

## More for Mission Conference Call August 16, 2010

### **Cleveland Evergreen Cooperative Initiative - Presentation and Discussion**

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The Evergreen Cooperative Initiative of Cleveland, OH was launched in 2008. Evergreen's mission is to stabilize and revitalize six low-income neighborhoods (43,000 residents; median household income of \$18,500) of the Greater University Circle areas of Cleveland, Ohio. The cooperative development strategy leverages a portion of the multi-billion dollar annual business expenditures (related to procurement and supply-chain) of anchor institutions (such as hospitals and universities) into the surrounding neighborhoods to create new businesses and jobs. The first two Evergreen enterprises (Evergreen Cooperative Laundry and Ohio Cooperative Solar) launched in October 2009; two more businesses are in the pipeline for 2010. The near-term (3 year) goal is to develop an integrated network of 10 cooperatives with approximately 500 worker-owners.

### **Summary of Q & A:**

- **In terms of the capitalization of the fund, why did the Initiative start with grant dollars instead of PRIs?**
  - We began the Evergreen Cooperative Development Fund (the financing vehicle for the Initiative) with about \$6 million in grant funding (\$3 million from the Cleveland Foundation; the remainder from other local and national foundations, and from three anchor institution partners (two hospitals and a university).
  - Evergreen cooperatives are start-up businesses; because of the relative level of risk of a start-up, and the fact that lenders and most funders are not familiar with the cooperative business model, we felt that grant funding could best provide the initial seed capital to catalyze the businesses. Using the grant dollars, we were then able to unlock other sources of investment (including bank debt, HUD108, NMTC, etc.)
  - Grant dollars provided the initial equity in the Fund and a revolving line for businesses; our expectation is that the businesses will repay the grant funds back to our Evergreen Cooperative Development Fund once they have paid off their senior debt. Grant funds are made available to the businesses at a 1% interest rate.
  - In order to reach scale and significant impact, we are clear we need to move beyond pure grant dollars and low-cost Federal and State loans to other types of investments, including PRIs, MRIs, social venture capital, etc. We are now at work on structuring the Fund to do just that as an emerging equity venture capital that will be a vehicle for MRI investments in the Fund, which will then invest in the individual cooperative businesses.

- **How will the structure of the fund help meet a potential MRI investment?**
  - Using grant dollars alone and low cost government money, we will never be able to get to the scale needed and which we are committed to (i.e. a network of at least several dozen businesses capable of creating 5,000 director jobs). This fact has been the motivator for how to structure the Fund to receive investments both in terms of specific companies and more generally for emerging new business opportunities.
  - It is important that we break through creative financing needs; goal of Fund is to offer different opportunities to invest, recycle subsidies, ultimately companies will be ready for market-rate funding.
  - We envision a Fund with various levels of financing: a NMTC arm; a structured fund for credit enhancements that foundations can come in at different levels; also to receive PRIs and MRIs.
  - We are not yet at the place where we have laid out terms or have a term sheet, but that work will be done in the next few months.
  - Foundations can help us conceptualize and build the Fund by sending us your thoughts on how you could envision participating, and thus help us structure the fund based on your potential funding interest.
  - With funding from the Rockefeller Foundation, we are now working with Forsyth Street Advisors to structure the Evergreen Fund as a 501(c)(3) fund that will apply for CDFI status. The Fund will have a number of nonprofit and for-profit funds within it for different types of investments.
  - We are also working with Veris Wealth Partners to help structure the overall Evergreen Cooperative Corporation (ECC), inside of which will set the Evergreen Fund and the individual networked Evergreen cooperatives. We are now seeking legal opinion, but our preliminary thought is that ECC (which acts in some sense as a “holding company” for the entire structure will be a for-profit entity, consistent with the for-profit nature of the Evergreen companies. Veris is also working with us to help introduce Evergreen and the Fund to new sources of potential investment (for example, Veris is organizing an Evergreen presentation at the October Socap conference in San Francisco).
  
- **Appears that there are two different streams of funding: 1) direct investments (e.g. NMTC) and 2) an emerging fund in early stages, what is the bank’s role in potential funding as seems they would have a direct interest?**
  - Investors in Evergreen will be able to make direct investments in individual cooperative businesses (e.g., an investor might want to fund into Ohio Cooperative Solar directly); the Evergreen Fund will accept investments in tranches which will be used for emerging new Evergreen businesses (the goal is to develop a pipeline that can launch 2 or 3 new enterprises per year)
  - We anticipate that local and regional banks, and maybe even national banks (such as those participating in Living Cities) will find these types of high impact investments attractive – once we have developed a track record with the initial businesses and proven the viability of the Evergreen concept.

- The Evergreen vision is inspired by the example of the Mondragon Cooperative Corporation in the Basque region of Spain. MCC has build a network of 120 companies employing more than 100,000 workers. Evergreen is committed to building an integrated network of businesses linked financially, structurally, and by a common social mission of neighborhood stabilization and revitalization.
- Cleveland and Evergreen are in the final stages of negotiating a Living Cities Local Integration Initiative award of about \$17 million in grant, PRI and senior debt. These funds will be invested in a broader Cleveland economic inclusion strategy, of which Evergreen is a key component. This will not only provide immediate new capital to Evergreen, but should be helpful in expanding funding to other sources, as well.
- **From an investor's point of view, start-ups generally have a higher level of risk associated with them than other types of investments; how does the Evergreen strategy mitigate risk?**
  - Evergreen's for-profit businesses are directly linked to anchor institutions (hospitals, universities, etc.) – as partners/clients. These institutions are place-based; they are in Cleveland for the long-haul and provide a reliable and steady set of relationships. Anchors are called “anchors” for good reason: Cleveland Clinic, University Hospitals and Case Western Reserve University will be there for 50 yrs. These institutions see a need to stabilize neighborhoods for their own business model to be successful.
  - Because start-ups are inherently riskier, we are mitigating risk in a number of ways, including having a significant % of business directly linked to anchor institutions. We are also using Cleveland Foundation funds to help guarantee loans and provide a reliable back-stop.
  - Evergreen will not only do business with anchor institutions (our Evergreen Cooperative Laundry, for example, already has signed contracts with local hotels), but the anchors provide enough of the top line that our businesses are not scrambling in market trying to find clients. This is a great advantage our strategy offers that most small business start-ups would not have.
  - Institutions see this as a way to diversify their purchasing.
  - We are developing an institutional structure (the Evergreen Cooperative Corporation) that ties together all of the individual businesses into a network. ECC has a subsidiary business called Evergreen Business Services. EBS provides various types of support for the individual businesses, including strong management skills. If needed, ECC (through EBS) has the authority to step in to an individual Evergreen business to do a turnaround if the business is in trouble.
  - The Evergreen team has significant business acumen and strength, business planning, beyond what a typical start-up does, in terms of business projection.
  - While it is still early in this Initiative, so far we are experiencing success in proving our concept. Our solar company is in the black after six months; our laundry should be in the black by the end of this year. In capitalizing Evergreen businesses, we include sufficient working capital to absorb losses for a year to 18 months as necessary.

- **How do relationships with worker cooperatives work – in terms of fixed assets? Whose ownership will they remain in?**

- As worker-owned cooperatives, Evergreen businesses do not have outside investors. The businesses owned by the workers along with our anchor institutional partners and supporters.
- Each year when the company turns a profit, the earnings are allocated into capital accounts of employees. This represents their ownership stake in the company.
- The goal is that an Evergreen worker who stays with the company 8 years will have a \$65,000 equity stake in the company. This will continue to grow over time.
- A worker's capital account will be purchased back by the company when he or she leaves. It is, in effect, part of their retirement savings.
- One challenge cooperatives have faced in the US is that there is a tendency for workers to want to maximize their own benefit financially, rather than the community as a whole. A competitor might offer to buy the business to take it private. This is called demutualization. Evergreen is committed to keeping its network of businesses cooperatively held in order to provide ongoing benefits to generations of workers who can receive living wages, free health care, equity ownership over time. We are interested in the “stewardship” of the capital and ensuring that the philanthropic and public investments and subsidies that go into the businesses are captured for ongoing community benefit. As a result, the ECC structure has the right to veto demutualization of the company. This is an important structural check and balance.

- **How did the businesses planners evaluate the start-ups competitive advantage within their sector?**

- Our team undertakes a market analysis as part of our feasibility and business planning. Evergreen will not invest in a business opportunity, no matter how worthy or intriguing, unless our analysis shows that there is a high likelihood of profitability. While we will provide initial start-up subsidy, we will not do so on an ongoing basis. Evergreen businesses need to be able to stand on their own as for-profit enterprises.
- For example, in determining the viability of the Evergreen Cooperative Laundry, we first did a market analysis that determined that the volume for healthcare, bed linen in northeast Ohio is about 250 million pounds annually, and it is growing as a result of expanding health care and our aging population (resident in nursing homes). With that determination, we sized the Evergreen laundry at 10 – 12 million pounds annually, which we consider to be a reasonable target. Break-even for the business is just 5 million pounds.
- Another example: We analyzed the local food market in northeast Ohio within 125 miles around Cleveland. NE Ohio annually spends about \$7 billion for food products of all kinds, of which only about \$300 million is grown in this region – so there is a tremendous leakage of money out of the area. When we looked at specific crops, we realized that virtually every head of lettuce (green leafy

vegetables) consumed in NE Ohio is grown in California and Arizona and trucked across country. As a result, we are launching Green City Growers, a year-round hydroponic food production greenhouse (which we believe will be the largest such facility in any city in America. GCG will grow 5 million heads of lettuce annually and 300,000 pounds of herbs for the local market. This is only 1-2% of entire market. Adding to the viability of the business: by growing locally, we add 7 days more shelf-life to the product, which is important for produce distributors (as it substantially cuts down on their waste). Our financial projections indicate this could be the most profitable Evergreen business to date. And with 3,500 acres of vacant land in the city, if we can prove the local foods concept through the first greenhouse, we believe there is a bit opportunity for expansion of the local food industry as a job creation and economic development driver.

- Another company we have begun is Ohio Cooperative Solar which has two lines of business: large-scale solar installations to be placed on the roof of the area's anchor institutions and year-round home weatherization services. We have completed our first 110kW installation on the roof of a Cleveland Clinic building, and we have signed contracts with two other institutions for installations to begin in September. We have developed an innovative financing model which allows OCS to own the solar panels and sell the electricity they generate to the institutions through a 15-year Power Purchase Agreement. OCS takes advantage of the fact that Ohio law mandates an aggressive expansion of solar and renewable energy in the state. In terms of weatherization, we have done about 120+ homes to date.
- **What are the possibilities for the Cleveland "model" to be replicated in other cities? What are the key ingredients, is it vacant land, anchor institutions?**
  - We believe that this model is quite relevant to urban areas across the country – obviously to older industrial cities, but also to stronger market cities as well. From the outset of this Initiative, it has been our goal to not only make a concrete difference in the lives of people in Cleveland, but also to learn valuable lessons that can be translated and adapted for use in other urban areas.
  - The Cleveland Model is a place-based strategy built on 5 inter-related elements: (1) local targeting of anchor institution procurement and investment; (2) building a network of locally sited and worker-owned cooperative businesses linked to the supply chain of the anchor institutions; (3) ensuring each company is the greenest in its sector (which provides a competitive advantage in winning contracts from the anchor clients); (4) focusing the businesses toward expanding sectors of the local economy (e.g., health care, renewable energy, local food, emerging green technologies and processes, etc.); and (5) ensuring and putting in place the strong management and access to low-cost capital that can support the model in moving to scale.
  - Among the key ingredients for success that we have found in Cleveland are:
    - The importance of establishing strong relationships and partnerships with anchor institutions from the very outset, building trust among them, and

nurturing the relationships to ensure that the anchors are benefiting from their participation and achieving their own institutional goals;

- The importance of having a strong convenor and honest broker (in our case, the Cleveland Foundation) which is seen by the anchors as a peer institution with the ability to bring other large-scale institutional investors to the table;
- Access to low cost capital (e.g. ability to attract HUD 108 and other State and Federal grants and long-term, low-interest loans that are available to development efforts in specific low-income census tracts where we site our businesses and where we hire the workforce)
- Assembling a team with the necessary expertise for this type of cooperative business development strategy (financial planners, employee ownership specialists, technical experts with the expertise to develop and run a greenhouse (for example), fundraisers to access grant dollars, etc.)
- The above are some, but not nearly all, of the essential elements. As a priority in 2010/11, we are developing a case statement/white paper with funding from the Nathan Cummings Foundation that will analyze these and other elements of the Evergreen Cooperative Initiative.