BUILDING ASSETS WHILE BUILDING COMMUNITIES

Expanding Savings & Investment Opportunities for Low-Income Bay Area Residents

a report for the
WALTER AND ELISE HAAS FUND
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by
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THE WALTER & ELISE HAAS FUND

The Walter & Elise Haas Fund is a private charitable organization dedicated to building a healthy, just, and vibrant society in which people feel connected to and responsible for their community. Through its Economic Security program, the Fund helps low-income adults and families increase their incomes and assets, secure economic benefits from economic development, and strengthen social and professional networks. The opinions expressed in this publication are those of the author and do not necessarily represent the views of the Walter & Elise Haas Fund and those of its officers or directors.

TO THE READER

In today's economy, "working" and "poor" too often go hand in hand. The sad truth is that, in 21st century America, having a job does not ensure economic security. Increasingly, assets serve as the dividing line between those families and individuals who are economically stable and those who are not. And for families with limited income, the challenge to build assets and gain economic traction remains formidable.

The Walter and Elise Haas Fund commissioned *Building Assets While Building Community* because we have learned that, with support and incentives, low-income families can build savings. However, the opportunity to leverage their savings into productive investments often remains costly and out of reach. We also know that low-income communities throughout the Bay Area are undergoing rapid economic development, generating the possibility of new business and home ownership. But without committed planning from the stakeholders in economic development, low-income residents are unlikely to reap these benefits.

This report proposes that economic development activities hold untapped potential to support savings and create home, business and real estate ownership opportunities affordable and accessible to low-income families. It also presents concrete strategies for structuring neighborhood economic development activities to maximize asset accumulation for low-income residents. While focused on the San Francisco Bay Area, these strategies are applicable to communities throughout the country.

We hope the report will be a catalyst for further discussion of the interplay between asset development and economic development. We offer it as a resource for practitioners, policy makers, residents and funders committed to creating new opportunities for low-income families to save, invest and build a secure economic future for themselves and their children.

Amanda Feinstein
Program Officer for Economic Security
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EXECUTIVE SUMMARY

In the past decade, a national asset-building movement has been working to increase opportunities for low-income families to build financial assets—cash savings, stocks, bonds, home, business and real estate equity. Interest in asset building as an anti-poverty strategy has been fuelled by increasing public awareness of the importance of financial assets, as well as income, in building economic security.

The movement started in the early 1990s with a focus on individual development accounts (IDAs), matched savings accounts that encourage low-income individuals to save. The success of IDAs has galvanized support for the development of a broader continuum of wealth-building opportunities for low-income families including access to financial education and services, a growing number of savings tools, affordable investment opportunities, and asset-protection measures such as anti-predatory lending policies.

Asset-building strategies typically focus on people—individuals and families—as opposed to places, the neighborhoods where they live. Increasingly, however,

practitioners and funders are exploring ways that economic revitalization activities in and near low-income neighborhoods can be a catalyst for asset building, moving families toward greater economic security while at the same time strengthening communities

by ensuring that residents have the capacity to participate, as consumers and investors, in their local economy.[1]

The following report explores a menu of savings and investment strategies, underway in communities across the country, that could be included as part of local community and economic development planning efforts. The *Savings Strategies* section describes an array of matched savings accounts and other savings programs. It proposes ways that these savings tools can be expanded through community and economic development, and how they can more effectively be linked to affordable investment opportunities. The *Investment Strategies*, section presents a range of approaches to structuring home, business and commercial real estate investments to be more accessible to low-income individuals and families. The report highlights relevant national and local examples, and it describes ways that foundations, local government, nonprofits and the private sector could support the creation and/or expansion of these strategies in San Francisco Bay Area communities.

Implementing any or all of the opportunities described in the report would help to ensure that long-time residents of the Bay Area's low-income neighborhoods have resources to save and invest; the choice to remain in their communities when economic development efforts are successful and real estate values appreciate; and the capacity to contribute—as consumers and investors—to their local economy. In short, it would help to ensure that low-income people prosper as their neighborhoods improve.

INTRODUCTION

In communities across the country, a new dialogue is under way about "asset-building"—strategies and supportive public policies that enable low-income individuals to save and invest in themselves, their children and their communities. Over the last decade, the movement has grown, fuelled by the recognition that while income and service-based strategies may help families to move out of poverty, a job alone will not necessarily enable a family to achieve economic self-sufficiency. Instead, low-income families need access to a continuum of opportunities in order to accumulate, leverage and preserve financial assets.[2]

The context of asset inequity

For decades, federal and state policies have subsidized American families to build financial assets through tax code-based incentives like the home mortgage tax deduction and tax-benefited retirement and education savings accounts. But the benefits of these policies have not been accessible to millions of low-income families: Those who lack the resources to cover a down payment or mortgage on a home, whose members work in jobs that don't offer tax-benefited retirement accounts, or those families that have insufficient tax liability to take advantage of tax credits or deductions. In fact, a recent national report showed that one-third of federal asset-building tax subsidies accrue to the top 1 percent of households and that the bottom 60 percent of households receives less than 5 percent.[3]

Today, more than a quarter of U.S. families are asset-poor—they could not live at the poverty level for more than three months without public support if their income were disrupted. And wealth in America is heavily concentrated: The richest 20 percent of families hold more than 83 percent of the nation's household wealth—and the bottom 60 percent holds less than 5 percent.[5] From the perspective of race, the data is stark: 52 percent of African American children and 54 percent of Latino children are starting life in households with few, if any, resources for investment.[6] The median net worth of white households is ten times that of African American households and 35 times that of Latino households.[7]

ASSET POVERTY VERSUS INCOME POVERTY FOR BAY AREA COUNTIES, 2005

County	Asset Poverty Rate	Income Poverty Rate
Alameda	29.0%	9.1%
Contra Costa	19.9%	6.1%
Marin	18.2%	5.7%
Napa	24.0%	7.2%
San Francisco	37.4%	10.6%
San Mateo	22.8%	4.4%
Santa Clara	22.8%	5.4%
Solano	25.0%	6.9%
Sonoma	22.8%	5.8%

Source: Local Asset Poverty Index (LAPI), produced by the Asset Policy Initiative of California, 2005.

The lack of savings and investment opportunities for low-income families has both social and economic costs. Asset-poor families have little or no cushion to survive a wage earner's job loss and usually must turn to public assistance. They cannot afford to improve their education or job skills, and they have no resources to invest in a home, a business or higher education for their children. Many do not have health insurance, so the illness of a family member can quickly deplete their minimal savings. They cannot afford to plan for retirement, and they cannot pass assets on to future generations.

The asset-building movement

The asset-building movement has grown in response to these challenges. The movement began in the early 1990s with the development of individual development accounts (IDAs), savings accounts that offer low-income individuals an incentive — matching funds for each dollar saved—that they can invest in a home, business or higher education. An evaluation of a national IDA demonstration showed that even families with very little income will save and invest, if given appropriate incentives.[8]

The success of IDAs has galvanized support for the development of a broader continuum of wealth-building opportunities targeting low-income families. The continuum includes access to financial education and services, a growing number of matched savings accounts and other savings tools, affordable investment opportunities, and asset-protection measures such as anti-predatory lending policies and alternative financial products. (*Please see Continuum of Asset-Building Opportunities, page 11*).

The framework of an asset development continuum recognizes that the starting point for each low-income family may be different. For some families, opening a bank account with a mainstream financial institution to reduce spending on high-cost payday lenders and check cashers will be the first step. For others, it will be financial education or counseling to clean up a poor credit record. And for others still, the process may start with opening an IDA account and attending homebuyer education. Local initiatives are under way in communities across the Bay Area to increase these types of asset-building opportunities.[10]

Increasing the capacity of Bay Area families to be savers and investors in their communities promises economic and social returns. Expanding opportunities for families to build financial assets enables them to weather economic crises, upgrade their job skills and invest in their communities. Building family assets helps to strengthen communities by ensuring that residents have the capacity to participate — as consumers and investors — in the local economy. And it helps to strengthen the social infrastructure of communities. For example, research shows that asset ownership contributes to greater levels of community involvement, higher levels of participation in individual and collective political action and greater participation in voluntary organizations.[11]

Asset-building and local community/economic development[12]

This report addresses the *savings* and *investment* parts of the asset continuum. It describes a menu of asset-building strategies that can be included in local economic development and community development planning in order to help low-income residents save and invest, in themselves and their communities.

Typically, local economic development efforts focus on improving the infrastructure of economically depressed areas, under the assumption that local residents will benefit as the physical environment improves. But for asset-poor residents — who do not own homes, businesses and real estate in their communities — this is too frequently not the case. When public and private investment flows into their neighborhoods and real estate values appreciate, they often are the first to be displaced.

Thoughtful economic development planning increasingly includes strategies to help local residents benefit from the new jobs and services that are generated. However, supporting residents to build financial wealth, as a direct result of economic development, is rarely a priority. But it could be: Public investment in commercial or residential development projects through direct subsidy, tax benefits or other means could leverage private sector support for savings and investment opportunities for low-income residents. Philanthropy could support innovative strategies and partnerships between public and private non-profit stakeholders engaged in the community revitalization process. And city and regional leaders could create a forum for public dialogue about the costs of asset poverty and benefits of asset building solutions.

Purpose and organization of this report

This report aims to be a resource and catalyst for discussions among local elected officials, public agency staff, and foundation, business, nonprofit and community leaders, who are committed to the economic advancement of low-income individuals, families and communities. The report explores a number of ways that community and economic development activities could be leveraged to create new incentives for low-income residents to build their savings. And it presents a range of ownership structures that can be used to make investments in a home, business or real estate more affordable and accessible.

It begins with a summary of opportunities that emerged from the research and is followed by a more detailed menu of savings and investment strategies that could be implemented as part of local economic development and community development planning processes. The menu provides a basic description of each strategy, along with select local, regional and/or national examples. It is meant to serve as a primer regarding the various strategies; it does not aim to provide a cost-benefit analysis of each strategy.

Challenges posed by the Bay Area's high-cost marketplace

The high cost of real estate in Bay Area communities poses particular challenges to some of the investment strategies described in this report. For example, the high cost of land and building materials has increased the amount of public subsidy needed to build affordable rental and ownership housing. Some public and nonprofit sector stakeholders are concerned that directing public attention and resources to affordable homeownership opportunities may drain these same resources away from subsidized rental housing accessible to lower-income families.

These trade-offs are already being discussed in Bay Area communities, but the discussion need not be about a zero-sum game. Many of the strategies described in the report—such as limited equity cooperatives and community land trusts—include limited equity formulas that both preserve public subsidies, over time, *and* provide residents with asset-building opportunities. Other strategies—such as shared equity homeownership and employer-assisted housing—bring new resources into the housing market by enabling private sector, labor, philanthropic and public sector stakeholders to invest in homeownership in partnership with low-income households.

Evaluating risk

The investment opportunities described in this report offer low-income individuals and families access to a potential return—but risk is inherent in every investment. For example, while homeownership has provided high returns in recent years—and steady returns over time—it is unclear how housing values will respond to rising interest rates and changes in regional and local markets. And all business ventures are risky—failure rates are high, particularly in the start-up phase. Finally, commercial real estate investment has historically been kept out of reach of low-wealth individuals because of high-risk levels—but an inability to invest means that community residents also have been barred from reaping the high returns associated with successful development, returns that often are subsidized by public resources.[17]

Some of the strategies described in the report mitigate low-income investors' exposure to risk through provisions that put a floor on asset loss (e.g. the San Francisco Redevelopment Agency's limited equity formula); limit a family's risk exposure to a percentage of its income or assets (e.g. the Jacob Center for Neighborhood Innovation's Community Development/Initial Public Offering); or disperse both risk and return among multiple investors (e.g. worker-owned cooperatives, broadly-held stock options, etc.).

The following menu of strategies does not include a detailed assessment of risk and return. Such an assessment should be part of any local planning processes in order to evaluate the costs and benefits of different approaches. Furthermore, implementation of local strategies should include the provision of financial education and advice to local investors so that they will be able to make their own informed choices.

HIGHLIGHTS: EMERGING OPPORTUNITIES

The following are highlights of emerging opportunities for foundations, public and private sector leaders to support asset-building strategies in Bay Area communities. *Note: The strategies presented below are described in detail in the following section of the report, Menu of Savings and Investment Opportunities.*

SAVINGS STRATEGIES

1. Expand the supply of IDAs

The demand for IDA savings opportunities among very low-income families far outstrips supply in most Bay Area communities, largely due to a limited amount of matching funds.[18] In addition, low-income working families earning more than 200 percent of the poverty level (about 40 percent of the area median income, or AMI, in most Bay Area counties) are not eligible to open IDA accounts that are matched with federal Assets for Independence Act (AFIA) resources.[19] These low-income families, who are more likely to be ready to move to homeownership, have few opportunities to save for purchasing a home.

City agencies, foundations, the private sector and individuals all could play a role in expanding the supply of unrestricted matching funds available to encourage very low- and low-income families in the Bay Area to save. The following are some specific opportunities to allocate local resources in a way that expands IDA savings opportunities.

- *Allocate a portion of Redevelopment Agencies' affordable housing set-aside funds as matching funds for IDAs*—California redevelopment agencies are required to allocate a minimum of 20 percent of tax increment revenues to support affordable housing for very low-, low- and moderate-income families. Redevelopment agencies could explore using a portion of these "affordable housing set-aside" resources as matching funds for families to save for homeownership in IDAs or IDA-like matched savings accounts.
- *Use inclusionary zoning in-lieu fees as matching funds for IDAs*—Many Bay Area cities have access to private-sector resources to support affordable housing emerging from local inclusionary zoning in-lieu fees.[21] Cities could explore the feasibility of allocating a portion of these resources to support low-income renters to save for homeownership through IDAs or IDA-like matched savings accounts.
- *Increase the amount of public funds supporting savings opportunities for low-income families*—Cities could increase support for IDA program operations and matching funds through the allocation of city-controlled local, state and federal funding.[22]
- *Build partnerships between foundations, public and private sector leaders to create pools of unrestricted IDA matching funds.*

2. Encourage employers to make savings opportunities available to low-wage employees

Private companies could play a greater role in expanding the infrastructure of savings opportunities available to lower-income workers. Public sector and philanthropic leaders could educate the private sector about the economic costs of asset poverty and the benefits of asset-building solutions including employer IDAs, Lifelong Learning Accounts (LILAs) and other workplace-based approaches.

3. **Maximize eligible Bay Area families' access to savings opportunities through the HUD Family Self Sufficiency program**

   The Family Self-Sufficiency (FSS) program of the federal Department of Housing and Urban Development (HUD) provides public housing and Section 8 voucher holders with a unique opportunity to save and provides communities with access to federal asset-building resources. But, today, most Bay Area Public Housing Agencies (PHAs) are only able to serve a small percentage of eligible participants due to limited HUD funding to support program staff. Bay Area communities could increase the amount of federal FSS resources captured at the local level by building partnerships—between PHAs and city agencies, foundations, nonprofits and other community-serving institutions—that maximize the number of accounts open to public housing residents and Section 8 voucher holders.[23]

4. **Maximize use of the Federal Home Loan Bank of San Francisco IDEA and WISH programs**

   The Federal Home Loan Bank of San Francisco offers Bay Area residents earning up to 80 percent of the AMI matched savings opportunities to save for homeownership through its Individual Development and Empowerment Account (IDEA) and Workforce Initiative Subsidy for Homeownership (WISH) programs. Public, private and philanthropic leaders could work with FHLB staff, member banks, IDA and FSS program managers and public housing agencies to maximize and leverage the IDEA and WISH programs at the local level.

5. **Maximize residents' ability to access federal EITC resources and invest them in asset-building opportunities**

   Efforts are currently under way in communities across the Bay Area to capture federal resources available to working poor families through the Earned Income Tax Credit (EITC). While local and regional campaigns are proving successful in enabling families to access their returns, they have been less successful at connecting refund recipients to savings accounts and/or investment opportunities. Public, private and nonprofit sector support for making these asset-building linkages could help local residents maximize these federal resources. In addition, cities could develop local tax credit initiatives—like the Working Families Credit in San Francisco—to provide an additional incentive for eligible families to claim the EITC.[24]

6. **Support the establishment of children's savings accounts in Bay Area communities.**

   Children's savings accounts, seeded with public or other dollars, are an emerging strategy for building savings for children of low-income families. CSA initiatives could be established in Bay Area communities and supported by resources from philanthropic, public and private resources.

INVESTMENT STRATEGIES

Increase Opportunities for Families to Build Home Equity

7. **Support strategies that make homeownership affordable to families earning less than 80 percent of AMI**

   Many Bay Area redevelopment and city housing agencies are investing public resources in homeownership opportunities for moderate-income families—those earning between 80 percent and 120 percent of the area median income (AMI)—but they are doing little to create a supply of homeownership opportunities for low- or very low-income families, earning less than 80 percent of AMI.

   The report explores strategies that could help make homeownership more accessible to lower-income households including: limited equity cooperatives, self-help homeownership, community land trusts, manufactured housing, shared equity homeownership, lease purchase, Section 8 homeownership and employer-assisted housing.

Public, private, community and philanthropic leaders could explore ways to increase the supply of these alternative homeownership opportunities through one or more of the following approaches:

- Bring key stakeholders to the table to address practical and policy barriers, identify opportunities, and develop appropriate strategies and policy solutions to expand the existing supply.
- Develop creative solutions for increasing public and private financing of alternative homeownership strategies.
- Encourage local, state and national foundations to make Program-Related Investments (PRIs) in alternative homeownership strategies.
- Encourage private sector employers to implement employer-assisted housing and support affordable homeownership opportunities for lower-wage employees.
- Allocate redevelopment resources and inclusionary zoning in-lieu fees to support the development of homeownership units that are affordable to families earning less than 80 percent of the AMI.[25]
- Support the negotiation of community benefits agreements to support investment in affordable homeownership and other asset-building opportunities.
- Support nonprofit developers to develop affordable homeownership opportunities.

Increase Opportunities for Families to Build Business Equity

8. Expand support for microenterprise programs

Community-based microenterprise programs are an important strategy for supporting low-wealth entrepreneurs to build business equity.[26] Foundations and public sector agencies could continue and increase support for these program.

9. Support the development of worker-owned cooperatives

Worker-owned cooperatives, a strong and growing business model in the Bay Area and nationwide, are producing tangible wealth for worker-owners. Public and philanthropic sector leaders could support the expansion and replication of worker-owned cooperatives through a mix of strategies including support for education, technical assistance, cooperative alliances and investment in and support for cooperative investment funds. In addition, cities and foundations could support innovation in the use of alternative corporate structures to support worker-owned cooperatives serving different populations.[27]

10. Encourage private companies to offer wealth-sharing opportunities for low-wage workers

Expanding opportunities for low-wage workers to gain an equity stake in the companies where they work is another way to build business assets among Bay Area residents. City, foundation and community leaders could play a role in encouraging the private sector to offer employee ownership or wealth-sharing opportunities for lower-wage workers. Community-based organizations could identify companies in their community whose owners are ready and willing to sell to local workers through an employee stock ownership plan (ESOP).[28] Socially-responsible investment funds could broker employee ownership and wealth-sharing opportunities among their portfolio companies.[29]

11. Support low-wealth entrepreneurs to access franchise ownership opportunities in their communities

City agencies, nonprofits and foundations could broker relationships between franchise owners and community-based organizations to give low-wealth entrepreneurs more opportunities to invest in local business franchises. Cities, nonprofits and local philanthropy could encourage local, state and national foundations to consider Program-Related Investments (PRIs) in resident-owned franchises.

12. Support the development of businesses owned by groups of local residents

Cities and foundations could support the development of community-serving businesses owned by groups of local residents. Public and foundation resources could be devoted to supporting nonprofits and CDCs to educate local residents about emerging opportunities, and connect them to appropriate technical assistance and financing opportunities.

Expanding Commercial Real Estate Investment Opportunities

13. Support the creation of opportunities for resident investment in commercial development projects

Creating opportunities for low-income residents to invest in commercial and mixed-use development projects in their communities is an emerging area of asset-building opportunity.

Some philanthropic leaders are already supporting Bay Area community-based organizations to explore ways to apply elements of the San Diego/Market Creek Plaza approach to local development projects.[30] Innovation in this arena will require a long-term commitment of public and private resources. Public, private and nonprofit sector leaders could work together to explore resident ownership models in Bay Area communities.

CONTINUUM OF ASSET-BUILDING OPPORTUNITIES

FOCUS OF REPORT

Poverty → Economic Security

Access to Mainstream Financial Services

Savings Opportunities

- Individual Development Accounts
- Employer-supported savings
- Lifelong Learning Accounts
- Family Self-Sufficiency Program
- Earned Income Tax Credit
- FHLB—IDEA & WISH
- Children's Savings Accounts

Investment Opportunities

HOME EQUITY

- Cooperatives
- Self Help
- Community Land Trusts
- Manufactured Housing
- Shared Equity
- Lease Purchase
- Section 8 Home-ownership
- Community Benefits Agreements

BUSINESS EQUITY

- Worker-owned cooperatives
- Community Benefits Agreements
- Employee Wealth Sharing Programs
- Resident-owned businesses

COMMERCIAL REAL ESTATE

- Community Development IPO

Asset Preservation Measures

FINANCIAL EDUCATION

SAVINGS STRATEGIES

The following menu of Savings Strategies describes an array of matched saving accounts such as IDAs, Children's Savings Accounts and LILAs that give individuals and families an incentive to save. It presents programs that augment these savings such as the Federal Home Loan Bank's IDEA and WISH programs, as well as federal savings resources such as the Earned Income Tax Credit and the Family Self Sufficiency Program. Also presented are ideas about the roles that the public, private and nonprofit sectors could play in supporting low-income families to save, based on models from around the country.

While many of the strategies described in this section exist in Bay Area communities, they could be strengthened or expanded through public, private and nonprofit sector support. Where they do not yet exist, they could be considered. In addition, these strategies could be linked to economic development efforts as a way to ensure that low-income residents benefit from the investment of public and private resources in their communities. All of these strategies are most effective if supplemented by financial education and affordable financial services and linked to affordable investment opportunities.

INDIVIDUAL DEVELOPMENT ACCOUNTS

Individual Development Accounts (IDAs) are an asset-building strategy designed and developed in the 1990s by CFED (formerly the Corporation for Enterprise Development) and the Center for Social Development (CSD) at Washington University in St. Louis. Today, there are more than 500 IDA programs in communities across the country, supporting between 20,000 and 50,000 IDA accounts.[34] CFED describes the strategy as follows:

> "Individual Development Accounts (IDAs) are matched savings accounts that enable low-income American families to save, build assets and enter the financial mainstream. IDAs reward the monthly savings of working-poor families who are building towards purchasing an asset—most commonly buying their first home, paying for post-secondary education or starting a small business. The match incentive—similar to an employer match for 401(k) contributions—is provided through a variety of government and private sector sources. Organizations that operate IDA programs often couple the match incentive with financial literacy education, training to purchase their asset and case management."

IDA programs have demonstrated that lower-income families can save if offered appropriate incentives, an insight that has helped to spur the growth of a national asset-building movement.[35] IDA account holders typically participate in the program for one to four years. Their savings are matched at a rate that ranges from 1:1 to 3:1 and typically is capped at $4,000 to $6,000. Initially supported by private foundations, today IDAs receive most of their support from public funding, including about $185 million in federal grants and $40 million in state resources.[36] These resources include restrictions, which vary by funding source.[37]

Status in the Bay Area

The Bay Area is home to numerous IDA providers that have pioneered new models for taking IDAs to scale. The largest providers include the Assets for All Alliance, a program of Lenders for Community Development,[38] the Earned Assets Resources Network[39] and the East Bay Alliance for Local Development.[40] IDA programs are demonstrating the powerful impact of savings on communities, as well as families. For example, Lenders for Community Development has helped more than 1,300 families accumulate almost $5 million in savings and has helped 110 households purchase homes.[41]

In the past decade, a number of youth IDA programs have been developed in Bay Area communities. For example, Juma Ventures, a youth development organization in San Francisco, offers participating youth a 3:1 match for education savings and a 2:1 match if they use the savings for other eligible uses—such as paying first/last months rent, starting a business, buying a computer, putting a down payment on a home or paying for child care.[42]

Other local programs are including IDAs as part of an integrated approach to enabling immigrant and other low-income families to achieve self-sufficiency. For example, the Oakland-based Family Independence Initiative offers financial rewards to families who work together to expand their financial security.[43] The model combines access to financial education with IDAs and peer support networks. AnewAmerica Community Corporation is working to promote the long-term economic empowerment of immigrant families across the Bay Area through an approach that includes IDAs as part of a "virtual business incubator" model. The program allows IDA savings to be used for business capitalization, homeownership, retirement funds or children's college education.[44]

EMPLOYER-SUPPORTED SAVINGS

Opportunity: Expand the supply of IDAs in local communities

The demand for IDA savings opportunities among very-low income families far outstrips supply in most Bay Area communities, due to a limited amount of matching funds.[45] In addition, families earning more than 40 percent of the area median income (AMI) are not eligible to save in IDA accounts that are matched with federal Assets for Independence Act resources.[46] These low-income families, which are more likely to be ready to move to homeownership, have few opportunities to save for the purchase.

City agencies, foundations, the private sector and individuals all could help expand the supply of IDAs available to very low and low-income families in the Bay Area by increasing the supply of unrestricted matching funds. The following are some specific opportunities to allocate local resources in a way that expands IDA savings opportunities.

- *Allocate a portion of redevelopment agencies' affordable housing set-aside funds as matching funds[48] for IDAs*—California redevelopment agencies are required to allocate a minimum of 20 percent of tax increment revenues to support affordable housing for very low-, low- and moderate-income families. Redevelopment agencies could use a portion of these "affordable housing set-aside" resources as matching funds for families to save for homeownership in IDAs or IDA-like matched savings accounts.
- *Use inclusionary zoning in-lieu fees as matching funds for IDAs*[49]—Many Bay Area cities have access to private sector inclusionary zoning in-lieu fees to support affordable housing. Cities could explore the feasibility of allocating a portion of these resources to renters who want to save for homeownership through IDAs or IDA-like matched savings accounts.
- *Negotiate community benefits agreements that support asset-building outcomes*—Cities and redevelopment agencies could facilitate community benefits agreements for specific development projects in low-income communities. A portion of the resources flowing from the agreement could be used to provide matching funds for IDA and support other asset-building opportunities.
- *Increase the amount of public funds supporting savings opportunities for low-income families*—Cities could increase support for IDA program operations and matching funds through the allocation of city-controlled local, state and federal funding.[50]
- Build partnerships between foundations, public and private sector leaders to create pools of unrestricted IDA matching funds

In addition to enabling employees to save through retirement savings plans—such as 401(k) and 403(b) plans—employers could provide the infrastructure for lower-wage employees to access other asset-building opportunities. Employer-supported IDAs and LILAs, described below, are tools that help low-wage employees build financial assets. They also benefit employers by enabling them to attract and build loyalty among workers and increase employee skills and productivity.

Employer IDAs

Most IDAs currently are offered through community-based organizations, but a national effort is under way to expand the IDA infrastructure by encouraging employers to offer them to their employees.[51] According to CFED, which has been supporting the expansion of employer IDAs nationwide,

> "In an ideal scenario, employers would provide information about IDAs to new employees as part of their orientation process and employees would have the option of enrolling at their discretion (subject to eligibility requirements). Employers would provide match funding and could also make financial education and training available to all employees."[52]

Employer IDAs have tax consequences for both employers and employees, so most of the existing programs rely on state funding or private grants for matching funds.[53] Examples include the Childspace IDA Initiatives sponsored by the Childspace Cooperative Development in Philadelphia, the Worker Income Security Program sponsored by the Community Development Technology Center in Los Angeles,[54] and the Pacific Community Venture employer IDA initiative in the Bay Area, described below.

In 2004, San Francisco-based Pacific Community Ventures (PCV), a nonprofit that manages two for-profit venture funds, launched an employer IDA program in partnership with Lenders for Community Development (LCD) and the Assets for All Alliance. Supported by an initial grant from the Friedman Family Foundation, the program offers IDAs to employees of PCV's portfolio companies. The program operates as a partnership between PCV, LCD and participating companies. PCV reaches out to the companies in its portfolio to get them involved in the program, recruits employees to participate, and provides financial education to participants; LCD manages the accounts; and the participating companies provide space for financial education trainings. PCV and LCD raise the matching funds for the program.[55]

Lifelong Learning Accounts (LiLAs)

LiLAs are a type of matched savings account that enables lower-wage workers to save for education and training so that they can improve their skills and, hence, their earning potential. LiLAs respond to the fact that few employers provide education and training opportunities for front-line workers, with the vast majority of training dollars going to managerial, professional and technical employees.

The Council for Adult and Experiential Learning (CAEL), a national non-profit organization headquartered in Chicago, has been piloting the LiLA model in recent years through a national demonstration that includes three locations and four industry sectors. As with IDA accounts, individuals save in their LiLA accounts. In the demonstration, LiLA contributions are matched by employers and the project. LiLA savings typically can be used for career-related education and training such as tuition/fees, books, computers, software, fees for tuition, supplies and materials.[56] LiLA participants also meet with an educational/career advisor to develop a learning plan consistent with their career goal.

The CAEL demonstration includes an evaluation that is being conducted by Public Policy Associates and is partially funded by the Ford Foundation. The evaluation, which includes an assessment of how the program affects the behavior of workers and employers, may answer questions that inform public policy. CAEL aims to advance national policy to support LiLAs.[57] CAEL also is working with leaders in several states to supports the advancement of relevant state policy.[58]

In 2003, CAEL launched the third of three LiLA demonstration sites in partnership with Jewish Vocational Services. Targeting the healthcare industry, the San Francisco LiLA program provided LiLAs to 75 workers at the University of California San Francisco Medical Center, On Lok, Jewish Family and Children Services, and Planned Parenthood Golden Gate.[59]

Education Savings Programs

The Red Tab Foundation, a public charity founded and supported by employees of Levi Strauss & Co. (LS&Co.) will soon be piloting an "Education Savings Program," that builds on the savings infrastructure offered by state 529 education savings accounts.[60] While the model is still pending IRS approval, the pilot will provide income-eligible employees of the company's Canton, Mississippi customer service center with an opportunity to save for higher-education expenses for their dependents. Employee savings will be matched dollar-for-dollar, up to $500, with resources from the Red Tab Foundation.[61]

Opportunity: Encourage employers to make savings opportunities available to low-wage employees

Private companies could play a greater role in expanding the infrastructure of savings opportunities available to lower-income workers. Public sector and philanthropic leaders could educate the private sector about the economic costs of asset poverty and the benefits of asset-building solutions including employer IDAs, LiLAs and other workplace-based approaches.

FAMILY SELF-SUFFICIENCY PROGRAM

Enacted by Congress in 1990, the Family Self-Sufficiency (FSS) program of the U.S. Department of Housing and Urban Development (HUD) offers an opportunity for public housing residents and Section 8 voucher holders to accumulate financial assets. Typically, as their incomes increase, participating families' rent expenditures increases as well (families pay 30 percent of adjusted income for rent and utilities). The FSS program allows all or a portion of this increased rent payment to be deposited into an escrow account. Program participants must develop an employment and savings plan that they will follow throughout the five-year program. Upon graduation from the program, FSS program participants are free to withdraw the funds, tax free, and use them without restrictions.[62]

The program is administered by local Public Housing Authorities (PHAs) and open to families living in public housing or participating in the Section 8 voucher program. PHAs determine how many applicants can participate and how they are selected. HUD does not restrict the number of families that a PHA enrolls in the program; instead, enrollment is controlled by individual PHAs, based on their staff's capacity to manage the FSS family case-load.[63]

A national evaluation of the FSS program followed program participants from 1996 to 2000.[64] The study found that the median escrow account disbursement for participants who completed the program was $3,351, and program participants experienced a 72 percent median income increase, compared to a 36 percent increase for non-FSS participants. Most participants (68 percent) were single mothers between the ages of 25 and 44. Beyond homeownership, most participants used FSS funds for advanced education, to start a business or to purchase a car.[65]

Today, more than 75,000 families participate in the FSS program nationwide—about 67,500 are Section 8 voucher holders and about 7,500 are public housing residents. FSS Partnerships is national organization dedicated to helping communities around the country maximize family savings opportunities through the FSS program. The initiative seeks to build awareness of the FSS program and develop partnerships between PHAs and community-based institutions to increase program participation.[66]

Status in the Bay Area

The FSS program offers immense savings opportunities for Bay Area families. Public housing agency staff in Oakland and San Francisco report that many participants have accrued more than $10,000 in their FSS accounts. In Marin, one FSS saver's escrow account reached $38,000, which she was able to use to purchase a home in the county.[67]

However, the dearth of staffing resources and affordable homeownership opportunities are both seen as major challenges facing FSS programs in the Bay Area.[68]

Opportunity: Maximize eligible Bay Area families' access to savings opportunities through the HUD Family Self-Sufficiency (FSS) program

Bay Area Public Housing Agencies (PHAs) are able to serve only a small percentage of individuals who are eligible to participate in the HUD FSS program, due to limited HUD funding for program staff. Bay Area communities could increase the amount of federal FSS resources captured at the local level by building partnerships—between PHAs and city agencies, foundations, nonprofits and other community-serving institutions—that maximize the number of accounts open to public housing residents and Section 8 voucher holders.[69]

FEDERAL HOME LOAN BANK OF SAN FRANCISCO — IDEA AND WISH PROGRAMS

The Federal Home Loan Bank (FHLB) of San Francisco supports two programs that offer matched savings accounts targeted to home ownership, available through member banks in California, Arizona and Nevada.[70] The programs, the Individual Development and Empowerment Account (IDEA) and Workforce Initiative Subsidy for Homeownership (WISH) programs, are available to households earning less than 80 percent of AMI.[71]

The IDEA program provides matching funds to families that are already saving through the Family Self-Sufficiency (FSS) program (offered through local public housing authorities) or through an IDA program (typically offered through a local nonprofit organization) to purchase a home. In the WISH program, participants must contribute at least 1 percent of the purchase price from their own funds and complete a mortgage assistance program administered by a public or private entity. Both programs offer a 3:1 match of up to $15,000 per homebuyer household. Both require that the buyer use the Federal Home Loan Bank subsidy for the down payment or closing costs, and that the home be the buyer's primary residence.[72]

In March 2005, the FHLB of San Francisco awarded $6.6 million in matching grants divided equally between the two programs. The IDEA program grants — allocated to 22 member banks that are working with 26 FSS programs and 42 IDA programs in California, Arizona and Nevada — will help 330 households to purchase homes. In the WISH program, 16 member banks will contribute to 56 mortgage assistance programs and will support 330 households.[73]

Status in the Bay Area

Several Bay Area IDA programs have applied for funds in partnership with FHLB member banks, but, to date, they have had only limited success using the programs.[74] FHLB program staff are interested in working with public, private and nonprofit sector leaders to expand Bay Area residents' access to both the IDEA and WISH program.[75]

Opportunity: Maximize the use of the Federal Home Loan Bank of San Francisco IDEA and WISH programs

Public, private and philanthropic leaders could work with FHLB staff, member banks, IDA and FSS program managers, and public housing agencies to maximize the use of the IDEA and WISH program in Bay Area Communities.

CONNECTING EARNED INCOME TAX CREDIT REFUNDS TO SAVINGS OPPORTUNITIES

The Earned Income Tax Credit (EITC) is a powerful tool for asset building and community development. Enacted by Congress in 1975 and expanded in the 1980s and early 1990s, it often is cited as one of the nation's most successful anti-poverty tools because it has helped bring billions of dollars annually into the hands of low-income working families. In 2003 alone, more than 20 million families received the credit, capturing $36 billion in federal resources for low-wage working families and local communities across the country.[76]

Local, state and national campaigns have been devoted to increasing families' awareness of their eligibility to receive EITC refunds, linking them to low- or no-cost tax preparation services and helping them to claim their tax refund. Local EITC campaigns are often supported by the Internal Revenue Service's Volunteer Income Tax Assistance (VITA) program that provides free tax assistance to people earning less than $36,000. The IRS provides free training to volunteers who provide tax preparation services at VITA sites in communities across the country.[77]

Many of these campaigns encourage refund recipients to consider depositing all or a portion of their EITC refund into savings accounts, including IDAs. The campaigns also may connect recipients to programs that will help prepare them for investment opportunities (e.g. homeownership education, microenterprise programs, etc.).

National Initiatives

The Annie E. Casey Foundation is a national leader on this issue. Launched in 2003, the foundation's National Tax Assistance Campaign includes 23 urban communities and rural areas in seven states. The campaign promotes greater awareness of the EITC and other tax code benefits among working poor families, advances low-cost or free tax preparation and incorporates resources obtained through tax refunds into a broader asset-building strategy. The first year of the Campaign resulted in the return of over $115 million in federal and state refunds to working families.[78]

In 2004, the Association of Community Organizations for Reform Now (ACORN) launched a campaign to captured EITC resources in 47 communities across the country. In California, ACORN partnered with H&R Block to reach out to families in 14 communities.[79]

Status in the Bay Area

United Way of the Bay Area's "Earn It! Keep It! Save It!" regional campaign focuses on providing low-income families with free tax return preparation services, assistance with filing EITC refund claims and asset-building information. The campaign coalition includes more than 200 community-based organizations, government agencies and financial institutions in seven Bay Area counties. In 2005, the campaign returned $15.2 million in tax refunds to 13,500 families in six counties. The campaign currently is working on strategies to encourage families to deposit refunds into savings accounts, including IDAs.[81]

Today, San Francisco is the only municipality in the nation with a local EITC program.[82] Through the Working Families Credit program, low-income working families with dependent children can obtain an additional local payment of up to $300 on their tax returns when they file for the federal EITC.[83] In 2004, its first year in operation, the program served more than 10,000 families.[84] The program connects families to matched savings opportunities through individual development accounts offered by the Earned Assets Resources Network. To date, the program has been supported by county general funds and corporate sponsors.

Opportunity: Maximize residents' ability to access federal EITC resources and invest them in asset-building opportunities

While local and regional campaigns are proving successful in enabling families to access their refunds, they have been less successful at connecting refund recipients to savings accounts and investment opportunities. Public, private and nonprofit sector support for making these asset-building linkages could help local residents to capture and invest federal resources. In addition, cities could develop local tax credit initiatives—like the Working Families Credit in San Francisco—to provide an additional incentive for eligible families to claim the EITC resources.[85]

CHILDREN'S SAVINGS ACCOUNTS

A national demonstration project is currently under way—the Savings for Education, Entrepreneurship, and Downpayment (SEED) initiative—to develop, test and support children's savings accounts in communities across the country. The SEED initiative is being led by CFED working in partnership with other national intermediaries and foundations.[86]

Working with 12 community partners, the demonstration is testing different approaches to children's savings, with the ultimate goal of advancing public policy that supports the establishment of accounts for all children.[87] SEED's participating community partners are implementing a range of account structures: eight sites are using savings accounts, two are using 529 education savings accounts and one is using investment accounts. Most are custodial accounts, in which the account is owned by a child but administered by a custodian, but in one the parents of preschool-age children own the account.[88]

Status in the Bay Area

Juma Ventures, a youth development program based San Francisco, is one of the partners in the national SEED demonstration. Juma has 75 account holders, all between 15–23 years old. The JUMA SEED accounts, offered in addition to regular IDA accounts, are opened with an initial $500 deposit. Account holders receive a $2 match for every dollar saved. Juma provides participating youth with cash incentives, deposited into the accounts when they achieve certain benchmarks, such as graduation from high school or completion of a financial education course.[89]

Opportunity: Support the establishment of children's savings accounts in Bay Area communities.

Children's savings accounts are an emerging strategy for building savings for children of low-income families. CSAs initiatives could be established in Bay Area communities and supported by resources from philanthropic, public and private sources.

INVESTMENT STRATEGIES

With increased opportunities to save, families can build their financial security over time, but accumulating savings is only one step toward long-term self-sufficiency. Investment opportunities enable families to go the next step—leveraging savings into equity-building investments that help to build a nest egg for current and future generations.

The following menu of Investment Strategies, highlights different approaches to increase investment opportunities that are affordable to low-income families. It focuses on home, business and commercial real estate investment opportunities and discusses ways to make them accessible and affordable to low-income individuals and families. While other investment opportunities—like stocks, bonds and mutual funds—are also relevant to the discussion, they are not covered in this report.

EXPANDING OPPORTUNITIES TO BUILD HOME EQUITY

Homeownership is important to the stability of families and communities. A home is the primary source of wealth for most households. Owning one's home provides predictable housing costs, tax benefits and, typically, a source of appreciating value.[98] Home equity also provides a resource that families can use to pay for other asset-building opportunities, like higher education or investment in a business.[99]

Homeownership opportunities for Bay Area households earning less than 80 percent of AMI are extremely limited.[100] Many Bay Area redevelopment and city housing agencies are investing public resources in homeownership opportunities for moderate-income families—those earning between 80 percent and 120 percent of the area median income (AMI)—but they are doing little to create a supply of homeownership opportunities for low- or very-low income families, earning less than 80 percent of AMI.[101]

In recent years, support for the development of affordable homeownership options has been stymied by high land and building costs and concerns about using public resources to subsidize financial gains for individual households. But widespread interest in affordable homeownership strategies is being fueled by growing public discussion about the value of asset-building as a poverty-alleviation strategy; recognition of the fact that middle and upper-income households receive indirect subsidies for homeownership (e.g. mortgage interest and property tax deductions); and growing interest in strategies that balance affordability with equity-building opportunities (thereby preserving public subsidies).

Increasing the supply of alternative homeownership models—such as limited equity cooperatives, self-help homeownership, community land trusts, manufactured housing, shared equity homeownership, and other strategies described below—could enable families with minimal investment resources to enter the homeownership market.[102] Even in high-cost areas—like the Bay Area—these strategies could be combined with a range of first-time homebuyer programs to enable low-income families to get into the market. This report does not cover the full array of first-time homebuyer programs available at the state and local levels.[104]

LIMIITED EQUITY COOPERATIVES

Cooperative ownership of housing gives residents a way to share a stake in a building with others. According to the Washington, D.C.-based National Cooperative Bank Development Corporation:

> "A housing cooperative is formed when people join together to own or control the buildings in which they live. They form a corporation. Each resident-member purchases shares or a membership in the corporation; each membership carries with it the right to occupy a particular unit in the cooperatively-owned building. Each resident-member pays a monthly amount to cover operating expenses, taxes and any debt service on a shared mortgage. Monthly fees are comparable to or less than the rent paid in similar rental buildings, as fees are set by member-residents and reflect actual costs of owning and operating the property."[105]

A limited equity cooperative (LEC) limits the resale value of housing cooperative shares in order to keep them affordable over time. LECs provide a community with a stable source of affordable homeownership and cooperative owners with the benefits of home ownership—secure and stable housing, lower housing costs, tax benefits (mortgage interest and property tax deductions) and market appreciation related to their individual share.[106] In addition, cooperative owners do not need to qualify for an individual mortgage—the building's mortgage is held by the corporation—so lower-income families are presented with fewer barriers to investing. About one-third of the cooperative housing units, nationwide, are limited equity.[107]

Research shows that tenant-owners of LEC buildings are more likely to express satisfaction with their living situation and are more optimistic about the future than residents of rental buildings in the same community,[108] and that living in an LEC helps promote civic participation.[109] In some cities, support organizations strengthen cooperatives by offering owners training, technical assistance and other services.[110]

In 1978, California passed legislation that defined limited equity housing cooperatives as a new type of stock cooperative, organized as a public benefit corporation. The law limits the resale value of shares—transfer values may not exceed a price that represents a maximum of a 10 percent annual return on the value of the initial investment, plus the value of authorized home improvements installed at the expense of the occupant.[111] While this formula curtails an owner's ability to benefit from market appreciation, it still provides them with a stable return on investment.

National initiatives

The National Cooperative Bank Development Corporation (NCBDC) recently launched a national initiative, "Together We Can/Affordable Cooperative Homeownership Initiative," to "promote cooperatives as a means to preserve affordable housing and create homeownership opportunities for low- and moderate-income families." In New York, the initiative is working with the city and several community-based developers to produce 1,600 units of new affordable cooperative housing units in the next three years. The initiative also supports affordable cooperative development in Washington, D.C., and is exploring expansion into other housing markets, including the Bay Area. NCBDC provides the initiative with technical assistance, training, advocacy and predevelopment capital for experienced nonprofit developers.[115]

Status in the Bay Area

Cooperative housing is commonplace in some housing markets, like New York City, but it is not being widely pursued in the Bay Area.[116] Most of the Bay Area's cooperative housing supply was built in the 1950s and 1960s, with federal support.[117] The reduction of federal funding for affordable housing in the 1980s and the advent of the Low Income Housing Tax Credit in 1986 shifted most developers' focus to rental housing.[118]

Today, the limited supply of developable land and high development costs pose serious challenges to the development of LECs in the Bay Area. One solution, being advanced by NCBDC, is to support tenants of rental properties that were developed with now-expiring tax credits to convert their buildings into LECs.[119] Another approach is to lower the costs by developing LECs in redevelopment areas, in partnership with local agencies. Project-related investments (PRIs)—from national foundations and national funds that already receive PRIs—could also be a potential source of capital for Bay Area LECs. On the buyer side, some California LEC developers are exploring the use of the Federal Home Loan Bank IDEA and WISH programs, described earlier in the *Savings* section of this report, to support families to purchase LEC shares.[120]

Opportunity: Support the development of limited equity cooperatives in Bay Area communities

While common in other parts of the country, limited equity cooperatives are an underutilized strategy in the Bay Area. As is true for all affordable housing development, cost factors challenge the development of new LECs, but a lack of familiarity with the model—among legal, financial and real estate professionals, as well as public and philanthropic leaders—also plays a role. City leaders and private philanthropy could catalyze new discussions about the costs and benefits of LECs, compared to other rental and ownership options, and they could support interested parties to connect with national technical assistance and financing opportunities in order to bring national expertise to address local challenges. Cities and redevelopment agencies could explore the use of LECs as part of local development projects, supported by public funds, and nonprofit developers and tenants could explore the possibility of converting buildings with expiring tax credits to tenant-owned LECs.

SELF-HELP HOMEOWNERSHIP

Self-help homeownership gives aspiring low-income homeowners, who do not have the financial resources to invest in a home, an opportunity to build "sweat equity." Families invest time and energy in building a home. Then, their labor is converted into a down payment or they become eligible for a subsidized mortgage and other assistance, or both.

Mutual Self-Help

Typically, the mutual self-help housing model includes groups of 8 to 12 families that work together to build each other's homes. Under the supervision of experienced staff hired by a local non-profit, families work 30–40 hours a week over an 8–12 month period. Self-help typically reduces the cost of building a single-family home by 10–25 percent.[121]

The self-help model aims to build a sense of community and interdependence among participating families, as they help one another to build their homes.[122] While it addresses a family's lack of resources for a down payment, participants still must have sufficient income and a credit record to qualify for a mortgage. Financing packages to support the purchase typically include a low-interest or no-interest second mortgage.[123]

Self-help homeownership is mostly found in rural communities because the U.S.

Department of Agriculture (USDA) provides support for program operations and mortgages for families purchasing homes. HUD provides some federal funds to support the development of self-help homeownership in urban areas through the Self-Help Homeownership Opportunity Program (SHOP).[124] However, while SHOP funds can be used by eligible non-profit organizations to purchase home sites and develop or improve the infrastructure needed to set up sweat equity and volunteer-based homeownership programs, they cannot be used for program operations.[125]

Self-Help Enterprises based in Visalia, California, pioneered the mutual self-help model in the mid-1960s and has since produced more than 5,000 units.[126] Self-Help Enterprises is now working in two urban areas, Fresno and Modesto.[127] California has eight programs, mostly in rural communities, which have produced 10,000 units.[128]

Habitat for Humanity

Habitat for Humanity offers a model that is similar to mutual self-help, but its homes are primarily constructed by volunteers with the participation of prospective homeowners. Habitat homes are being built in communities around the world with donated resources and labor. Habitat produces and rehabilitates homes that are affordable to low-income families because the sales price includes no profit and the new owners are offered no-interest mortgages. Local affiliates are responsible for their own fundraising, site and family selection, construction and mortgage servicing.[129]

Status in the Bay Area

No mutual self-help programs are currently operating in the Bay Area,[130] but Habitat for Humanity affiliates are active in several communities. The number of Habitat homes is relatively small, but they fill an important niche in the housing market—namely, the production of homeownership opportunities for families earning between 40 and 60 percent of AMI. For example, San Francisco Habitat has supported 22 families to purchase their own homes and has 12 new units under development, which have been made available to families earning between 40 and 60 percent of AMI. More than 100 families applied for four slots in a recent development, an indicator of the strong demand among lower-income families.[131]

Both the mutual self-help and the Habitat models help families to become homeowners and enjoy the tax and other benefits of homeownership. However, the Habitat model is more focused on maintaining affordability for homeowners, at least in the short term. Habitat homes do not allow an owner to obtain a share of the home-equity appreciation for 15 years. Owners who sells the house before that time can recoup their initial investment with interest; if they sell after 15 years, they obtain a share in the appreciation, based on a resale formula that is developed by local Habitat affiliates.[132] The mutual self-help model does not limit a home buyer's equity appreciation.

Opportunity: Support the development of self-help housing in Bay Area communities

Self-help housing is proving successful at enabling families who are earning between 40-60 percent of AMI to have an opportunity to invest in homeownership. Additional public and private support would help to increase the very few homeownership opportunities currently available for this segment of the market.

A community land trust (CLT) is a nonprofit organization that lowers the cost of homeownership to individual families by separating the cost of land from the cost of a home. According to the model, a CLT purchases land and manages the development or rehabilitation of housing on the land. The CLT then sells the homes to individual families and keeps them affordable over time, by limiting their resale value based on a formula that is developed by each CLT.[133]

The model, developed by the Institute for Community Economics (ICE) more than 40 years ago, has caught on in communities across the country—today, 160 CLTs are operating in 38 states.[134] The Burlington Community Land Trust (BCLT), the nation's largest community land trust, offers low-income Burlington families a range of housing opportunities, including 370 shared-appreciation single-family homes and condominiums.[135]

The resale price of CLT property is determined by a formula established by the sponsoring CLT and contained in the ground lease. While a CLT's resale formula limits a family's ability to accrue home equity, the strategy provides a way for lower-income families to get into the market, access the benefits of homeownership and accrue some home equity.[136] Unlike limited equity cooperatives, CLT resale formulas are not regulated in California. A national study of the asset-building potential of CLT homeownership is currently under way.[137]

ICE offers financing for CLTs nationwide through the ICE Revolving Loan Fund.[138] The Fund has loaned more than $41 million to 425 CLTs in 30 states since it was formed in 1979. A model of a local CLT fund is the California Community Foundation's Community Foundation Land Trust, which will purchase sites in Los Angeles to be used for local CLTs.[139]

Status in the Bay Area

The Berkeley-based Northern California Land Trust, established in 1973, develops properties that are owned by the land trust and offers technical assistance to support the creation of other CLTs in the Bay Area. It develops an array of housing types including single family homes, condominiums, limited equity coops, rental housing and homeless transitional housing. Its cooperative homeownership properties are available to families at up to 60 percent of AMI and its single-family homes and condos, up to 80 percent of AMI. Northern California Land Trust's portfolio of completed projects includes 84 housing units and one commercial property.[140]

In recent years, community land trusts have been under development in several Bay Area cities, but the high cost of land poses a major challenge. The San Francisco Community Land Trust (SF CLT) began in 2001. The planning process has been led by the SF CLT Collaborative with the idea of galvanizing the creation of a network of neighborhood-based CLTs in San Francisco.[141] Oakland community leaders worked for several years to establish a citywide CLT. The effort was discontinued, however, when the group was unable to find adequate long-term resources to cover the administrative cost of creating and managing the CLT.[142]

Opportunity: Support the creation of CLTs in Bay Area communities

MANUFACTURED HOUSING

Today, 19 million Americans live in "manufactured homes" and the number is growing steadily. The common public perception of manufactured homes—of "mobile homes" with little equity-building potential—is becoming rapidly outdated. Manufactured homes have changed markedly in the past decade, partially as a result of HUD regulation. The federal law that governs manufactured housing, the Federal Manufactured Housing Construction and Safety Standards Act, was passed by Congress in 1974. The act requires that HUD-code homes be built to a single, national quality and safety standards, which has resulted in higher-quality, more durable models.

According to a 2002 report by the Neighborhood Reinvestment Corporation (now NeighborWorks), two-thirds of affordable units added to the housing stock in recent years were HUD-code manufactured homes; and 23 percent of the growth in homeownership among very low-income families from 1993 to 1999 was manufactured housing.[144] Streamlined codes have helped to produce significant cost savings in the production process—according to the Manufactured Housing Institute, the industry's trade group, on average building manufactured homes costs less than 50 percent of site-built homes (excluding land costs).[145]

Manufactured homes still face challenges: poor insulation, leased land, unfavorable financing and local regulations that prohibit their development. However, national interest in strengthening manufacture housing as an opportunity for low-income families to build wealth is growing, and national foundations are investing in efforts to address the shortcomings.[146]

National initiative

Innovations in Manufactured Housing, I'M HOME, is a multiyear, multimillion dollar initiative that is supporting new approaches in manufactured housing in communities across the country. The initiative is being led by CFED in partnership with the Manufactured Housing Institute, the industry's trade group, NeighborWorks and other partners, with support from the Ford Foundation. The initiative is providing grants for demonstrations and is supporting the sharing of best practices in the field.[147]

Status in Bay Area

The development of manufactured housing in the Bay Area is limited. Historically, public perception and neighborhood opposition have been significant barriers to development, but design improvements are addressing some of these concerns,[148] and interest in the strategy is growing among some CDCs. For example, Oakland Community Housing Inc. (OCHI), a nonprofit housing developer, has been developing scattered-site manufactured housing for several years. OCHI sells the homes at market-rate prices and uses layered homebuyer subsidies to make them available to households earning below 80 percent AMI.[149] The East Bay Asian Local Development Corporation is currently exploring development opportunities in several East Bay communities.[150]

Opportunities: Support the development of manufactured housing in Bay Area communities

SHARED EQUITY HOMEOWNDERSHIP

Shared equity homeownership is an emerging strategy to enable low-income families to invest in a home in partnership with other investors who then share in the equity appreciation of the home when it is sold. The strategy is under development in other countries and gaining momentum in the United States.[151]

A government-supported shared equity homeownership initiative is currently under way in Britain, led by Prime Minister Tony Blair's administration. The government aims to get 100,000 households into homeownership in the next five years by using public resources to purchase an equity stake in the homes of private home buyers. Home buyers will hold between 50–75 percent of the equity, and the government will purchase the remaining portion, alone or in partnership with mortgage lenders.[152]

National pilot

A national pilot project is under way in the United States—advanced by a partnership that includes the Enterprise Foundation, Freddie Mac, NeighborWorks and the law firm of Brophy and Reilly LLC—that will test the feasibility of financial products to support shared equity housing. The pilot is being tested in nine cities, including Los Angeles. The longer-term vision of the pilot project is to create a financial product that will enable a range of different investors—employers, labor unions, foundations, government or individuals—to partner with low-income families to enter the homeownership market.[153]

Status in the Bay Area

A precedent for this approach exists in several Bay Area cities where housing agencies offer down payment assistance loans and second mortgage products that provide low-interest or deferred payments in exchange for a share of the equity appreciation when the home is sold.[154] In addition, alternative shared equity approaches are being explored in some Bay Area communities.[155]

Opportunity: Support the development of shared equity homeownership models in the Bay Area as a way to build partnerships between low-income families and public, private and labor investors.

LEASE-PURCHASE/ RENT-TO-OWN PROGRAMS

Lease-purchase (or "rent-to-own") housing enables families to rent a home while they clean up their credit or save for a down payment. In a lease-purchase arrangement, a sponsoring organization leases a home to a household that cannot afford a mortgage and then supports the household to move to a position to purchase the home through one or more strategies. Most programs return a portion of the rental or lease payments back to the family to support the down payment and closing costs on the home purchase.

National examples

One of the nation's oldest lease-purchase programs is run by the Inner City Christian Federation (ICCF), a community development corporation in Grand Rapids, Michigan. Started in 1974, ICCF introduced its lease-purchase program in 1985. ICCF rebuilds or constructs single-family homes and then leases them to qualified low- and moderate-income families for two years. During that time, participating families take part in the organization's homeownership education program, and then graduates have an opportunity to buy their homes. The organization returns 70 percent of the accumulated rents to the family and combines it with grants to help families buy the homes.[156]

Another long-standing model is the Cleveland Housing Network (CHN), which has a 20-year-old scattered-site lease-purchase program, targeting very low-income families. CHN finances the program through the syndication of Low Income Housing Tax Credits (LIHTCs), which requires that the units remain as rental housing for 15 years. At the end of that time, CHN offers the home to the leasing family at a below-market price. CHN has acquired, rehabilitated and constructed 1,900 units through the program. CHN was the first program in the country to link the LIHTC with the lease-purchase option.[157]

Status in the Bay Area

Established in 2003 as a two-year initiative, California Home Source is a lease-purchase homeownership partnership between the Association of Bay Area Governments (ABAG), the ABAG Finance Authority for Nonprofit Corporations, Freddie Mac, the California Housing Finance Agency (CalHFA) and CitiMortgage.[158] The initiative supports homebuyers who do not have resources for a down payment or have a poor credit record to purchase a home in any of the nine Bay Area counties. To qualify for the program, applicants' household income must not exceed 140 percent of AMI, and purchasers must be able to show that they can meet the monthly carrying costs of the home.

To participate in the program, an individual or family (the lease-purchaser) first must be approved by a participating lender. The lease-purchaser selects a home, and then the home is purchased by the California Mortgage Assistance Corporation (Cal MAC), a nonprofit government corporation created by the ABAG Finance Authority for Nonprofit Corporations.

Cal MAC leases the property to the lease-purchaser for 39 months, and during that period the lease-purchaser must make timely monthly payments to Cal MAC and take action to resolve outstanding credit issues.[159] At the end of the lease term, lease-purchasers can exercise the purchase option by assuming the mortgage. They are not required to make a down payment or pay closing costs, but they are required to pay a commitment fee equal to 1 percent of the purchase prices when the purchase offer is written. This fee is used to cover program administration costs.[160]

The program is financed through tax-exempt bonds issued by the ABAG Finance Authority for Nonprofit Corporations. CitiMortgage purchases and services the lease-purchase mortgages that are originated by local lenders and pools them into Freddie Mac securities. The down payment is financed through a down payment assistance loan provided by CalHFA.[161] ABAG is currently winding down the two-year initiative and is considering ways to structure an ongoing regional program.[162]

The ABAG initiative and the CDC examples of the lease-purchase strategy could inform the creation of local lease-purchase initiatives.

Opportunity: Support local and regional lease-purchase programs that enable low-income Bay Area renters to purchase a home.

SECTION 8 HOMEOWNERSHIP/ PUBLIC HOUSING AUTHORITIES

The HUD Voucher Homeownership Program, more commonly known as the Section 8 Homeownership Program, offers Public Housing Authorities (PHAs) the option of allowing Section 8 voucher holders to use the program's public subsidy to pay a mortgage instead of rent.[163] The program was piloted by HUD in the late 1990s and implemented nationwide in 2001. As of September 2004, the program had helped 2,000 low-income families, in communities across the country, to become homeowners.[164]

Section 8 voucher holders pay 30 percent of their income toward their monthly housing costs, and HUD pays the remainder. In the homeownership program, the resources go to a mortgage instead of rent. To be eligible for the program, participants must be able to contribute at least 1 percent of the home price toward the down payment and closing costs, and they must be employed full-time for at least a year. PHA programs must follow HUD's final rule on the program (2001), but each is structured differently. Since PHAs do not receive additional funds to administer the program, successful programs are typically supported by local and national funding sources.

A 2002 HUD report, which included case studies of 12 of the original 15 pilot programs, found that 78 percent of the purchasers were female heads of households with a median income of $17,377, and almost half were minorities (48 percent).[165] The study highlighted some of the challenges faced by local programs, including housing affordability, the credit-readiness of participants and lenders' reluctance to work through participants' credit problems.[166]

Status in the Bay Area

According to HUD regional staff, as of May 2005, the Section 8 Homeownership programs had been implemented by the following Bay Area PHAs (the number of homes purchased is in parentheses as of May 2005): Berkeley (1), Marin(1), Oakland(4), Santa Clara(2), Solano(7), Vacaville(5), Vallejo(1), Benicia(8).[167] The program is under development in San Francisco, where the key challenge cited by San Francisco Housing Authority staff is the lack of an adequate supply of affordable housing opportunities.[168] The program's success in Bay Area communities, according to local HUD staff, will depend on developing linkages with nonprofits, addressing the challenge of obtaining down payment resources, tracking homeownership opportunities and connecting participants to them.[169]

One example of how community partnerships can support Section 8 voucher holders to invest in homeownership is under way at the former Hamilton Air Base in Novato. The Marin Housing Authority is working with the City of Novato, Bank of America, and ACORN to ensure that Section 8 voucher holders participate in the lottery for affordable condominiums developed as part of the base conversion process.[170]

Opportunity: Encourage and support Bay Area Public Housing Agencies to implement the Section 8 Homeownership program and ensure that program participants are apprised of and directly connected to affordable homeownership opportunities across the region.

EMPLOYER-ASSISTED HOUSING

Employer-assisted housing can take many forms—from homeownership counseling and financial assistance to investment in the development of new affordable homeownership opportunities. Typically, programs include forgivable, deferred or repayable second loans, a grant, a matched savings plan, or home-buyer education that helps the employee achieve homeownership.

For example, the Fannie Mae Corporation, a lender and supporter of employer-assisted housing programs for other companies, created a program for its own employees in 1991. The company offers a forgivable loan to eligible employees and then requires that the employee stay with the company for five years in order for the loan to be fully forgiven. More than 2,500 employees have participated in the program since its inception.[171] In addition, the Fannie Mae Corporation has supported the establishment of 750 employer-assisted housing programs by private companies, health care facilities, local governments, universities and nonprofits in communities across the country.[172]

Some regional agencies are using financial incentives from states and cities to become active promoters of employer-assisted housing strategies. For example, in Chicago, the regional Metropolitan Planning Council manages a regional employer-assisted housing initiative in the Greater Chicago Area. Homebuyers receive support services from nonprofit agencies that are connected to the program through the Council. Most participants in the program earn less than 80 percent of AMI. In 2001, the state made matching-grants to support the program (up to $5,000 per employee), and employers became eligible for a state tax credit of 50 cents for every dollar they spent to help workers buy homes. The city of Chicago provides tax credits to participating employers. The program has served an estimated 300 Chicago residents since 2000.[173]

Opportunity: Encourage private sector employers to invest in homeownership opportunities for lower-wage workers.

INCLUSIONARY ZONING & AFFORDABLE HOMEOWNERSHIP

Inclusionary zoning ordinances give local jurisdictions a tool to ensure that private sector developers are investing in affordable housing opportunities for city residents. They typically require that a percentage of the units in new residential developments—both rental and owned—are affordable to low- and moderate- income households.

According to a survey by Non-Profit Housing of Northern California and the California Coalition for Rural Housing, more than 34,000 units of affordable housing have been developed in the state as the result of inclusionary zoning laws in 107 cities and counties.[174] The vast majority of these policies are mandatory. They require developers to build affordable units or pay an "in-lieu" fee, typically in exchange for some form of non-monetary compensation, such as zoning variances, density bonuses or expedited permit approvals.[175]

Status in the Bay Area

In many Bay Area communities, inclusionary zoning policies are helping to increase the supply of affordable homeownership units, but ownership units are often priced to be affordable to families between 80–120 percent of AMI. Families earning less than 80 percent AMI are not able to access these opportunities without additional public subsidy.

Opportunitys: Explore strategies to expand the number of inclusionary units that are priced to be affordable to families earning 80 percent of AMI or below

REDEVELOPMENT & AFFORDABLE HOMEOWNERSHIP

California redevelopment law requires that redevelopment agencies set aside 20 percent of tax increment revenues to support affordable housing opportunities for low- and moderate-income families (the "affordable housing set aside").[176] A redevelopment agency may choose to use a portion of their housing set-aside dollars to target homeownership for families earning up to 120 percent of AMI.[177]

Typically, redevelopment agencies use only a small portion of their housing set-aside funds for homeownership, and they subject these homes to resale formulas that limit the owner's ability to capture the full value of equity appreciation, in order to ensure the long-term affordability of homes.[178] Agencies typically base a home's original and resale price on a formula that ensures that homes are sold to homebuyers with incomes at a certain AMI level (between 80 percent and 120 percent of AMI). When a unit is resold, the seller's capacity to benefit from appreciation is linked to the increase in the AMI and changes in other cost factors, including interest rates, taxes and insurance costs.[179]

Status in the Bay Area

The role of redevelopment agencies in expanding affordable homeownership opportunities varies across Bay Area communities. Some agencies have been using affordable housing set-aside resources to produce a limited supply of homeownership units, but they are typically priced to be affordable to families between 80-120 percent of AMI, as is permitted under state law. Low-income families, earning less than 80 percent of AMI, cannot access these opportunities without additional public subsidy.

Opportunity: Allocate redevelopment resources to subsidize the development of homeownership units that are affordable to families earning less than 80 percent of the AMI.[180]

COMMUNITY BENEFITS AGREEMENTS & AFFORDABLE HOMEOWNERSHIP

A community benefits agreement (CBA) is a legally-binding contract between a developer and community organizations that details the range of community benefits that will result from an economic development project.[181] After significant success in California, CBAs are now being negotiated by community groups around the country to ensure that local residents benefit as their communities are redeveloped.

Typically, a CBA results from direct negotiations between a developer and community groups. In order to make a CBA enforceable by a government entity, it can be incorporated into a development agreement, the contract between a developer and a city or county (also known as "disposition and development agreements" when used by redevelopment agencies). The result is an agreement by the developer to invest in a package of community benefits, while community groups agree to support the developer in the public planning process. Thus, a CBA helps to build a partnership between the developer and the community for outcomes that are mutually beneficial.[182]

To date, community benefits agreements have focused on obtaining living wage jobs, local hiring, affordable rental housing, services, facilities and environmental benefits. They also could support an expansion of asset-building opportunities, such as creating a pool of funds to develop and/or subsidize the development of affordable homeownership opportunities, provide matching funds for IDAs to help residents invest in homeownership and other as strategies.

California example

In 2001, the Los Angeles Alliance for a New Economy (LAANE) and a coalition of community stakeholders negotiated a groundbreaking Community Benefits Agreement in relation to the Los Angeles Sports and Entertainment District, a $1 billion complex in downtown Los Angeles. The agreement resulted in a package of benefits for community residents.[183] The Partnership for Working Families is working with LAANE and other organizations to support the use of CBAs in communities across the state.[184]

Status in the Bay Area

Several variations of CBAs exist in Bay Area communities: In San Francisco, multi-million dollar community benefits agreements have been negotiated—with the involvement of city officials and redevelopment agency staff—in relation to both the Rincon Hill and the Hunters Point Shipyard developments.[185] In West Oakland, a commitment by the Port and City of Oakland to invest in a community fund for the West Oakland neighborhood was included as part of a community benefits package for the Oakland Army Base. Local planning for the use of the resources resulted in support for a "family asset building" component of the fund that would include the provision of matching funds for IDAs.[186] The East Bay Alliance for a Sustainable Economy, Urban Strategies Council and other local groups have been working to negotiate CBAs in relation to several East Bay developments.[187]

Opportunity: Support the negotiation of community benefits agreements to increase investment in affordable homeownership and other asset-building opportunities

Cities and redevelopment agencies could support the negotiation of community benefits agreements in relation to specific development projects in low income communities. These agreements would provide resources to expand the supply of affordable homeownership and other asset-building opportunities such as matching funds for IDAs and/or investment in local asset-building funds.[18]

NONPROFIT DEVELOPERS & AFFORDABLE HOMEOWNERSHIP

Since the early 1970s, community development corporations (CDCs) and other nonprofit housing developers have played a central role in producing affordable rental housing in the United States, and in recent years some have begun developing affordable homeownership opportunities. But nonprofit developers are challenged by the high cost of land and materials, a lack of public subsidies and the fact that they cannot use the low-income housing tax credit for ownership units. Despite these challenges, in many communities, nonprofit developers are successfully combining public, private and philanthropic subsidies to make homeownership affordable to low-income families, those earning less than 80 percent of the AMI.

Status in the Bay Area

While homeownership is not a priority for most Bay Area CDCs, several are working to increase their production of homeownership opportunities, including the San Francisco Housing Development Corporation, the East Bay Asian Development Corporation, Oakland Community Housing Inc., the Community Housing Development Corporation of North Richmond and regional and statewide nonprofit developers, such as Bridge Housing.

Other community development organizations are taking a comprehensive approach to expanding savings and investment opportunities. For example, the Mission Economic Development Agency in San Francisco offers financial education and homeownership counseling and is connecting clients to below-market rate units in San Francisco.[189]

Opportunity: Support nonprofit developers to expand their capacity to build the range of affordable homeownership opportunities described in the report.

EXPANDING OPPORTUNITIES TO BUILD BUSINESS EQUITY

Building business equity is an important way for individuals and families to build assets, but business development opportunities often are inaccessible to low-wealth individuals with limited financial capital. In the past decade, some cities and many foundations have supported microenterprise development programs, often using local, state and federal resources such as Community Development Block Grant funds to target resources to aspiring entrepreneurs. This support has been critical to ensuring that starting a business is a viable option for low-wealth entrepreneurs. While micro-enterprise program are an important strategy in the asset builidng continuum, they are not included in the following list of strategies because there is a wealth of information on this topic already avaiable.[190]

Public agencies and private philanthropy need not limit their support for small business development to individual ownership opportunities. Strategies that enable workers to gain an ownership stake in a business in partnership with other workers or investors—such as worker-owned cooperatives, resident-owned businesses and employee stock ownership plans—could be championed and supported by Bay Area leaders. These strategies and other wealth-building opportunities are explored below.

WORKER-OWNED COOPERATIVES

A worker-owned coop is a company that is 100 percent owned by its workers. According to David Ellerman, one of the founders of the Industrial Cooperative Association, a national technical assistance provider to cooperatives:

> "Workers hold the basic 'ownership' or membership rights which consist of: (1) the voting rights to elect the board of directors which in turn appoints the management or staff, and (2) the rights to the 'profits' or net income of the company. Each member has an equal vote in accordance with the democratic principle of one-person/one-vote. And the net income, which could be positive or negative, is shared among the members according to some agreed upon formula such as equally per dollar pay or equally per hour worked."

Cooperative business development has long been common practice in rural areas, supported by U.S. Department of Agriculture funding. But worker-owned coops have been less successful in cities because of difficulties in accessing start-up capital, insufficient support at the business planning phase, and the fact that foundations are wary of business development, in general, and cooperative business development, in particular.[191]

National initiative

The Urban Cooperative Development Initiative is a new national effort led by the National Cooperative Business Association and cooperative intermediaries and networks from across the country. The initiative focuses on demonstrating the effectiveness of cooperative businesses in "building wealth and ownership" for residents of urban communities. The goal of the initiative is to ensure that cooperative business development is on the agenda in urban community economic development planning efforts around the country.[192]

Status in the Bay Area

The Bay Area is home to 30 worker-owned cooperatives, which are providing strong income and asset-building benefits to their workers.[193] For example, in the food industry, Cheeseboard and Arizmendi Bakeries are thriving community businesses that were developed in a way that illustrates a promising replication strategy.[194] The Berkeley-based Cheeseboard was started in 1997. Once the company was profitable, a percentage of Cheeseboard's profits went into a fund to support the development of new cooperatives.[195] These resources were used for business planning, financing, training and recruitment of new workers for three Arizmendi Bakeries—in Oakland, San Francisco and Emeryville. Each of these successful businesses, in turn, devotes a percentage of profits to support the development of new cooperatives. San Francisco's Rainbow Groceries, the largest worker-owned cooperative in the country, also supports other cooperatives. For example, Rainbow staff members are supporting West Oakland residents to design and launch a grocery store cooperative, the Mandela Foods Cooperative.[196]

Women's Action to Gain Economic Security (WAGES), an Oakland-based program, is supporting the start-up and ongoing operations of three worker-owned cleaning cooperatives—in Redwood City, Morgan Hill and Oakland.[197] WAGES-supported cooperatives are structured as limited liability companies (LLCs), which can operate legally regardless of the immigration status of their owners. The cleaning cooperatives that WAGES supports are each owned by up to 15 worker-owners, mainly immigrant women. WAGES recently expanded its industry focus to help develop a worker-owned landscaping company, in collaboration with the Unity Council of Oakland, primarily for Latino men in the community.[198]

EMPLOYEE WEALTH-SHARING STRATEGIES

To date, there has been little national research on the link between worker-owned cooperatives and asset ownership, but anecdotal evidence suggests a strong link and national research is under way.[199]

Opportunity: Support the development of worker-owned cooperatives

Public and philanthropic sector leaders could support the expansion and replication of worker-owned cooperatives through a mix of strategies including support for education about cooperative business development opportunities, technical assistance, support for cooperative alliances, and investment in and support for cooperative investment funds. In addition, cities and foundations could support innovation in the use of alternative corporate structures to support worker-owned cooperatives serving different populations.

Private sector companies—large and small—can offer a range of options for employees to gain an equity stake in a company or a share of business profits. A new publication on employee ownership published by the Harvard Business School Press, *Equity: Why Employee Ownership is Good for Business* (2005), underscores the value of employee ownership to both businesses and employees. For example, ownership helps businesses to attract and retain workers—and it contributes to a company's growth and productivity.[200] A number of approaches to building employee ownership are described below.[201]

Employee Stock Ownership Plans (ESOPs)

Governed by the federal Employee Retirement Income Security Act (ERISA), an ESOP is a type of employee benefit plan that was created in 1974 and refined over the years to include a number of specific tax benefits. Because of the associated tax bebfits, ESOPs are a promising strategy for converting closely held companies into firms owned in whole or in part by workers. The seller can defer taxes on the capital gain of the sale if the ESOP holds at least 35 percent of company stock. According to the Oakland-based National Center for Employee Ownership, as of 2004 there were about 11,500 ESOPs in the United States, covering more than 10 million participants and controlling $500 billion in assets. Of these, 5 percent are publicly-traded companies and 95 percent are closely held firms.[202]

While the asset-building field has not previously advanced ESOPS as a way for low-income workers to build business assets, it is a strategy worthy of consideration. For example, several California-based ESOP companies are providing wealth-building opportunities to lower-wage workers including Hot Dog on a Stick, a fast-food chain that is 100 percent owned by its 2,000 employees,[203] and Round Table Pizza, a company that is owned by its 3,000 employees. In 2003, Zachary's Pizza (in Berkeley and Oakland) began phasing in the sale of the company to 115 employees through an ESOP.[204]

Broadly granted stock options

Broadly granted stock options are another strategy by which companies can enable lower-income workers to build business equity. Today, an estimated 15 percent of companies in a wide cross-section of industries provide stock options to most or all of their employees. Companies with broadly granted stock options include large national companies with lower-wage and lower-skilled workers, such as Starbucks and Whole Foods.[205]

Employee Stock Participation Plans (ESPPs)

Found almost exclusively in public companies and organized under Section 423 of the tax code (and often called 423 plans), ESPPs have enabled millions of employees to become owners in their companies. ESPPs allow employees to deduct money from their paycheck, on an after-tax basis, to purchase discounted company stock during a specified "offering period."[206]

Employee Wealth-Sharing Program

Some private sector employers in companies around the world have begun to institute employee wealth-sharing programs. For example, oil companies in Ecuador are required, by law, to distribute 15 percent of local profits to employees. Occidental Petroleum recently distributed $464 million of 2004 profits—an average of $130,000-$150,000 per worker—to 350 Ecuadorian employees, including office workers, drivers and oilfield mechanics.[207]

In 2002, a community development venture capital fund, Pacific Community Ventures, included an employee wealth-sharing program as a condition of its investment in a San Francisco-based manufacturer of bicycle messenger bags, Timbuk2. The program was created through a set-aside of company equity for non-management employees. In October 2005, Timbuk2 was sold to a private equity group. The sale of the company resulted in a significant financial return for Timbuk2's previous investors as well as a cash payout of more than $1 million to Timbuk2 employees through the wealth-sharing program. The proceeds of the wealth-sharing payout were divided among 40 nonmanagerial employees—primarily seamstresses and warehouse workers who live in many of the Bay Area's low-income communities—as a one-time bonus.[208]

Prior to this cash distribution to employees, PCV staff provided employees with access to financial education and advice so that they could make strategic decisions about their newly-acquired assets. Most of the beneficiaries have invested a portion of their bonus into the company's 401(k) plan, which will trigger an additional company match. Eleven Timbuk2 employees opened new 401k accounts after attending the workshops provided by PCV.[209]

Opportunity: Encourage private companies to offer wealth-sharing opportunities for low-wage workers

Expanding opportunities for low-wage workers to gain an equity stake—or a profit-sharing opportunity—in the company where they work is another way to build business assets among Bay Area residents. Community-based organizations could be working to identify companies in their community where the owner is willing to sell to local workers through an employee stock ownership plan (ESOP) or other strategy.[210] City, foundation and community leaders could play a role in encouraging the private sector to offer employee ownership or wealth-sharing opportunities. Socially responsible investment funds could help to broker employee ownership and wealth-sharing opportunities among their portfolio companies.

RESIDENT FRANCHISE OWNERSHIP PROGRAMS

Franchise businesses capture more than a third of all retail expenditures in the United States, and franchise networks continue to expand across industry sectors. In recent years, some companies have prioritized expansion into inner-city markets, and a subset of these is working to make franchise opportunities available to low-wealth community entrepreneurs.[211] In addition, national efforts are under way to support minority entrepreneurs to open franchises in underserved communities. Although minorities represent 29 percent of the population, they own only 6–9 percent of all franchises.[212]

National examples

In recent years, franchise ownership programs have helped low-wealth entrepreneurs to make the initial investment in a franchise, and many offer training and other supports as well. For example, Little Caesar's Pizza's "Manage to Own" program supports qualified managers who have the drive but lack the resources to invest in franchises. Applicants must go through a selection and training process and make a $5,000 deposit to participate in the program. The overall cost to the entrepreneur is about $10,000, which is financed by Little Caesar's. Participants earn a salary, bonus, percentage of profits and an opportunity to gain full ownership of a restaurant.[213]

Another national initiative, the Minorities in Franchising Committee, was established by the International Franchising Association in 2002 to increase the number and success of minorities in franchising. The Committee is supporting member companies to work in minority communities.[214]

The Franchise Partnership, a collaborative effort of nonprofits in Chicago, is recruiting franchise companies that have a proven track record of success and linking then to entrepreneurs in low-income communities across the region. The program offers entrepreneurs a comprehensive set of services to help them establish franchise businesses. It is managed by the Center for Neighborhood Technology, Chicago United and the Hispanic Housing Development Corporation.[215]

Status in the Bay Area

The author found no franchising partnership work under way in Bay Area communities.

Opportunity: Support low-wealth entrepreneurs to access franchise ownership opportunities in their communities

City agencies and foundations could work with franchise companies and community-based organizations to match low-wealth entrepreneurs with franchise ownership opportunities in their communities.

COLLECTIVE RESIDENT OWNERSHIP OF COMMUNITY BUSINESS

Another approached to shared business equity is through resident-owned community businesses. The strategy provides a way for residents to create a business that provides a local service, enables resident-owners to build wealth through business equity and employs communities residents.

National examples

BIG Wash, a coin-operated laundromat in the Columbia Heights neighborhood of Washington, D.C., offers an example of how low-income residents can establish and operate a successful community-serving business.[216] BIG Wash was created by residents in 1994, with support from a local CDC. Established as a "C" corporation, the business was owned by 30 residents of the surrounding community, who purchased shares for $100 apiece.[217] Resident equity leveraged a loan from a local bank, along with other corporate and philanthropic dollars. BIG Wash provided investors with a 185 percent return on investment in the first three years. However, while residents owned the company, they did not own the building in which the business was located.[218] After several years of litigation with their landlord, in December 2004 they lost their lease and were forced to close the business.[219]

A similar model of a resident-owned business is Granny's Café, started and owned by a group of community residents in the small rural town of Swanville, Minnesota. The restaurant was established by 34 Swanville residents who each purchased shares in a resident-owned LLC. A five-member board oversees the restaurant manager, who handles day-to-day operations.[220]

Status in the Bay Area

To date, the model has not been tried in the Bay Area. Elements of the approach are under consideration in Oakland.[221]

Opportunity: Support the development of businesses owned by groups of local residents

Cities and foundations could support the development of community-serving businesses owned by groups of community residents. Public and foundation resources could be devoted to supporting nonprofits and CDCs, which would educate local residents about emerging opportunities and connect them to appropriate technical assistance and financing opportunities.

EXPANDING COMMERCIAL REAL ESTATE INVESTMENT OPPORTUNITIES

To date, commercial real estate development has not been widely perceived as an area of asset-building opportunity for low-income community residents. Instead, public subsidies and other incentives for large-scale commercial and mixed-use real estate projects typically go to well-capitalized developers, and so the majority of the profits typically leave the community.[222] But a promising exception is described here, with implications for other communities.

COMMUNITY DEVELOPMENT INITIAL PUBLIC OFFERING[223]

Market Creek Plaza is a 10-acre, $23.5 million cultural and commercial center that is maximizing ownership opportunities for residents of the surrounding communities. The project is located in the "Diamond Neighborhoods" in southeastern San Diego, an area that includes ten neighborhoods and more than 85,000 residents.

Market Creek Plaza is the first phase of a 45-acre mixed-use development supported by the Jacobs Center for Neighborhood Innovation (JCNI), a nonprofit started by the Jacobs Family Foundation, working in collaboration with community residents.[224] To date, the development process has included the active leadership and ongoing engagement of more than 2,000 community residents, organized into working teams. Active and ongoing community engagement in the planning process has resulted in innovative strategies for maximizing resident benefits emerging from the development.[225]

One of the project's most unique features is the fact that community residents soon will have an opportunity to gain an equity stake. In 1999, residents asked to become owners in the development, and JCNI took up the challenge. A "community ownership team" comprised of residents, JCNI staff and lawyers worked diligently for two years—with extensive community input—to develop an appropriate ownership structure. After exploring strategies, the team identified a new model, a "community development initial public offering" (CD/IPO).

The IPO was designed to address community priorities, nonprofit restrictions, project demands and federal and state regulations. The structure includes the following components: JCNI established a limited liability company (LLC), Market Creek Partners, as the owner of the development and Diamond Community Investors (DCI) as a special class of investors who will own a stake in the Market Creek Partners LLC.[226] DCI units (in an LLC, a share is called a "unit") will be restricted to persons living or working in the Diamond communities, local business owners and staff of nonprofits who are actively engaged in the community revitalization process. Units will be sold for $10 each in minimum quantities of 20 units.[227] The exposure of any one investor is limited by the fact that no investor may purchase units worth more than 10 percent of their annual income or 10 percent of their net worth.[228]

Financing for Market Creek Plaza has included project-related investments from private foundations—including the Annie E. Casey Foundation, the Legler Benbough Foundation, the F.B. Heron Foundation, the Jacobs Family Foundation and the Rockefeller Foundation—private investment through New Market Tax Credit investors and other financing sources.

The Market Creek Plaza IPO application was approved by the California Department of Corporations in January 2006. While the IPO structure is tailored to the project, it includes many elements that can help to inform similar efforts around the country. Furthermore, JCNI is committed to making the project documents and lessons from the project available to other communities.

Bay Area examples

Several Bay Area leaders are following the progress of the Market Creek Plaza project, with the goal of integrating resident ownership opportunities into local developments.[229]

Opportunity: Support the creation of opportunities for resident investment in commercial development projects

Creating opportunities for residents to invest in commercial and mixed-use development projects in their communities is an emerging area of asset-building opportunity. Some philanthropic leaders are already supporting Bay Area community-based organizations to explore ways to apply elements of the Market Creek Plaza CD/IPO approach to local development projects, but innovation in this arena will require a long-term commitment of public and private resources.[230] Public, private and nonprofit sector leaders could explore resident ownership models as a way to give residents an ownership stake in local development projects.

ENDNOTES

1 This report uses the terms "community/economic development," "local economic development" and "community development" interchangeably to refer to local planning efforts that include public, private and/or nonprofit sector stakeholders working to improve economic conditions in under-invested neighborhoods.

2 This report uses elements of the asset-building framework first developed by the Asset Policy Initiative of California (APIC). For more information, see www.assetpolicy-ca.org. The author of this report was a consultant of APIC and is currently a member of the APIC Steering Committee.

3 Lillian G. Woo, F. William Schweke, David E. Buchholz (2004), "Hidden in Plain Site: A Look at the $335 Billion Federal Asset-Building Budget," Corporation for Enterprise Development. Available at www.cfed.org.

4 Woo, Lillian G., Jessica Thomas, David Buchholz, and Jerome Uher (May 2005), "Assets and Opportunity Scorecard: Financial Security Across the States," CFED. Available at www.cfed.org/go/scorecard.

5 Wolff, Edward N. (2001). "Recent Trends in Wealth Ownership, from 1983 to 1998," in *Assets for the Poor: The Benefits of Spreading Asset Ownership*, Thomas Shapiro and Edward Wolff, eds., New York: Russell Sage Foundation. This calculation is based on a family's net worth—the difference in value between total assets and total liabilities. Using financial wealth (liquid assets) as a measure, Wolff found that the top 20 percent of families owned over 90 percent of household wealth.

6 Shapiro, Thomas (2004). *The Hidden Cost of Being African American: How Wealth Perpetuates Inequality*, New York: Oxford University Press.

7 Wolff, Edward N. (2005), "Changes in Household Wealth in the 1980s and 1990s in the U.S.," The Levy Economics Institute and New York University.

8 Schreiner, Mark, Margaret Clancy, and Michael Sherraden (2002), "Saving Performance in the American Dream Demonstration. A National Demonstration of Individual Development Accounts," Center for Social Development.

10 Examples of local initiatives include: Bank on San Francisco, a new citywide initiative led by Mayor Gavin Newsom and Treasurer Jose Cisneros that is working with Bay Area financial institutions to bring 10,000 "unbanked" San Francisco families into the financial mainstream. The initiative includes the development of financial products for immigrants as well as "second chance" banking products. The Jumpstart coalition is a statewide effort tackling the issue of financial education in schools, and other groups are working to improve the range and quality of financial education programs at the community level.

11 Edward Scanlon and Deborah Page-Adams, "Effects of Asset Holding on Neighborhoods, Families, and Children: A Review of Research, in Ray Boshara, Ed. (2001), "Building Assets: A Report on the Asset Development and IDA Field," Corporation for Enterprise Development.

12 This report uses the terms "community/economic development," "local economic development" and "community development" interchangeably to refer to local planning efforts that include public, private and/or nonprofit sector stakeholders working to improve economic conditions in under-invested neighborhoods.

17 "Sophisticated investor" criteria—requiring real estate investors to own a minimum level of assets—typically disqualify low-income individuals from investing in private real estate ventures.

18 For example, the San Francisco IDA provider, EARN, reports a waiting list of 100–200 people at any point in time.

19 AFIA-funded IDA accounts are restricted to households who are earning less than 200 percent of the poverty level or claiming the federal EITC—i.e. families earning less than 40 percent of the AMI, in most communities.

21 "In-lieu" fees are paid by developers who are subject to a city's inclusionary zoning ordinance, as an alternative to developing affordable housing units.

22 Many cities are already supporting IDAs through the allocation of public resources such as CDBG, TANF and other federal and state funding streams.

23 This recommendation is based on the writings of and conversations with Jeff Lubell, former HUD staff and founder of FSS Partnerships. For more information, see www.fsspartnerships.org.

24 For more information on the Working Families Credit program, see www.sfgov.org/site/mayor_page.asp?id=28832

25 Another strategy might be to lower the AMI target level, to below 80 percent of AMI, for below market-rate homeownership units developed with redevelopment resources and/or as a result of inclusionary zoning ordinances.

26 Microenterprise development is not explored in depth in the menu because information on the strategy is widely available. For a comprehensive director of microenterprise resources (programs, evaluations, research, etc), nationwide, see the Aspen Institute's FIELD program at www.fieldus.org/home/index.html.

27 See the WAGES LLC example in the *Investment* section of the report.

28 This suggestion was made by Corey Rosen, President of the National Center for Employee Ownership, in an interview on June 8, 2005.

29 See the example related to Pacific Community Ventures and Timbuk2 in the Investment Strategies section of the report.

30 See the *Investment Strategies* section of the report for detail on the Market Creek example.

34 Carolina Reid with Heather McCulloch (2005), "Savings in the Spotlight: Making a Case for Asset Building Policies and Programs," *Community Investments*, Federal Reserve Bank of San Francisco.

35 Mark Schreiner, Margaret Clancy, and Michael Sherradan (2002). *Final Report: Savings Performance in the American Dream Demonstration*. A National Demonstration of Individual Development Accounts. St. Louis, Center for Social Development.

36 Ray Boshara (2005), Individual Development Accounts: Policies to Build Savings and Assets for the Poor, The Brookings Institutions Policy Brief/Welfare Reform and Beyond #32.

37 For example, IDA programs that are receiving federal Assets for Independence Act (AFIA) resources are restricted to savers whose incomes are below 200 percent of poverty level. This restriction may change with the reauthorization of AFIA. For more information and updates on changes in funding sources, see the following websites: www.idanetwork.org, www.assetbuilding.or and gwbweb.wustl.edu/csd/asset/index.htm.

38 For information on LCD, see www.L4CD.com.

39 For information on EARN, see www.sfearn.org.

40 For information on EBALDC, see www.ebaldc.org.

41 LCD website: www.l4cd.com/products/products_1_1.htm.

42 For more information, see: www.jumaventures.org.

43 For more information, see fiinet.org

44 For more information, see: www.anewamerica.org.

45 For example, the San Francisco IDA provider, EARN, reports a waiting list of 100–200 people at any point in time.

46 AFIA funds are restricted to households who are earning less than 200 percent of the poverty level or claiming the federal EITC—i.e. families earning less than 40 percent of the AMI, in most communities.

48 For information on redevelopment agencies and asset-building see the "Redevelopment and Affordable Homeownership" in the *Investment Strategies* section of this report.

49 "In-lieu" fees are paid by developers who are subject to a city's inclusionary zoning ordinance, as an alternative to developing affordable housing units. See the *Investment Strategies* section of this report for more information on inclusionary zoning.

50 Many cities are already supporting IDAs through the allocation of public resources such as CDBG, TANF and other federal and state funding streams.

51 For additional information on employer IDAs, see examples on the IDA network at www.idanetwork.org/index.php?section=initiatives&page=employer_contacts.htm

52 For more information on employer IDAs, see www.idanetwork.org/index.php?section=initiatives&page=employer_based_idas.html.

53 Under current tax law, employers would be required to pay withholding and payroll taxes on contributions to employee IDAs; match contributions and interest accrued would be treated as taxable income for employees.

54 Ibid.

55 Interview with Peter November, Pacific Community Ventures, November 22, 2005.

56 For more information, see www.cael.org/lilas.htm.

57 Draft legislation is being developed to establish a federal demonstration that would provide tax credits for employer and employee LiLA contributions.

58 For example, the State of Maine recently launched the first phase of a state-based LiLA program linked to the public workforce system and the state's 529 college savings accounts, with support from the Ford Foundation and the U.S. Department of Labor.

59 For more information, see www.jvs.org/Training_HC.htm

60 529 accounts are IRS-sanctioned education savings accounts operated at the state level. States administer account systems, offer a range of investment options and oversee private-sector investment management. Withdrawals are tax-free if used for eligible educational expenses. Several states—Louisiana, Maine, Michigan, Minnesota and Rhode Island—offer state matching funds for low-income families.

61 The Red Tab Foundation (RTF) assists LS&CO. employees and retirees to handle personal financial emergencies. It provides financial assistance, education and preventative programs to help individuals maintain their financial, physical and emotional health. For more information, see www.levistrauss.com/responsibility/redtabfoundation/.

62 In order to graduate, FSS participants must be employed and no longer using welfare assistance; they must have achieved the goals they set out in their individual training and services plans. Source: fsspartnerships.org.

63 Interview with Gayle Suits, FSS Coordinator, Marin Housing Authority, May 16, 2005.

64 Robert C. Ficke and Andrea Piesse (2004), "Evaluation of the Family Self-Sufficiency Program: Retrospective Analysis 1996–2000," prepared for the U.S. Department of Housing and Urban Development, April 2004.

65 Jeff Lubell, "A Diamond in the Rough: the Remarkable Success of HUD's FSS Program," March 21, 2004, available at www.fsspartnerships.org.

66 Ibid.

67 Interview with Gayle Suits, FSS Coordinator, Marin Housing Authority, May 16, 2005.

68 Interviews with FSS coordinators in Oakland, Marin and San Francisco.

69 This recommendation is based on the writings of and conversations with Jeff Lubell, former HUD staff and founder of FSS Partnerships. For more information, see www.fsspartnerships.org.

70 The FHLB of San Francisco is one of 12 regional FHLB banks, chartered by Congress in 1932. It is privately owned by its members, which include commercial banks, savings institutions, credit unions, thrift and loan companies, and insurance companies headquartered in Arizona, California, and Nevada. For more information, see www.fhlbsf.com.

71 For more information, see www.fhlbsf.com/ci/grant/idea/default.asp.

72 Ibid.

73 FHLB of San Francisco, Press Release, March 21, 2005, available at www.fhlbsf.com/about/news/releases/2005/pr91.asp, or for more information, see www.fhlbsf.com.

74 According to several Bay Area IDA providers, challenges include the fact that many member banks limit participating savers to using the participating bank's mortgage products, bank staff's lack of familiarity with the programs and/or with the unique needs of buyers coming through the programs.

75 Interview with Marietta Nunez, Federal Home Loan Bank of San Francisco, November 3, 2005.

76 United Way of America (2004), "Exploring United Way Engagement in EITC Campaigns: A Report to the Field," available at www.national.unitedway.org/files/pdf/eitc/UWA_EITC_Report_to_the_Field.pdf.

77 For more information, see: www.irs.gov/newsroom/article/0,,id=108104,00.html

78 More than 3,800 families participated in financial education programs, over 2,000 opened new savings plans, and 29 purchased homes. For more information, see "Earn It. Keep It. Save It. Making the Difference: The National Tax Assistance for Working Families Campaign" at www.aecf.org/publications/data/eitc_results_brochure.pdf.

79 Interview with Gary Waite, Financial Literacy Coordinator, SF ACORN, August 30, 2005.

80 United Way of the Bay Area, "United Way & Earn It! Keep It! Save It!," undated document. For more information, see www.EarnItKeepItSaveIt.org

81 United Way of the Bay Area. Presentation to the Working Poor Families Task Force, Oakland, August 18, 2005.

82 The City of Denver started a program in 2002, but it was discontinued due to insufficient funding.

83 Federal Reserve Bank of San Francisco (2005), "San Francisco's Working Families Credit," *Community Investments* magazine, Vol. 17, No. 2; available at www.frbsf.org/community.

84 Information provided by Anne Stuhldreher, consultant and New America Foundation fellow, September 2005.

85 For more information on the Working Families Credit program, see www.sfgov.org/site/mayor_page.asp?id=28832

86 For more information, see www.seed.cfed.org.

87 Federal legislation—the ASPIRE Act—was introduced in 2004 and again in 2005, with bipartisan support, that would create Kids Investment and Development Savings (KIDS) accounts for every child in America. For more information, see: www.assetbuilding.org/AssetBuilding/index.cfm?pg=docs&SecID=102&more=yes&DocID=1246

88 Ibid.

89 Interview with Sam Cobbs, Associate Director of Juma Ventures, October 20, 2005. For more information, see www.jumaventures.org.

98 It should be noted that low-income households that take the standard deduction do not benefit from the mortgage interest and other tax deductions.

99 For a sense of the national discussion under way about increasing homeownership options for low-income families, see Jeffrey M. Lubell (2005), *Strengthening the Ladder for Sustainable Homeownership*. Policy paper prepared by the National Housing Conference for the Annie E. Casey Foundation, available at www.nhc.org/pdf/pub_acf_slsh_02_05.pdf.

100 The lack of development of new affordable homeownership units, in recent years, is contributing to the overall supply shortage in many cities. For example, according to the San Francisco Planning Department's, *Housing Inventory 2001–2004 (July 2005)*, only 329 affordable homeownership units were developed in San Francisco in the last four years (out of a total of 8,389 new units). Of these 329 units, only 1.6 percent—or .5 percent of all new housing units—was priced to be affordable to families earning less than 80 percent of AMI. According to the San Francisco Mayor's Office of Housing, the City's existing inventory of affordable homeownership units is 346 units and the Redevelopment Agency's inventory is 475 units.

101 City and redevelopment agency policy and practice varies across the region.

102 In some cases, supply has been limited by a dearth of financial products and/or a shortage of public subsidies related to a particular strategy. In other cases, the strategy has been neglected because of a lack of familiarity among public sector agencies, lenders and/or professional service providers (e.g. legal, financial, real estate).

103 For a national perspective on many of these strategies and relevant public policies, see: Jeff Lubell (2005), "Strengthening the Ladder for Sustainable Homeownership." Prepared for the National Housing Conference with support from the Annie E. Casey Foundation, February 2005.

104 First-time homebuyer programs are critical to enabling families to bridge the gap between their existing resources and home prices in the Bay Area; but covering the range and diversity of these programs—at the local, state and national levels—was beyond the scope of this report.

105 For more information, see: www.ncbdc.org

106 For more information, see the PolicyLink Equitable Development Toolkit, available at www.policylink.org. It should be noted that low-income families who do not itemize will not be able to benefit from mortgage interest and property tax deductions.

107 Jeff Lubell, (2005) "Strengthening the Ladder for Affordable Homeownership," National Housing Conference, February 2005.

108 Saegart, Susan and Lymari Benitez (2003), *Limited Equity Housing Cooperatives: A review of the literature*, City University of New York Graduate Center for the Taconic Foundation, pp. 9–10.

109 Ibid.

110 The Urban Homesteading Assistance Board, or UHAB, in New York is one example. For more information, see: www.uhab.org

111 The Agora Group (1992), "California's Lower-Income Housing Cooperatives," Center for Cooperatives, University of California, Davis; available at www.cooperatives.ucdavis.edu/reports/rr8.pdf.

115 NCBDC is an affiliate of the National Cooperative Bank (NCB), a national lender to housing cooperatives. NCB was chartered by Congress in 1978 and privatized in 1981 as a cooperatively-owned financial institution. It is now owned by 1,800 member-customers. For more information, see ncbdc.org.

116 The author was unable to find data on the number of cooperatives in the Bay Area. Many interviewees said that the data is not available.

117 Interviews with David Thompson, Neighborhood Partners LLC, Sacramento, on May 13, 2005.

118 Interview with David Thompson, Roger Clay and Rick Jacobus, June–August, 2005.

119 This option was discussed at a convening by NCBDC in Sacramento on September 23, 2005, supported by the Walter and Elise Haas Fund.

120 Statement by David Thompson, Neighborhood Partners LLC, at a statewide convening on affordable cooperatives sponsored by the National Cooperative Bank Development Corporation, September 23, 2005.

121 For more information, see www.housingadvocates.org/default.asp?ID=147

122 Family members typically work for 40 hours a week for a period of 8–10 months, building a total 10–12 homes for the entire group.

123 Interview with Peter Carey, Executive Director of Self-Help Enterprises on June 16. For more information, see www.housingadvocates.org/default.asp?ID=147.

124 The program was authorized by the Housing Opportunity Program Extension Act of 1996.

125 For information, see www.hud.gov/offices/cpd/affordablehousing/programs/shop/index.cfm

126 For more information, see www.selfhelpenterprises.org/about_us/overview.htm. Article: www.fresnobee.com/business/v-printerfriendly/story/10160855p-10978532c.html).

127 Interview with Peter Carey, Self Help Enterprises, June 14, 2005.

128 See California Housing Law Project website at www.housingadvocates.org/default.asp?ID=147. Note: Proposition 46 housing resources, administered by the state Department of Housing and Community Development, have supported technical assistance and secondary mortgages (through Cal HFA) on a project-by-project basis.

129 There are over 2,100 Habitat affiliates in 100 countries. See www.//www.habitat.org/ for more information.

130 Per interview with Peter Carey, Executive Director of Self Help Enterprises, June 14.

131 Interview with Phillip Kilbridge and Jill Sturm, San Francisco Habitat, June 24, 2005.

132 Ibid.

133 For more information, see www.ice.org.

134 ICE is the major national technical assistance provider to CLTs around the country. ICE has a revolving loan fund for CLTs and it founded and manages a national network of CLTs. For more information, go to www.ice.org.

135 See the BCLT website at www.bclt.net/aboutbclt.shtml.

136 Some empirical evidence of the wealth-building impacts of housing cooperatives is cited in Jessica Gordon Nembhard (2002), "Cooperatives and Wealth Accumulation: Preliminary Analysis," *American Economic Review*, Vol. 92, No.2. Ms. Nembhard will be conducting additional research on the topic, per interview on June 9, 2005.

137 The National Housing Institute is conducting research on a range of shared equity strategies. Locally, Rick Jacobs, formerly with the Bay Area LISC, is conducting research focusing on the asset-building potential of CLTs and LECs.

138 For more information, see www..iceclt.org/loanfund/index.html

139 Larry A. Rosenthal, "Innovations in Housing Policy: The Evolving Role of Local Government," *Community Investments*, Federal Reserve Bank of San Francisco, September 2005, No. 3, p. 11.

140 For more information, see www.nclt.org.

141 The SF CLT incorporated in September 2003 and received its nonprofit status in January 2005. For more information, see www.sfclt.org/article.php?list=type&type=16

142 Interviews with consultant Rick Jacobus, CLT Consultant, on June 15, 2005, and Jeffrey Levin, Housing Policy and Programs Coordinator, City of Oakland, Community and Economic Development Agency, June 30, 2005.

143 HUD defines "very low-income families as families whose incomes do not exceed 50 percent of the area median income.

144 Jeffrey Lubbell (2005), *Strengthening the Ladder for Sustainable Homeownership*. Policy paper prepared by the National Housing Conference for the Annie E. Casey Foundation, available at www.nhc.org/pdf/pub_acf_slsh_02_05.pdf.

145 Naomi Cytron, (2005)"Some Assembly Required: Using Manufactured Housing in Affordable Housing Development," *Community Investments*, Federal Reserve Board of San Francisco, September 2005, p.16.

146 National interest is evidenced by a 2003 report by the Neighborhood Reinvestment Corporation (now NeighborWorks America) and the Harvard Joint Center for Housing Studies (*Apgar et al. 2003*). And, in recent years, the Ford Foundation has convened a task force in manufactured housing that includes lenders, affordable housing developers, representatives from the Manufactured Housing Institute (the industry trade association) and other stakeholders.

147 For information, see www.cfed.org/focus.m?parentid=314&siteid=317&id=324.

148 Interview with Jeffrey Levin, Housing Policy & Programs Coordinator City of Oakland/Community & Economic Development Agency, July 30, 2005.

149 Naomi Cytron, "Some Assembly Required: Using Manufactured Housing in Affordable Housing Development," Community Investments, Federal Reserve Board of San Francisco, September 2005, p.17.

150 Interview with Joshua Simon, East Bay Asian Local Development Corporation.

151 "Gordon Brown's house sale," *The Economist*, May 26, 2005. In addition, the model is being tried in Scotland and is already under way in Australia—per an interview with Paul Brophy of Brophy and Reilly, LLC, June 30, 2005.

152 Ibid.

153 Interview with Paul Brophy, Brophy and Reilly LLC, June 30, 2005.

154 Interview with Jeffrey Levin, Housing Policy & Programs Coordinator City of Oakland/Community & Economic Development Agency, July 30, 2005.

155 For example, EARN is exploring the model in San Francisco.

156 For more information, see www.iccf.org.

157 For more information, see www.chnnet.com.

158 For more information, see www.calhomesource.org/index.html.

159 The monthly lease payments are the equivalent of the monthly mortgage payment, including principal, interest, taxes and insurance.

160 For more information, see www.calhomesource.org/index.html

161 For additional details on how the program works, see "The California Home Source Lease-Purchase Home Ownership Program" from www.ci.santa-rosa.ca.us/hr/Homeownership/Lease-Pur%20Fact%20Sheet%20July%202003.pdf or www.calhomesource.org/index.html.

162 Interview with Clarke Howatt, ABAG Public Finance Director, August 30, 2005.

163 For more information, see www.hud.gov/offices/pih/programs/hcv/homeownership/index.cfm.

164 Violet Law (2004), "Section 8 Homeownership Program: Is the push for homeownership helping or hurting?" Shelterforce Online, Issue #136; available at www.nhi.org/online/issues/136/section8.html.

165 Abt Associates (2003), "Voucher Homeownership Program Assessment", U.S. Department of Housing and Urban Development, available at www.huduser.org/Publications/PDF/MSD_Book_VOL1.pdf.

166 Ibid.

167 Interview with Melina Whitehead, Acting Director of Public Housing, U.S. Department of Housing and Urban Development (HUD) Bay Area Regional Office, May 13, 2005.

168 Interview with Tony Ucciferri, Acting Administrator, Section 8 Housing Department, San Francisco Public Housing Authority, May 6, 2005.

169 Interview with Melina Whitehead, Acting Director of Public Housing, U.S. Department of Housing and Urban Development (HUD) Bay Area Regional Office, May 13, 2005.

170 Interview with Gayle Suits, FSS Coordinator, Marin Housing Authority, May 16, 2005.

171 Fannie Mae Corporation, "Employer-Assisted Housing: Improving the Bottom Line and Unlocking Doors to Homeownership for Your Employees," Undated document, available on website at www.fanniemae.com.

172 Emmet Pierce, "Chicago Leads Nation in Employer-Assisted Housing" May 17, 2005, *The San Diego Tribune*, May 17, 2005.

173 Ibid.

174 California Coalition for Rural Housing and the Non-Profit Housing Association of Northern California (2003), "Inclusionary Housing in California: 30 Years of Innovation," available at: www.nonprofithousing.org/knowledgebank/publications/NPH_InclusionaryHousing_ExecSum.pdf. For a comprehensive resource on inclusionary zoning policy and practice, see PolicyLink's Equitable Development Toolkit at www.policylink.org/EDTK/IZ/default.html.

175 Ibid.

176 San Francisco devotes 50 percent of its redevelopment tax increment to affordable housing, far above the state's required allocation. However, of the approximately 12,000 units that the San Francisco Redevelopment Agency has developed since it started tracking in the early 1980s, less than 500 units have been for homeownership. Interview with David Sobel, Senior Housing Specialist, San Francisco Redevelopment Agency, May 17, 2005.

177 California Community Redevelopment Law (CRL) allows redevelopment agency to set homeownership prices to be available to families earning up to 120 percent of AMI.

178 Interviews with Roger Clay of NEDLC, Rick Jacobus/consultant, Jeffrey Levin with the City of Oakland and David Sobel with the San Francisco Redevelopment Agency, May–August, 2005.

179 Along with limited appreciation, purchasers of these resale-restricted units may face down-side risks. If interest rates rise, the resale price – which is inversely related to interest rates – could be lower than the seller's original purchase price. Some redevelopment agencies mitigate this risk. For example, the San Francisco Redevelopment Agency's Limited Equity Homeownership Program includes a provision to ensure that sellers will recover at least their down payment and any principal paid down on the home's first mortgage For more information, see "Limited Equity Homeownership Program, Loan Disclosure Information," San Francisco Redevelopment Agency, June 2004, available at www.//www.sfraaffordablehousing.org/pages/3/index.htm (see "limited equity loan disclosure information" and "limited equity loan documents").

180 Another strategy might be to lower the AMI target level, to 80 percent of AMI or below, for below market-rate homeownership units developed with redevelopment resources or as a result of inclusionary zoning ordinances.

181 For a comprehensive overview of community benefits agreements, see: Julian Gross with Greg LeRoy and Madeline Janis-Aparicio,(2005) "Community Benefits Agreements: Making Development Projects Accountable," Good Jobs First and the California Partnership for Working Families.

182 Ibid.

183 For a detailed story about the process and outcomes see Peter Ross Range, "L.A. Rising: Los Angeles's community activists are closing the city's economic divide by making big developers their partners in fighting poverty," *Ford Foundation Report*, Winter 2004.

184 For more information on the Partnership for Working Families, see www.californiapartnership.org.

185 For information on the SoMa neighborhood's Stabilization Fund, see Jo Stanley, "Rincon Hill is done; nearly $70M for SoMa," *San Francisco Examiner*, August 3, 2005, available at www.sfexaminer.com/articles/2005/08/03/news/20050803_ne07_rincon.txt or www.chrisdaly.org/site/bdsupvrs_page.asp?id=33803. For information on the Hunters Point Shipyard Community Benefits Agreement, see www.hunterspointshipyard.com/community.html.

186 The Fund will be capitalized with $2 million from the master developer, once selected, and the Port of Oakland has committed to providing $2 million in matching funds. While the community has moved forward on planning for the Fund, with support from the Oakland Base Reuse Authority, the master developer has not yet been selected so the Fund has not been capitalized. The author was part of a technical assistance team working with the community to design the Fund.

187 For more information, see www.workingeastbay.org.

188 One emerging example of a local asset building fund is the Mission Asset Fund, under development in the San Francisco Mission District. The opportunity to create the Fund emerged from the sale of a former factory by the Levi Strauss & Co(LS&Co). LS&Co committed the resources from the sale of the building to the Levi Strauss Foundation (LSF), including $1 million to support economic development opportunities for residents of the Mission neighborhood, where the factory was located. Mission leaders are reaching out to community stakeholders to design a permanent asset-building fund that will support residents to save and invest in their community. The author of this report is a consultant on the project.

189 MEDA also makes IDAs available to its homeownership education clients, but few meet the eligibility criteria. For more information, see www.//www.medasf.org. MEDA provides IDAs through a partnership with the Earned Assets Resource Network (EARN). Because EARN IDAs receive federal matching funds, they are limited to households earning 40 percent AMI or below.

190 Microenterprise development is not explored in depth in the menu because information on the strategy is widely available. For a comprehensive director of microenterprise resources (programs, evaluations, research, etc), nationwide, see the Aspen Institute's FIELD program at www.fieldus.org/home/index.html.

191 Interviews with Newell Lessell/ICA Group, Tim Huet/Arizmendi Development Collaborative, and Jessica Gordon/Professor, University of Maryland, May–August, 2005.

192 Testimony of Richard J. Dines, Director of Cooperative Business Development and Member Services, National Cooperative Business Association before the U.S. House of Representatives, Committee on Financial Services, Subcommittee on Financial Institutions and Consumer Credit, Hearing on Financing Employee Ownership Programs: An Overview, June 10, 2003. For more information, see www.ncba.coop/serv_cbd_urb.cfm.

193 For an insight into Bay Area cooperatives, listen to KALW radio's November 23 report at www.kalwnews.org.

194 Arizmendi is the name of the Spanish priest who started the Mondragon network of cooperatives in Spain, an oft-cited example of the immense potential of the worker cooperative model. According to the Arizmendi Bakery website (www.arizmendibakery.com): "...the success of the Mondragón Cooperatives has attracted worldwide attention. What started as one firm and roughly 25 people in 1956 is now a major international business with a work force of over 34,000, employed in some 100 worker-owned enterprises and affiliated organizations. These cooperatives continue to be inspired by Arizmendi's belief that worker ownership and participation in the workplace should be an integral part of a just and democratic society. Through their financial, technical and organizational alliances, the Mondragón Cooperative Corporation helps develop new businesses, supports existing ones, and facilitates mutual support among member cooperatives."

195 Interview with Tim Huet, Director of Arizmendi Development Collaborative, May 6, 2005.

196 For information, see www.wo-foodcollaborative.org.

197 The cooperatives include Emma's Eco-Clean in Redwood City, Eco-Care Professional House Cleaning in Morgan Hill, and Natural Home Cleaning in Oakland. For more information, see www.wagescooperatives.org.

198 Interview with Deb Goldberg of WAGES, June 24, 2005.

199 One cooperative that has measured the asset-building impact, over time, is Cooperative Home Health Care Associates, a earned an annual return on investment of $250-500, on an initial investment of $1000, in their first ten years. Reported in: Jessica, Gordon Nembhard, "Cooperatives and Wealth Accumulation: Preliminary Analysis," May 2002, American Economic Review, vol. 92, no. 2, p. 325. In a June 9, 2005 interview with the author, she noted that no national research had been done on the asset-building impact of cooperatives, but she is in the process of seeking funding to conduct the research.

200 Rosen, Corey, John Case, and Martin Staubus (2005), *Equity: Why Employee Ownership is Good for Business*, Harvard Business Press.

201 For a comprehensive list, see the National Center for Employee Ownership's "A Comprehensive Overview of Employee Ownership" available at www.nceo.org/library/overview.html

202 For more information, see www.nceo.org.

203 Interview with Corey Rosen, National Center for Employee Ownership, June 8, 2005; and Corey Rosen, John Case, and Martin Staubus (2005), *Equity: Why Employee Ownership is Good for Business*, Harvard Business Press.

204 For more information, see www.community-wealth.org/strategies/cw-cities/

205 For more information, see www.nceo.org.

206 For more information, see NCEO materials, "A Comprehensive Overview of Employee Ownership," available at www.nceo.org/library/overview.html

207 Geri Smith, "Nice Work, If You're From Ecuador," *Business Week*, November 14, 2005.

208 Interviews with Peter November and Todd Schafer, Pacific Community Ventures, November 22, 2005; and PCV press release: "Timbuk2 Acquired by Private Equity Investors," October 3, 2005.

209 Ibid.

210 This suggestion was made by Corey Rosen, President of the National Center for Employee Ownership, in an interview on June 8, 2005.

211 Eryn Gable, "Sub-Urban: Blimpee aims to turn major cities into hubs for subs," *Entrepreneur*, May 2001, www.entrepreneur.com/Magazines/Copy_of_MA_SegArticle/0,4453,288752,00.html.

212 Julie Bawden Davis, "Franchisors Encourage Entrepreneurship," May 14, 2001 available at www.Entrepreneur.com/article/0,4621,289365,00.html

213 Ibid.

214 For more information, see www.franchise.org/content.asp?contentid=747.

215 For information, see www.franchisepartnership.com/default.aspx?tabid=31.

216 Heather McCulloch with Lisa Robinson (2001) "Sharing the Wealth: Resident Ownership Mechanisms," PolicyLink. The report is available at www.policylink.org.

217 Shares were sold by community residents. Residents who could not afford to purchase a full share were offered an opportunity to invest in installments.

218 Some of the information in this section was based on an interview, by the author, with Reuben McCornack, consultant to BIG Wash on December 10, 2003. The information was originally included in a report, by the author, to the Alliance for West Oakland Development, entitled: *Resident Ownership Strategies: Preliminary Assessment of Select Models for the Mandela Transit Village*, funded by Bay Area LISC.

219 Interview with Rita Bright, founder of BIG Wash, August 30, 2005.

220 Information based on interviews by the author in December 2003. An NPR story about the restaurant can be accessed at www.goodthings.com/02_05_050202radio.asp

221 The Alliance for West Oakland Development and the Oakland Economic Development Corporation are both considering resident ownership opportunities as part of transit-oriented developments in Oakland.

222 City and redevelopment agencies commonly provide financial support, tax credits, deferrals and other benefits to commercial developers that promise to bring jobs and services to underinvested neighborhoods.

223 The author originally wrote about the strategy as part of a PolicyLink report, "Sharing the Wealth: Resident Ownership Mechanisms," supported by HUD, the Fannie Mae Foundation and other national funders. The report is available at www.policylink.org. For additional information on Market Creek Plaza, go to www.marketcreek.com/.

224 The author recently consulted with the Jacobs Center for Neighborhood Innovation (JCNI) on the development of an investment fund to support the next 35 acres of development that will include both residential and commercial development. The next phase of development will continue to maximize ownership opportunities for community residents.

225 For example, 69 percent of the construction work on the site has been performed by community contractors, and 85 percent of the jobs have been captured by local residents.

226 DCI investors have the same rights as other investors, but will also have a voice in the development process, through participation on a seven-member advisory council to the MCP LLC. The council will include four DCI investors, and will provide advice, input and counsel to MCP LLC on management issues. One of the council's tasks will be to that DCI units remain among community investors. In addition, the DCI class will be entitled to vote for election and removal of council members and to call meetings of DCI.

227 This minimum can be waived under special circumstances.

228 Note that these provisions are still subject to changes, depending on the outcome of the Department of Corporations review of the application.

229 The Alliance for West Oakland Development and the Oakland Economic Development Corporation have included resident ownership as a feature of new development plans. For more information on the Alliance for West Oakland Development, see www.awod.org. For more information on the Oakland Economic Development Corporation, see www.oaklandchamber.com/obr_stories/2004_10_bart_changes.shtml

230 The model is described in the *Investment Strategies* section of the report.

WALTER AND ELISE HAAS FUND