation among cooperatives; and concern for community.

Although the industry has not traditionally been a leader in community revitalization in inner-city communities, efforts are underway to build stronger linkages. For example, the NCBA recently began to develop an initiative focused on supporting the expansion of urban cooperatives in collaboration with other stakeholders.[247] A recent issue of the *Journal of Cooperative Development* highlights the relationship between cooperatives and community development. In that journal Roy Priest, president and CEO of the National Congress for Community Economic Development (NCCED), writes:

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[245] Per interviews with Lynn Benander, Jim Megson, and J. Phillip Thompson, February 2001.

[246] "Cooperatives Are…Cooperative Business in the United States," National Cooperative Business Association brochure, undated.

[247] Herb J. Cooper-Levy, interview, Washington, DC, December 2000.

Cooperative development is not an approach that is well understood by many of the nation's CDCs. As the CDC industry gains strength and capacity, and organizations like the National Cooperative Business Association continue to promote best practices, it is likely that we will see more cooperative development.[248]

In the same edition, Terry Simonette, President of NCB Development Corporation, notes:

We are pleased that community-based organizations and cooperatives are becoming more and more closely aligned....Community-based organizations have turned to the cooperative model as a business model to be used in a wide range of circumstances.[249]

Building resident ownership presents a viable intersection between the co-op movement and practitioners of community development. The co-op movement has historically advanced mechanisms that embody the ownership criteria advanced by ROMs. Broadly defined, the industry includes a breadth of expertise on ownership mechanisms not found elsewhere in the contemporary community development movement. It also has connections to various industries that could help advance resident ownership concepts and approaches. Applying the technical expertise and political clout of the co-op movement—in the United States and abroad—could have far-reaching implications for the future of resident ownership strategies.

ROMs and the CDC Movement

As described earlier, since the 1960s, community development corporations have played a leadership role in the community development process.[250] In recent decades, the CDC industry has grown and diversified, making great strides as community-based developers of housing and real estate in low-income communities. However, the focus of the CDC movement has not gone unquestioned, especially as many CDCs came to be seen, over time, as developers of housing (places) and not of people.

Today, many CDCs are grappling with pressure, from residents and funders alike, to be more engaged in comprehensive community building efforts.[251] Some are community builders in their own right; others maintain their focus on project-based development. Regardless of the approach of individual organizations, as the CDC infrastructure continues to flourish, these ubiquitous entities offer promising opportunities for the advancement of resident ownership concepts and strategies.

248 Roy Priest, "Cooperative Approaches to Community Economic Development," *Journal of Cooperative Development,* Fall (1999): 14.

249 Terry Simonette, "The Power of Cooperating with Community-based Organizations," *Journal of Cooperative Development,* Fall (1999): 15.

250 In the 1960s, the Title VII program offered federal funding to support the establishment and operation of a select group of community development corporations.

251 See Christopher Walker and Mark Weinheimer, *Community Development in the 1990s* (Washington, DC: The Urban Institute, 1998), pp. 73–87.

ROMs: A New Opportunity for CDCs to Build Stronger Ties to Community Residents

ROMs offer CDCs a unique opportunity to improve their connection to residents and other institutions in their communities in a way that builds on CDC strengths. Such a connection would be mutually beneficial. If CDCs offer residents an equity stake in their development projects, residents are more likely to have a vested interest in the success of the projects and in building the capacity of the CDC. As an alternative to offering equity themselves, CDCs can also serve as equity brokers, applying their real estate knowledge and experience to ensure that residents are partial owners of economic development projects advanced by the public and private sectors. Both of these roles would produce new forms of social capital within the community and increase the visibility of CDCs as community builders capable of brokering benefits and opportunities for community residents.

CDC engagement in community building activities has produced mixed results to date, with successes primarily in the areas that build on the existing social capital of CDCs.[252] While many CDCs are being challenged to assume a central role in comprehensive community building efforts, they have been particularly successful in community building linked to housing development; community planning; some aspects of community facilities development; and, in some cases, community organizing.[253]

> *High-performing CDCs acquire substantial amounts of social capital in their development activities. In pursuing community building activities, CDCs draw on these sources and work to raise the social capital of their neighborhoods. Most capable CDCs reasonably should take on expanded roles in community planning, community facilities development and most forms of community organizing—so long as external funding is sufficient to support them.*[254]

Advancement of resident ownership opportunities would be uniquely suited to the social capital, skills, and experiences of CDC staff and board members. CDCs have the social capital—ties to economic actors including individuals and institutions within and outside of the target communities—that could be highly valuable for developing the mechanisms and support structures to enable residents to accrue benefits through economic development. These stakeholders include financial and real estate experts, public- and private-sector investors, local elected officials, labor unions, and other institutional actors, all of whom offer critical expertise for brokering wealth within the targeted communities. CDC staff and board members have the skills and experience necessary to tailor ROMs appropriate to the specific political and economic circumstances of the local community. They are also likely to have the political experience and connections necessary to take advantage of existing or emerging policy opportunities.

The Existing CDC Infrastructure: Challenges and Opportunities

In 1970, the National Congress for Community Economic Development (NCCED) was formed as a trade association to advance the concerns and priorities of a burgeoning movement. Today, the NCCED represents more than 3,600 CDCs. It supports the industry by providing information, education, research, conferences, special projects, and policy advocacy.[255]

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[252] *Ibid.*, pp. 72–88.

[253] *Ibid.*

[254] *Ibid.*, p. 75.

[255] NCCED website, www.ncced.org.

Formed in 1991, the National Community Development Initiative (NCDI) provided a major boost to the CDC industry. NCDI has brought together 18 private foundations and one federal agency (HUD) to invest substantially in the community development industry through capacity building and technical assistance. Channeled through two national intermediaries, the Local Initiatives Support Corporation (LISC) and the Enterprise Foundation (Enterprise), these funders have made a major commitment to building the infrastructure of support for CDCs in 23 cities.[256]

According to *Community Development in the 1990s*—an assessment of NCDI, the number of "capable" CDCs grew substantially between 1991 and 1997, catalyzed by an influx of resources, expertise, and technical assistance to support CDC projects and organizational structures.[257] This growth was attributable to a number of factors, including over $250 million invested by the Initiative. The evaluation of the NCDI efforts demonstrated that large levels of private and public investment can have a substantial impact on building local capacity and on the infrastructure of the industry. At the same time, the field cannot assume that these levels of investment will continue to support the capacity of a large and growing number of CDCs.

CDC Infrastructure: Implications for ROMs

Supported by the NCCED, NCDI, and other capacity-building efforts, local communities have succeeded at building and supporting the CDC industry in the arenas of housing, economic development, and community building. These successes offer promise for CDC expansion into the arena of ROMs, as long as they are provided with appropriate levels of investment and technical assistance. However, supporting and promoting CDCs to play a role in advancing resident ownership mechanisms would require new resources, expertise, and investment. The uncertain future of these resources begs the question of the capacity of CDCs to move into new arenas. The resources question poses challenges to a CDC role.[258]

At the local level, many CDCs have built and/or strengthened connections to community residents in recent years, but others still struggle to address community concerns about their accountability to resident priorities and concerns. In the short term, this local skepticism could hamper efforts to advance ROM concepts within the existing CDC infrastructure. In the long term, successful promotion and implementation of ROM strategies and approaches could help to mitigate, or even reverse, this skepticism, thereby advancing a new frontier for community building.

At a policy level, the experience and connections of CDCs provide a significant base to advance incentives and opportunities for ROMs. Intermediaries engaged in policy advocacy to support and expand funding for community revitalization/reinvestment have recently provided a major boost to policies and programs. These intermediaries, along with other local and national faith-based and labor organizations, can advance ROM concepts through public policy at national, regional, and local levels.[259]

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[256] Walker and Weinheimer, pp. 2–4.

[257] The evaluation team conducted research in 1996 and 1997 to assess progress made since 1991, using a standard set of "system performance indicators" to measure progress.

[258] Walker and Weinheimer, p. 99.

[259] A short list of national intermediaries who are focusing attention—and working collaboratively—on community building policy issues include: The Center for Community Change (CCC), the Development Training Institute (DTI), the Enterprise Foundation, the Leadership Conference on Civil Rights (LCCR), the Local Initiatives Support Corporation (LISC), the National Community Building Network (NCBN), the National Congress for Community Economic Development (NCCED), the National Community Reinvestment Coalition (NCRC), the National Low Income Housing Coalition (NLIHC), PolicyLink, and many others.

ROMs and the Community Building Movement

Decades of struggle to address inequity in low-wealth communities across America have demonstrated that just as the causes and effects of poverty are diverse and multifaceted, the solutions must be equally complex. This insight has led community leaders, residents, community developers, funders, technical assistance intermediaries and—more recently—policy makers to support comprehensive community building efforts across the country. The current environment offers a unique opportunity to advance the notion of resident ownership through the community building movement.

Community building has many definitions, all of which capture its integrated and holistic approach to addressing poverty. According to the National Community Building Network (NCBN), a community building approach includes the following eight principles:

> *Integrating community development and human services strategies; forging partnerships through collaboration; building on community strengths; starting from local conditions; fostering broad community participation; requiring racial equity; valuing cultural strengths; and supporting families and children.*[260]

Community building seeks to address the causes and effects of poverty—not in isolation from one another—but as part of a broader civic undertaking. As such, community building aims to bring together a range of stakeholders—from the non-profit, corporate, public, and philanthropic sectors—with community residents, to build a new dialogue about how to build healthy and sustainable communities.

Community builders believe that revitalization must be led by neighborhood residents, working hand-in-hand with institutions located in, serving, and having an impact on their communities. These partnerships connect the actions, interests, and priorities of residents with the power and structure of institutions in a way that holds institutions more accountable to residents. Community builders are explicit in their efforts to strengthen the connection between the well-being and agency of community residents and the functioning of the places in which they live and work. And they are clear about the need to link improvements in *place* to opportunities for *people*, the residents who live there.

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[260] Junious Williams, Jessica Pitt, and Lillian Yee, *A Survey of Selected National Organizations Providing Support to the Community Building Field* (Oakland: Urban Strategies Council, 1999).

Community Building Infrastructure and ROMs

A community building approach lays the groundwork for multi-stakeholder problem-solving and requires an enormous commitment of time, energy, and resources. The requisite level of commitment has been and remains a challenge to the success of community building initiatives underway. The advancement of a comprehensive array of resident ownership mechanisms would strengthen the role of community residents—transforming them from stakeholders to stockholders in local economic institutions—and in this capacity, may help to strengthen community building efforts overall.

As documented in a 1999 report, *Strengthening the Capacity of Community Builders*, and a subsequent convening on the subject, intermediaries, funders, evaluators, and researchers have begun to seek ways to meet the infrastructure needs of the burgeoning movement.[261] A central component of the community building infrastructure is the National Community Building Network. NCBN was established in 1993 when an array of community building initiatives—including those supported by the Ford, Casey, and Rockefeller Foundations came together to advance the field of community building.[262] In 1996, NCBN included 40 members from 27 cities;[263] by the close of 2000, it included more than 500 members.

Comprehensive community building initiatives can provide infrastructure to design, develop, and support ROM tools and approaches in a way that is responsive to local demand. In such initiatives, stakeholders include but are not limited to: community residents, community-based developers, faith-based institutions, service providers, community development intermediaries, private philanthropy, private-sector investors and developers, and business and government leaders. Advancing resident ownership concepts and strategies at the local level requires that each of these voices be part of the discussion. ROM models would be strengthened by their application in multi-faceted community building efforts.

If a local community building initiative wanted to develop a community building trust (CBT) and leverage resources into a community building IDA (CB/IDA), for example, it would require the expertise of a host of local stakeholders: community residents and leaders, local community development corporations, community development financial institutions, real estate experts, and analysts.

At the national level, these stakeholders may need to call upon the Local Initiatives Support Corporation (LISC) and the National Congress for Community Economic Development (NCCED) for technical assistance and/or recommendations; the Community Development Financial Institution (CDFI) Coalition and/or the CDFI Fund for technical advice and guidance; the Corporation for Enter-

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[261] Junious Williams, Jessica Pitt, and Lillian Yee, P.5. Intermediaries included in the report were as follows: Aspen Roundtable; Chapin Hall; Development Training Institute; EZ/EC Consortium; the U.S. Department of Housing and Urban Development; MDRC; National Community Building Network (NCBN); PolicyLink; Program for Community Problem Solving; Urban Institute/National Neighborhood Indicators Project (NNIP); and Urban Strategies Council/Community Building Support Center (CBSC). The report notes, however, that the study includes a "limited and highly selective number of organizations," p. 3.

[262] NCBN Website, www.ncbn.org.

[263] Joan Walsh, *Community Building and the Future of Urban America* (New York: Rockefeller Foundation, 1997), p. vi.

prise Development (CFED) for assistance on the IDA component; and the Institute for Community Economics (ICE) for advice on appropriate land acquisition strategies. Making these connections could build new forms of social capital at the local and national levels important to the advancement of ROMs and further strengthening of the community building movement.

The design, development, and/or implementation of ROMs as part of community building initiatives will take a strong commitment to building local capacity. It will require a substantial, long-term commitment of financial resources to support specific types of organizational and individual capacity building at the local level. It will also require significant resources for the national infrastructure to support and connect local practitioners. Some degree of the necessary technical expertise already exists among segments of community builders, but other expertise will be needed through the engagement of individuals and institutions not conventionally seen as part of the community building dialogue.

ROMs present both a challenge and an opportunity for community builders. They offer community builders an opportunity to reach out to new stakeholders and to make them partners in a new arena of community building discussions and initiatives. But the same opportunity is a challenge in that community builders will need to frame the mechanisms in a way that offers benefits for all parties. Given years of experience in identifying points of common self-interest among diverse stakeholders, many community builders are well positioned to take on this challenge. Others will need guidance and support to engage new community building allies that can help to advance equity building for residents.

ROMs and the CDFI Industry

CDFIs are private-sector financial intermediaries that address the unmet financial needs of residents and institutions in low-income/low-wealth communities. The CDFI sector includes for-profit and nonprofit institutions that make loans and investments considered "unbankable" by mainstream institutions.[264]

More than 460 CDFIs currently work in communities located in all 50 states. CDFIs are undertaking a range of financial services, including grants, loans, equity investments, deposits, savings accounts, technical assistance, and financial literacy.[265] Collectively, CDFIs have loaned and invested $5 billion in underserved markets.[266]

The CDFI Industry Offers Opportunities to Advance and Support ROMs

Many categories of CDFIs are well suited both to model ROMs and to provide technical assistance to community-based institutions and community residents seeking to develop and/or to gain access to equity-building opportunities. ROM models could be expanded, replicated, taken to scale, and connected to other community building efforts through support from the CDFI industry.

Key informant and field interviews identified the need for specific financial and market expertise to support model development and design of ROMs. They also identified the need for financial

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264 The term CDFI covers a variety of financial institutions, including: community development banks, community development credit unions, nonprofit loan funds, micro-enterprise loan funds, and community development venture capital funds. CDFI Coalition website at www.cdfi.org/about.html.

265 *Ibid.*

266 *Ibid.*

planning, analysis, advice, and ongoing consulting for community residents seeking to gain access to emerging models. Different institutional types within the CDFI industry are suited to meet this demand. Community development loan funds and community development venture capital funds, for example, can offer expertise to community builders about commercial investment opportunities; market conditions for different industries; and risks and rewards for various types of investments and investors. Community development credit unions and IDA programs already offer residents financial training/education, planning, and assistance as relates to their participation in various types of ROM initiatives.

The CDFI industry could provide research, outreach, education, and technical support to communities seeking to advance ROM models. CDFI connections to the private sector—as investors, lenders, and board members—provide a bridge between community residents and stakeholders in the private sector that is critical to the design, development, and advancement of ROM strategies and approaches. The expertise and guidance of CDFI staff could also help to mitigate risks and maximize rewards available to resident investors in a community development projects.

If CDFIs were engaged in the development of ROM models in the context of local community building initiatives, it would help to strengthen those efforts by creating relationships—new forms of social capital—between the financial sector and community builders.

Infrastructure and Support for CDFIs: Challenges and Opportunities

A large and growing infrastructure has been developed to support the CDFI industry. The Coalition of Community Development Financial Institutions, or "the CDFI Coalition," was formed in 1992 to serve as the voice of the CDFI industry. With a primary focus on industry-wide policy development and advocacy, the Coalition includes 11 member organizations representing a national network of CDFIs.[267] Working through the Coalition, members build the infrastructure of the industry, at the local and national levels, through public information and education, outreach, advocacy, and other policy-related activities. The Coalition serves as a clearinghouse for information about the industry, making information available to community leaders, public officials, academia, and the general public.[268]

Resources for the CDFI industry are augmented by the federal CDFI Fund. Created in 1994 and housed in the U.S. Department of the Treasury, the CDFI Fund promotes access to capital and local economic development growth by investing directly in and supporting CDFIs. To become eligible for support from the CDFI Fund, CDFIs must meet the following certification criteria:

- Primary mission of financial institution is to promote community development;
- Serves distressed area or target population;
- Provides financial products and development services (TA, etc.) as primary business activity;
- Provides development services in conjunction with loans and investments;
- Maintains accountability to target market; and
- Is a nongovernment entity. [269]

[267] See CDFI Coalition website at www.cdfi.org/aboutus.html.

[268] *Ibid.*

[269] *Ibid.*

The CDFI Fund expands the lending, investment, and financial services provided to underserved markets across the country. In fulfilling its mission, the Fund has invested $300 million in CDFIs since 1996.[270]

The National Community Capital Association is another association representing the CDFI industry.[271]

> *The National Community Capital Association is a national membership organization of community development financial institutions. National Community Capital's member CDFIs provide capital, technical assistance, and development services to support the revitalization of economically disadvantaged urban, rural, and reservation-based communities across the United States. National Community Capital also represents more than 200 Associates—organizations and individuals that support National Community Capital's mission.*[272]

Members of the National Community Capital Association include community development credit unions, community development venture capital funds, micro-enterprise lenders, and community development loan funds.

Opportunity to Advance ROMs in Collaboration with the CDFI Industry

The CDFI industry offers a network of opportunities to implement various types of ROM models. It also offers vehicles to advance the concept of resident ownership of community assets in the policy arena. Given their capacity to link private-sector and community interests, CDFIs have, to date, enjoyed strong bipartisan support among policymakers. This support has enabled the movement to expand—in size and capacity—irrespective of changing political leadership. Furthermore, in recent years the industry has demonstrated its power to advocate for the needs and priorities of its membership. This power is a direct function of the track record of industry leaders in successfully addressing inefficiencies in domestic capital markets at the local level, in directing public attention to local successes, and in building bipartisan support for these efforts.[273]

As the CDFI industry's advocacy role and sphere of influence have expanded, so too have its social capital connections. These connections could help build an understanding of how that various resident ownership models offer mutual benefits for community residents and private- and public-sector stakeholders.

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[270] See CDFI Fund website at www.treas.gov/cdfi.

[271] The Association was established in 1986 as the National Association of Community Development Loan Funds (NACDLF) but voted in 1997 to change its name.

[272] See www.communitycapital.org.

[273] The bipartisan credentials of the industry were demonstrated by the fact that the bipartisan agreement about the New Markets/Community Renewal Act resulted in the tax credit portion to be administered by the CDFI Fund, within the Department of Treasury. For more information, see Chapter II. Background: Historical Perspective and Literature Review" and the "Models" section of this chapter.

ROMs and Individual Asset Building/ Individual Development Accounts

The focus of this section is not intended to exclude alternative or emerging approaches to individual asset accumulation. Rather, it provides a starting point from which to examine opportunities to advance ROM models within the larger national dialogue about individual asset accumulation strategies.

The IDA movement began to take hold in the 1990s, advanced by a variety of academic, intermediary, and practitioner proponents.[274]

IDA Infrastructure Offers Opportunities to Advance ROMs

The movement could be expanded and diversified to include a broader menu of opportunities for resident savings and investment linked to community planning and development. This expansion would benefit from the existing networks of IDA programs, financial institutions, and other stakeholders. It would also benefit from the various forms of financial education and assistance provided to current IDA account holders and from the social capital that has been developed among IDA program proponents, host financial institutions, and investors.

Expanding IDAs to include resident ownership mechanisms is likely to require additional linkages to more specialized forms of *technical support* (to assist community-based institutions in program design and development); *market expertise/risk assessment/investment counseling* (to educate and regularly update residents about the risks/rewards of various types of ROM investment opportunities); and *community planning* (to ensure that new models, like community building IDAs are fully integrated into broader community planning efforts). This expansion would benefit by building upon and strengthening the existing overlap between the shared membership and infrastructure of the IDA movement and the community building movement.

Infrastructure of Support for the IDA Sector

The growth of the IDA sector has been fueled by early success in using public policy to take local successes to scale. In 1997, the Corporation for Enterprise Development (CFED) initiated the American Dream Demonstration, a national demonstration project to design, implement, and advance IDA programs based in 14 organizations across the country.[275] Though the demonstration is scheduled to run through the end of 2001, early documentation of success—by the close of 1999 more than 2,000 participants had opened savings accounts, with savings averaging $33/month[276]—laid the foundation for taking the concept to scale.

In October 1998, bipartisan support for national IDA legislation led to the creation of the Assets For Independence IDA Program (AFI). The multimillion-dollar program dramatically increased the availability of resources to the growing cadre of IDA programs. According to CFED estimates, with the passage of the AFI Act, IDAs would reach 40,000 to 50,000 working-poor Americans.[277]

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[274] For more detail on the evolution of the movement, see Chapter II.

[275] See *Saving Patterns in IDA Programs: Down payment on the American Dream Demonstration/A National Demonstration of Individual Development Accounts* (St. Louis, MO: Center for Social Development, George Warren Brown School of Social Work, 2000).

[276] *1999 Annual Report*, Corporation for Enterprise Development, p. 4.

[277] *Ibid.*

Lessons for ROMs from the IDA experience

As previously discussed, the IDA movement was uniquely successful in rapidly moving through the various phases of development: from concept, to design, to implementation, and, finally, to scale. This success can be attributed to many factors:

- The timeliness of the concept: a growing body of research was revealing a wide and growing wealth gap in America despite the era of sustained prosperity;
- Early and documented success of the national demonstration project;
- An intersection of interest in the concept from foundations, financial institutions (subject to CRA requirements), policy makers, and community builders; and
- Bipartisan support for the concept of individual savings tied to financial education as a new approach to poverty alleviation.

The development of ROM strategies and approaches can draw lessons from the IDA movement which demonstrated that, if given adequate incentives, low-income individuals will accrue savings to invest in their futures. Furthermore, some of the current models for resident investment, using IDA accounts, are already implicitly linked to resident ownership of assets in local communities, including home purchase and micro-enterprise development.

IDA advocates have established policy precedents to the advancement of ROMs. First, they have been able to leverage growing concern about the wealth gap to draw connections between the subsidy of middle-class investment and the lack of equivalent incentives available to low-income/low-wealth individuals. Second, they have set a precedent of how philanthropic and public support can be used to subsidize potentially risky investments. Homeownership and micro-enterprise investments have a strong degree of risk related to real estate and business markets. That private foundations, the public sector, and individual donors have accepted these risks—and related rewards—as acceptable for IDA investments lays important groundwork for the advancement of ROMs.

Bridging Supply and Demand: Assessment of Findings

The preceding overview of the support infrastructure for a variety of important community revitalization strategies indicates many opportunities to build ROM models. However, given the fact that the contemporary infrastructure in most areas is unable to meet local demand for current projects, it would be unreasonable to assume that ROM concepts and models could simply be adopted as an additional realm of activity without additional resources and support. Furthermore, many of the ROM models presented in this report would require very specialized forms of technical assistance that may not yet exist within the contemporary networks of nonprofit intermediaries. Advancement of these models may require that local practitioners obtain appropriate expertise from the private and/or public sectors.

At the local level, community building initiatives provide an ideal venue to advance ROM concepts in a way that is inclusive of the requisite local stakeholders. At the national level, advancement of ROM strategies would require support from all of the infrastructure elements described herein. For example, the NCDI infrastructure of local CDCs and national technical assistance intermediaries offers a promising base from which to expand capacity for designing, developing, and implementing ROMs directly linked to local housing and economic development efforts. The broad-based infrastructure of CDFI and IDA stakeholders offers a web of opportunity to leverage public and private support for ROM models in the policy arena. The huge network of cooperatives associated with the NCBA offers opportunities to advance the concepts—and new community building relationships—within rural communities, the business community, and with stakeholders in other countries.

Conclusions

The infrastructure of support—at all levels of community planning and development—is as important to building resident equity as the models themselves. As one interviewee noted, without adequate infrastructure, ROM models "join the heap of good ideas," never implemented.[278]

The implementation of ROM models requires resources, and it requires a commitment by all stakeholders. Planning for ROMs should engage residents early in the process so that they can select, shape, and develop models that are appropriate to local circumstances. To engage at this level, residents must be able to make informed decisions and community-based institutions must have the capacity and resources they need to support active and informed decision-making.

ROM mechanisms—and the requisite infrastructure—will differ, in response to local conditions and priorities. It is important in thinking about the ROM infrastructure that it be developed in a way that is organic—that grows out of the constellation of opportunities, needs, assets, and liabilities unique to each locality.

[278] John Elberling, Executive Director, TODCO, San Francisco interview, February 2001.

Perspectives from the Field

Chapter IV

This chapter summarizes feedback on the research framework and findings. The feedback was solicited through a number of avenues, including key informant interviews with local and national stakeholders; review and discussion of the research at a national symposium held April 10, 2001, in Washington, DC (attended by interviewees and other stakeholders), and written and verbal feedback from interviewees and meeting participants.

This chapter is organized into three sections: interview highlights, a discussion of policy opportunities, and next steps. Each section pulls from all of the above-mentioned sources to provide a deeper understanding of the economic and political context for developing ROMs at the local and national levels, and of the next steps needed to move forward with ROM design, development, and implementation.

Interview Highlights[279]

Overview

The research process included interviews with over 75 stakeholders at the local and national levels. At the local level, interviewees included staff of community-based organizations, community development corporations, comprehensive community building initiatives, service providers, community development financial institutions, and local foundations. At the national level, interviewees have included representatives of organizations focusing on community development and community building in urban and rural communities, national civil rights organizations, foundations, academia, the public and private sectors, labor, and other membership organizations. Key findings and highlights from these interviews follow.

Reaction to Framework/ Conceptual Approach

A majority of interviewees speaking from a national perspective reacted positively to the framing of the research. Most felt that it represented a timely departure from traditional approaches to economic and community development. They thought it posed a challenge to traditional local economic development strategies that focus on business and real estate development without specific mechanisms to ensure that residents benefit from development.

At the community level, most interviewees were interested in the general concept of resident ownership, but many were skeptical about their own organizational capacity—or the capacity of organizations in their communities—to move forward on individual strategies, given competing demands on their time, skills, and resources. Most felt that the framing represented a significant shift from traditional community development strategies—focused on housing, job creation and access, and social services—and that it would consequently require significant resources, technical assistance, and support to implement.

Interviewees working in rural communities supported the approach in theory but argued that the dearth of investment in many rural areas made it difficult to pay attention to building equity instead of strategies focused on affordable housing, employment, or service delivery.

Many interviewees saw the opportunities for resident ownership to be most relevant to communities that were experiencing some form of reinvestment. They argued that private- and public-

[279] See Appendix A for a list of interviewees.

sector interest in their communities offered opportunities to leverage economic benefits for low-income/low-wealth residents. Others argued that once reinvestment is sparked and gentrification and displacement of long-term, low-income residents begin, it is too late to begin asset accumulation strategies. These interviewees argued that resident ownership mechanisms must be in place prior to gentrification. Still others argued that the ROM approach is relevant to communities at all phases of the reinvestment spectrum, from communities with little investment to those experiencing rapid revitalization.

One interviewee expressed strong disagreement with the idea that residents should be owners of development in their communities. She argued that it is private-sector investors, not residents, who are putting their assets at risk by investing in the development process; thus they, not residents, should receive the rewards of their investment. She argued that rather than having an "equity stake" in the literal sense, residents should be supported to be active participants in the planning process.

Several interviewees commented on the focus of the research on individual versus collective asset building. One interviewee noted that by excluding community-based institutions as owners of community assets, the research was not paying enough attention to a rich infrastructure and body of emerging ownership models. Another interviewee noted that community-based developers have a vested interest in preventing resident ownership strategies because it could circumvent their institutional role in the development process.

Reaction to Models[280]

Reactions to the models under investigation were broad and varied. Interviewees commonly stated that their experience with resident ownership approaches was limited to homeownership, small business and micro-enterprise development, and/or IDA strategies. At the local level, homeownership strategies were the most common approach to building resident equity. But most interviewees expressed interest in learning about new models and approaches that could leverage economic development to benefit more community residents.

The concept of a community building Real Estate Investment Trust (CB/REIT) evoked strong interest among many interviewees at the local level. They were intrigued by the idea of building a portfolio of local real estate assets in which local residents could have an equity stake. In considering the concept, interviewees quickly pointed to important nuances that would need to be assessed by local practitioners. Key issues raised included the challenge of creating a neighborhood-focused portfolio that still diversified risk; concerns that the REIT investment could fuel additional gentrification and displacement; and concerns about community control over the long term.

[280] Readers should refer to the previous chapter for descriptions of the models discussed with interviewees.

The notion of a value recapture trust and/or a community building trust that would capture funds from local development to support direct economic gains for residents received enthusiastic support, particularly among respondents grappling with strong reinvestment pressures and the phenomenon of displacement in their communities. Local practitioners who were familiar with IDAs were intrigued with the concept of using the resulting income streams to provide matching funds for a community building IDA, as a way of building resident assets and supplying a source of funds for investment in other types of resident ownership mechanisms.

Many agreed that gaining access to property was a critical first step in empowering community residents and institutions in a new role as owners of assets in their communities. They argued that acquiring property posed huge challenges in appreciating real estate markets. For example, many interviewees expressed interest in the community land trust model but thought that the model might be best applied to communities that are not already facing gentrification and displacement pressures. One interviewee noted that savvy practitioners could take advantage of fluctuations and uncertainty in local real estate markets to build resident and community assets over the long term.

The response to the models among national respondents was equally varied. Most respondents were intrigued by the assortment of models under investigation but were familiar with only a few or a subset of them. Most interviewees acknowledged that common approaches—homeownership and business and/or micro-enterprise development—were important but insufficient to address the needs of very low-income and low-wealth community residents. Most agreed with the project's goal of increasing the menu of opportunities to serve a cross-section of residents in low-wealth communities.

Many national interviewees saw the need for discussions among the different stakeholders involved in asset building strategies as one way to build a movement for resident ownership. For example, interviewees noted how developers of employee ownership models, including worker cooperatives and employee stock ownership plans, could be more connected to the work of community development corporations or to comprehensive community building initiatives. Similarly, it was argued that the community development credit union movement could greatly contribute to and benefit from a broader discussion about resident ownership mechanisms.

Along the same theme, some interviewees noted opportunities to strengthen the dialogue among urban and rural developers of successful ownership strategies. They argued that practitioners engaged in the development of rural cooperatives saw emerging opportunities to work in collaboration with groups in urban areas. At the same time, rural communities were seeking to expand and strengthen models, such as individual development accounts, that are stronger in urban areas. Still other interviewees, at the local and national levels, were more interested in prioritizing the design, development, and implementation of new mechanisms—community building IDAs, community building REITs, and resident stock ownership plans—than in efforts to expand mechanisms already in use.

The need to identify funding streams to support resident investment in these new mechanisms was an important theme raised in the interviews. Without dedicated resources, these strategies will be irrelevant to low-income and low-wealth residents who do not have the resources to invest.

Community Development and Individual Asset Building

For most interviewees at the national level, leveraging individual and family asset accumulation opportunities through the community development process was a logical nexus of activity. Some argued that one cannot improve the lives of low-income/low-wealth community residents without paying attention to asset poverty. They saw economic development at the local and regional levels as an important opportunity to leverage public and private assets to build community and individual assets. One interviewee articulated the need for a whole new way of thinking, with resident ownership opportunities included in each step of local economic development planning.

At the same time, one interviewee raised a note of caution about linking individual asset building strategies to community development. He noted two strains of success in the community development movement in recent years: the growth of mechanisms that provide wealth-building opportunities for individuals (IDAs) and the growth of community-based financial institutions that are accessible to community residents; offer specialized expertise; and are willing to accept lower rates of return on capital in order to ensure community benefits (CDFIs). He argued that trying to connect low-income/low-wealth residents to community development investment opportunities would be linking them to high-risk, low-return investments.

At the local level, most interviewees noted their current emphasis on income-focused strategies, to make the point that a movement to asset building approaches would be a significant shift. Some were considering or undertaking IDA approaches but most noted limited local capacity to take on asset accumulation strategies beyond homeownership, given limited time and resources.

Significance of Ownership: Ownership and Civic Engagement

The question of how and whether ownership leads to increased civic engagement was discussed. At the local level, many interviewees felt that ownership was integral to civic participation, asset building, and community building efforts, but that community residents had constantly been frustrated in their past efforts. They argued that giving residents an ownership stake in community development gives them a whole new perspective about themselves and their communities. Others felt that ownership was more significant for its symbolic value, for the "sense" of ownership that it offers community residents.

Interviewees speaking from a national perspective noted that ownership is significant in many ways. Ownership—both historically and currently—is fundamental to wealth building because it is through ownership that people accumulate wealth, power, and control in the United States. Others argued that ownership is empowering in other, equally fundamental ways because it enables people to be "future-oriented." They argued that building assets gives people a sense of hope and a will to make positive changes in their lives, their families, and their communities. Finally, they argued that ownership gives people a sense of entitlement that results in a stronger desire to engage in the political process.

Many felt that, even though the connection between ownership and participation had not been well researched, the anecdotal evidence was strong enough to suggest a clear connection. They pointed to the need to conduct evaluations of current efforts. Others noted that it is not "voice," per se, but the degree of decision-making authority and control offered by participation that was important to ownership. They felt that the research needed to pay attention to the degree of participation offered to residents in each mechanism.

Tension Between Individual and Collective Ownership Strategies

Many interviewees at the local and national levels pointed to a tension between individual and collective ownership strategies. Some stressed the importance of community ownership in terms of working towards collective, as opposed to individualistic, goals. But they also acknowledged that collective approaches do not adequately address the issue of individual and family asset poverty; nor do individual asset building strategies necessarily exclude collective ownership. Still others noted the importance of expanding the ownership base, through whatever means, to ensure that economic and political institutions are more democratic and accountable to citizens.

Some interviewees argued that individual wealth-building strategies are actually a community building strategy since they produce economic stability for individuals and families resulting in more stable communities. Furthermore, others argued, limiting ownership to collective strategies was "paternalistic" in that it would limit asset building opportunities for individuals and families. They argued that middle- and upper-income families have multiple opportunities to build assets, often supported by government incentives, in a variety of investment vehicles; but these same opportunities are not accessible to low-wealth individuals. Expanding investment opportunities to low-wealth investors would be one of many ways to increase opportunities to build financial assets.

Many articulated the need for dual or hybrid strategies that build both resident and collective ownership. Where such approaches are not feasible, it was argued, choices between them should be made at the local level, in the context of local needs and priorities.

Capacity and Infrastructure Issues

Most interviewees noted that issues pertaining to the local capacity and the infrastructure to advance resident ownership models were of paramount importance to ROM development.

Organizational Capacity

Community-based respondents felt that the local organizational capacity to take on resident ownership mechanisms is limited. Community-based organizations are already stretched to their capacity. Few could undertake new strategies, especially ones that would demand additional expertise and resources. Even if resources were available, some interviewees felt that the addition of new strategies would detract from work already underway.

If they could obtain the resources necessary to take on these new approaches, many local practitioners wanted to develop the necessary real estate, legal, and negotiating expertise since these skills would be applicable to other community projects. In some cases, interviewees expressed openness to using outside experts—especially in situations that required specialized technical assistance—but some had a preference for developing in-house capacity.

Key national intermediaries noted a growing demand for resident ownership opportunities from community development practitioners at the local level, but they echoed their concern about the lack of resources available to develop, support, and advance these models. Many argued that the existing infrastructure of community-based developers was not strong enough in most communities to take on these new strategies. Others argued that the capacity existed but that it needed to be expanded; i.e., local communities would require a large amount of resources and technical assistance to adopt the concepts. One interviewee noted the need for technical expertise that currently does not exist in the community development arena. She suggested the possibility of local practitioners getting resources to hire this specialized expertise on an as-needed basis.

Resident Capacity

Local practitioners were concerned about the need for additional support to enable residents to play a leadership role in the design, development, and implementation of resident ownership mechanisms. Many argued strongly for the fact that if these mechanisms were to be successful, their development had to be led by residents. They acknowledged that currently most residents do not have the information, skills, and resources they need to develop and implement the concepts. Proposed remedies included outreach, education, training, and greater access to information about financial, real estate, and other markets.

Most interviewees at the national level felt that there would be a need for aggressive education—of residents, practitioners, and the general public—if these and other alternative development concepts were to be fully developed and implemented.

Playing the Inside and Outside Game

One interviewee argued that to be effective, advocates need to play an inside and outside game. They need to be at the table when decisions were being made but also to have a base and an organizing capacity to be able to sway decisions going in the wrong direction. Being "inside" players, he argued, gives communities a lot of leverage in the development process, especially given the large amounts of financing at stake in local redevelopment projects. The problem, he noted, was that community leaders were often afraid to be on the inside.

Other interviewees saw the "outside" game as the crucial, and often undervalued, ingredient of success. They pointed to the critical importance of community outreach, education, and organizing in order to advance resident ownership concepts and approaches at the local level. Several interviewees expressed frustration with the reluctance on the part of foundations to support organizing and advocacy. They argued that resident ownership concepts could not be advanced without first building a political constituency and that many of these models could not be implemented without political battles. Funders, they argued, needed to accept this fact from the beginning if they were going to support the development of resident ownership mechanisms.

Risk and Reward/ Risk Mitigation

The framing of the research and the types of models under investigation raised concerns about risk from many interviewees. One interviewee argued that the resident ownership approach posed challenges because of the particularly high levels of risk associated with real estate and business investment. Given meager assets, he felt that investment in secure instruments—FDIC-insured savings accounts—was a safer option. He argued that this point is especially relevant since community development projects pose an even greater risk to investors than other types of commercial development.

Others felt that the choice should be left to residents, but they should have options. Several interviewees observed that in the investment process, potential reward is directly related to risk levels. Risk is inherent to any and all forms of investment—including homeownership and small and micro-enterprise business development. These interviewees argued that decisions about what is an acceptable risk should be left to residents, provided there was appropriate information and advice available to help guide decision-making. Several observers noted that low-income/low-wealth residents are not necessarily adverse to taking risks; one observer noted that poor people take huge risks every day of their lives, so why should they be prohibited from risk-taking—and the potential rewards—in the investment arena.

One interviewee noted that asset building should be thought of as acquiring a form of economic security. He noted that only when people have money in the bank that they feel secure enough to take the types of risks necessary to build assets.

Many people noted that the key issue was not whether low-income/low-wealth individuals should have opportunities to invest—and take risk—but how to maximize risk-mitigation measures that would make that risk manageable. Risk management and mitigation efforts, it was argued, have a long history in public policy and could be adapted to provide some level of protection for low-wealth investors.

Getting Community Stakeholders to the Table

Several interviewees pointed to the need for community residents and organizations to enter into strategic partnerships with local government to leverage public policy and public-sector resources to obtain ownership opportunities. One interviewee argued that playing this role required that communities have access to the information and technical expertise needed to make strategic decisions about land-use planning and land acquisition. Another noted the need for community roundtables as a forum for collective decision-making about economic development projects in the community and in the region. These roundtables would need to be supported by appropriate levels of real estate, legal, and financial expertise, but would be led by local residents.

The Role of Private Philanthropy

Several interviewees highlighted the importance of support and leadership for the advancement of resident ownership mechanisms from the philanthropic sector. They argued that support should be in the form of resources for research, technical assistance, local capacity building, and investment in innovative strategies. In addition, many argued that foundations could offer leadership by supporting local developments and creating incentives for public and private stakeholders to partner with community-based organizations and residents.

One interviewee noted that foundations are restricted in terms of how they can support some of the mechanisms explored in the research. For example, some foundations have considered supporting land banking as a way to advance asset building opportunities, but they are constrained by their legal status, which limits their support to "charitable giving." This interviewee pointed to the need for further exploration of these limitations to develop better support for advancing different resident ownership mechanisms.

Summary

The preceding comments and insights include key themes for a rich conversation about strategies to advance individual and collective ownership of community assets. This conversation, to some extent, is already underway in the community development field. Strategies to expand the conversation are described in the next section.

Policy Opportunities and Challenges

This section summarizes ideas about ways to use public policy to implement resident ownership concepts and mechanisms. These ideas emerged from the interview process and the April 10, 2001 symposium. Where relevant, information, examples, and data have been added to the statements and assertions of interviewees or meeting participants.

Overview

Most interviewees and symposium participants acknowledged that ROMs, alone, will not necessarily move people from poverty to economic opportunity, but they are part of a continuum of strategies to increase options for people to save and invest to build their economic security.

In order to bring resident ownership mechanisms into the public dialogue, interviewees and symposium attendees pointed to the central role of public policy. They identified a range of public policy levers—at the local, regional, state, and federal levels—to support ROM development. These levers provide opportunities to take existing strategies to scale through expansion or replication; support the testing and evaluation of new strategies; and create an environment—at all levels of economic development planning and decision making—that is supportive of innovative approaches.

Alternative Government Roles in Advancing ROMs[281]

Government can play multiple roles in advancing resident ownership mechanisms. These roles can include government as:

Research and development (R&D) source or knowledge builder: Federal, state, and local governments can support the design, development, implementation, and evaluation of ROMs.

Action supporter: The public sector can subsidize action at the local level with grants, tax incentives, and other support mechanisms to build the capacity of local institutions to develop ROMs.

Attention focuser: By drawing public attention to innovative strategies and models, government can help build public support for ROMs.

Regulator: By enforcing legal obligations, such as local zoning bonuses or other incentive provisions and the federal Community Reinvestment Act (CRA), private investment could be channeled into projects supporting resident ownership mechanisms.

[281] This framework was based on comments by Xavier de Souza Briggs, Associate Professor, the John F. Kennedy School of Government, Harvard University, as described at the PolicyLink ROM Symposium on April 10, 2001.

Policy Opportunities at the Federal Level

The Tax Code

Interviewees and meeting participants identified tax policy as an important tool to advance resident ownership mechanisms. The tax structure has long been used to provide asset building opportunities to middle- and upper-income taxpayers.[282] The elements of this asset-building policy framework (home mortgage interest deductions, the reduction and gradual elimination of estate taxes, individual retirement account incentives) offer precedents for extending asset building opportunities to low-income/low-wealth populations but, until recently, have not been the focus of an organized advocacy effort.

As noted by many interviewees, the time is ripe for such an effort. In recent years, public support for mechanisms to enable poor families to increase their savings has grown, as demonstrated by bipartisan support for IDA policy. The recent passage of the refundable child care tax credit for low-income families indicates public recognition of the need for low-wealth families to have equitable access to benefits already offered to middle- and upper-income taxpayers.

These policies have laid the groundwork to advocate for using public funds to further subsidize savings and encourage investment by low-income/low-wealth individuals. Interviewees and meeting participants saw multiple opportunities to build from the base of bipartisan support for IDAs, to push for policy measures to facilitate community investment by low-income/low-wealth residents. Such advocacy efforts could be supported by recent data.

Historically, part of the rationale for policies such as lower capital gains and estate taxes was that they encouraged savings and investment by upper- and middle-income taxpayers fueling economic growth. From an economic standpoint, it was argued, poor people were less likely targets of these policies because they were more likely to spend tax savings on consumption, rather than savings and investment. But recent data from the Federal Reserve and the Center for Social Development (CSD) in St. Louis contradict these arguments in a way that could support advocacy around the macro-economic benefits of saving and investment policies targeting poor families.

The recent Federal Reserve study showed that between 1992 and 2000, the savings rate of the wealthiest 20 percent of Americans dropped from 10.6 percent to negative 2.1 percent, while the savings rate of the poorest 20 percent increased by 3.3 percent.[283] While the Fed study did not examine the response of low-income taxpayers to wealth increases, recent CSD research data on the saving patterns of low-income participants in IDA programs indicate that "the very poorest save almost as much as others (no statistically significant difference). In other words, the very poorest are saving at a much higher rate (that is, savings compared to income) than others."[284]

This research could help advocates to make a case for the macro-economic value of creating policies to encourage savings and investment among low-income and low-wealth individuals. Such policies are critical to build the supply of capital necessary, at the local level, to make resident ownership mechanisms available to low-income/low-wealth investors. Furthermore, public subsidy would help to increase the supply of capital available for local economic development efforts, as described below.

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[282] According to the Center for Social Development, the federal government provides over $200 billion per year on tax breaks, with over 90 percent benefiting households earning over $50,000 per year. Center for Social Development, Washington University in St. Louis, Missouri, at http://gwbweb.wustl.edu/Users/csd/press/clinton.html.

[283] "The Richest 20% of Americans Did Most of the Spending Fueling Late '90s Boom," by Joseph Rebello [Dow Jones Newswires], *The Wall Street Journal*, Tuesday, May 8, 2001, p. B7A.

[284] See CSD website: http://gwbweb.wustl.edu/Users/csd/press/clinton.html.

Past and Present Federal Policy Levers

Research participants pointed to numerous opportunities to advance policies that are supportive of resident ownership mechanisms at the national level. Some pointed to missed opportunities in the past, including successive rounds of Empowerment Zone legislation and the discussion around "new markets" legislation. Whereas both sets of legislation have provided public subsidy for private-sector investment in low-wealth neighborhoods across America, they have included few levers to ensure that community residents are beneficiaries of that investment.

For example, successive rounds of Empowerment Zone legislation included provisions to encourage local hiring, but the concept of resident ownership was never included as part of the legislation. One interviewee noted that the idea was floated early in the legislative process but never received much support. Another interviewee noted that the reason for this missed opportunity was the absence of an organized constituency pushing for its inclusion. Both emphasized how these "near misses" offered lessons regarding ways to advance resident ownership mechanisms in the future.

Another federal policy that research participants saw as providing opportunity for resident ownership was the Community Renewal Tax Relief Act of 2000. This will provide tax incentives and regulatory relief for community revitalization efforts. One of the central elements of the Act is the New Markets Tax Credit, a measure designed to encourage new investment in low-income and low-wealth neighborhoods.[285] The credit provides an incentive to encourage individuals and institutions to invest in a broad range of assets—from retail and manufacturing businesses to community facilities, schools, and day-care centers.

According to the legislation, the tax credit is available to investors who purchase equity in a "qualified community development entity" (CDE) with at least 85 percent of the CDE funds used for "low-income community investment." While the legislation includes no mention of resident ownership opportunities, it does not prohibit the inclusion of ROMs through the regulatory process or through the activities of emerging CDEs. For example, Treasury Department criteria for the selection of CDEs—entities designated by Treasury as eligible to allocate the new tax credits—could encourage inclusion of specific mechanisms for resident ownership. Alternatively, CDEs could be encouraged—with public or philanthropic incentives—to sell a portion of the equity in local enterprises to local residents, over time.

Ongoing implementation and monitoring of the Community Reinvestment Act (CRA) was another federal policy lever identified by numerous research participants. One interviewee highlighted opportunities emerging from the expansion of global investment in REITs as an opportunity to advocate for resident ownership mechanisms.[286] He argued that global financial institutions are facing increased pressure to meet CRA obligations and, as a result, are investing in REITs that are active in low-wealth communities. He maintained that this trend creates opportunities to leverage private sector capital into community building REITs or to offer mainstream REITs ways to include opportunities for resident investors.

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285 For a thorough description of the New Markets Tax Credit portion of the Act, see Stockton Williams, "The New Markets Tax Credit: A Promising New Tool for Community Revitalization," *Community Investments,* April 2001, pp. 3–5.

286 REITs are described in "Chapter III. Models and Infrastructure."

Policy Opportunities at the Local Level

Interviewees and the symposium participants suggested using tax increment financing, CDBG funds, local tax credits and rebates, loan guarantees, land write-downs, zoning bonuses, direct subsidies, legislative measures, and code enforcement mechanisms to leverage funds and create incentives for including ROMs in local development projects.

Partnerships between cities and communities were identified as an important element for advancing new models. For example, local development incentives could be used to encourage investors to work with local government and community-based institutions to create resident ownership opportunities. Furthermore, if they are designed with attention to the interests of multiple sets of stakeholders, resident ownership mechanisms can offer opportunities to build new alliances among diverse local constituencies. These alliances present new opportunities for pushing elected officials to support ROMs.

Many interviewees noted, however, that local elected officials will not advance ROMs unless they understand how and why it is in their interest to do so. They noted that the stakes are high in the local development process because of the ability of development deals to generate wealth—for developers, investors, corporate retailers, and other stakeholders who are also large contributors to political campaigns.

One solution to gaining support from elected officials is building a broad-based constituency. This requires organizing, education, and outreach to local residents so they understand the potential benefits of leveraging policy opportunities. Another solution is to build multi-stakeholder coalitions. For example, an IDA that is supported by a funding stream from a local development project offers resources for residents to invest in local economic development efforts while, at the same time, providing a new source of capital for local businesses and developers.[287] This type of mechanism could be appealing to local elected officials who want to support a development project but face opposition from low-wealth constituents and local businesses.

One interviewee noted that incentives for local government usually work better than mandates. Such incentives could come from state or federal policy, or they could be offered by private philanthropy.

The Need for a New Type of Development Intermediary

Several interviewees and symposium participants argued that it is not enough to offer opportunities for residents to benefit from economic development. Instead, new types of economic institutions and structures are needed to ensure that residents are beneficiaries and partners in the development process. One meeting participant gave the example of the role that labor plays in the economic development process in other countries to emphasize the point. For example, labor-sponsored venture capital funds account for more than one-third of all institutional venture capital in Canada.[288] Targeted tax incentives are used to retain capital in communities; that capital is in turn used for economic development activities and quality job creation.[289]

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[287] See the IDA discussion in the Models chapter for details.

[288] See Sherman Kreiner, with assistance by Kenneth Delaney, "Labor-Sponsored Investment Funds in Canada," at http://www.uswa.org/heartland/7canlsif.htm.

[289] Manitoba's Crocus Fund is a labor-sponsored fund that focuses specifically on employee ownership. It was established by the Manitoba Federation of Labor in 1993 and currently has $200 million in assets. Crocus uses provincial and federal tax credits to give employees an incentive to invest their retirement savings in a fund that uses the capital locally. For investing in the Crocus Fund, individuals receive a 15 percent provincial tax credit and a 15 percent federal tax credit, to a maximum of $750 based on an investment of $5,000. From "Thinking Globally, Acting Locally: Promoting Employee Ownership at the Subnational Level," Report on the Capital Ownership Group Subnational Discussion Group, John Logue, Moderator, at http://cog.kent.edu/PapersMay2001/Subnational.html.

Paying Attention to Private Sector Interests

Many interviewees emphasized the importance of private sector participation in, and support of, resident ownership mechanisms (ROMs). In order to engage the private sector in the development of ROMs, symposium participants agreed that the mechanisms need to be described in a way that speaks to the interests of the private sector and developed to address their concerns.

An example of such a private sector benefit was discussed at the symposium. In the Market Creek Plaza development in San Diego, California, the development took only nine months to obtain public approval for a zoning change, a process that usually takes two to three years.[290] For developers, time is money, and a reduction in an approval timeline translates into significant cost savings. In the Market Creek example, these savings were largely attributed to resident support for the deal.[291]

Private sector support could also be gained with evidence that resident ownership reduces the risk to investors because residents have a vested interest in both the success of the business and the protection of its assets. In one story, recounted by interviewees, a local business with resident owners continuously avoided the vandalism and burglary inflicted on other businesses in the community as a direct result of resident ownership.

Symposium participants agreed that in the absence of hard data, these and other stories provided strong anecdotal evidence of the value of resident ownership mechanisms for business owners, investors, and other private and public sector stakeholders.

Building Public Support for ROMs

Using public dollars and legislation to encourage the large-scale implementation of ROMs will require the support of a broad cross-section of the public. It will require building understanding of the economic and social value of these mechanisms, and it will require concentrated effort to maintain support over the long term.

At the local level, outreach to and education of community stakeholders is a critical element of designing and developing ROMs. Broad-based local support is critical to navigating ROM models through the policy process and to building support among elected officials, the media, and the general public. Building public support requires education and outreach to a broad cross-section of possible stakeholders, including public officials, private sector groups, associations of community developers, civil rights organizations, labor, and organizing networks. It will also require documentation and distribution of success stories so that the public becomes familiar with the concepts and learns about their economic, political, and social value.

Recent research highlights new opportunities to build public support for asset building strategies. According to a poll conducted by Hart Research, in collaboration with the Urban Institute, "Americans' priorities for the federal government in general and for the tax cut in particular extend beyond aiding average or middle-class taxpayers and include a strong resolve to assist people facing difficult economic circumstances."[292] The poll found that two-thirds of the electorate, including 71 percent of Democrats and 63 percent of Republicans, agreed that it is very important that President Bush and Congress "do more to help

[290] See "Chapter III. Models and Infrastructure" for details.

[291] Presentation by Jennifer Vanica, Executive Director of the Jacobs Family Fund at the PolicyLink Resident Ownership Mechanisms Symposium, April 10, 2001, Washington, DC.

[292] The poll was conducted by Peter D. Hart Research Associates Inc., in consultation with Eugene Steuerle, senior fellow at the Urban Institute. The poll was conducted from March 20 to 22, 2001, among 810 registered voters and included a margin error of +/- 3.5%.

those trying to work their way off welfare."[293] This generic support could be tapped to advance resident ownership mechanisms.

Philanthropy and Policy

Interviewees identified many roles for private philanthropy in advancing ROMs in the policy arena. These roles include:

- Providing support for a public dialogue about the value of resident ownership mechanisms and about ways to use public policy to encourage innovative approaches;
- Supporting documentation and independent evaluation of ROMs;
- Supporting education, outreach, and organizing to build public support for these mechanisms among diverse stakeholders;
- Playing an informal role as brokers of new partnerships between the private sector and community-based institutions;
- Taking on a more explicit leadership role as developers, rather than just funders, of resident ownership strategies; and
- Investing in projects offering resident ownership opportunities.

Examples of previous foundation-led efforts to have an impact on community development policy include the National Community Development Initiative (NCDI) (described in the Infrastructure section of Chapter III) and the Funders Network for Smart Growth (FNSG), a national network of foundations supporting research and practice about policy issues related to smart and equitable regional development.

Summary

Developing and implementing resident ownership opportunities in communities across the country will require a combination of innovative practice and supportive policy. The policy process can be used to bring diverse stakeholders to the table around a common agenda and to build public awareness of the economic and social benefits of supporting resident ownership of community assets.

Public policy can be used to provide new opportunities to develop ROM models or it can be used to increase the scale and impact of existing mechanisms. To be effective, resident ownership mechanisms must be developed in a way that addresses the priorities and concerns of multiple stakeholders. In order to sustain these efforts over the long term, these stakeholders—the private, public, and nonprofit sectors working in partnership with community residents—must be able to see a mutual benefit in joining together in new types of economic, social, and political relationships.

These mutual benefits must be built into a common "story" about the purpose, goals, and economic, social, and political value of ROMs, a story that must be told in a way that reaches beyond the direct and immediate beneficiaries of the mechanisms and that helps build broad-based public support for ROM development and implementation.

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[293] Memorandum issued by Peter D. Hart Research Associates, Inc., April 24, 2001.

Next Steps

This section is largely drawn from discussions about next steps among the participants of the April 10, 2001 symposium.[294] The discussion took place after participants had assessed and critiqued the draft research findings. Next steps were framed as ways to move from research to action.

Additional Research

Participants suggested research that was needed to supplement the findings of this report. Highlighted in Chapter I, additional research is needed about:

- The link between resident ownership and civic engagement;
- Risk/reward/risk mitigation strategies;
- Local demand for resident ownership mechanisms;
- Impact, scale, and effectiveness of models;
- Development of local assessment tools;
- Individual policy tools and opportunities;
- Rural issues and priorities; and
- Models from other countries.

Connecting to the Field and Supporting Models

Participants acknowledged the need to ensure that the report was grounded in—and responsive to—the social, economic, and political realities faced by diverse communities. In order to share the models—and to refine the insights about their applicability—many participants articulated the need to take the findings "on the road." This approach would test the relevance of individual models to different communities and flesh out key issues and concerns at the local level.

Symposium participants had an opportunity to hear directly from participants of four local initiatives that are covered in this report, including B.I.G. Wash and City First Bank in Washington, DC; SSC Employment in Baltimore, Maryland; and Market Creek Plaza in San Diego, California. Upon learning about the successes—and challenges—faced by the models, participants agreed that these models should be supported, expanded, and replicated.

[294] See Appendix A for a full list of symposium participants.

Building Connections

A recurring theme focused on the need to strengthen connections among practitioners of the various strategies covered in this report. Many participants noted that the daily challenges of developing individual strategies, such as cooperatives, community development credit unions, or community land trusts, often leaves practitioners of one approach isolated from the developers and implementers of others. Participants discussed the need for new opportunities for dialogue and information sharing—at the local and national level—where strategies can be discussed in a comprehensive manner that enables practitioners to learn from one another.

Broadening the Conversation

To build an understanding and a broader base of support, participants agreed on the need to include a more diverse set of stakeholders in the discussion about ROMs. Proposed additions included representatives from labor, government, the private sector, community residents, environmentalists, foundations, and academic institutions. In addition, the inclusion of unlikely allies—developers and financiers—was proposed. Organizing networks were also identified as key constituents for developing these models, given the need to build a culture of trust at the community level. Tapping into these networks would require bringing organizers to the table early in the ROM development process and backing their efforts to build community understanding and support.

Developing an Action Agenda

Participants agreed that a priority is developing short- and long-term agendas for advancing models at the local, regional, state, and national levels. They noted that the short-term agenda should seek to leverage immediate opportunities to advance resident ownership mechanisms through existing policy levers and funding streams.

In addition, symposium participants agreed that attention must be paid to the development of a longer-term agenda that builds from the concepts embodied in this report. In the long term, expanding and replicating ROMs so that they are benefiting large numbers of residents of low-income and low-wealth communities would be one step towards strengthening democracy and building broad-based civic engagement.

Communications

Participants agreed that many of the stories that were covered in this report and presented at the symposium need to be further documented. These stories capture the challenges—and the opportunities—faced by practitioners seeking to implement resident ownership mechanisms. The stories capture the spirit and rewards of resident ownership—for their local developers, funders, beneficiaries, and supporters. They bring to life what ownership means for individual investors and stakeholders. Participants agreed that these stories need to be documented in a way that is understandable to and shared with a broad range of readers.

Strategies to Deal with the Urgency of Displacement

During the course of the meeting, participants expressed a common sense of urgency about the issue of low-income/low-wealth residents being displaced from their communities because of rising property values. All agreed on the need for strategies that could be implemented, in the near term, to ease displacement pressures. This concern led to discussion about how to move some of the models from research to implementation quickly.

The discussion also produced acknowledgment of the fact that many of the mechanisms described in this report might mitigate against displacement in the future, but since they would take time to design and implement, they should not be seen as anti-displacement strategies. Instead, many participants noted that other tools were being developed to provide communities with strategies that could be used to inform the development of a rapid response to displacement pressures.[295]

Learning from Global Policy and Models from Abroad

During the course of the day, several participants drew attention to the impact of global policy on domestic models. It was noted that global trade and investment policy can have an impact on asset building opportunities in the United States.

Participants also noted that models and policies from other countries could inform the domestic discussion or could be applied to communities in the United States. Participants also pointed to lessons to be learned from ROMs promoted by nongovernmental organizations, environmentalists, and other stakeholders abroad.

Summary

The symposium closed with general agreement on the relevance of resident ownership concepts and mechanisms to the community development field and to the work underway in communities across America. Most participants expressed interest in continuing to work collectively to further research and understanding of the various mechanisms highlighted in the report and to explore policy strategies for broadening and strengthening the use of ROMs.

[295] One such resource, the "Beyond Gentrification Toolkit," is available at the PolicyLink website at http://www.PolicyLink.org.

Chapter V

Conclusion: Findings and Closing Comments

Out of the diversity of approaches explored in *Sharing the Wealth*, a number of ingredients relevant to the planning, development, implementation, and operation of ROM models emerges. This chapter highlights those ingredients. It also highlights additional points to consider regarding ways to increase the effectiveness of ROMs in moving people from poverty to opportunity, while building strong healthy communities.

Findings

Sharing the Wealth explores a heterogeneous mix of resident ownership mechanisms developed for different types of communities facing different sets of challenges and opportunities. All of the ROMs seek to achieve a mixture of the following goals:

- Leverage economic activity to produce resident benefits;
- Target low-income/low-wealth community residents as beneficiaries;
- Enable residents to be owners of economic development activities;
- Build the financial assets of residents; and
- Give residents a voice in decision-making.

Key Ingredients for Developing Effective ROM Models

While ROMs are widely varied in terms of design and approach, key ingredients can be lifted up that have helped the models to meet the goals described above. Both the ingredients and the broader points of consideration, described below, were extrapolated from interviews with practitioners and resident leaders actively involved in developing ROMs, as well as from symposium participants and other key informants in the research process. The interviews revealed that planning, implementation, and operation of ROMs require:

1. Ongoing and meaningful resident education, participation, and leadership;
2. Access to high-quality technical support;
3. Adequate funding and financing for planning and implementation;
4. Active engagement in the political process;
5. Strong accountability systems; and
6. Finding ways to tell the story.

1. *Ongoing and meaningful resident education, participation, and leadership*

Whether the targeted economic activity involves the development of a shopping center, the expansion of a business, or the creation of a community land trust, the inclusion of resident ownership mechanisms requires early, active, and ongoing engagement of a broad cross-section of community residents. ROMs can be initiated and led by different types of stakeholders—a group of neighbors, a local foundation or an organizing group—and they can take a variety of forms; but resident engagement and leadership are critical ingredients.

Several ROM practitioners noted that truly meaningful engagement requires openness and flexibility on the part of the initiative's proponents since initial conceptions and priorities may change radically as more residents weigh in and shape the model's development. For example, designing ROMs involves a number of decisions and choices about targeted beneficiaries; voice/representation of owners and other residents; accessibility to a broad, or limited, base of residents; balancing individual asset building and collective ownership, and other issues. Conducting an open process—which maximizes engagement by a large cross-section of community residents—helps to address these structural issues, build trust, and address controversy at the front end of the planning process. One ROM developer noted the value of an open and inclusive process, particularly in racially/ethnically diverse communities where different groups have not had previous experience working together on a common project.

Early and meaningful participation can build a "sense of ownership" that goes beyond the technical ownership opportunities offered by the ROM itself. According to several ROM developers, when residents see themselves as owners, as leaders, and/or as partners in the development process, they are more vested in the outcomes of the development. Even if they don't decide to invest in the project, this broad sense of ownership expands the base of support enabling the project to navigate the inevitable stumbling blocks that impede the ROM's development. One practitioner involved in a worker cooperative noted that developing a sense of ownership and trust from the beginning meant that workers held each other responsible for their performance and that this was essential to the cooperative's success. Others noted the value of this early base building in terms of gaining the political power needed to usher a project through the public approval process.

Many ROMs involve technical real estate or business concepts unfamiliar to community residents and organizations. Crafting structures and mechanisms to educate residents about the technical aspects of development helps to build their capacity to make difficult decisions. One ROM initiative makes it a practice to review and explain pro-formas in detail at community meetings in order to make decisions about trade-offs in the development process. This type of education and information sharing enables residents to learn about the financial ramifications of their choices so that they can make informed decisions. It also enables them to be more effective advocates for their communities in other development planning because they have a better grasp of complex development schemes and of the priorities/concerns of other stakeholders.

2. *Access to high-quality technical support*

The design, development, and implementation of ROM models require specialized technical expertise in a mix of finance, real estate, corporate law, and tax accounting. Some ROM developers have been able to acquire the resources necessary to hire specialized expertise and have used it to shape the project. One ROM initiative benefited from four years of pro bono legal assistance regarding the creation of vehicles to develop neighborhood economic wealth. Other initiatives have benefited from the active engagement of a community development corporation or from working with national intermediary organizations that are highly skilled in all aspects of developing a particular model, such as community land trusts, worker cooperatives, IDAs, or community development credit unions.

3. *Adequate funding and financing for planning and implementation*

Whether adapting an existing model or designing a new one, ROM development involves a substantial commitment of time and resources by a number of players at the local level. ROMs are not generic instruments. They must be adapted to meet local needs and priorities, and this adaptation will incur costs. Resources are needed to engage specialized technical expertise, to ensure ongoing and meaningful community engagement, and to provide resident education and training.

Successful ROM planning and operation occur when funders are engaged early and can provide resources for diverse phases of the project including: community outreach and education; design and/or application of the appropriate model; education and training of residents; technical assistance; networking among ROM developers; documentation and evaluation; and public relations.

4. *Active engagement in the political process*

Politics is a part of all local economic development activity. Just as private developers, business owners, and local financial institutions are active players in the political process, so too are successful developers of ROMs. Many interviewees noted the need to be prepared to organize, advocate, and negotiate in the political process. They emphasized the needs to be proactive in engaging diverse constituencies and to prepare for opposition.

According to many of the interviewees, the first step in this process is building a strong and an organized base of resident supporters. Additional steps include cultivation of elected officials, public agency staff, academics, the media, and other civic leaders who can articulate the value of the model in public discourse. Most of the developers of ROM models described in this report reached out to local elected officials in their planning. Some worked with academic institutions to gather data necessary to make a case for the ROM to the public and private sectors; others worked closely with the local media to ensure that their story was being told in a way that built public support.

In several of the examples explored in this report, policy issues arose that could have blocked the development of the ROM, but they were overcome through the involvement of residents and/or community-based institutions in the political process. In others, resident backing helped to build the political support needed to move a project through the approval process.

5. *Strong accountability systems*

According to many practitioners and other interviewees, the credibility of ROM models will depend, in the long run, on effective and transparent monitoring and evaluation systems demonstrating measurable outcomes. Many practitioners noted the need for resources to conduct evaluations to produce credible data about the effectiveness of their strategies. While some were proceeding without evaluation mechanisms in place, many were seeking resources to include them in their operations.

6. *Finding ways to tell the story*

Most of the practitioners interviewed recognized the value of their ROM story in terms of building financial, political, and public support; fundraising; and sharing lessons learned. Few had the time or resources to document the process along the way. Many leaders of the highlighted examples were actively seeking assistance to develop such a communications effort.

Maximizing Outcomes

To increase the effectiveness of ROMs as strategies that help to move people from poverty to prosperity in strong healthy communities, the following points should be considered.

+ *ROMs will have a greater impact if they are part of comprehensive community planning efforts.*

  ROMs will be most effective in supporting solutions to complex poverty issues if they are connected to broader community planning efforts. For example, in most cases, ROMs offer long-term opportunities to build individual and family assets. They do not offer stopgap solutions to imminent displacement of low-income/low-wealth residents, nor do they offer access to services and/or job opportunities. These community-building strategies are all integral to addressing poverty and should be undertaken hand-in-hand with ROMs.

  If ROMs are included as one strategy within a multi-faceted community development effort, they can be designed in a way that is complementary to income- or service-based strategies.

+ *Community-based organizations are integral to the design, development, implementation, and management of successful ROM models.*

  While the targeted beneficiaries of ROMs are residents, these mechanisms cannot be implemented in isolation from community-based organizations (CBOs) that are representative of and accountable to resident groups. CBOs are critical to leading and supporting the design, development, implementation, and monitoring of ROMs. CBO roles can include:

  - Leading or managing the design and development of the ROM;
  - Providing support services to enable residents to gain access to ROMs (e.g., education, training, outreach);
  - Representing resident stakeholders in partnerships with developers, investors, and the public sector.

  In addition, CBOs can be part of a broader strategy to expand the base of ownership of community assets. CBO ownership and stewardship of real estate, local businesses, financial institutions, and natural resources can and should be seen as complementary to direct resident ownership.

+ *Low-income/low-wealth residents will require subsidies to gain access to some ROMs.*

It is important to recognize income and wealth variations in low-income/low-wealth neighborhoods when developing ROM strategies. The ultimate value of ROMs lies in their ability to assist "those left behind" to accumulate assets and become stakeholders in their communities. To meet this goal, ROMs must be designed in a way that maximizes their accessibility to the community residents with the lowest level of income and wealth. Such accessibility requires consideration of various forms of subsidy to maximize opportunities for low-wealth investors.

Some such strategies—leveraging public, private, and philanthropic resources—are referenced in this report. They will require further research to determine which types of subsidy would be most applicable to different forms of ROM models.

+ *Public policy measures will be needed to produce large-scale benefits from ROMs.*

While promising, the ROM models described in this report are currently operating at a scale that will not have a measurable impact on poverty in the United States. Expanding the impact of ROMs will require a new policy dialogue. It will require the implementation of supportive policy measures—to provide resources and incentives, to overcome barriers, and to build political will—at all levels of government. It will require building public understanding of the benefits of ROMs and the public will to support their development in communities nationwide.

Closing Comments

Resident ownership mechanisms, alone, will not lift people out of poverty, but they can be part of the solution—one that builds economic security for poor families and gives them choices about their future.

Resident ownership mechanisms offer solutions for building collaborative, community building approaches to development that produce win-win solutions for *all* stakeholders in the development process. In recent years, private sector actors have recognized the rewards of investment in urban and rural communities. In future years, with the help of ROMs, they will realize the value of including residents as partners in and stewards of their investments.

Leveraging community economic development activity to build the financial assets of community residents opens up a new frontier of practical and policy solutions to moving low-income/low-wealth individuals and families from poverty to prosperity. Along with an emerging cadre of asset building strategies, ROMs promise to contribute to building strong and healthy individuals and families while simultaneously building strong and healthy communities.

Appendix a

Research Interviewees and Symposium Participants

Steve Adams (I)
Formerly Vice President
and Director of Research
Institute for a Competitive Inner City
Boston, Massachusetts

Zita D'Azalia Allen (P)
Senior Communications Associate
PolicyLink
New York, New York

Gar Alperovitz (I, P)
Lionel R. Bauman Professor of
Political Economy
Department of Government and Politics
University of Maryland
College Park, Maryland

Carl Anthony (I, P)
Program Officer
Community & Resource Development Unit
The Ford Foundation
New York, New York

(I) Interviewees for ROM research
(P) Participants in PolicyLink April 10th ROM symposium in Washington, DC

Laura Arce (I)
Policy Analyst
Democratic Caucus
Washington, DC

Tosun Aricanli (I)
Professor
Southern New Hampshire University
School of Community Economic Development
Manchester, New Hampshire

Robert Bach (P)
Deputy Director, Working Communities
The Rockefeller Foundation
New York, New York

Elinor Bacon (I)
CEO
National Capital Revitalization Corporation
Washington, DC

Bill Barnes (I, P)
Director of Research & Program Development
National League of Cities
Washington, DC

Michael Barr (I)
Visiting Fellow
Economic Studies Department
The Brookings Institution
Washington, DC

Syd Beane (I)
Senior Community Development Specialist
Center for Community Change
San Francisco, California

Larry Beeferman (I, P)
Director
Asset Development Institute
Center on Hunger and Poverty
Brandeis University
Waltham, Massachusetts

Judith Bell (P)
Vice President
PolicyLink
Oakland, California

Lynn Benander (I, P)
CEO
Cooperative Development Institute
Greenfield, Massachusetts

Sheri Dunn Berry (I)
Executive Director
NCBN
Los Angeles, California

Betsy Biemann (I)
Program Officer
The Rockefeller Foundation
New York, New York

Angela Blackwell (P)
President
PolicyLink
Oakland, California

Edward Blakely (I, P)
Dean, Milano Graduate School
New School University
New York, New York

Xavier de Souza Briggs (I, P)
Assistant Professor of Public Policy
Kennedy School of Government,
Harvard University
Cambridge, Massachusett

(I) Interviewees for ROM research
(P) Participants in PolicyLink April 10th ROM symposium in Washington, DC

Rita Bright (I, P)
Manager
B.I.G. Wash/Columbia Heights/
Shaw Collaborative
Washington, DC

Joe Brooks (I, P)
Director of Capacity Building and
Civic Engagement
PolicyLink
Oakland, California

Roberta Brooks (I, P)
Consultant
Formerly Regional Director,
Congresswoman Barbara Lee's office
Berkeley, California

Liz Butler (I)
Director of Special Programs
National Congress for Community
Economic Development
Washington, DC

M.C. Canlas (I)
Community Organizer
West Bay Philipino Multi-Service Center
San Francisco, California

Ada Chan (I, P)
Program Manager
Mission Economic Development
Association
San Francisco, California

Michael Chan (I)
Board President
Northeast Community Credit Union
San Francisco, California

Don Chen (I, P)
Director
Smart Growth America
Washington, DC

Ray Codey (I)
Director of Development
New Community Corporation
Newark, New Jersey

Ray Colmenar (P)
Senior Program Associate
PolicyLink
Oakland, California

Dalton Conley (I)
Associate Professor of Sociology
Department of Sociology & The Center for
Advanced Social Science Research
New York University
New York, New York

Herb Cooper-Levy (I, P)
Executive Director
Robert Pierre Johnson Housing Development
Corporation
Arlington, Virginia

Steve Dawson (I)
President
Paraprofessional Healthcare Institute
Bronx, New York

Frank DeGiovanni (I)
Director of Economic Development
The Ford Foundation
New York, New York

Peggy Delinois (I, P)
General Counsel
City First Bank of DC
Washington, DC

Carla Dickstein (I, P)
Senior Officer of Research and Policy Development
Coastal Enterprises, Inc.
Wiscasset, Maine

Hattie Dorsey (I, P)
President & CEO
Atlanta Neighborhood Development Partnership
Atlanta, Georgia

Allen Edson (I, P)
Executive Director
West Oakland/ 7th Street McClymonds Initiative
Oakland, California

Daniel S. Ehrenberg, Esq. (P)
Deputy General Counsel
Neighborhood Reinvestment Corporation
Washington, DC

John Elberling (I, P)
Executive Vice President
TODCO
San Francisco, California

Jed Emerson (I)
Senior Fellow, The William & Flora Hewlett Foundation
Lecturer, Stanford University
Palo Alto, California

Jim Field (I, P)
Program Director
Community Renewal Society
Chicago, Illinois

(I) Interviewees for ROM research
(P) Participants in PolicyLink April 10th ROM symposium in Washington, DC

David Fike (I)
Vice President and Dean of Academic Affairs
Holy Names College
Oakland, California

Robert Friedman (I, P)
Chair
Corporation for Enterprise Development West - CFED West
San Francisco, California

James O. Gibson (P)
Senior Fellow
Center for the Study of Social Policy
Washington, DC

Luis Granados (I)
Executive Director
Mission Economic Development Association
San Francisco, California

Michael Grupe (I)
Vice President & Director of Research
National Association of REITs
Washington, DC

Anne Habiby (P)
Executive Vice President
Director of Research and Strategy
Institute for a Competitive Inner City
Boston, Massachusetts

James Head (I)
President
National Economic Development and Law Center
Oakland, California

Kara Heffernan (P)
Program Associate
The Ford Foundation
New York, New York

Wade Henderson (I, P)
Executive Director
Leadership Conference on Civil Rights
Washington, DC

Bruce Herman (I)
Executive Director
AFL-CIO Working for America Institute
Washington, DC

Albert Butch Hopkins (I)
President and CEO
Anacostia Economic Development Corporation
Washington, DC

Ted Howard (I, P)
Director
Civil Society/Community Building Initiative
University of Maryland
College Park, Maryland

Young Hughley, Jr. (I)
Executive Director
Reynolds Town Revitalization Corporation
Atlanta, Georgia

Maurice Jones (I)
Venture Philanthropy Group
Arlington, Virginia

Dr. Sokoni Karanja (I)
President & CEO
Center for New Horizons
Chicago, Illinois

Brad Karrer (P)
Funds Manager
Cooperative Development Foundation
Washington, DC

Thomas Kingsley (I, P)
Principal Research Associate
Metropolitan Housing & Communities Policy Center
The Urban Institute
Washington, DC

Ellen Lazar (I)
Executive Director
Neighborhood Reinvestment Corporation
Washington, DC

Daniel Leibsohn (I)
Consultant
Economic Development
San Francisco, California

Don Marcos (I)
Executive Director
SOMA Employment Center
San Francisco, California

Dwayne Marsh (P)
Program Associate
PolicyLink
Oakland, California

James D. Mather (I)
Vice President
Bank of America
Community Development Banking
Oakland, California

Theresa Mayberry-Dunn (P)
Casey Fellow
The Annie E. Casey Foundation
Baltimore, Maryland

Heather McCulloch (P)
Senior Program Associate
PolicyLink
Oakland, California

Michelle McDonough (P)
Community Planning Consultant
Fannie Mae Foundation
Washington, DC

Joe McNeely (I, P)
President
Development Training Institute
Baltimore, Maryland

Jim Megson (I, P)
President
ICA Group
Brookline, Maryland

Angela Moore (I)
Vice President of Membership Services
Chicago Association of Neighborhood Development Organizations (CANDO)
Chicago, Illinois

Bob Moore (I, P)
Executive Director
Columbia Heights CDC
Washington, DC

James Mumm (I)
Senior Organizer
Organization of the Northeast
Chicago, Illinois

Jessica Gordon Nembhard (I, P)
Research Director
The Democracy Collaborative
University of Maryland
College Park, Maryland

Melvin Oliver (I)
Vice President, Asset Building and Community Development
The Ford Foundation
New York, New York

Sarah Page (I, P)
Executive Director
Institute for Community Economics
Springfield, Massachusetts

Larry Parks (I)
Senior Vice President
External and Legislative Affairs
Federal Home Loan Bank of San Francisco
Washington, DC

Jaime Pfeiffer (I)
Director
Los Flores Metalarte
Coamo, Puerto Rico

Lorette Picciano (I, P)
Executive Director
Rural Coalition
Washington, DC

Roy Priest (I, P)
President & CEO
National Congress for Community Economic Development
Washington, DC

Delphine Pruitt (I)
Senior Affordable Housing Business Manager
The Fannie Mae Corporation
Pasadena, California

Avis Ransom (I, P)
Executive Director
Regional Worker Training Center (R & B Unlimited)
Baltimore, Maryland

Lisa Robinson (P)
Consultant to PolicyLink
Davis, California

(I) Interviewees for ROM research
(P) Participants in PolicyLink April 10th ROM symposium in Washington, DC

Victor Rubin (P)
Director of Research
PolicyLink
Oakland, California

Jeff Ruster (P)
Deputy Assisant Secretary for Economic Development
U.S. Department of Housing and Urban Development
Washington, DC

Pam Salsedo, IDA Collaborative (I)
Formerly Director of Asset Building Programs
East Bay Asian Local Development Corporation (EBALDC)
Currently Director of Membership Services
California Community Economic Development Association (CCEDA)
Oakland, California

Mark Schmidt (I)
Director of Governance and Public Policy
Open Society Institute
New York, New York

William Schweke (P)
Senior Program Director
Corporation for Enterprise Development
Durham, North Carolina

Elliott Sclar (I, P)
Director & Professor, Urban Planning
Columbia University
New York, New York

Sally Scott (P)
Program Officer
The Goldseker Foundation
Baltimore, Maryland

Ann Sherrill (I, P)
Director
Baltimore Neighborhood Collaborative
Baltimore, Maryland

Kris Siglin (I)
Vice President, Policy
The Enterprise Foundation
Washington, DC

Ralph Smith (I)
Vice President
The Annie E. Casey Foundation
Baltimore, Maryland

Michael Springer (I, P)
Office of Economic Policy
U.S. Department of the Treasury
Washington, DC

Ben Starrett (I, P)
Executive Director
Funders' Network for Smart Growth and Livable Communities,
Collins Center for Public Policy
Miami, Florida

Ayse Can Talen (P)
Senior Director
Community Development Research
Fannie Mae Foundation
Washington, DC

Anthony Tansimore (P)
Vice President
Regional and Community Initiatives
The Fannie Mae Foundation
Washington, DC

Alicia Taylor (I)
Administrative Director
Rural Coalition
Washington, DC

Amy Tharpe (P)
Director
Knowledge Initiative
The Fannie Mae Foundation
Washington, DC

James Thomas (I, P)
Executive Director
Emergency Services Network
Oakland, California

J. Phillip Thompson (P)
Department of Political Science
Columbia University
New York, New York

Dale Thomson (P)
Formerly, Department of Housing and Urban Development (HUD)
Currently at Wayne State University
College of Urban, Labor, and Metropolitan Affairs
Detroit, Michigan

Mike Tierney (I)
Senior Vice President, Field Operations
Local Initiative Support Corporation
Washington, DC

Cate Toups (P)
Senior Research Fellow
Innovation, Research and Technology
The Fannie Mae Foundation
Washington, DC

Jennifer Vanica (I, P)
Executive Director
Jacobs Center for Nonprofit Innovation
San Diego, California

Emily Vaupel (I)
Homeownership Program Coordinator
Burlington Housing Authority
Burlington, Vermont

Olin Webb (I)
Executive Director
Bayview Advocates
San Francisco, California

Marcus Weiss (I, P)
President
Economic Development Assistance Consortium
Boston, Massachusetts

Marva Williams (I)
Vice President
Woodstock Institute
Chicago, Illinois

William Julius Wilson (I)
Professor
Malcolm Weiner Center for Social Policy
JFK School of Government
Harvard University
Cambridge, Massachusetts

Steve Yank (P)
Program Analyst
U.S. Department of Housing & Urban Development
Office of Policy Development & Research
Washington, DC

Mtamanika Youngblood (I)
President
Historic District Development Corporation
Atlanta, Georgia

John Zippert (I)
Director of Programs
Federation of Southern Cooperatives
Epes, Alabama

(I) Interviewees for ROM research
(P) Participants in PolicyLink April 10th ROM symposium in Washington, DC

Appendix b

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Appendix C
Glossary

Assets vs. income

- "Assets refers to the stock of wealth in a household. In contrast, income refers to the flow of resources in a household, a concept associated with consumption of goods and services and standard of living."[296]
- "Tangible assets are legally held and include physical property as well as rights that function in much the same way as physical property."[297]
- "Intangible assets are more nebulous, not legally held, and often based imprecisely on individual characteristics or social and economic relations." Intangible assets include access to credit, human capital, cultural capital, informal social capital, formal social capital, and political capital.[298]

[296] Michael Sherraden, *Assets and the Poor* (Armonk, NY: M.E. Sharpe, 1991), p. 5.

[297] Sherraden, p. 101.

[298] Sherraden, pp. 103–104.

Community and Individual Investment Corporation (CIIC)
Refers to a 1996 HUD initiative involving the establishment of resident-owned financial institutions in Empowerment Zones and Enterprise Communities that would provide access to capital in inner-city communities.[299]

Community Building
Refers to an evolutionary approach to community development that involves comprehensive revitalization efforts that build explicit linkages between place-based (development of physical places) and people-based (providing opportunities for individuals) strategies to address poverty.

Community Building Individual Development Account (CB/IDA)
Refers to a possible expansion of the existing Individual Development Account (IDA) concept. A CB/IDA is a ROM model that would allow account holders to invest either all or a proportion of IDA savings in a broader array of community assets such as existing or expanding businesses or real estate development projects.

Community Building Real Estate Investment Trust (CB/REIT)
Refers to a ROM model that adapts a real estate investment trust such that low-income/low-wealth residents would own shares in a portfolio of properties as a way to gain an ownership stake in local or regional real estate development.

Community Building Trust (CBT)
Refers to a community-controlled trust that would receive a portion of the profits from a development project(s). A CBT would include community residents as owners and shareholders in the trust, enabling them to have a voice in the policy and operational decisions related to the trust and to accrue financial benefits from development proceeds.

Community Development
Refers to "a concerted effort by public and private actors to stimulate financial, social, and human capital investment in low-income neighborhoods."[300]

Community Development Block Grant (CDBG)
Refers to a federal program that began operation in 1975 and is run by the federal Department of Housing and Urban Development (HUD). CDBG funding can be used for a broad range of community development activities, including neighborhood revitalization, economic development, and improved community facilities and services.[301]

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[299] Department of Housing and Urban Development (HUD), Office of Community Planning and Development, *The Community and Individual Investment Corporation: A guide to a new economic partnership between citizens, government, communities and the private sector* (Office of Community Planning and Development, 1996).

[300] Christopher Walker and Mark Weinheimer, *Community Development in the 1990s* (Washington, DC: The Urban Institute, 1998), p. 16.

[301] Center on Budget and Policy Priorities website at http://www.cbpp.org.

Community Development Corporation (CDC)
A CDC is a nonprofit corporation set up under Section 501(c)(3) of the Internal Revenue Code. "CDCs are formed by residents, small business owners, congregations, and other local stakeholders to revitalize a low- and/or moderate-income community. CDCs typically produce affordable housing and create jobs for community residents. Jobs are often created through small or micro business lending or commercial development projects. Some CDCs also provide a variety of social services to their target area."[302]

Community Development Credit Union (CDCU)
Refers to a financial cooperative owned and operated by lower-income persons that provides affordable credit and retail financial services to low-wealth communities.[303]

Community Development Financial Institution (CDFI)
Refers to private sector financial intermediaries that aim to address the unmet financial needs of residents and institutions in low-income/low-wealth communities. CDFIs include community development banks, community development credit unions, nonprofit loan funds, micro-enterprise loan funds, and community development venture capital funds.

Community Equity Mechanism (CEM)
Refers to a PolicyLink term for an array of strategies that enable low-income/low-wealth residents to gain access to opportunities and benefits from regional economic activity. Examples of CEMs include mechanisms that enable low-income/low-wealth residents to connect to suburban jobs or seek community benefits from public subsidies of development. A resident ownership mechanism is a form of community equity mechanism.

Community Land Trust (CLT)
"Community land trusts are democratically controlled nonprofit organizations that own real estate in order to provide benefits to local communities—and in particular to make land and housing available to residents who cannot otherwise afford them."[304]

Community Reinvestment Act (CRA)
"The Community Reinvestment Act is intended to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods, consistent with safe and sound banking operations. Enacted by Congress in 1977 (12U.S.C. 2901), the CRA requires that each insured depository institution's record in helping meet the credit needs of its entire community be evaluated periodically. That record is taken into account in considering an institution's application for deposit facilities, including mergers and acquisitions."[305]

Cooperative (Co-op)
"A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise."[306]

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302 National Congress for Community Economic Development (NCCED) website at http://www.ncced.org.

303 CDFI Coalition website at http://www.CDFI.org.

304 Institute for Community Economics (ICE), "An Introduction to the Community Land Trust Model," pamphlet, undated.

305 Federal Financial Institutions Examination Council (FFIEC) at http://www.ffiec.gov/cra/history.htm.

306 "Cooperatives Are…Cooperative Business in the United States." National Cooperative Business Association (NCBA) brochure, undated.

Customer Stock Ownership Plan (CSOP)
Refers to a conceptual model whereby customers would own shares in a business they patronize. "The goal of the CSOP is to craft a capital structure that will capture some portion of that value for those whose patronage maintains that value."[307]

Corporation for Enterprise Development (CFED)
"The Corporation for Enterprise Development promotes asset-building and economic opportunity strategies—primarily in low-income and distressed communities—that bring together community practice, public policy, and private markets in new and effective ways."[308] CFED has played a major role in setting up Individual Development Account (IDA) programs across the United States in partnership with community-based organizations.

Development Supported Individual Development Account (DS/IDA)
Refers to a conceptual ROM model that would expand the existing Individual Development Account (IDA) concept so that IDA matching funds would be supplemented by proceeds from local real estate development projects.

Earned Income Tax Credit (EITC)
The Earned Income Tax Credit (EITC) is a tax reduction and wage supplement for low- and moderate-income working families. Enacted in 1975, the EITC is administered by the federal government through the income tax system and can provide a cash refund even to families whose incomes are so low that they do not owe taxes.[309]

Economic Development Initiative (EDI)
Signed into law in 1994, the Economic Development Initiative of the federal Department of Housing and Urban Development "promotes the use of grant funds in tandem with the Economic Development Loan Fund (Section 108)." The EDI's central purpose is to subsidize loan guarantee funds as a way to assist localities in carrying out economic development activities leveraging public and private dollars.[310]

Employee Stock Ownership Plan (ESOP)
Refers to a plan that enables employees to own all or part of a company's stock. Depending on how they are organized, ESOPs provide varying degrees of ownership and control on the part of workers.

Empowerment Zone (EZ)
Refers to a component of the federal Department of Housing and Urban Development's Initiative for Renewal Communities, Empowerment Zones, and Enterprise Communities. Beginning in 1994, the Initiative seeks to facilitate "the investment necessary for sustainable economic and community development" in designated urban and rural areas through federal grants, tax incentives, and partnerships with government, for-profit, and nonprofit entities.[311]

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[307] Jeff Gates, *The Ownership Solution* (Reading, MA: Addison Wesley, 1998), p. 73.

[308] http://www.cfed.org/about/summary.html.

[309] Center on Budget and Policy Priorities website at http://www.cbpp.org/11-4-00sfp.pdf and Center for Community Change website at http://www.communitychange.org.

[310] Federal Department of Housing and Urban Development website at http://www.hud.gov/cpd/edi.html.

[311] Federal Department of Housing and Urban Development website at http://www.hud.gov/offices/cpd/ezec/about/ezecinit.cfm.

Equitable Development
A PolicyLink term that refers to a practical and policy framework that aims to engage and direct market forces to benefit low-income/low-wealth residents and communities. It includes multifaceted strategies designed to ensure individual and community benefit from neighborhood improvement; support meaningful resident participation in decision-making; and integrate people-oriented services with place-oriented neighborhood and regional development.

General Stock Ownership Corporation (GSOC)
Refers to a conceptual model "in which ownership [in a corporation] is based on geography or citizenship."[312] While there are no existing examples of a GSOC, "the GSOC's unusual blend of individual ownership and community-wide participation makes it easily adaptable to situations in which people wish to have a shared stake in the development of common resources."[313]

Individual Development Account (IDA)
An IDA is an incentive-based savings account for low-income people designated for the purposes of home purchase, education, and business development.[314]

Institute for Community Economics (ICE)
"ICE, founded in 1967, is a national organization that promotes the just allocation of resources in communities in ways that address the needs of low-income families. Through technical assistance, financial support, and advocacy, ICE builds the capacity of a national network of community land trusts (CLTs) and other locally controlled organizations for permanently affordable housing and community economic development."[315]

Limited Equity Housing Co-op (LEHC)
Refers to shared ownership of a building by its residents where affordable membership prices for resident-owners can be maintained by controlling the maximum price at which memberships can be resold.[316]

National Congress for Community Economic Development (NCCED)
"The National Congress for Community Economic Development (NCCED) is the trade association and advocate for the community-based development industry. Founded in 1970, NCCED represents over 3,600 community development corporations (CDCs) across America."[317]

National Cooperative Business Association (NCBA)
Founded in 1916, the National Cooperative Business Association (NCBA) is a national cross-industry membership and trade association representing cooperatives—over 100 million Americans and 47,000 businesses ranging in size from small buying clubs to businesses included in the Fortune 500.[318]

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312 Gates, p. 76.

313 *Ibid.*, p. 77.

314 Corporation for Enterprise Development (CFED) website at http://www.cfed.org.

315 ICE website at http://www.iceclt.org/about.html.

316 Herb Cooper-Levy, "Limited Equity Housing Co-ops," manuscript, undated, p. 1.

317 NCCED website at http://www.ncced.org/aboutncced/.

318 NCBA website at http://ncba.org/intro.cfm.

Real Estate Investment Trust (REIT)
Refers to a corporation or business trust that owns a portfolio of income-producing properties.

Resident Ownership Mechanism (ROM)
Refers to a PolicyLink term for strategies and tools to enable low-income/low-wealth residents to gain an ownership stake in the revitalization of their communities.

Resident Stock Ownership Plan (RSOP)
Refers to a conceptual strategy whereby residents would hold shares in businesses that serve the community but are owned and operated outside of the community.

Social Capital
Refers to "norms, shared understandings, trust, and other factors that make relationships feasible and productive."[319] Measures of social capital within a community development context include "(1) individual capacities (e.g., neighborhood leadership, individual's technical and organizational skills); (2) internal neighborhood organizational capacity (e.g., the capacity of newly organized CDCs to undertake real estate development projects); and (3) network or 'linkage' capacity."[320]

Temporary Assistance for Needy Families (TANF)
Congress created Temporary Assistance for Needy Families (TANF) as a replacement for the Aid to Families with Dependent Children (AFDC) program which it ended in 1996 as part of the welfare reform package. TANF provides capped funding to states in the form of a block grant. "Each states determines which families will be served, the type and level of assistance they will receive, the requirements families must meet to be eligible for aid, and the length of time families may receive assistance."[321]

Value Recapture
"Value recapture is any activity that redirects market-generated funds in a revitalizing community for the benefit of existing community residents."[322]

Value Recapture Mechanism (VRM)
Refers to specific tools and strategies that channel market-generated funds into "activities that benefit residents, either individually or collectively."[323]

Value Recapture Trust (VRT)
"A value recapture trust is a real estate-based approach that identifies and secures strategic properties throughout the neighborhood and places these properties or the revenue generated from them into some form of trust, revenues from which are used for the benefit of the community."[324]

Worker Cooperative
Refers to a 100 percent employee-owned company that is democratically organized on the basis of one-member, one-vote.

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[319] Ronald Ferguson and William T. Dickens, eds., *Urban Problems and Community Development* (Washington DC: Brookings Institution Press, 1999), p. 5.

[320] Ross J. Gittell and Avis Vidal, *Community Organizing: Building Social Capital as a Development Strategy* (Thousand Oaks, CA: Sage Publications, 1998), p. 25.

[321] Brookings Institution website at http://www.brook.edu/wrb/publications/pb/pb01/pb01.htm.

[322] Fannie Mae Foundation, *Value Recapture Mechanisms* (Annual Housing Conference binder, 2000), p. 3. Used with permission.

[323] *Ibid.*, p. 3.

[324] *Ibid.*, p. 12.

PolicyLink

National Office:
101 Broadway
Oakland, California 94607
tel 510.663.2333 fax 510.663.9684

Communications Office:
1350 Broadway, Suite 1901
New York, New York 10018
tel 212.629.9570 fax 212.629.7328

www.policylink.org