



COMMUNITY & ECONOMIC DEVELOPMENT OFFICE

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BURLINGTON LOCAL OWNERSHIP DEVELOPMENT PROJECT

BACKGROUND

The City of Burlington, Vermont enjoys considerable natural and cultural advantages that have, in large part, been responsible for dramatic economic growth within surrounding Chittenden County over the last decade. Despite these overall advantages, the core economy of the City of Burlington appears to lag considerably behind the rest of the county and other regions of the state on key indicators of income and quality of employment opportunities for Burlington residents. This gap between county and City and the related overall trend toward low skill, service employment is unacceptable to the citizens of Burlington and their elected leadership.

It is recognized that the most direct remedy for overcoming the gap in income and employment quality for Burlington residents lies in our efforts to place citizens with existing large and small employers in the county. To achieve that goal, the City is prepared to take a more active role in providing the job training and counseling programs necessary to match its residents with existing and future employment opportunities those employers can provide.

It is also recognized that any and all forms of business ownership should be encouraged within the Burlington economy. The foremost economic development policy objective of any City government should be job creation, preferably quality job creation, within a diverse base of economic institutions.

Immediate, conventional job creation objectives such as these, however, should not deter City planners from undertaking more long term innovative policy initiatives which can, over time, act to overcome the City's apparent disadvantages vis a vis Chittenden County at large. One such initiative, undertaken with the assistance of the Industrial Cooperative Association of Somerville, MA and a local advisory group of community leaders is the Burlington Local Ownership Development Project.

The Burlington Local Ownership Development Project is a special initiative of the Community and Economic Development Office designed to encourage the start-up of a range of private, locally owned and controlled, for-profit, business enterprises.

The choice of a local ownership oriented business development strategy derives from the following assumptions:

- ★ That successful, locally owned businesses will, over the long term, provide more stable employment opportunities for Burlington residents since key corporate decisions will tend to be made by residents with a long term interest in the future health of the Burlington economy.

- * That successful, locally-owned businesses will strengthen the local Burlington economy as both wages and profits are more likely to be retained and reinvested by local owner/employees.
- * That successful locally-owned businesses, being more familiar with local resources and institutions, are more likely to hire, train and promote local residents, therefore promoting a higher percentage of quality job opportunities for Burlington citizens.

Within this local ownership business development strategy, a number of enterprise structures can and will be supported including:

- * Conventional, individually-owned, entrepreneurial start-ups - possibly taking advantage of City sponsored "incubator business" space.
- * Conventional, family-owned or partnership entrepreneurial start-ups; and
- * Employee-owned and controlled businesses.

Of this variety of local ownership structures, employee-owned and controlled businesses will be particularly encouraged because of:

- * Their demonstrated performance potential. The University of Michigan's Institute for Survey Research has found employee-owned businesses to outperform conventionally-owned business structures on measures of productivity and profitability.
- * The breadth of local ownership which they can provide - by placing long term strategic decisions that could effect the Burlington economy at large in the hands of a broader number of local actors than one or two local entrepreneurs.
- * The quality of the employment environment they can create - by involving Burlington residents in decisions which effect companies that they will own.
- * The existence of significant tax incentives for employers to introduce employee ownership plans, be they employee stock ownership trusts (ESOT's) or more direct industrial cooperative ownership structures; and
- * The fundamental equity and fairness of employee ownership as a business structure - which helps distribute the gains of economic success to the people most responsible for that success - the blue and white collar employees working under the same roof together.

IMPLEMENTATION

Actual strategies for encouraging local ownership of business can be summarized under three basic categories:

1) Import Substitution Start-Ups

Where a new, locally-owned business is started to produce a product or a service which major local employers must presently import from out of state. Major employers would stand to benefit from these enterprises through the provision of a ready, convenient source of supply which would reduce their need to carry excess inventory. New, locally-owned enterprises would receive a temporary, sheltered, local market which can assist a company in its early start-up stages.

2) Conventional, Entrepreneurial Start-Ups

Where local entrepreneurs proceed to organize a locally-owned business on the strength of a new product or service idea designed for a variety of

markets - local, national and international. Likely sources of new business ideas could include university based research and development centers, oriented toward encouraging local ownership.

3) Conversions of Retiring Owner Businesses

Where existing healthy, local businesses find no likely or desirable conventional "outside" buyer and where local, "internal" management or management/employee groups move to purchase the firm themselves.

FINANCING AND TECHNICAL ASSISTANCE MECHANISMS

Regardless of the starting point for organizing a locally-owned business, innovative financing and technical assistance structures - designed to deal with the special requirements of these businesses - must often be made use of. Much of this assistance will hopefully be undertaken by local, private sector banks and venture capital funds, perhaps organized into some new form of consortium targeted to small business development within the Burlington area. Recent changes in the Federal tax code which provide financial incentives for banks to loan to employee-owned businesses should help encourage this form of activity. Other "specialty" forms of financing and technical assistance, geared to the particular objectives of local and employee ownership, can participate in partnership with "mainstream" financial institutions. Some of these sources, both public and private, local and national include:

- 1) The Burlington Revolving Loan Program
- 2) The Industrial Cooperative Association Revolving Loan Fund - Providing risk "equity" and working capital to workers and managers of employee-owned firms.
- 3) The National Consumer Cooperative Bank - A Federally created bank for cooperatives with 10% of its earnings targeted to employee-owned, cooperative enterprises.
- 4) Small Business Administration
- 5) Affirmative Investments - A "socially conscious" investment fund, based in Boston, MA.

ADVISORY BOARD

To assist City government in implementing the Burlington Local Ownership Development Project, a special, broad-based advisory board has been named to provide strategic and technical guidance. The initial, founding members of this Board consist of the following members:

- Harry Atkinson, President, Mechanical Equipment Co., Inc.
- Dr. Timothy Bates, Professor of Economics, University of Vermont
- Richard Crimmins, Small Business Development Center
- Michelle Ferland, Esq., Attorney, Vermont Legal Aid
- Jim Hokans, Director, Burlington Youth Employment Program
- Sue Kardas, Director, Burlington Area Vocational/Technical Center
- Bill Mares, Writer, Co-author of Working Together (A.A. Knopf Publisher, 1983)
- Reverend Roland Rivard, Vermont Catholic Charities
- Jon Willard, Business Representative, Local Union No. 1487
- Lynn Vera, Representative, Mayor's Council on Women