Local Economy Preservation Funds: Keeping ownership local post-Covid

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Community economies are in trouble

- 75% of businesses cannot cover 2 months of expenses. Massive bankruptcies expected.
- FTC commissioner Rohit Chopra: “vulture investors, especially in private equity, are waiting in the wings to scoop up scores of struggling businesses on the cheap.” Not far behind will be corporate acquirers.
- Likely result: asset stripping, job losses, massive shift in ownership upwards to absentee elite.
Saving locally owned firms

- We could make a more equitable economy out of the ashes of the old.

- Rather than allow P.E. & absentee corporations to buy companies, states/cities can do so temporarily – exiting to community post-covid.
Local Economy Preservation Funds

- States, counties, large cities can follow a well-trod path, proven in models worldwide. E.g.:

- **Reconstruction Finance Corporation.** During New Deal, RFC became single largest investor in the U.S., owning shares (often actively exercising voting rights) in thousands of companies.

- **Resolution Trust Corporation.** In 1980s, it took over 747 failed savings and loan banks with assets of $400 billion.
Local Economy Preservation Funds: How it could work

1. Form a holding company.
2. Purchase or invest in distressed locally owned firms. Purchase portion or all of firm.
3. Hold during the crisis.
4. Exit to community in the recovery.
5. Object: Keep companies locally owned, and broadly owned.
How investment and exit could work

- **Obtain partial ownership:** Support local owners through the crisis, allowing them to continue operating or reopen later.
- **Purchase full ownership** if, e.g., owners nearing retirement, not interested in starting over.
- **Give preference upon exit to local and broad-based ownership:** local owners, employee ownership, social enterprise, keep some firms in public ownership; or preference people of color and women as owners.
Keeping companies locally owned is vital

• **Small business provide nearly half of all jobs, and circulate around three times more money back into local economies.**

• **Broad-based ownership keeps firms locally rooted over the long haul,** distributes the benefits of asset ownership more equitably, and extends participation and control to those often excluded.

• **Shared ownership often more productive and better paying than traditional alternatives.**
Capitalize these funds via Fed

- Federal Reserve created Municipal Liquidity Fund. Will purchase up to $500 billion from states, counties, cities over 250,000 pop.
- Currently 3-year funding. Experts are confident Fed will eliminate that barrier.

This approach in early stage of pilot in Broward County, FL.
Alternative: Capitalize pilots via impact investments

- **Ashville, NC group planning pilot** with Self-Help Ventures Fund (CDFI), Mountain BizWorks, others.
- **Target:** businesses owned by people of color, or enabling EO by people of color.
- **Organizers perceive demand** for decisive action around the racial wealth gap, through capital and assistance.
- **People of faith** may be possible investors.
Who could manage these funds

- Place w/in existing government or quasi-govt agency.  
  E.g. NYC Economic Development Corp.

- Delegate to experienced fund manager, with clear performance metrics.  
  E.g. Self Help Ventures Fund/CDFI.

Benefit of CDFI managing: skilled at managing for both social and financial return.
Opportunity for dialogue among pilots.

- We are working with Broward County FL, and Asheville NC.
- We may form small cohort of pilots.
- If one or a few create funds, others would follow. Could inspire federal version.

We are interested in hearing from other sites.
Questions and dialogue

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