

FAIR EXCHANGE

Growing, governing
and protecting
community assets



What is Fair Exchange?

A Fair Exchange is a public investment or venture in which citizens' interests are adequately protected and citizens get a fair long-term return.

C2BE

**Center for
Community-Based
Enterprise, Inc.**
www.c2be.org

Protecting the public interest

There is a long history of government investment in private companies through land grants, abatements, natural resource leases, loans, loan guarantees and bailouts. The quality of these deals, as business propositions for governments and citizens, range from profitable business ventures to scandalous scams. The growing size and speed of government investment in private businesses, combined with global business mobility, require fundamental restructuring of government investment to benefit communities. To balance the power and influence of corporations in negotiations, governments need:

- Policies that deter competition amongst communities for corporate location
- Investment structures and tools that provide long-term community benefits

Investing in the whole community

FAIR EXCHANGE

Guidelines:

- Using common business practices to get fair value and return in exchange for the community's investment risk, even if a company leaves the community
- Establishing firm metrics and benchmarks to determine if the public is getting what it was promised
- Enforcing business partners' promises with equity, collateral, escrow, or other compensation for broken promises

Adapts to fit your needs

A flexible model with unlimited applications

Many current government programs reflect aspects of Fair Exchange. If the examples in this brochure intrigue you, please visit our website at www.capitalownership.org to see more examples of federal, state and local Fair Exchange practices.

For a more in-depth analysis of major historical examples, such as the Chrysler Loan Guarantee Act, and proposed model legislation, see the article "Fair Exchange: providing citizens with equity, managed by a community trust, in return for government subsidies or tax breaks to businesses," published in *Cornell Journal of Law & Public Policy* 2 (2006). Download the article at www.capitalownership.org/lib/OlsonFairExchangePaper.pdf



Professional sports teams stay home

The Green Bay Packers and the Rochester Red Wings (a minor league baseball team) are owned by their communities and provide them with significant economic and social benefits. Attempts to build on these successes include the 1997 "Give Fans a Chance" Act proposed by Congressman Blumenauer, which would have required team owners' associations to permit community ownership in exchange for continuing their exemption from anti-trust laws. Studies show that public ownership of stadiums without ownership of the teams that play in them is analogous to the public owning a factory but not the business in it. Public ownership of teams, regardless of where they play, protects the community from the economic consequences of the team moving.

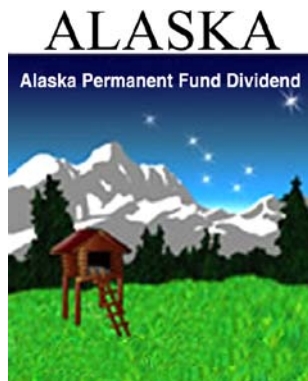


Municipal utilities do it themselves

Municipal Utilities (MUs), such as the one in Cedar Falls, Iowa, provide citizens some combination of water, gas, electricity, cable, Internet and telephone services. They embody local control in situations where the larger commercial world's needs do not mesh well with those of the local community. They often invest based on a long-term vision of community interests that exceeds an investor-owned provider's horizon. MUs focus on personal customer relationships and service, buying and selling locally on that basis as well. They often beat the investor-owned utilities by using economies of small scale. Sixty percent (60%) of the electric utility companies in the country are MUs, mostly in small communities. Their experiences provide useful examples for much larger communities that are being abandoned by global corporations, once central to their economies.

Citizens return on natural resources royalties

The Alaska Permanent Fund (APF) was established in 1976 by the state legislature as a repository for 25% of royalties from all Alaska mineral resources including oil, gas, gold, copper, and coal; based on its Constitution, which provides that state natural resources belong to its people. Unlike the non-renewable resources that fund it, the APF was designed to be evergreen through an inflation-proofing mechanism. The APF value now exceeds \$39 billion, and provides dividends to every Alaskan annually (ranging from \$800 – \$2,000 per person). It provides a very good example of how government can harness involvement with private business to promote the public interest.



Loan guarantees with stock warrants

In the 1979 Chrysler Loan Guarantee Act (CLGA) and the 2001 federal airline bailout the government required corporate loan recipients to provide stock warrants in addition to repaying their loans. These were business-like deals where the government received tangible benefits for risking its funds and required a normal equity investor return. CLGA



prevented a major bankruptcy, saved thousands of jobs, created a 15% ownership stake in that public company for the union members, and ended with the U.S. government making over \$300 million when it sold its stock warrants. In the 2001 airline bailout, when the government began to require 10 – 30% in stock warrants for airlines to qualify for loans and loan guarantees, Northwest Airlines concluded that it did not need the funds enough to give up equity, and withdrew its application. This is just one example of how Fair Exchange principles can protect the public interest against opportunistic behavior by firms.

Public seed and venture funds

At least 42 states have seed or venture capital funds that have, collectively, committed over \$5.8 billion to investment in private companies or equity funds. The New York Small Business Technology Investment Fund (SBTIF) is a successful direct investment state equity fund based on Fair Exchange principles. SBTIF makes early-stage investments in technology-based companies in New York State, which have innovative products that materially advance technology and provide the state and local communities with an economic benefit. Established in 1981 with federal and state funds totaling \$15.3 million, by 2005 the Fund had grown to \$40 million and became self-sustaining (evergreen) in 1995. SBTIF shows that a properly structured government investor can run a financially successful fund that encourages economic development while anchoring productive businesses locally. Many other states have similar funds, although most use a fund of funds model instead of SBTIF's direct investment approach.



Social returns on public pension investments

At least 29 states have state pension funds that invest in economically targeted investments (ETIs). ETI investments provide a social return without sacrificing financial return or uncompensated risk. Examples include housing or venture capital for job creation, or industrial or commercial loans in underserved areas, etc. Public pensions control \$2.2 trillion in assets of which 2.4%, or about \$55 billion, is invested in ETIs, primarily in residential housing and venture capital. New York and California state employees' retirement funds have the most extensively developed programs.





Turning public research into public assets

Most public economic development agencies believe their economies' future success depends on growing or attracting innovative businesses early in their business cycle. This goal requires much more rapid commercialization of technology than in the past, and involves governments more deeply in a very speculative form of seed-capital investing. Many public universities have technology transfer departments that seek out their researchers' patentable work, help obtain patents, find companies to license the patents, and derive licensing revenue — although not very much direct revenue over expenses. The federal Bayh-Dole Act, enacted in 1980, significantly increased technology commercialization generated from federally funded research. Before Bayh-Dole, federally funded research went immediately into the public domain, making it hard to interest investors in risking the cost of developing a technology to which they did not have exclusive rights.

Prior to 1980, fewer than 250 patents were issued annually to U.S. universities. Yet in 2004 alone, there were over 15,000 new invention disclosures to universities, which filed 9,462 new patents and executed 9,543 options through 46 university-based technology transfer for commercialization programs.

State governments are making major financial commitments to develop innovation streams from idea to marketable product, making major public investments in creating private companies. Michigan, Pennsylvania, New York and Massachusetts have created elaborate programs to prime the pump — creating technology clusters around their major universities and tech centers, as they strive to create the next Silicon Valley. To date, Michigan has committed the most money, and uses loans convertible to equity to ensure that companies it funds remain in Michigan or remit to Michigan.

Several states directly fund federally neglected fields such as embryonic stem cell research. California recently committed \$6 billion for that purpose. Although it does not have a comprehensive policy for intellectual property created using state funds, California is one of the few states currently investigating creation of such a policy. Such new policies should follow Fair Exchange principles.

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Center for Community Based Enterprise, Inc.

The Center for Community Based Enterprise, Inc. (“Center”) supports and connects entrepreneurs, communities and resources to grow sustainable, locally rooted businesses paying living wages. It is a non-profit, membership organization that provides information, training, technical assistance and networking on community wealth building strategies. Its Fair Exchange Project provides such services to community leaders, staff and professionals developing and implementing or researching Fair Exchange programs. The Capital Ownership Group launched the Center.

Capital Ownership Group (COG)

COG is an international network of professionals, academics and activists operating an on-line conference center, think tank and library from Kent State University, focused on finding and developing broad ownership strategies to anchor local economic development. It has over 20 working groups with participants from 6 continents and has responded to over 5.3 million information requests from people in 173 countries. It has been funded since 1999 by foundations including the Ford Foundation, the German Marshall Fund of the U.S., the Alfred P. Sloan Foundation, the European Union Fund, and others. You can view or join a COG discussion group at www.capitalownership.org.

Center for Community-Based Enterprise Advisory Board

(institutional affiliation for identification only)

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Center Partners

The Center has a diverse group of partners and welcomes new organizational partners that share our values and our commitment to action. Current partners include the Michigan AFL-CIO's Human Resources Development Inc., Shorebank Enterprises Detroit, Innovation Network for Communities, Intellectual Property Commercialization Group, Capital Ownership Group, Sugar Law Center, Professional Inventors Alliance, TechTown and the Skillman Good Neighborhoods.

Membership

Individuals and organizations are eligible for membership. Members get discounts on publications, conferences and technical assistance. You can join on-line at www.c2be.org or complete the attached membership form and return it with a check made out to "Center for Community-Based Enterprise, Inc." to Center for Community Based Enterprise, P.O. Box 15652, Detroit, MI 48215 Attn: Deborah Groban Olson.

Tax Deductible Contributions

Tax deductible contributions can be made by sending a check, made out to Center for Community-Based Enterprise (C2BE) to: Center for Community-Based Enterprise, P.O. Box 15652, Detroit, MI 48215

Annual Membership Rates

Individual

Founding Member	\$100
Member	\$50
Student/Unemployed	\$15

Organizations

Established business	\$250
New Small Business	\$150
Non-profit	\$75

Sponsor or Partner

Gold	\$2,500+
Silver	\$1,000
Bronze	\$500

Enclosed is a check for membership in the Center for Community-Based Enterprise, Inc.

Name

Title

Organization

Address

City

State

Postal Code

Country

Email address

More information

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Does your community need
FAIR EXCHANGE?



Public return on ***public*** investments
in ***private*** companies