

# **Local Economy Preservation Funds:** Keeping ownership local post-Covid

**Marjorie Kelly**  
Executive VP, The Democracy Collaborative

**National League of Cities**  
**June 24, 2020**

# 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

Marjorie Kelly

[MKelly@democracycollaborative.org](mailto:MKelly@democracycollaborative.org)

[democracycollaborative.org](http://democracycollaborative.org)  
[community-wealth.org](http://community-wealth.org)