2016

Cities Developing Worker Co-ops: Efforts in Ten Cities

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8/8/2016

Summary Overview

In recent years, city governments have begun to help develop worker cooperative businesses in their local economies, a deliberate action to make economic development more inclusive and equitable. The Imagined Economy Project explores municipal approaches to worker co-op development in ten cities, finding it offers potential for the creation of economic opportunity as well as opportunities for cities to learn and refine their own commitments to a more expansive notion of economic development.

There are three approaches to worker cooperative development shaping up in the ten cities:

- **The Anchor Approach-** City governments provide business loans and other supports to worker cooperatives developed by a corporate umbrella to tap into procurement spending by area anchor institutions. (Cleveland, Richmond, Virginia, Rochester).
- **The Ecosystem Approach-** City governments, through seed funding and direct programmatic delivery, stoke the local capacity to provide educational, outreach, technical assistance, and financial supports for worker co-op business starts or conversions. (Austin, Madison, Minneapolis, New York, Richmond, California).
- **The Preference Approach-** City governments develop bid preferences for verified or certified worker cooperatives able to meet city procurement needs, and may also offer other supports like tax forgiveness, financing, or fast tracking permits. (Berkeley, Oakland).

The cities are at various stages of planning and carrying out the development of worker cooperatives. In Cleveland, New York, and Richmond, California, municipal efforts to promote worker cooperatives are far enough advanced to indicate some of the results.

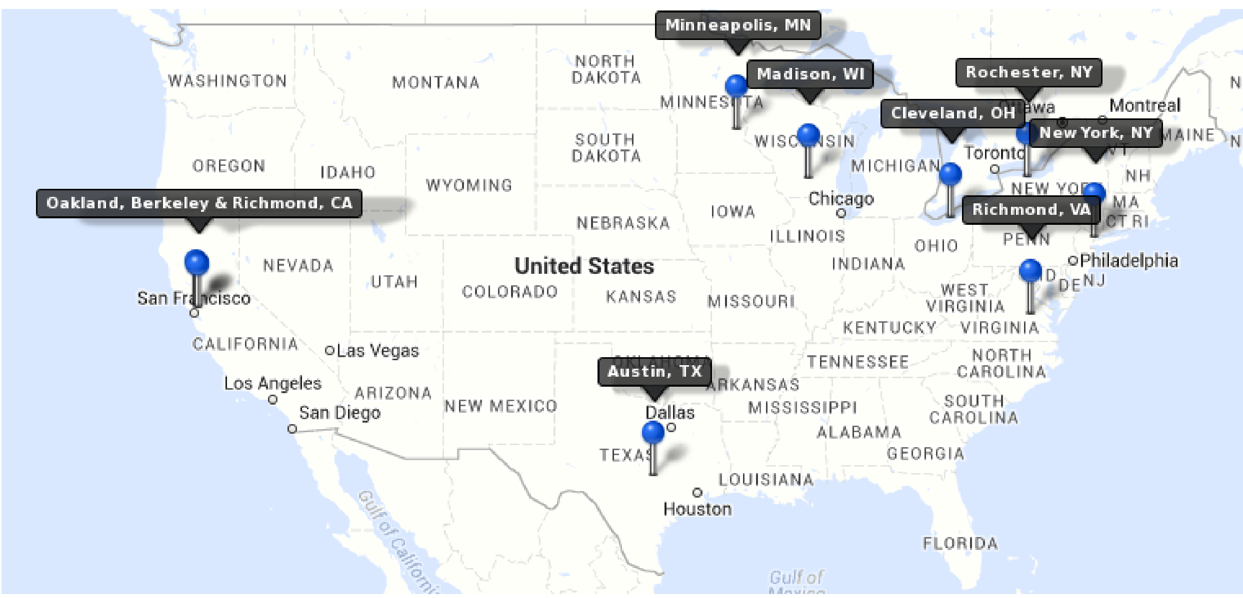
- Municipally-supported worker co-op efforts produce some business and job creation. Three cities produced 25 new worker cooperatives employing 261 people, mostly in the service sector.
- The cost ranged from a high of $100,000 to a low of $7,143 spent per job created.
- Ecosystem building involving very intensive technical assistance and business supports yielded the fastest growth of worker cooperatives locally. The anchor institutions approach yielded fast growth of larger workplaces.
- City governments approach their efforts to promote worker cooperatives in the spirit of learning, adaptive management, and grounding performance measures in experience.
- Cities may make long term commitments to municipal worker cooperative development based on performance as well as compatibility with other small businesses, adequate resources, and successful balance between social and business missions.

While the long-term impact of these efforts cannot be predicted, city government decisions to experiment with worker cooperatives signals true engagement with questions of how to build equality and wealth, upgrade labor, and support divested communities in an ever-changing market. This is a welcome advance to the economic development landscape that can only strengthen with adoption and reflective application by additional cities.

Introduction

City governments are moving in an unexpected direction of late. They are making worker ownership an explicit part of their approach to economic development. Since 2009, at least ten municipalities have taken steps to promote the growth and development of worker cooperatives, or democratic businesses owned and operated by worker-owners. Worker cooperatives are not common in the United States; currently, there are about 400 nationwide.[1] Nonetheless, they may be uniquely suited to addressing the sort of labor market and environmental problems likely to loom large in the coming century, as well as become vehicles of economic inclusion for people facing barriers to employment or business ownership.

Through their actions, cities are taking a place at the forefront of broader societal efforts to give worker cooperatives a boost, to try to make them structural features of urban economies. This report, based on interviews with elected officials or key personnel in the ten cities, offers an overview of the three basic approaches shaping up around municipally-supported worker co-op development. It also examines the available evidence on the "so-far" results and costs involved in carrying out these projects, as well as some of the steps involved in program implementation and, possibly, institutionalization.



The key findings are as follows:

- There are three basic city government approaches to worker co-op development. These are:
  1. <u>*The Anchor Approach*</u>- Starting worker co-ops to tap into the procurement needs of anchor institutions like hospitals and universities. (Cleveland, Rochester, Richmond, Virginia).
     -This approach has been especially attractive to high-poverty cities, and city governments expect or have funded this mostly through external loans and grants.

[1] Democracy at Work Institute, 2015. "2015 Press Kit" <https://www.usworker.coop/sites/default/files/PressKit_1.pdf>

2. *The Ecosystem Approach*- Building up a population of co-op developers, incubators, educators, and lenders charged with starting or converting worker-owned businesses. (Richmond, California, New York, Madison, Minneapolis, Austin).
   -This is associated with cities whose residents have near or higher than average incomes, many with an existing mass of worker cooperatives or a group of interested nonprofit organizations. Funding has come from city operating or capital budgets.

3. *The Preference Approach*- Extending preferences to worker cooperatives bidding to be city contractors or vendors. (Berkeley, Oakland).
   -This is shaping up as a San Francisco Bay Area regional approach, although it could move beyond the region with time.

- Three cities have programs or projects up and running and, in total, all three have created 25 new worker co-ops employing 261 people in for-profit worker co-op businesses. The majority of the businesses are in the service sector, and the public costs per job created ranged from a low of $7,143.00 (involving no financing role assumed by the city) to a high of $100,000.00 (involving a substantial financing role assumed by the city). The cities are impressed by the results and understand a substantial financing role may be appropriate for cities to assume but are also motivated to reduce the cost basis at the higher end of the spectrum.

- A common step to implementation involves locating the worker co-op program or project within a city agency, while a minority of cities also created new staff positions and community navigators. Few cities have made long term funding commitments to worker cooperative development. Taking that step, the cities state, relates to philosophy as well as performance on business and job creation. Plus, the cities perceive three challenges to work through as they consider long-term funding commitments, including impacts on other small businesses, resource limits, and achieving balance between social and business purposes.

Ultimately, worker cooperatives offer promise to cities wishing to confront the shortcomings of traditional economic development in expanding opportunity, capturing procurement dollars locally, producing more equality than inequality, and investing in local businesses and people. Of course, municipal efforts to expand cooperative workplaces are at early stages, continually unfolding. What we are seeing today does not necessarily indicate future trends or expectations about other cities. Most definitely, the ten cities are learning by doing and open to rethinking as experience dictates. Nonetheless, the group of ten cities has produced various concepts and models that are shaping the conversation for city governments and others concerned with urban America, labor, inequality, and how business forms can adapt in an ever changing world economy.

Figure 1: Total Population and Median Household Income/Poverty Rate: Cities Promoting Worker Co-ops

Austin	931,830 $55,216/19%
Berkeley	120,972 $65,283/20%
Cleveland	388,072 $26,179/35.9%
Madison	248,951 $53,933/19.6%
Minneapolis	410,939 $50,767/22.6%
New York	8,550,405 $52,737/20.6%
Oakland	419,267 $52,962/21%
Richmond, CA	109,708 $54,857/17.1%
Richmond, VA	220,289 $41,331/25.5%
Rochester	209,802 $30,784/33.8%
Total Population	11,610,235

Source: US Census Bureau Quick Facts, City Population Estimates 2015

ABOUT THE TEN CITIES

It is a diverse group of ten experimenting with worker ownership as urban economic development, suggesting that cities of variable regions and sizes, socioeconomic qualities, governance structures, and even capacities can act to build up or support worker cooperative sectors. The pioneering group of ten ranges from New York, the largest city in the United States and also one of the largest economies in the world to Richmond, California, a relatively small city of 109,000 in the East Bay of San Francisco. All told, 11.6 million people are living in cities with municipal efforts to foster cooperative sectors of their economies. There are Rust Belt cities and Sun Belt cities, as well as cities from every geographic region. The urban search for economic development alternatives appears to span the nation.

Median Household Income and Poverty Rates. The median household income in the United States in 2015 was $53,482, according to the US Census Bureau. Five of the pioneering cities have median household incomes near or higher than this, with Cleveland, Rochester, and Richmond, Virginia falling well below.

The relative wealth in the higher- than- average income cities coexists with poverty. In fact, all of the ten cities active on worker cooperative development have poverty rates higher than the national average of 14.8%. It appears that separate urban dynamics- high poverty as well as wealth coexisting with poverty- may compel interest in creative policy solutions.

Political Features and Capacity. Commitments to worker co-ops have sprung from city governments of all types. Four of the ten cities are "Strong Mayor" governments (New York, Cleveland, Richmond, VA, and Madison); four are Council/Manager governments (Rochester, Richmond, CA, Austin, and Berkeley); one is a "Weak Mayor" type (Minneapolis); and one is a hybrid "Strong Mayor" and Council/Manager government (Oakland). Mayors or Councils have been the initiators of worker co-op promotion in cities.

Figure 2: Municipal General Funds

	General Fund Total	General Fund Per Capita
Austin	$906,700,000	$993.33
Berkeley	$147,900,000	$1,244.39
Cleveland	$542,800,000	$1,393.51
Madison	$268,200,498	$1,091.62
Minneapolis	$463,000,000	$1,137.01
New York	$77,482,450,000	$9,061.85
Oakland	$534,378,786	$1,291.00
Richmond, CA	$136,949,000	$1,261.48
Richmond, VA	$766,300,000	$3,517.51
Rochester	$373,696,100	$1,779.65
MEDIAN	**$498,689,393**	**$1,291.43**

See Appendix 1 for documentation of general fund budgets.

With some exceptions, most of the cities are able to innovate from a modest resource base. While cities may pull from various budget areas to support specific innovative programs, the General Fund is that portion of the budget that is less restricted and may be allocated by Mayors and City Councils in support of their urban agendas; it signals a city's resource capacity. The ten cities have a median of $1,291.43 per city resident available in General Funds. New York and Richmond, Virginia have a considerably larger resource base than that, while Austin's base is fairly well below. Despite many being stretched, the pioneering cities are figuring ways to tap their resources in order to innovate.

WHY WORKER CO-OPS?

The city governments profiled in this report want the benefits of urban economic development to be shared more widely, but many express awareness that conventional economic development approaches can be troubled. As Ruth Rohlich of Madison's Office of Business Resources put it, economic development as frequently practiced "isn't helpful in creating really healthy communities, financially strong communities, in an equitable way." In many ways, the municipal embrace of worker cooperatives reflects a prioritization of equity on the urban agenda, as well as willingness to experiment with economic development beyond incentivizing corporate re-location downtown. They want opportunities distributed more evenly, reaching neighborhoods that have been divested as well as individuals facing barriers and disadvantages like chronic poverty, inadequate transportation or childcare, non-English fluency, felony records, or the lack of a diploma or GED. The officials interviewed believe worker cooperatives can get their cities closer to equity by producing economic inclusion, high quality jobs, and an ability to stimulate growth in neglected or hard-hit areas.

Figure 3: Possible Benefits of Worker Co-ops

→ Workers involved in setting labor terms.

→ Profits distributed to workers.

→Highest to lowest wage ratio kept low.

→ Business stability and job security.

→ Environmental best practices.

- ***Economic Inclusion.*** In five of the ten cities (Austin, Cleveland, Madison, Minneapolis, and New York), city officials emphasized worker cooperatives as a way to connect their most vulnerable populations to the economy. In Austin, for instance, the city has identified 10,000 "hard-to-employ" individuals that it would like to help join the labor market, with worker cooperatives being a possible pathway for at least some of them. In Minneapolis, Daniel Bonilla said that city officials support promoting the worker cooperatives model as a way to permit market entry for low-income individuals that, alone, would never have the startup capital or skills to form a business. And in Cleveland, Economic Development Director Tracey Nichols was drawn to support the venture that would become the famed Evergreen Cooperatives. "I heard they were going to hire a lot of people who were formerly incarcerated," she said in an interview, "…and to me, that's a great idea."

- ***Investments in Divested Neighborhoods.*** Both Rochester and Richmond, Virginia conceptualize worker co-op development as one way of tackling inner city divestment and highly concentrated poverty in certain city areas. In Oakland, while clear to state the importance of city-wide benefits to taxpayers, Nayeli Maxson, policy aid in City Council District 4, expects worker cooperatives to bolster neighborhood-based business districts. And in Richmond, California, former Mayor/current Council member Gayle McLaughlin discussed worker cooperatives as a community-wide empowerment strategy given relatively poor economic conditions and a slow post- 2008 recession recovery in that city. Here, we see municipal thinking that worker cooperatives can elevate areas as much as individuals.

- ***Job Quality*.** In its publication "Working Together," the NYC Department of Small Business Services and the Mayor's Office of Contract Services jointly expressed the expectation that "the worker cooperative business model provides New Yorkers with meaningful opportunities to achieve upward mobility by earning higher wages and maintaining stable employment."[2] Four of the ten cities shared this sentiment, expecting worker cooperatives to enhance job quality due to the triple bottom line focus typical of many worker cooperatives. For instance, Oakland's Councilperson Campbell Washington pointed out "a whole host of positive things" that would likely follow from worker cooperatives, chief among them sustainable jobs at better wages. Madison and Richmond, Virginia also see the creation of higher wage and secure jobs as top advantages of worker cooperatives; in Richmond, Virginia, Director of Community Wealth Building Thad Williamson aspires to see new job offerings at $15 an hour or higher.

Overall, the ten cities are promoting worker cooperatives as a way to develop multidimensional local economies that better channel opportunities to individuals and neighborhoods that largely have been left out of the mainstream. This signals an inventiveness and creativity on the part of the city governments, as well as engagement with broader cultural understandings of how to create a more equitable economy.

READERS GUIDE

The remainder of the report examines city government efforts to foster worker cooperatives in more detail. The material is divided into brief chapters, described below, that can stand alone or be read as a whole.

Chapter one explores the city role in supporting the anchor approach to developing worker cooperatives. Cleveland, Rochester, and Richmond, Virginia are taking this approach, although Rochester and Richmond are still in the planning phases. The chapter describes the anchor-linked worker co-op approach and structure, which is mostly located in the private sector, as well as the city role in accessing financing and handling underwriting risk.

The ecosystem approach describes efforts in Austin, Madison, Minneapolis, New York, and Richmond, California to shape the institutions, resources, attitudes, and abilities that foment worker cooperatives, and this is the subject of *chapter two*. The city governments taking this approach focus mostly on worker co-op education and technical assistance, supporting nonprofit co-op developers, and/or developing financing programs.

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[2] NYC Small Business Services and Mayor's Office of Contract Services 2015. *Working Together: A Report on the First Year of the Worker Cooperative Business Development Initiative.* <http://www.nyc.gov/html/sbs/downloads/misc/wcbdi2015-booklet/offline/wcbdi.pdf>

Chapter three moves to Berkeley and Oakland, each in the early stages of implementing a preference approach. Neither city has gotten to implementation yet, but their early processes give a sense for how city governments can support worker cooperatives through their own procurement.

Cities are getting into worker co-ops because they want to see results given available resources. *Chapter four* describes results and costs per job created in the three cities farthest along in their worker co-op projects or initiatives: Cleveland, New York, and Richmond, California. The evidence so far shows that a slight amount of worker-owner opportunity has resulted, but business failure has also happened. The per-job cost to cities is quite variable depending on the extent of the city's role in accessing financing for startups, but key actors are experimenting with methods for bringing the highest cost basis down.

Chapter five discusses what the cities are doing to carry through on their commitments to worker co-op development, as well as some of the considerations in making these commitments long term or even permanent. The main implementation task involves locating projects within city bureaucracies, while a minority of cities has added new staffing. Making worker cooperatives a permanent or a long term commitment of cities will depend on philosophy, as well as performance and the adequate resolution of three challenges that the cities anticipate as worker cooperatives take root.

The *Conclusion* sums up the incredible work of cities in supporting economic development rooted in worker ownership and concerns for equity. These are city governments thinking actively and creatively about how best to grapple with protracted socioeconomic challenges related to ongoing economic restructuring. There are risks and costs for sure, but rewards also await city governments and their residents willing to take a chance on innovation. Whether these efforts result in the equitable and inclusive economies these municipalities hope for is an answer that has to wait. Nonetheless, more city governments getting involved and sharing insights can only strengthen the chances of worker cooperatives expanding equity in urban economies.