

Community Wealth Building External Review

*Reflections on Advancing
Worker Ownership in the
Washington DC Metropolitan Region*

A map of the Washington, D.C. area is shown in the background, featuring various roads and landmarks. A decorative bar with segments in green, blue, yellow, and red is positioned below the map.

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Introduction

The steering committee of the Community Wealth Building Initiative commissioned this external review in order to glean lessons from a collaborative effort among local funders to launch and support green employee-owned businesses in the Washington, DC region. We would like to acknowledge the Community Clean Water Management Group, the Community Foundation for the National Capital Region and the Consumer Health Foundation for their financial support of this evaluation. In addition, we are grateful for the skill and insights of our evaluator Melissa Bradley, who is the Director of the American University Center for Innovation in the Capital and Executive in Residence at the Kogod School of Business at American University. Finally, we are grateful to the many funders and stakeholders who participated in this initiative and agreed to be interviewed for this report. It is our hope that the lessons learned here will be helpful to those of us who are working to create a fair and just economy where everyone thrives.

Sincerely,

Tamara Copeland
Washington Regional
Association of Grantmakers

Bruce McNamer
Community Foundation for the
National Capital Region

Yanique Redwood
Consumer Health
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December 2016

COMMUNITY CLEAN WATER MANAGEMENT GROUP



The Community Wealth Building Initiative (CWBI) was a collaborative effort among local funders to engage anchor institutions (universities, hospitals, and local governments) and launch and support green employee-owned businesses serving anchor needs. The Washington Regional Association of Grantmakers (WRAG) guided the initial efforts, which led to a feasibility study of this approach, inspired by the Mondragon Corporation in Spain and incorporating lessons learned from Cleveland's Evergreen Cooperative model. The employee-owned businesses would provide wealth-building jobs in low-income communities in the Washington DC metropolitan region and forge strong connections with local anchors to secure long-term contracts for sustainability.

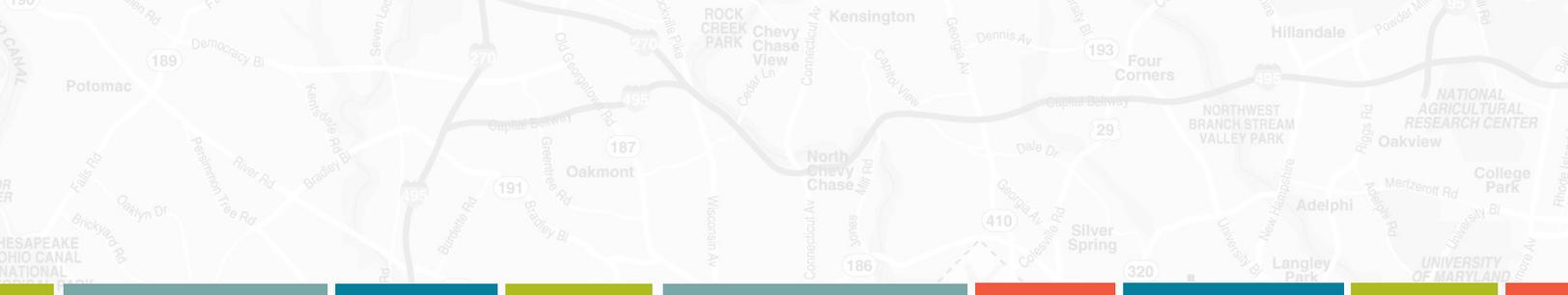


Background and Timeline

During the fall of 2012 WRAG engaged a few funders to discuss the potential of creating a worker-owned cooperative in the metropolitan region after recognizing the success of similar models, such as Evergreen Cooperatives in Ohio. In December, the group agreed to explore the viability of such an entity in the DC region and engaged the Democracy Collaborative to complete a feasibility study. The study was “well done and very thorough.” It noted several sectors in which the potential entity could operate, as well as outlined potential partners, including additional funders and anchor institutions.

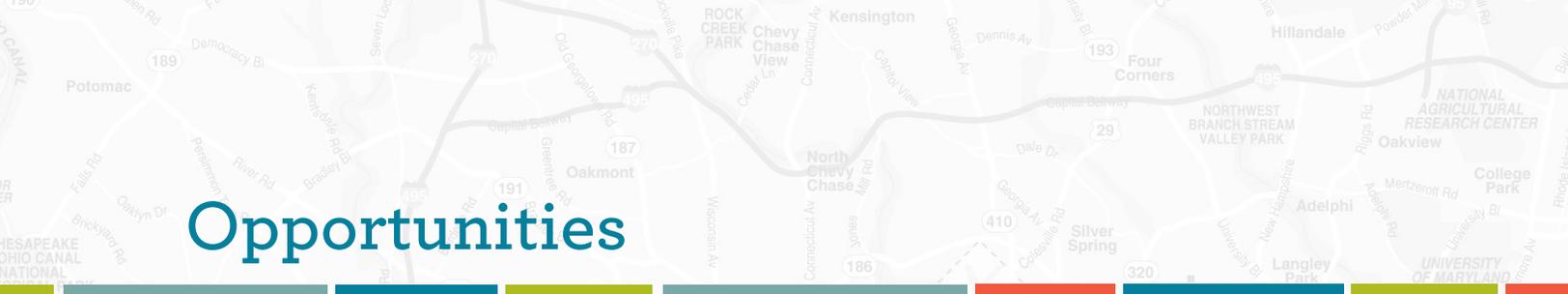
Impressed with the study, and its results, the funders decided to create an RFP to select an organization to develop a "business plan" for the new entity. In February 2013, City Firt Enterprises (CFE), a DC-based bank holding company and CDFI, was awarded a contract for services. The business planning process was challenging and rewarding. With respect to challenges, CFE had limited access to prior research as well as leaders of the Evergreen initiative and

Democracy Collaborative team members, who were no longer involved in the effort. With respect to opportunities, the planning process garnered substantial support from funders in the region, and regional educational and medical institutions expressed a willingness to engage. The process also yielded the potential for a contract in Prince George's County, allowing the first proposed business to be located outside the nation's capital, in keeping with a regional approach.



In the summer of 2015 the first business Community Clean Water Management Group (CCMG) was created in Prince George's County. Based on the likelihood of storm water management contracts through Prince George's County's public-private partnership with Corvias, the business was created with a start-up board and approximately \$90,000 in funds. Incorporation proved challenging as cooperatives were not a recognized structure in Maryland; therefore, the business became a holding company designed with principles such as shared decision-making and profit-sharing among workers. There were also

other regulatory issues, such as business residency requirements, that proved costly and time consuming for the new business, which ultimately was not able to compete for contracts. With limited funding, lack of paying contracts and little prospects for business development in the next six months, CCMG closed in October 2015. ■



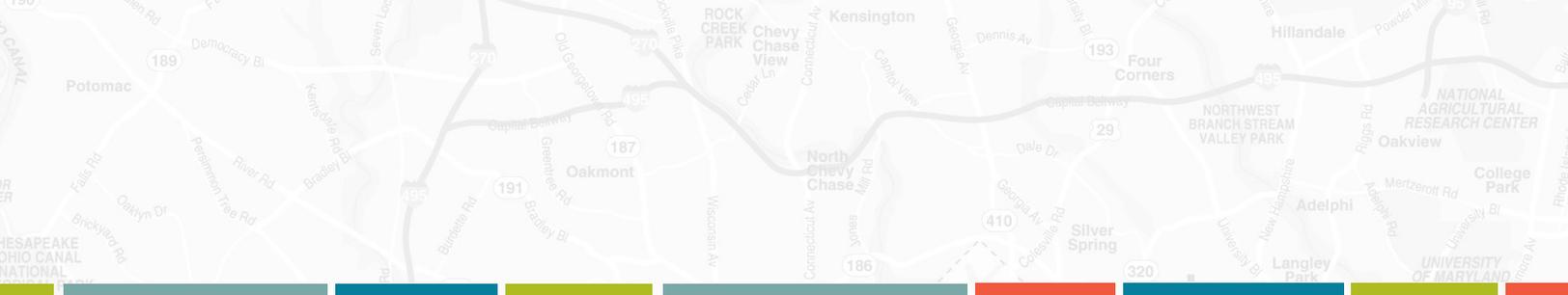
Opportunities

This memo is a reflection of twenty (20) interviews with stakeholders connected to the CWBI over the course of the project. The purpose of the interviews was to discern key lessons learned from the process to inform future considerations. The stakeholders will remain anonymous, and there will be no attribution.

During the course of the planning and implementation of CWBI, there were many positive outputs and outcomes. Below is a summary of highlights shared by CWBI stakeholders.

CWBI provided a means to help the regional ecosystem understand poverty alleviation strategies.

One in five residents lived below poverty in 2012 according to Census data. For a family of three, that means living on less than \$19,090. One in ten residents lived in extreme poverty, or below half of the poverty line. This is in stark contrast to the fact that in 2012 DC was ranked second amongst states whose typical households give the biggest percentage of discretionary income to charity - 7.7%. This disparity potentially speaks to the significant amount of funding that was chasing poverty reduction strategies and struggling to have meaningful impact. Many CWBI stakeholders believe that the planning work for a cooperative provided a much-needed universal understanding of the root causes of poverty in DC amongst charitable institutions; it created a "set" of poverty alleviation strategies that could help the over 100,000 residents in DC who are at the bottom of the pyramid accumulate wealth.



CWBI allowed for recognition of the interconnectedness of the metropolitan region.

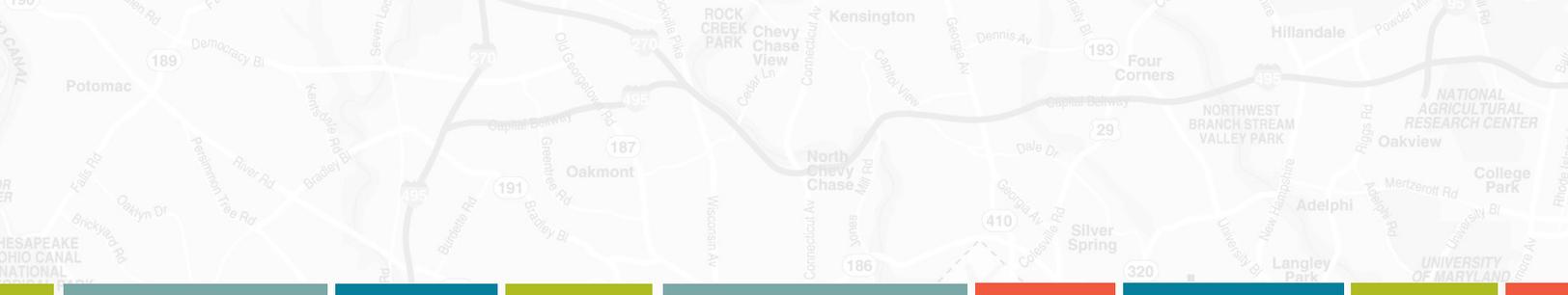
The District of Columbia is a unique geographic location in that it is not a state and has extensive interdependencies on its neighbors - Virginia and Maryland. CWBI provided an opportunity to recognize the interconnectedness of the metropolitan region and allowed the funders to intentionally focus on a regional versus city approach. The approach was novel and designed to address the transient nature of people and problems across geographic boundaries.

The high levels of engagement from potential anchor institutions in the feasibility phase signaled potential success for CWBI.

The role of anchor institutions is critical to the success of such an initiative. In DC over 100 partners were engaged in the feasibility phase to determine their interest in CWBI, with a particular focus on educational institutions and healthcare systems. The support of leading universities and hospitals – along with other partners – during the planning process signaled potential for large supply chain opportunities to support the cooperative. Unfortunately, the ongoing engagement of such stakeholders waned and the final selection of Prince George’s County changed the future level of engagement of some anchor partners, such as DC-based universities, as it was outside of their geographic service area.

CWBI was able to engage consistent engagement from local government officials across the region.

Stakeholders consistently mentioned that despite the interdependency and sometimes tension between DC, Virginia and Maryland, the presence and support of local government officials across all parts of the region was consistent and supportive. The note that “politics” did not play a role in the development of CWBI is a significant success, and one that many other areas struggle with at the onset.



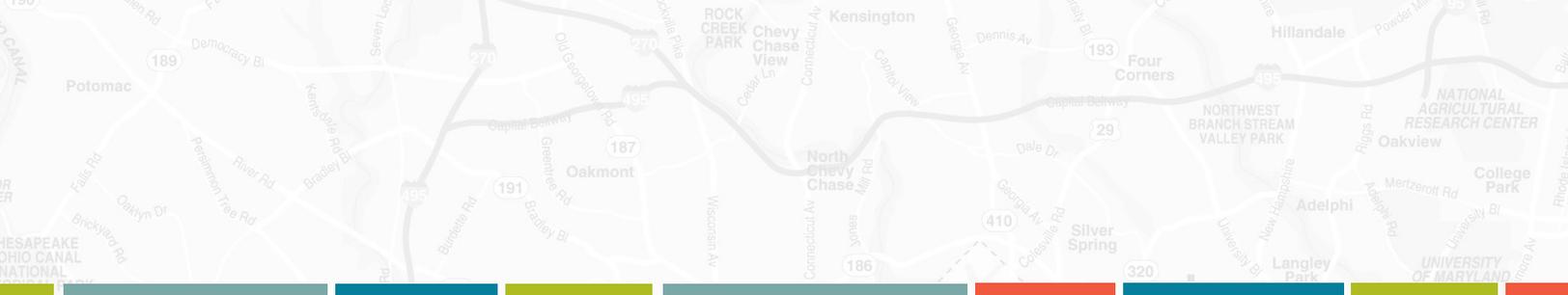
The delivery of solid work products from Democracy Collaborative and City First Enterprises provided a strong foundation to develop CWBI.

The engagement of experts, such as Democracy Collaborative and City First Enterprises, provided a solid source of data upon which to make decisions and plan for the future of CWBI. The stakeholders unanimously noted the presence of Democracy Collaborative as being of high value since they are the “experts” in the field. The delivery of a feasibility study for CWBI stakeholders was “one of the most valuable” pieces of data received.

The RFP process that produced City First Enterprises as a partner to develop the business plan (and business) was “well received” and “rigorous.” City First Enterprises, with its experience as a bank holding company and CDFI, along with well-respected leadership, provided a level of “credibility” and “business acumen” that was needed to complement the commitment of funders and anchor partners.

The CWBI stakeholder visits to Cleveland were very helpful and provided critical insight into the possibilities for CWBI.

The ability to see and talk to Evergreen Cooperative leadership and participants in Cleveland was a major milestone for CWBI stakeholders. The chance to “talk to those who have engaged in this work” was helpful in outlining the future path for CWBI – the good and the challenging. Moreover, the engagement with Cooperative participants and hearing their struggles was a needed “reality check.” Many CWBI stakeholders wished that there had been more visits along with regular communication between CWBI and Evergreen Cooperative leadership. More specifically, CWBI stakeholders sought more transparency around business and financial models; however, very little information was made available.



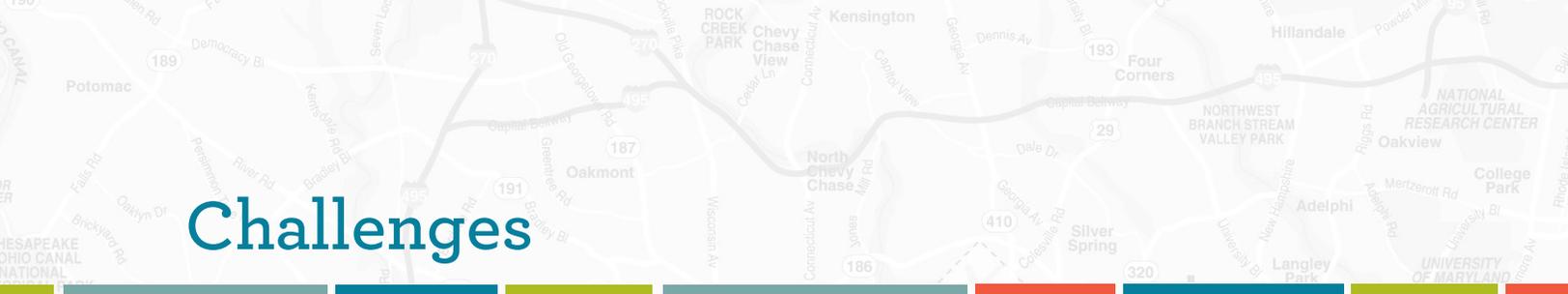
All CWBI stakeholders support the ongoing exploration of similar efforts in the District, especially East of the River.

While the stakeholders' understanding and support of the final outcomes of CWBI varied, based on tenure and level of engagement, there was unanimous support for the reconsideration of a CWBI related effort. All stakeholders acknowledged that the conditions that supported the launch of CWBI remain in the region, and that now there is “more at stake” with technology, changing demographics and political leadership that would warrant rigorous conversations around poverty alleviation and economic security. It is worth noting that all stakeholders shared a preference to work East of the River, should such an initiative be re-imagined in DC.

CWBI funders were collaborative and creative in pursuing a difficult agenda.

The work of community economic development is hard. A focus on poverty reduction strategies is even harder due to the complexity and interdependency of people, problems and institutions. Stakeholders noted the importance of acknowledging the “courage” that funders had in supporting this work. Moving forward, it is important that funders “not be afraid” to try hard things and fail. ▣

The Community Wealth Building Initiative (CWBI) elevated the need for sustainable jobs and wealth creation in the local regional economy. Inspired by the work of the Evergreen Cooperatives, CWBI engaged municipal government, hospitals, universities, community organizations, funders, and investors to grow employee-owned operating businesses rooted in low-income communities in our region. CWBI was supported by City First Enterprises, a nonprofit bank holding company, and Next Street, a merchant bank and business strategy consultancy. CWBI intended to launch several employee-owned businesses in the region beginning with a stormwater management installation and maintenance firm located in Prince George's County.

A map of the National Capital Region, showing various roads and landmarks like Potomac, Rock Creek Park, Chevy Chase View, and the University of Maryland. Below the map is a decorative horizontal bar with segments in green, blue, yellow, and red.

Challenges

The lack of executive leadership to “hold” the vision undermined the longevity of CWBI.

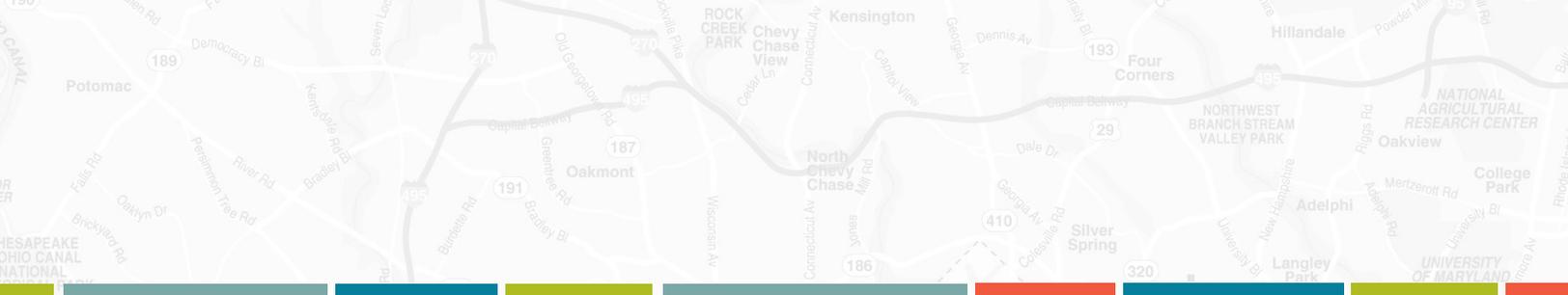
Over seventy-five percent of the CWBI stakeholders interviewed noted the lack of “executive leadership” as one of the most significant barriers to its ultimate success. There was a lack of a “dynamic leader” to consistently champion the effort. The relatively large presence of leadership transitions amongst key stakeholders (e.g. City First Enterprise and Community Foundation for the National Capital Region) caused inconsistency of engagement, data sharing and implementation process. The fact that leaders transitioned before the launch of the storm water management business changed the ongoing dynamics and momentum. The lack of critical expertise, unrealized commitments of funding, and inconsistency of management led to process challenges.

Moreover, several CWBI stakeholders noted the lack of a “home” for the project as a challenge in terms of leadership, as well as infrastructure support. Initially the project was housed at WRAG, and then it transitioned to CFNCR and CFE.

Almost half of stakeholders interviewed noted the presence of “personality clashes” as another barrier to maintaining momentum. Some correlated the clashes to shifts in leadership and lack of clarity on how decisions would be made. Others merely noted the presence of such tensions which led to incongruent information sharing and “unsteady” collaboration.

There was a lack of clarity about roles and responsibilities assigned to City First Enterprises.

The purpose of the engagement of City First Enterprises, and whether to develop a business plan versus a business, seemed to contribute to a misunderstanding of roles and responsibilities. Such lack of clarity had an impact on the business launch process as well as related fundraising activities. Many stakeholders believe that time lost in determining the “true” scope of work created a lower confidence level by potential investors.



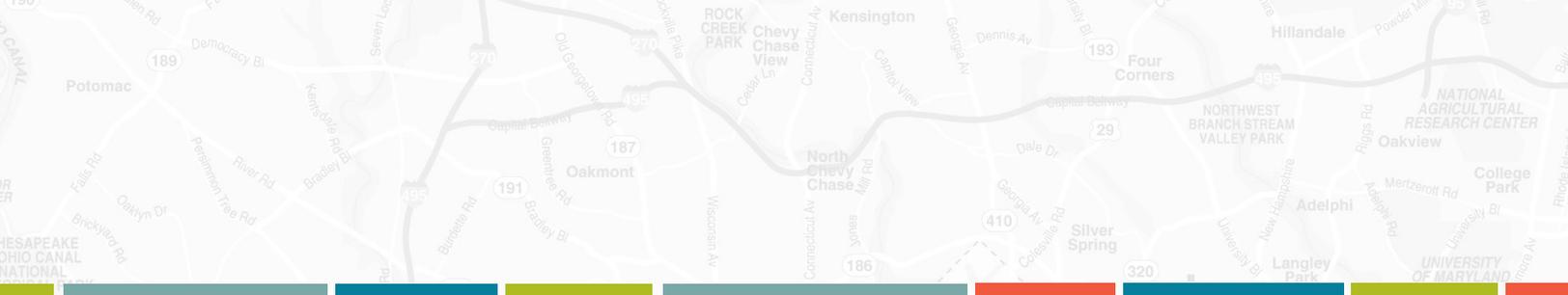
There were also challenges for CFE related to its ability to operate as a bank holding company and an “incubator.” While this belief was held by a limited group of those intimately involved with CFE, they believed this tension led to significant structural and relationship challenges. With respect to structure, it created confusion on the extent and depth of CFE’s ability to engage in the business planning process versus creation of a business. With respect to relationships, there was concern amongst CFE board members that the work was beyond appropriate scope and resources of the bank, and was being led by transitioning leadership.

Interview participants also noted a disconnect between CFE and their board of directors. Several participants affiliated with CFE noted that the board had questions around the scope of the project and fit with CFE’s overall future direction. This lack of transparency and communication contributed to “lackluster” engagement by anchor institutions and funders, as well as slowed momentum as the initiative progressed due to lack of trust and data.

The District did not have enough institutional charitable investors to support the CWBI program - in the short or long term.

From inception to closure, CWBI suffered from “inadequate financial resources.” Stakeholders were very honest that DC is philanthropically underserved from an institutional perspective. All funders noted that there was not enough money to fund the work but hoped for others to join, especially high net worth individuals. Key findings from stakeholders include:

- Early funders noted the disparity of contributions amongst early CWBI leadership which signaled potential longer term issues. More specifically the outsized contributions of Freddie Mac were not sustainable, but little was done to fill the funding gap that was created when Freddie Mac closed.
- The lack of meaningful and financial engagement of high net worth donors left the ongoing financial gap unfilled. While the presence of such a strategy was noted, there was no funding secured, which left a “hole in the finances.”



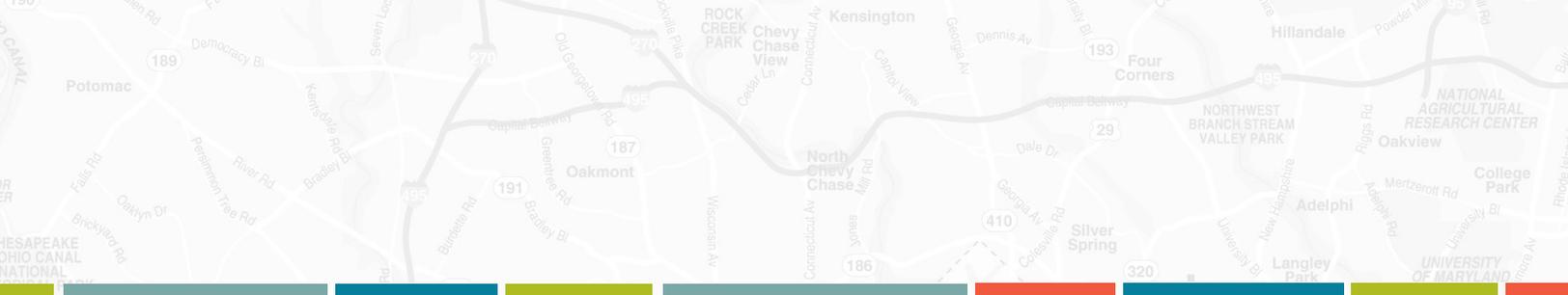
- The lack of adequate funding in the business led to the demise of CCMG as there was not enough working capital and cash flow to secure contracts nor maintain adequate operations to initiate business. More specifically, the lack of discretionary capital while the startup was awaiting contracts caused significant cash flow problems and led to the demise of the business entity.

There were structural and operational limitations for the startup enterprise in Prince George’s County.

Stakeholders involved noted that the final organizational structure for the new business entity was not as originally intended due to the regulatory environment. Operating in Prince George’s county created limited options as cooperatives are not legal in Maryland. The creation of a C corporation seemed confusing for some funders, and created the “belief” that the startup and transactional costs were going to be higher than expected. There were also other regulatory issues, such as business residency requirements, that proved costly and time consuming for the new business.

It should also be noted that the business, CCMG, was created after extensive relationship building with Prince George’s County and Corvias as they developed their public private partnership to build and maintain stormwater management systems in the County. CCMG was then launched based upon the anticipation of a contract that would create revenue and jobs for Prince George’s County residents. The delay of that contract extended beyond a reasonable time period, and the business was forced to close.

In speaking with individuals associated with Prince George’s County, it became clear that CCMG’s lack of substantial funding and track record led to sustainability challenges. In fact, it was recommended that moving forward “the business is established and has a track record before taking on such a large task of becoming a cooperative.”



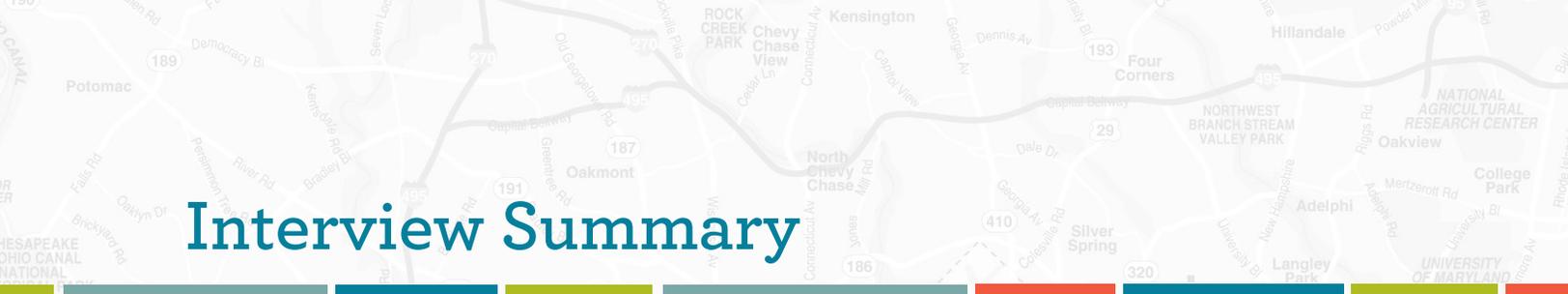
There was a gap of entrepreneurial experience amongst steering committee members during planning and implementation.

The lack of experienced business or start up leadership on the planning and implementation team was a significant disadvantage to the initiative. Funders did not have the expertise to engage in rigorous financial and business model planning that could have been beneficial at the onset. Rather, such skills were outsourced, but there were execution challenges in the long run. Moreover, the lack of such experience did not allow for “ideal decision making and scenario planning more typical of business planning.” Finally, it also limited the ability of the funders, steering committee and other partners to actively engage in business development and revenue generation, which had a negative impact on the business entity.

There was a lack of key stakeholders - such as residents and businesses - as part of the CWBI ecosystem.

Several stakeholders noted the lack of “embedded” strategies and leaders from the resident or business communities. With respect to community, many noted that the intentional focus on business structure and “replicating Evergreen,” led to the lack of active engagement of residents, who would ultimately be the beneficiaries and workers. The primary focus on business development created opportunity costs related to community organizing that are critical to the foundation of such an initiative. Moreover, the focus on “Evergreen” did not allow for critical conversations regarding the appropriate “adaptation” of the model for the DC area; the work proposed could not be “cut and paste.”

With respect to the business community, there was an intention to engage business leaders as investors and intellectual leaders. This level of engagement did not take place and contributed to the gap of business and entrepreneurial experience in the initiative. ■

A map of the Washington, DC region is shown in the background, featuring various streets and landmarks. Overlaid on the map is a decorative horizontal bar with segments in green, blue, yellow, and red. The title "Interview Summary" is written in a large, blue, sans-serif font across the middle of the map.

Interview Summary

CWBI created a valuable opportunity for cross-sector leaders to convene and discuss major structural issues across the Washington, DC region.

The proposed development of such a large-scale effort created an unprecedented level of excitement and enthusiasm amongst funders and other stakeholders. The challenge of limited business and sector experience, lack of business development pipeline and contracts, transitional leadership and limited financing ultimately undermined the success of the proposed business entity. However, the planning process created important regional data points, unexpected partners and access to a larger set of stakeholders via anchor institutions. The most important outcome of CWBI is this: despite the fact that a sustainable entity was not created, almost all the interview participants remain committed to supporting scalable poverty reduction strategies in the DC region. Moving forward stakeholders support “boldness in a vision with a focus on DC – specifically East of the River” – and a re-evaluation of having a sector focus and more robust engagement of the ultimate constituent – the cooperative worker.

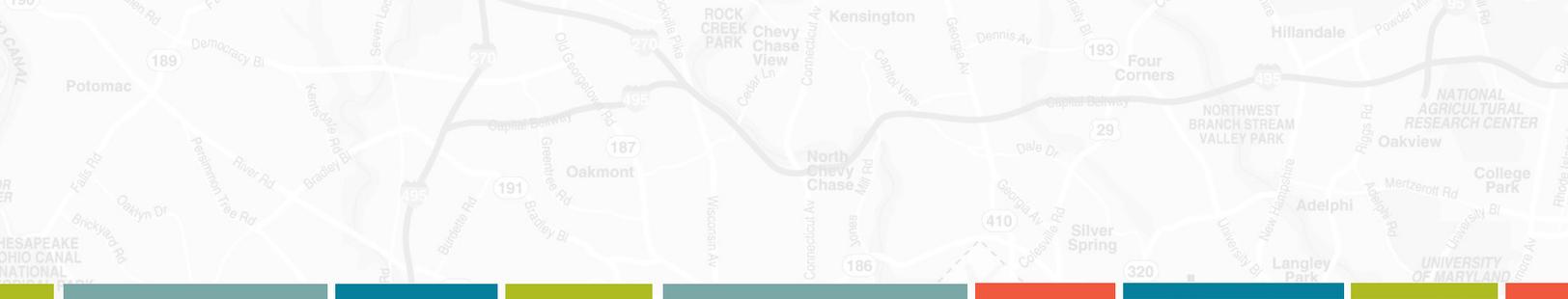


Future Development

The desire for future consideration of cooperatives as a strategy for economic security and poverty alleviation is critical.

The input from prior CWBI stakeholders will be helpful in reframing the work and avoiding some of the challenges and pitfalls that manifested. Below are some key guideposts for future development of cooperatives in the region based on the CWBI experience and best practices from national and international models:

1. Since the focus of cooperatives is on the worker and their well-being, the engagement of this constituency is a critical part of the planning process. Their engagement in the front end of the project allows for critical skills assessment, understanding of enabling factors such as current economic security, access to transportation, child care, etc. It also allows for the alignment of community voice and economic development which are both critical for long term success.
2. The engagement of local government was a critical success factor in the CWBI work. However, the lack of understanding of the regulatory environment, and where policy levers could have been more supportive of the entity will need to be addressed moving forward.
3. While cooperatives are designed with a social mission, they are still businesses. Moving forward the presence of business acumen on steering committees, boards and in leadership is a requirement in order to help frame the business and develop a healthy business model that can enhance sustainability.
4. Based on the competitive nature of contracting in the metropolitan region, it is encouraged that future efforts consider not just the creation of new businesses, but also the acquisition of existing ones. Moreover, the need for “runway” funds to manage cash flow shortfalls and the like while waiting for contracts and revenue will be critical for the next iteration.



5. The lack of distinction between the need for a clear financial model for the initiative versus a financial model for the business was a challenge. The work of CWBI stakeholders seemed laser focused on philanthropy which is not a viable investment strategy for cooperative businesses over time. Moving forward the stakeholders would be well served to raise planning dollars for the business development process, as well as 12 to 24 months of operating capital for the business prior to launch.
6. While CWBI was able to generate significant “interest and support” from anchor institutions, there were no firm commitments or contracts at the start of the business. Moving forward, there should be a focus on business development and contract retention parallel to business creation and fundraising. Due to the size and magnitude of expenditures for many anchor partners, there is a need for at least 12 to 18 months to allow for contract changes and/or edits. In addition, no business should be launched based on the expectation of a contract from a single source. A diverse revenue stream is critical. ■

Community Wealth Building Initiative Funders

- AGNES AND EUGENE MEYER FOUNDATION
- BB&T
- CAFRITZ FOUNDATION
- THE COMMUNITY FOUNDATION FOR THE NATIONAL CAPITAL REGION
- CONSUMER HEALTH FOUNDATION
- FREDDIE MAC FOUNDATION
- THE KENDEDA FUND
- PRINCE CHARITABLE TRUSTS
- SUMMIT FUND
- WORLD BANK

