Local Return 2023 Policy Paper

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COVID impacted everyone, but the people and places that were hit hardest were those without a "cushion." Communities that lack a wealth of reserves in their regular lives had no breathing room to deal with crisis, illness, loss of work, or isolation. The pandemic forced us to see the disparate outcomes and burdens that persist across our neighborhoods. It's clear: We cannot move forward from COVID using the same economic and community development strategies that we relied on in the past, which only helped create those vulnerabilities.

This is Rhode Island's moment to move toward a stronger future, to build deep and wide community resilience. By focusing on wealth, ownership, and investment, we can help Rhode Island's economy and communities find strong, sustainable footing.

The purpose of this policy paper is to introduce several potential strategies of community wealth-building. Our intent is to shift the boundaries of what's considered possible in our state. We have intentionally included a diversity of ideas that could be implemented at multiple levels of government and with different degrees of investment. To policymakers and policy advocates: We hope you will engage with these ideas, improve upon them, and help make them reality.

About Local Return

Mission

Our mission is to build community wealth in Rhode Island through ownership and investment, particularly in neighborhoods that have experienced historical disinvestment. We do this by:

- Building the local community investment ecosystem
- Advocating for local policies and practices that support a vibrant and just local economy
- Increasing community awareness and capacity

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Community Wealth: What is it, and why does it matter?

A community's wealth comes from the assets that it collectively owns or controls and which the community uses to care for itself. Community wealth leads to community resilience, a place's ability to withstand challenges *and* persist, adapt, and transform itself (in the same way that personal wealth leads to personal resilience).

Community wealth is not just about monetary value that exists or is generated in a place. It involves:

- **Multiple forms of capital** — financial, yes, but also social, intellectual, natural, cultural, built, and political capitals.
- **Local ownership** of these capitals, so that control and benefits remain in the place.
- **Shared ownership**, so assets are stewarded by and for the community and not just a few members.

There is no easy way to measure community wealth, but we know that there are dramatic differences across our neighborhoods. Consider just three indicators (household income, poverty, and the average household income at age 35 of a child who grows up in that area) across three pairs of closely-located census tracts in Rhode Island[1]:

Census tract	% population identifies other than white (2010)	Median household income (2012-2016)	Poverty rate (2012-2016)	Household income of a child raised here at 35
19 (Olneyville, Providence)	81%	$25k	45%	$28k
24 (East Side, Providence)	10%	$140k	4%	$36k
405 (North End, Newport)	42%	$31k	17%	$27k
407 (Newport)	10%	$87k	8%	$43k
180 (Woonsocket)	28%	$17k	38%	$26k
128.03 (North Smithfield)	4%	$91k	2%	$40k

Community wealth today is the result of generations of accumulated decisions around things like land use, financial investment, governance, transportation, and more. And these decisions are inextricably linked to race. The national data shows tremendous disparities in wealth across race and ethnicity. In its 2019 Survey of Consumer Finances, the Federal Reserve Board found that

[1] Source: Opportunity Atlas

White families have a median family wealth of $188,200, compared to $24,1000 for Black families and $36,100 for Hispanic families.

So how do we build community wealth?

There is no one silver bullet. Building a community's wealth requires us to take an ecosystem approach—**testing complementary interventions, across multiple layers, that respond to each unique environment.** Wealthy communities are vibrant places, drawing diverse people who care about where they live. They use their assets for the benefit of all residents, not just the few. Prosperity is important, because it means independence and strength. There are many opportunities for individual growth and improvement, and they are able to care for one another in times of struggle.

The Democracy Collaborative identifies five core community wealth-building strategies.[2] The seven policies we propose in this paper touch each of these strategies:

1. Progressive procurement that localizes economic activity, builds local multipliers, and ends leakages and financial extraction.
2. Just use of land and property.
3. Fair work that provides workers with living wages and real power in control of their workplaces.
4. Inclusive and democratic enterprise, including cooperatives, social enterprises, municipal ownership, and more.
5. Locally rooted finance.

For each idea we discuss in the following pages, we describe how it promotes community wealth, another instance of implementation, and how it might work in Rhode Island.

[2] Democracy Collaborative: How is community wealth building practiced?, June 7, 2022

Strategy #1: INCENTIVIZE LOCAL PROCUREMENT

How does it promote community wealth-building?

Large, place-based entities like governments, universities, schools, hospitals, and housing authorities spend billions of dollars each year purchasing goods and services to keep them operating. However, little of that money stays in the local communities in which these "anchor institutions" are based. **That means assets—and wealth—are leaving our state every day.**

Local procurement programs re-localize economic activity, build local multipliers, and end leakage and financial extraction. According to the Institute for Local Self Reliance, "When local governments spend their money with locally owned firms, those firms in turn rely on and generate local supply chains, creating an 'economic multiplier' effect. Each additional dollar that circulates locally boosts local economic activity, employment, and, ultimately, tax revenue."[3]

Ensuring that local, independently-owned businesses—including those historically marginalized and oppressed populations—have equitable access to these procurement opportunities is a high-impact lever. As we know from previous MBE requirements in Rhode Island, policy alone is not enough. The research tells us that local procurement policies must include clear definitions, solid goals, and strong tracking and reporting systems to be most effective.

Where has it been done?

University Hospitals in Cleveland, Ohio, has long been committed to local and diverse sourcing, beginning with their 2005 strategic planning process, *Vision 2010*.[4] This five-year growth plan involved the construction of five new medical facilities, at a cost of $1.2 billion. Recognizing the potential to leverage this spending for economic growth in their region, UH set ambitious purchasing goals: 80% of spending must be with local and regional firms in Northeast Ohio, 15% with minority-owned enterprises, and 5% with woman-owned enterprises.

UH exceeded these goals (verified through independent third-party monitoring) and then proceeded to integrate these focuses into their overall supply chain practices. The Board of Directors regularly reviews progress on purchasing goals. In a 2016 report, UH reported spending an average of $832 million annually on goods and services and another $100 million annually on construction. They established a goal of spending 80% of the construction budget with local firms and increasing spending on local goods and services by 15% each year.

[3] Institute for Local Self-Reliance: Local Purchasing Preferences
[4] Democracy Collaborative: Inclusive, Local Sourcing: Purchasing for People and Place

How would it work in Rhode Island?

Who?

- Rhode Island General Assembly
- City/Town Mayors and Councils
- Anchor institutions
- Private corporations

What?

- Pass policies incentivizing local procurement with specific targets and enforcement strategies. Institutions may wish to define for themselves what local means to them; for example, a university located in Bristol might have different considerations than a hospital in Westerly. They may start in one area of operations and build methodically over time.
- Do an analysis of their own spending. What amount is already staying local? What is not staying local but could be going to local businesses, and what is getting in the way? What amount is going outside Rhode Island because there are no local providers?
- Review their procurement policies to determine where there is confusion or obstacles for small local businesses.
- Track and report publicly and consistently on the percentage of purchases that go to local vendors.
- Seek out and provide technical assistance to local, independently-owned businesses during procurement processes, to ensure that they have equal access.
- Share data with other institutions (perhaps through Supply Rhode Island) to identify where there are gaps between institutional needs and local providers. Let these gaps help guide where the state spends economic development funds. Building locally-owned enterprises that respond to leakage will require partnering with other institutions. For example, we may find that we need an aggregator versus an individual company.

Strategy #2: LOCAL INVESTMENT TAX CREDIT

How does it promote community wealth-building?

Over the past decade, as investment crowdfunding became legal across the nation, over 1.5 million citizens invested over $1.4 billion directly into businesses, very often in businesses in the communities where the investor lived. Recognizing the power of that community investing, Rhode Island could incentivize local investing by providing an income tax credit to those who demonstrate a local investment. **Tax credits, after all, incentivize a behavior that serves the**

public good. An example is the federal investment tax credit for clean energy, which has led to many homeowners installing rooftop solar.

Individuals who invest in Rhode Island businesses are supporting their own communities and economies. The businesses who receive investments because of this incentive will build local economic wealth and hire Rhode Island workers. Unlike other incentive structures, this would not involve the government picking winners and losers, and the incentive would come after the investment, not before.

Where has it been done?

The Michigan legislature is poised to approve the first such incentive in the United States. After months of work by individual residents, Michigan legislators, the Michigan Economic Development Corporation, and the Michigan Department of Treasury, HB4116 was voted out of the House Tax Policy Committee and onto the House floor. HB4116 provides an incentive for all Michigan citizens to invest in Michigan businesses, by providing a State of Michigan income tax credit equal to 50% of the amount invested. There is a maximum annual benefit of $3,000 (investments up to $6,000 per year). The credit can be carried forward for 10 years, or until the entire tax credit is used. Michigan businesses that qualify have the majority of their property, employees, and sales in the state. The bill has been endorsed by the Michigan Chamber of Commerce, the Michigan Manufacturers Association, and the Michigan Municipal League.

Nova Scotia has created Community Economic Development Investment Funds (CEDIFs), pools of capital raised through the sale of shares which are then reinvested into local businesses. Nova Scotia residents who invest in CEDIFs receive a 35% Provincial Non-Refundable Income Tax Credit if they leave their investment in for 5 years. If they roll it over for another 5 years, they receive an additional 20% tax credit and then another 10% if they keep their investment in for the maximum 15 years – for a total of 65% return on their investment. The minimum investment is $1,000 and the maximum investment is $15,000 per year, per shareholder.

An economic impact study showed that **an investment of less than $700,000 by the government netted $2 million in investment by Nova Scotians into CEDIFs**, which in turn invested in 116 small businesses. In 2019, the annual economic impacts of those 116 small businesses included $118 million in GDP value-add, 1,200 full-time equivalent jobs, $52 million in annual wages and salaries, and $25 million in annual taxes.

How would it work in Rhode Island?

Who?

- Rhode Island General Assembly

What?

- Create a State of Rhode Island income tax credit equal to 50% of the amount invested in local businesses, up to a maximum annual benefit of $3,000, or partner with municipalities to establish CEDIFs.
- Commission a 5-year impact study by the Economic Progress Institute.
- Fund a marketing effort to promote the investment opportunities.
- Work with a local nonprofit to provide an online platform to connect investors with local investment opportunities.

Strategy #3: NEIGHBORHOOD TRUSTS

How does it promote community wealth-building?

A neighborhood trust is a collection of funds, controlled by members of the community for the long-term benefit of the community. They invest funds directly in neighborhoods that have been hardest hit by both recent crises and generations of financial disinvestment — generating economic activity, local agency, and social resilience. A recommendation for using $50 million in ARPA funds to seed several neighborhood trusts was included in the Rhode Island Foundation's *Make It Happen: Investing in Rhode Island* report.

Neighborhood trusts are administered by a board of trustees, a majority of whom are residents, business owners, and civic leaders from the community. They are overseen with professional governing practices and supports, such as rotating and limited terms of office, conflict of interest policies, and training and technical assistance. Neighborhood trusts have the flexibility to respond to the unique and evolving needs of the community, as directed by the board. Members of the community are accountable to each other.

Neighborhood trusts bring financial resources to communities who need it. **They center community decision-making, giving communities local ownership and control of the resources that flow into them.** They also bring state, federal, or philanthropic resources closer to people, instead of passing through government or nonprofit agencies or programs. People know their own needs and those of their communities best. The trusts can leverage additional investments and grow over time. **Neighborhood trusts that invest in commercial and residential property could help resist displacement and gentrification.**

Trusts could invest in things like:

- Buying an abandoned building and redeveloping it to provide zero-carbon affordable housing

- Buying an abandoned lot, leveraging brownfield funding from DEM to remediate the land, and building a 3 MW urban solar facility
- Setting up energy co-ops so residents of all incomes can save money on their energy bills and lower their utility usage

Where has it been done?

Neighborhood trusts (and similar models to share ownership and build equity, like Community Investment Funds or Real Estate Investment Trusts) are gaining attention across the country, due in part to the work of Joseph Margulies and Elwood Hopkins.

There are emerging examples of these models, like:

- Kensington Corridor Trust in Philadelphia, Pennsylvania, which is fostering the equitable economic revitalization of a commercial corridor and its surrounding neighborhood through local partnerships, strategic programming, and de-commodifying real estate assets and transitioning them to neighborhood control.
- Trust Neighborhoods in Kansas City, Montana, which is helping neighborhood-based organizations set up their own Mixed-Income Neighborhood Trusts, community-directed entities that develop, own, and operate rental housing and retail.
- The Community Investment Trust in Portland, Oregon, which offers a long-term path to collective, communal ownership of real-estate for investors starting from $10-$100 per month.
- Northeast Kingdom Prosperity Fund (St. Johnsbury, VT), which is investing in local ventures that deliver a financial and social return for the community.
- Ujima Fund in Boston, Massachusetts, which is the nation's first democratically governed investment fund, using grassroots assemblies and cooperative structures to invest in entrepreneurs of color.

How would it work in Rhode Island?

Who?

- Rhode Island General Assembly
- City/Town Mayors or Councils

What?

Rhode Island General Assembly:

- Create a Neighborhood Trust program by
    - Identifying eligible neighborhoods or zones
    - Incentivizing local funding with a $1:$1 match
    - Partnering with one or more local banks to hold the trusts

    - Contracting with a nonprofit service provider to provide training and technical assistance to governing boards and impact evaluation

City/Town Mayors or Councils:

- Award a minimum of $250,000 per eligible zone to leverage state funding and seed a Neighborhood Trust
- Serve as a connection between technical assistance providers and community members

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Strategy #4: BUSINESS SUCCESSION PLANNING & EMPLOYEE OWNERSHIP

How does it promote community wealth-building?

With our aging population, Rhode Island is facing a silver tsunami. In the coming years, small business owners will be retiring without clear succession plans, particularly in key industries like manufacturing. **We risk these businesses closing or being sold to out-of-state, speculative investors—meaning a significant number of jobs are vulnerable.**

Employee ownership is a sound model for succession planning. Worker-owned cooperatives have been proven to reduce inequalities in the economic system. Employee owners earn average wages 5 to 12% higher than employees in conventional firms, and the average retirement savings for an ESOP employee is $170,000, twice the national average. Transitions to employee ownership have shown to increase productivity by more than 4%. Employee ownership saves local jobs, because companies that are owned by their employees are far less likely to leave their communities. And business owners who sell their businesses to their employees can keep their legacy alive for generations to come.[5]

Dedicated funding, outreach, and technical assistance should be dedicated to identifying and serving business owners interested in exiting to local, shared ownership.

Where has it been done?

The Ohio Employee Ownership Center at Kent State University provides technical assistance, training, and outreach to business owners looking to exit their business and sell to their employees. Massachusetts Governor Charlie Baker recently signed an economic development legislative package that includes institutionalizing the Massachusetts Center for Employee

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[5] Fifty by Fifty: Employee ownership offers a solution to the vast income and wealth inequality that is undermining America's economy.

Ownership (MassCEO). The office focuses on outreach to business owners and serves as a resource hub for service providers and information. The California legislature passed legislation establishing a California Employee Ownership Hub in 2022.

How would it work in Rhode Island?

Who?

- Rhode Island General Assembly

What?

- Provide $250,000 in annual funding to a partnership between Fuerza Laboral and the University of Rhode Island to create an employee ownership center that will provide robust supports and coaching to businesses interested in employee ownership.
- Charge the Executive Office of Commerce, Secretary of State, Department of Business Regulation, Department of Labor and Training, Division of Planning, and Division of Taxation with identifying businesses who might be candidates for succession planning and employee ownership.
- Require annual reporting on the number of businesses advised, their revenues and number of employees, and their ownership status.

Strategy #5: LOCAL CURRENCY

How does it promote community wealth-building?

Spending locally creates more local wealth and jobs. Independent locally-owned businesses recirculate a far greater percentage of revenue locally compared to absentee-owned businesses. Local currency vehicles can be used exclusively at locally-owned businesses. **They keep stimulus dollars circulating in the local economy, creating a multiplier effect.** As Deputy Chief Counsel Westbrook Murphy at the Office of the United States Comptroller of the Currency said many years ago, "They can circulate clamshells or pine cones if they want to, as long as people accept them... The law only provides that you have a right to demand payment in US currency as legal tender if you want to."

The multiplier comes in the form of:

- Direct impacts: spending done by a business in the local economy to operate the business, including inventory, utilities, equipment and pay to employees.
- Indirect impacts: happens as dollars spent by the local business at other area businesses recirculate.

- Induced impact: the additional consumer spending that happens as employees, business owners, and others spend their income in the local economy—purchases that they would not be able to make without their income from the first business.

The private research firm Civic Economics has executed a number of studies attempting to quantify the difference in local economic return between local independents and chain businesses. On average, 48% of each purchase at local independent businesses was recirculated locally, compared to less than 14% of purchases at chain stores. A similar study from the Institute for Local Self-Reliance found that $100 spent at local independents generated $45 of local spending, compared to $14 for a big-box chain.

Where has it been done?

The Schumacher Center for New Economics hosts a directory of 233 local currencies.[6] The BerkShare is probably the most well-known. First issued in September 2006, BerkShares are a paper currency printed in denominations of 1, 5, 10, 20, and 50 and are traded in the Berkshire region of Massachusetts. They are issued by local banks in exchange for USD. The federal dollars are kept on deposit in BerkShares, Inc. checking accounts at the banks and held to back conversion of BerkShares back to federal dollars on request. BerkShares are exchanged at $0.95 per BerkShare and spent at a value of $1 per BerkShare with participating businesses, and traded back for federal currency at $0.95 per BerkShare, providing a financial incentive for both individuals to get and spend them in the first place and for businesses which have received BerkShares in a transaction to spend them again rather than return them for federal currency.

Approximately 400 regional businesses are formally participating and an additional 200 accept BerkShares on occasion. A total of 7.3 million BerkShares have been issued through local banks. Fifteen branches of four local banks currently participate in BerkShare exchange.

How would it work in Rhode Island?

Who?

- Rhode Island General Assembly
- City/Town Mayors or Councils

What?

Rhode Island General Assembly:

- Charge the General Treasurer with issuing a local currency, backed by government funding, in partnerships with one or more local banks
- Provide a recurring or one-time stimulus payment to residents

[6] Schumacher Center for New Economics: Local Currencies Directory.

City/Town Mayors or Councils:

- Issue a local currency backed by municipal funding
- Provide a recurring or one-time stimulus payment to residents
- Develop a streamlined process to reimburse businesses

Strategy #6: HYPERLOCAL OWNERSHIP AND GOVERNANCE MODELS

How does it promote community wealth-building?

There are many models for governance and ownership of assets (including businesses, property including land and housing, and social infrastructure), that ensure the responsibility and benefits are maintained locally. Entities like community land trusts, cooperatives, and investment trusts can be used to **safeguard wealth and ownership in local communities**.

Where has it been done?

Chicago Mayor Lori Lightfood recently announced a $15 million community wealth-building pilot program that will invest in four specific CWB models:

- Worker Cooperatives *(Business Ownership)*
- Limited-Equity Housing Cooperative *(Home Ownership)* – Housing owned and managed by a cooperative made up of low-income members who each purchase shares at below-market rates
- Community Land Trusts *(Land Stewardship)* – Organization governed by community owns land in perpetuity while residential and commercial tenants own or rent the structures atop the land via a 99-year ground lease
- Community Investment Vehicle *(Commercial Real Estate)* – a legal investment mechanism that provides collective community investment in neighborhood assets based on shared development goal(s). In its perfect form, it is majority-controlled, majority-owned and designed by residents or local members

How would it work in Rhode Island?

Who?

- Rhode Island General Assembly
- City/Town Mayors and Councils

What?

Rhode Island General Assembly:

- Capitalize a grant and loan fund specific to worker cooperatives.
- Provide pilot funding through the Office of Housing and Community Development for a beta project to incorporate housing cooperatives and community land trusts, in conjunction with a small percentage of the $250 million in ARPA funds allocated for housing.
- Provide pilot funding through Commerce RI to pilot a community investment vehicle.
- Charge all state and local agencies with considering hyperlocal, shared governance and ownership models in all of their efforts.

City/Town Mayors and Councils:

- Capitalize a grant and loan fund specific to worker cooperatives.
- Provide pilot funding through the Office of Housing and Community Development for a beta project to incorporate housing cooperatives and community land trusts.
- Provide pilot funds to launch a community investment vehicle.

Strategy #7: NEIGHBORHOOD & ECONOMIC FUTURE FUND

How does it promote community wealth-building?

To address widening economic inequities, deep neighborhood fissures driven by decades of disinvestment or harmful extraction, racial inequality/discrimination, and the mounting consequences of climate change, a new kind of investment is needed. Rhode Island needs to identify a sustainable funding source for making future-oriented investments that is aligned with our economic and community values. These funds should be used for community-led initiatives to shape the future Rhode Island deserves: closing the racial wealth gap, removing polluting industries from neighborhoods, creating high-quality green jobs, advancing clean energy, developing a transportation system of the future, and more.

Where has it been done?

In 2018, residents of Portland, Oregon passed by 65% the Portland Clean Energy. The Fund is locally-managed and focused on supporting local clean energy, energy efficiency, and climate justice projects. **It is funded through a 1% fee on annual gross revenue of large corporations that generate over $1 billion in annual gross revenue and at least $500,000 in Portland-based sales.** The Fund is overseen by a committee of nine local technical experts and community members appointed by city commissioners. Projects that serve low-income communities and communities of color are prioritized.

How would it work in Rhode Island?

Rhode Island General Assembly/Governor’s Office:

- Charge the Rhode Island Division of Taxation with a study to explore potential funding sources through additional taxes and fees on large, out-of-state corporations operating within Rhode Island.
- Based on the results of the study, create a new small annual revenue-based fee or tax on large corporations with operations in Rhode Island through either a budget article in 2024 or a stand-alone piece of legislation in the House and Senate. The revenue generated can be held in a restricted account intended to fund environmental justice and economic empowerment activities.
- The environmental justice advisory board to the Executive Climate Change Coordinating Council will be charged with making annual recommendations to the fund committee for equity-focused climate investments, in partnership with frontline communities of color across Rhode Island. Examples of potential investments could include pre-weatherization housing upgrades in low-income neighborhoods, redevelopment of brownfield sites in the Port of Providence, expansions to RIPTA access and routes that prioritize access for low-income communities of color, and others.