WASHINGTON DOLLARS, WASHINGTON SENSE

A HANDBOOK FOR LOCAL INVESTMENT

By
MICHAEL H. SHUMAN
and MAURY FORMAN

PREFACE

This handbook is the second in a series that aims to spur local investment in all 50 states. The goal is to provide readers with case studies and information relevant for their state. The first edition, published by the Post Carbon Institute in 2015, focused on Vermont.

This edition focuses on Washington State, and was produced through the support of the Washington State Department of Commerce and the Sun Valley Institute. Most of the examples are either from Washington or from nearby states.

If you are interested in sponsoring a handbook like this for your own state, please let us know. You may contact:

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ACKNOWLEDGEMENTS

Special thanks to the Washington State Department of Commerce for sponsoring, funding, editing and publishing this edition of the handbook. Additional resources were provided by Jordan Tampian and Washington State University Extension.

Much of the prose in this handbook comes from the previous edition about local investment in Vermont. Gwendolyn Hallsmith and Matt Napoli helped write that edition, and Daniel Lerch and Ken White of the Post Carbon Institute oversaw its editing and production.

Much of the research and first drafting of the case studies for this Washington edition came from Steve Dubb and Rozzie Kopczynski.

Department of Commerce

FOREWARD

Representative Derek Kilmer
United State House of Representatives
Washington State District 6

I've learned a lot of lessons from sports over the years. The soccer coach from my pee-wee league team (the Maroon Monsters) taught me that we are all winners – as long as we try our best (and try to avoid scoring on our own goal).

But Super Bowl XLIX taught me one of the best lessons I've ever learned. When you are on the 1-yard line and it's 2nd and goal, you have one option. You don't have Russell Wilson drop back and pass to Ricardo Lockette, only to watch Malcom Butler, my new "Least Favorite Player in History," pick off the pass and send the Seahawks to a heartbreaking defeat. Instead you: HAND THE BALL TO YOUR STAR RUNNING BACK!

What Michael Shuman and Maury Forman remind us in this book is that small businesses and local entrepreneurs and those that support them are not just the "backbone of our economy." They're something greater. They are our star running backs.

They are the ones growing local jobs, strengthening community resilience and fostering opportunity.

In a nutshell, they are the ones putting the ball in the end-zone when the game is on the line.

This book reminds us that we've got to hand the ball to our star running back. But, more importantly, Michael and Maury provide a playbook for investors, businesses, communities and others for picking up the tough yards and scoring some touchdowns.

That's important. It's important if we're going to provide jobs outside the shadow of the Space Needle. It's important if we're going to provide more opportunities for more people in more places. It's important if we're going to make sure that local communities can build vibrant local businesses that can draw investment – rather than seeing our top export, for many of communities, be young people.

As someone who grew up on the Olympic Peninsula who worked in economic development professionally for a decade, and who (proudly) was once one of Maury Forman's students, I appreciate the thought that went into this book and the work done to strengthen investment in our region. This book – *Washington Dollars, Washington Sense* – is a great final play for Maury's coaching career.

FOREWARD

Brian Bonlender
Director
Washington State
Department of Commerce

As Director of the Washington State Department of Commerce, I have had the honor of being able to work with people throughout the state to rebuild and elevate the state's economic development efforts and strengthen communities. A large body of this work has involved creating and executing a rural strategy, one that is based on Maury Forman's strategy of the TEAM approach,: technical assistance, education and training, access to capital and mentoring/networking.

Since the Great Recession, access to capital has been problematic. Large financial institutions have shied away from investing in small businesses and often, small communities. At the same time, entrepreneurs, community leaders and economic developers have begun to realize the importance of keeping money in their own community. Understanding that not everything could be purchased locally, the "buy local" movement became "think local" instead.

Today, the focus is on "invest local," putting local dollars in Main Street rather than Wall Street. This strategy has proven to investors that they can get the same return or more on their investment locally as nationally or internationally. Perhaps more important, "invest local" has helped reinvent communities, developing new relationships between community leaders, businesses, investors and residents. Communities all over Washington and the nation as a whole have come to realize the importance of creating a sustainable economy by focusing on growing, buying and investing locally.

In Washington, the successes and new investment beginnings are many in this regard. Visionaries such as Shaula Massena, a "Microsoft millionaire," who used her foundation to support the lending activities of community development financial institutions; Rachel Maxwell and Casey Dilloway, co-founders of Community Sourced Capital, which is an online crowdsourced lending platform that offers zero-interest loans; and Michael Cade, Executive Director of Thurston Economic Development Council Center for Business & Innovation, for the creation of the newly formed Thurston Investment Network (ThINK) a network of community individuals who want a local investment component to their portfolios. Washington is also proud to be home of organizations like PCC Farmland Trust, Viva Farm and BALLE, who focus on building communities of local human relationships through investing. These are just a few of the dozens of individuals and organizations who are strengthening communities throughout the state.

I would be remiss if I didn't acknowledge the groundbreaking work of Michael Shuman in this regard, a globally recognized expert in community economics and one of the architects of the crowdfunding reforms that became the JOBS Act. His collaboration with Maury Forman, Commerce's now retired rural economic development expert, have brought us the many innovative tools and ideas in this book.

Washington Dollars, Washington Sense will take you to the bleeding edge of community-driven business finance. You will learn how communities can build robust business finance infrastructure that historically has only been reachable through traditional finance strategies. It is a bible for businesses, investors, economic development leaders and anyone else interested in alternative business financing structures that keep local dollars churning in local communities.

What can we do to put our money directly into our communities and what investment opportunities does this create? Can we develop alternative business financing mechanisms that gives us the opportunity to breathe life into the dreams of our entrepreneur neighbor? Will there come a day when communities are completely untethered from Wall Street and forever free from the risk of being pulled down by its sinking hull into a crisis of its own making?

Michael Shuman and Maury Forman will provide answers to these first two questions. The answer to the last question, however, probably lies with each of us as much as it does with the authors.

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AT LEAST $25 TRILLION OF CAPITAL CURRENTLY INVESTED ON WALL STREET BELONGS ON MAIN STREET.

INTRODUCTION

A powerful "local economy movement" is now sweeping across the United States and much of the world. More than a thousand American cities and towns have local business networks or related projects led by such groups as the American Independent Business Alliance (AMIBA), the Business Alliance for Local Living Economies (BALLE), and the Main Street Program of the National Trust for Historic Preservation. Grassroots organizations like Transition Networks and Slow Food are engaging tens of thousands of other communities worldwide. In communities large and small, urban and rural, progressive and conservative, residents are attempting to strengthen local businesses, promote "buy local" campaigns, and end subsidies and other unfair advantages for nonlocal businesses.

One motivation spurring this movement is mounting concern about climate change. Businesses, institutions and individuals — many disappointed by the decision of the Trump Administration to withdraw from the Paris Climate Accords — are intensifying their commitment to divest from fossil fuels and find genuine alternatives to the carbon intensive companies that dominate the global marketplace. They are not satisfied just taking investment away from Exxon Mobil and moving it to firms that use lots of fossil fuels for shipping, fertilizers, weapons and other products. They want to put those investment dollars back to work in their own communities.

Another motivation is the fear of financial loss. During the financial crisis of 2008 and the years that followed, the stock market, housing values and job opportunities all plummeted. Profound public distrust of Wall Street launched movements like Occupy Wall Street and Move Your Money, the latter of which organized more than a million Americans to switch from megabanks like Bank of America to local banks and credit unions. Over the same period a grassroots group promoting investment in local food businesses, Slow Money, developed chapters in 20 cities, and moved $56.5 million into more than 625 small farms and local food businesses.

That said, local investment is achieving only a small fraction of its potential. It can and should be significantly larger than it is today. That's why we have prepared this handbook. We believe that millions more Americans could benefit by learning — state by state, example by example — how they can invest locally. We believe that at least $25 trillion of capital currently invested on Wall Street belongs on Main Street.[1]

This handbook begins with a review of the arguments for investing locally — which are made at length in books like *Locavesting* and *Local Dollars, Local Sense*.[2] Specifically, we answer the following questions:

1. Why should we care about local businesses?
2. Are local businesses competitive and profitable?
3. Why are Americans underinvesting in local businesses?
4. What are the contours of the emerging local investment revolution?
5. What are the risks and returns of investing locally?

In the remainder of the handbook we present tools for local investment, organized into five sections:

1. Tools for grassroots investors looking for local business opportunities.
2. Tools for businesses looking for local investors.
3. Tools for finance entrepreneurs looking to start local investment institutions.
4. Multi-constituency tools which could be used by anyone, including grassroots activists.
5. Legislative and regulatory opportunities available at the state level.

Perhaps the single most compelling reason for growing public support of local businesses is their positive impact on jobs.

Most of us know — or think we know — what the word "local" means. But since there's no precise definition of the word in the dictionary or in the law, it's helpful to point out that "local" embodies two different concepts: ownership and proximity.

Locally owned businesses are those in which the majority of owners live in the same geographic community where the business is based. Local ownership can come in many forms, including local corporations, nonprofits, employee ownership and co-ops. Regional chains can be local, but national chains cannot. Franchises that allow the owner/operator lots of latitude over an outlet's design and supplies could be considered local, but those with encyclopedic top-down requirements (such as McDonald's) would not. Whatever the uncertainty that remains in this definition, one distinction is absolutely clear: Public companies traded on the NASDAQ or New York Stock Exchange cannot be considered local.

Local investing implies another meaning of "local" as well — that the investors in a business live proximate to the business they are investing in, residing in the same neighborhood, city or state. Proximity confers many benefits to investors, but let's just mention one right now. While it's impossible for you to meet with the CEO of Walmart, you certainly can meet with the CEO of a local business. You can chat with the staff about the company. You can test out the product or experience the service. By ground-truthing your investment before you part with your money, your chance of being snookered by a huge, Enron-like fraud is much lower.

Perhaps the single most compelling reason for growing public support of local businesses is their positive impact on jobs. If you've got a computer, log into a terrific website called YourEconomy.Org, which presents one of the richest and most nuanced sources of data on the relative impact of locally owned versus nonlocal businesses.[3] If you look up job growth in the United States between 2008 and 2015, you will find that all jobs in the country expanded by a paltry 2.4%. All the job growth came from locally owned businesses. The ranks of nonlocal businesses actually shrank during this period.

Several recent studies confirm the job impacts of local business:

- A 2010 study appeared in the *Harvard Business Review* under the headline "More Small Firms Means More Jobs."[4] "Our research shows," according to the authors, "that regional economic growth is highly correlated with the presence of many small, entrepreneurial employers — not a few big ones."

- A more recent study published in the *Economic Development Quarterly*, a journal long supportive of giving "incentives" to nonlocal business, similarly finds: "Economic growth models that control for other relevant factors reveal a positive relationship between density of locally owned firms and per capita income growth, but only for small (10-99 employees) firms, whereas the density of large (more than 500 workers) firms not owned locally has a negative effect."[5]

- Still another paper recently published by the Federal Reserve in Atlanta performed a regression analysis of counties across the United States and found statistically significant "evidence that local entrepreneurship matters for local economic performance… [T]he percent of employment provided by resident, or locally owned, business establishments has a significant positive effect on county income and employment growth and a significant and negative effect on poverty…."[6]

Local businesses deliver many other benefits besides jobs:

Prosperity: Because local businesses spend more of their money locally, they generate a stronger "economic multiplier effect." Studies show that every dollar a consumer spends at a local business tends to generate two to four times the income, taxes and charitable contributions as a dollar spent at a comparable nonlocal business.[7]

‘Local’ is all about building a community economy made up of human relationships.

Social Mobility: Local businesses expand opportunities for entrepreneurship, which then provide market-based ladders for the disadvantaged to move out of poverty.

Tourism: One-of-a-kind stores, restaurants and shops give a community character and often attract nonlocal customers like tourists.

Smart Growth: The smaller size of local businesses can facilitate mixed-use neighborhoods and walkable communities.

Social Responsibility: The presence of local owners also means they are more susceptible to pressure by other stakeholders — consumers, investors, workers, suppliers — for responsible corporate behavior. A study by the EPA, for example, found that when you compare two smokestack factories, an absentee-owned factory emits 15 times the pollution of a locally owned one.[8]

Civil Society: Sociological literature shows that communities with a density of local businesses have a stronger civil society and that their members are more involved in politics, volunteership and citizen-led change. [9]

Together these economic and non-economic benefits help communities achieve perhaps their most important goal in the 21st Century — community resilience. With climate change already occurring, the era of cheap fossil fuels ending, and multinational corporations enjoying greater immunity from national (let alone local) regulation, communities face unprecedented environmental, economic and social challenges for which they are largely unprepared. Local businesses, and the localized economic systems in which they operate, are essential to helping communities inoculate themselves from these crises through greater self-reliance.[10]

Ultimately, "local" is all about building a community economy made up of human relationships. As Michelle Long, the former executive director of BALLE, says, “The point of local is being able to put a human face behind the transaction. Money is nothing but the moving current beneath us, showing what we care for.”

Are local businesses competitive and profitable?

Broadly speaking, local businesses have done remarkably well at competing with global corporations, and two basic facts underscore this conclusion:

- First, if local businesses were becoming less competitive, we would have seen jobs shift from the local half of the economy to the nonlocal half. In fact, when the spectacular growth of home-based businesses in the United States is properly accounted for, there has been no shift whatsoever for the past 15 years. Despite receiving little government support, local businesses have steadily maintained their “market share” of employment.
- Second, if local businesses were becoming less competitive, their profit rates would be lower than those of big businesses. Yet tax data available from the Internal Revenue Service show that net revenue from sole proprietors, which most small businesses either are or start out as, have historically generated 11 times more net revenue per sales dollar than C-Corporations. In Canada, not a wildly dissimilar nation to the United States, businesses with 10 to 20 employees are the most profitable, with margins 63% higher than big businesses.[11]

These generalizations, of course, mask important exceptions. Some small businesses have had enormous difficulty competing against bigger businesses. For example, the proliferation of shopping malls, chain stores and e-commerce has certainly killed many small retailers over the past two decades. But retail falsely looms large in our consumer consciousness, since brick-and-mortar stores are where we purchase most of our daily goods. In fact, retail actually only accounts for about 7% of the economy.

Sometimes, people think small businesses are poor investments, because they have a high failure rate. But they are actually thinking about a small subset of small businesses – namely startups. And indeed, according to the Small Business Administration, about half of all business establishments fail within five years of birth and two-thirds fail within 10.[12] But data from the Kauffmann Foundation, the nation's leading philanthropic supporter of entrepreneurship, show that a typical jurisdiction in the U.S. economy generally can be expected to lose only 16% of its existing jobs in a given year — which means that the other 84% is stable. Moreover, the same jurisdiction can be expected to gain 18% more jobs in a typical year. A risk-averse local investor might seek to focus on those local businesses that have operated profitably and grown steadily for five to 10 years.

Local small businesses have remained competitive in an environment where public officials and economic developers lavished subsidies on their nonlocal competitors. A survey recently completed of the three largest economic development programs in 15 states found that 80% were giving most of their money to attract and retain global business — about a third gave well over 90% of their funds. The unintended impact of these subsidies is to make small business less competitive, and yet the home-grown competitors held their own.

The tilt of public policies against local businesses goes well beyond economic development subsides. Generations of federal corporate welfare, ranging from tax breaks to outright gifts, including trillion dollar military deployments in the Mideast, have made fossil fuels unnaturally cheap. Public infrastructure favoring global trade like highways, airports and ports has been generously underwritten by public dollars, while infrastructure supporting local businesses like community parking lots and intra-city transit have been starved. State sales taxes are largely unenforced against internet giants like Amazon. Trade rules ban communities from placing labels on products letting consumers know whether they were made locally. Antitrust laws that once would have forbidden the way that Walmart whipsaws its suppliers have been largely unenforced.

Even if these public policies remain in place, deeper trends in the global economy are likely to make local businesses even more competitive in the years ahead. For example, in 1970 services made up 45% of consumer spending. By 2008, it grew to 60%. This trend is mirrored in every industrialized country in the world. As people make more money, they get saturated with "stuff." Once you have your third car, your fourth computer and your fifth television set, you begin to see the virtue in spending your next available dollar on more education or health care. This trend is great news for localization, because most services are inherently local and depend on face-to-face relationships with people we know and trust.

Britt's Pickles | Seattle

Meanwhile, local businesses in all industrial sectors are learning how to compete more effectively, and often showing other businesses how they can be profitable and still treat their workers, suppliers and the environment well. Through community-based networks, local businesses are spreading best practices — in service, in technology, in business design, in marketing, in finance — all of which are improving their competitiveness. These businesses are learning how working together can strengthen their hand against global rivals. For years, True Value Hardware stores, all locally owned, have successfully competed against Home Depots through a producer cooperative. Tucson Originals is a group of local food businesses in Arizona that collectively buys foodstuffs, kitchen equipment and dishes to bring down costs.

All of this has occurred in a world where the principal fuel for the global economy has been affordable oil. Cheap, plentiful, concentrated and easily portable oil has heated our homes and offices, propelled our cars and jetliners, powered our machinery, and brought the entire world into an industrial age. Periodic shortages, such as the OPEC embargoes in the 1970s, and periodic price spikes, such as during the summer of 2008 when gasoline was topping $5 per gallon in some areas, have reminded us of our dangerous dependence on cheap crude. These events, however, provided just a preview of an era we can barely imagine. With reserves of conventional cheap oil dwindling, we're increasingly meeting global demand with expensive unconventional oil, which increasingly comes from more technologically challenging resources like deep water oil in the Gulf of Mexico, shale oil from the fracked fields of North Dakota and Texas, or low-quality tar sands in Alberta. This means that oil is almost inevitably going to become more expensive in the coming decades. While renewable energy offers a long-term alternative, we will not be able to decouple the vast infrastructure of the industrial world, especially its transportation systems, from fossil fuels overnight.[13]

Salt Hotel & Pub | Ilwaco

The features of this post-petroleum era will almost certainly increase the competitiveness of local business. Rising oil prices will benefit community-based energy service companies, solar equipment installers and household geothermal services. As more people balk at skyrocketing costs of commuting to work, they will increasingly turn to home-based businesses. And common practices in today's economy, such as Walmart contracting with manufacturers to produce cheap consumer goods in low-wage places like China and shipping them 5,000 miles to stores in North America, will become less tenable.

About a quarter of the goods that we consume are "durable" — that is, things that last for a few years or (if we're lucky) decades. These cars, appliances, gadgets, computers, toys, housewares — all the stuff that in recent years has been manufactured in China — only constitute about a tenth of our total consumer spending. Most of our expenditures on goods are for "nondurables" like food, building materials, wood, textiles, clothing, office supplies and paper products.[14] They tend to be used or consumed quickly.

The distinction on durability is critical, because imports of nondurable goods are particularly vulnerable to rising oil prices. Compared to durables like microchips, the nondurable goods tend to weigh more and contain less value per pound. As energy prices and shipping costs rise, nondurable imports may be among the first casualties. This means that local production of food and clothing coupled with local distribution, for example, will once again be competitive against Walmart importing goods from China. Rising transportation costs will swamp long-shrinking labor costs. Thus, rising oil prices could usher in a local economy renaissance worldwide. Manufacturing of nondurable goods may make a spectacular comeback.

So, to recap: Local businesses have held their own against the global competition over the past generation, despite public policies tilted against them. And a number of trends, like the shift to services and rising oil prices, will boost the competitiveness of local businesses even further.

Why, then, are Americans underinvesting in local businesses?

If local businesses are responsible for more than half the U.S. economy (in terms of both jobs and output), and if the sector is highly competitive and profitable, then it's not a huge leap to infer that a healthy capital marketplace would ensure that roughly half our available investment capital would go into the local half of the economy. In fact, very little does.

For example, local businesses receive far less than half of the lending capital from banks. Even though small and mid-size banks account for about a fifth of all the capital in U.S. banks, they are responsible for more than half of all small business lending. Bigger banks, which control most short-term capital, prefer lending to bigger businesses. From a bank's perspective, if a big loan takes as much work as a small loan while promising bigger payoffs, why not go big?

This capital market failure is even more profound when it comes to long-term securities like stocks, bonds, mutual funds, pension funds and insurance funds. The assets that U.S. households and nonprofits have in these categories total about $50 trillion — more than five times the size of their banking deposits. And yet almost none of this $50 trillion touches local businesses. If the U.S. capital markets were functioning efficiently, at least half of this sum, $25 trillion, would move from Wall Street to Main Street.

What stands in the way of this shift are obsolete institutions and laws that make local investment extremely difficult and expensive. Securities laws from the Great Depression effectively enacted a system of investment apartheid, with "accredited investors" being able to invest in any business they wish and unaccredited investors being essentially told to stick with Wall Street. Accredited investors comprise the richest two percent of Americans — those who earn more than $200,000 (or $300,000 with a spouse) or have more than $1 million in assets, excluding one's primary residence. As long as entrepreneurs honestly present their business plans, governance and numbers, they can easily approach any "accredited" investor for an investment. The other 98% of us are "unaccredited" and presumed too gullible to invest in a company without receiving massive legal paperwork. Before a business can make an investment "offering" to even a single unaccredited investor, it historically had to pay an attorney to produce a private placement memorandum and various regulatory filings and documents that could easily cost $25,000 to 50,000 in legal, accounting, and government fees. If a company wanted many unaccredited investors, it had to create a public offering that could cost another $50,000 or more, and make ongoing, exhaustive filings to the Securities and Exchange Commission (SEC).

The thick offering documents are often worthless to the lay person for whom they were written to protect. They are filled with turgid, legalistic prose that largely exists on lawyers' hard drives for every company that comes to them. While securities laws have certainly protected many grassroots investors from fraud, they also have wound up keeping small investors away from small business. Put another way, 98% of the American public today cannot invest in more than half of the economy.

Stunningly, there are some signs that our capital market failure is getting worse. For example, community banks are decreasing in assets and numbers. Over the last 15 years, the number of small banks has dropped by a third; their assets have dropped by half. As the financial crisis unfolded early in Barack Obama's first term, the newly elected Democratic majority on Capitol Hill passed the so-called "Dodd-Frank" reform legislation (named for the cosponsors, Senator Chris Dodd of Connecticut and Representative Barney Frank of Massachusetts). Congress imposed stiff new regulations on all banks, with no awareness that these were irritating but manageable for large banks while being utterly unaffordable for small banks. As a result, a heartbreaking new wave of bank consolidation is under way, further reducing the capital available for small business.

There also have been some important countervailing trends. Over the past 50 years, modest pieces of legislation have attempted to increase community reinvestment. The Community Reinvestment Act of 1977 put an affirmative obligation on banks to invest more of their capital locally. The 1980s saw the introduction of Community Development Financial Institutions (CDFIs), a program that rewards financial institutions that help economically marginalized people with grants and other benefits from the federal government. The New Markets Tax Credits program established in the year 2000 incentivizes accredited investors to place capital into low-income communities for seven years. None of these programs, however, provide investment opportunities for the 98% of us who are unaccredited.

Local businesses receive far less than half of the lending capital from banks.

> ***Over the past 50 years, modest pieces of legislation have attempted to increase community investment.***

That's why recent reforms have been particularly important. The federal JOBS Act (Jumpstart Our Business Startups) has begun to make it easier and cheaper for local businesses to accept money from unaccredited investors. President Obama signed this law in 2012 and it was implemented in May 2016. Because of the SEC's slow rulemaking process, 37 states passed their own versions of the JOBS Act, making it possible for all residents to invest in in-state local businesses — and most other states have similar legislation pending. Many of these state reforms are more attractive to small businesses than the JOBS Act, and at least one — Maryland's exemption allowing local businesses to borrow $100,000 from unaccredited residents who can write checks up to $100 — requires almost no legal work whatsoever. (We discuss the JOBS Act and other state reforms further in the Legal and Regulatory Action Section.)

What are the contours of the emerging local investment revolution?

The tools presented in the following pages make it clear that local investment is not the uncharted territory that many people think it is. Many tools that facilitate local investment, like municipal bonds and credit unions, have been around for years. Others, like donation-based and interest-free crowdfunding, are new but easy.

But for today's capital markets failure to be remedied, a new generation of tools, like equity crowdfunding, will be needed as well. Ultimately, the local investment revolution probably will need to pass through four stages:

Stage I: We have to make it easier and cheaper for small businesses to issue securities to unaccredited local investors.

Stage II: We have to make it easier and cheaper for those unaccredited investors to trade their shares on local stock exchanges or similar platforms.

Stage III: We have to make it easier and cheaper for unaccredited investors to invest in local investment funds, where financial specialists can perform the hard work of choosing and trading local securities.

Stage IV: We have to make it easier and cheaper for the fiduciary agents running pensions, trusts and other funds to place unaccredited clients' money into local investment pools.

These four changes must proceed more or less in the order laid out above. That is, few fiduciary agents, like pension fund managers, will begin to invest funds locally when there are so few local investment funds with a multi-year track record of profitability. Few such intermediaries will be established until there are local stock exchanges that allow the buying and selling of local securities (illiquid securities are potentially worthless[15]). And no local exchanges in a region will be set up until there are enough local securities to trade.

This logical sequencing above underscores why it's premature to begin with a Stage IV question like, "How can I localize my pension fund?" College organizers are admirably pushing for their campuses to divest from fossil fuel companies responsible for greenhouse gas emissions and reinvest in community businesses, but unfortunately the infrastructure needed for redirecting those investments barely exists. Although these organizers can readily point to carbon-free investments, few of these will be local — at least for a while. We need to be patient. We are barely at Stage I. That sounds like bad news, but 10 years ago we were not even at Stage 0.

Stages II, III and IV also will be more legally challenging. Federal law is clear that the states have concurrent power to set Stage I rules regarding the intrastate issuance of securities, but is less clear about state power regarding intrastate stock exchanges, investment funds and pension investments. Michigan, for example, recently passed a law mandating creation of a statewide stock exchange for local companies, but probably will have to negotiate with the SEC to gain full legal authority for proceeding. A major battle of federalism looms ahead, one that might bring together Locavores on the left with Tea Partiers on the right.

Even if the SEC resists these reforms, one can imagine well-established national financial institutions that would be willing to comport with federal regulations to provide local investment innovations. It's not inconceivable, for example, that the NASDAQ might create one or more local stock exchanges to diversify its brand, that major investment funds like Calvert might create local investment portfolios, and certain pension funds like Pax World might facilitate institutional investing in local portfolios. Forward thinking leaders in the financial industry are quietly designing and prototyping these reforms already.

What are the risks and returns of investing locally?

If local businesses are as competitive as publicly traded companies and have equal or better profit rates, then there is no good reason why the investors in local businesses ultimately should not enjoy equal or better rates of return. The key word, here, is ultimately. In the absence of local stock markets, for example, it's harder to buy and sell shares of companies, which imposes greater costs on anyone who wants to invest locally. Over time, as local stock markets provide greater liquidity and local investment funds provide greater diversification, this problem should dissipate.

One reason why many investors are skeptical of local investment is that they assume that leaving their money on Wall Street is paying 8-12% per year. In fact, data available from Yale Professor Robert Shiller, who won the Nobel Prize in Economics in 2013, show that the average annual rate of return of the Standard & Poor's 500 — when dividends are added but inflation is removed — is about 2.7%. Moreover, we know that most mutual funds underperform market averages, and most hedge funds underperform mutual funds. The challenge of local investments beating a 2.7% return each year is not wildly unrealistic. Many co-ops, for example, currently pay 5-8% per year on funds borrowed from their members.

Many investment professionals instinctively believe that local investing is riskier than conventional investing. And there are three good reasons why this may be true:

- A company looking exclusively for local investors will find fewer of them and be less likely to obtain full funding.
- Investors looking only at local companies will find fewer worthwhile candidates and thus may be more likely to end up with investments that do not meet all their goals.
- Because local investing can mean putting all of one's investment eggs in a single geographic basket, a portfolio of businesses in the same place is vulnerable to the inevitable ups and downs of the local business cycle, as well as other disruptions like natural disasters.

Mana Restaurant | Leavenworth

It's worth noting, though, that all these risks reflect the immature nature of the local investment field. As more investors try to invest locally, more local companies will seek local capital. And as local business funds get formed around the United States, a risk-averse local investor could divide her portfolio among these funds in multiple cities around the country (though for some this might no longer constitute local investing).

But there's another side to the risk question. Consider the ways that investing locally can bring down risk and improve returns:

- As noted, local investors may be able to obtain better information about potential investments. This explains why community banks that make lending decisions based on real historical knowledge of the borrower have lower default rates than big banks that rely on computerized credit scores.

Tieton Farm & Creamery | Tieton

- Local investors appreciate that the returns from their investment are not just to their own bottom line but also to their community's, with more employment and prosperity, a stronger tax base, better schools, less crime, and so forth. The social returns, in other words, wind up benefitting everyone — including the investor.

- Local investors tend to be less passive than other investors. Owners of a co-op grocery store, for example, are among its best marketers, volunteers and event participants — all of which increases the probability of the business succeeding and paying a good rate of return.

- Because local businesses tend to spend more money locally, their multipliers naturally improve the prospects of neighboring businesses. So an investment portfolio of local businesses might enjoy the benefits of a positive feedback loop with all the businesses in the portfolio supporting each other's success.

- And, of course, by supporting local and regional economies, local investing strengthens community resilience, which in turn, supports the long-term viability of businesses and investors alike.

The science of local investing is really in its infancy. As we develop tools for creating affordable investment vehicles, evaluating businesses objectively, making local securities tradable, and for assembling diversified local portfolios, local investors will more easily be able to identify the opportunities with the greatest return and the lowest risk.

A QUICK PRIMER ON LOCAL INVESTMENT

Local investment means putting your capital into a local business, project or initiative with an expectation of a positive rate of return. The legal term for most kinds of investments is securities.

The three most fundamental types of securities are:

Debt: where the lender expects repayment of principal plus interest.

Equity: where the stockholder hopes for appreciation of the investment, plus periodic dividends.

Royalty: where a participant expects to receive a percentage of revenues or profits.

All securities carry many kinds of conditions — perhaps a certain schedule for a debt repayment, specified voting rights for stock or a maximum payout for royalty payouts. Convertible notes can combine these attributes, allowing, for example, a lender to convert a debt to stock. Lenders with a subordinate position get repaid after those in a senior position. Holders of common stock can vote for board members while preferred shareholders do not.

One underlying theory of investment is that an investor receives a greater return for greater risk. Thus, federally insured bank accounts pay lower interest than so-called “junk bonds.” Debts secured by a borrower's property carry lower rates of return than those that are unsecured. But since no one can perfectly predict the future, investors should never be surprised if “safe” investments go bust. Stock sellers, for example, often hawk “value stocks” (for established companies) or “growth stocks” (for entrepreneurial upstarts), without making clear that any of these investments can be losers.

Investing in just one company is usually riskier than investing in a pool. That’s why many investors prefer to put their money into funds where a manager picks companies wisely (hopefully!). But for this privilege, investors must pay a variety of fees. A growing number of investors, mindful that in any given year the vast majority of fund managers underperform the market, choose to place their investments in index funds that mimic the overall structure of public markets. Because local securities are not traded on local stock exchanges, there are no local index funds — yet.

Investors also care about the ability to sell a security, if for example, he or she needs to “cash out.” This is why they prefer securities with a high level of liquidity. Stock markets and bond markets, being places where investors can easily buy and sell securities, provide such liquidity.

Socially responsible investing refers to investors who choose businesses that comport with their moral standards. An investor concerned about climate change might divest from fossil fuel companies or selectively invest in renewable energy companies. Some socially responsible investors are willing to accept greater social returns in exchange for lower private returns.

Not every investment is legally considered a security. Investments in oneself (by buying a house) or in one’s own business, for example, are not securities. Nor are many types of pre-selling. These non-securities, as we shall see, contain important opportunities for local investment.

Local investment means putting your capital into a local business, project or initiative with an expectation of a positive rate of return.

Looking for ways to support the local economy with more of your savings? There are plenty of simple actions you can take right now. You can reorganize your household finances. Or move your money into a local bank or credit union. Or join a local co-op. Or start an investment club. And you can tap your retirement savings for many of these possibilities through a DIY local investment portfolio.

There are six tools in this section:

Personal Finances: Keep your investments closer to home in everyday transactions.

Cooperatives: Join a co-op to earn money while building local ownership.

Local Bank or Credit Union: Put your deposits, checking accounts and savings in a local financial institution.

DIY Investment Portfolios: Set up a self-directed IRA or solo 401(k) to invest your tax deferred retirement savings locally.

Pension Fund: Put pressure on your pension fund manager to invest in local priorities.

Local Investment Club: Team up with your friends and neighbors to pool investments and reduce risks.

Personal Finances

DESCRIPTION

Local investment does not just mean investing in another company — it can mean investing in yourself, your kids or your house. In fact, there are many promising places you can put your money and get a rate of return that beats Wall Street. Remember that the average Wall Street investor is only getting about 2.7% return per year. Even if you set your goal higher, say a 5% return, there are promising ways to achieve this on your own. For example, getting rid of credit card balances effectively will pay you 20-30% return. As the Sage of Omaha, Warren Buffett, says, “Nobody ever goes broke that doesn’t owe money.”[16]

Another way to beat Wall Street is to become a homeowner. A home purchase really delivers two different kinds of valuable rewards. One is that you’ve got a place to live. Instead of paying a landlord rent every month, you effectively become your own landlord. Yes, you have a big debt in the form of a mortgage, but as you pay it down, you grow an asset that ultimately eliminates your rent forever. The asset is your second reward, which you ultimately can liquidate for your retirement. At some point, if you need the cash, you can sell your home and move into a smaller one. Or you can secure a “reverse mortgage” that pays you an income stream and gradually works you out of ownership.

Among the factors that make homeownership a great investment is that homeowners can write interest payments on their mortgage off their taxes. Additionally, when you cash out your house, you can enjoy up to $250,000 in gain tax free. When you cash out your IRA or 401(k), in contrast, you’re fully taxed.

Home investment confers one more indisputable advantage on a local investor. As the principal custodian of your home, you actually have the ability to increase the chances of your investments paying off. You can improve your house through repairs, additions and tender loving care. You can help create a fabulous neighborhood spirit. When you place your retirement money on Wall Street, in contrast, you only can watch and pray.

CHALLENGES

Many Americans, after suffering through years of stagnant wages and a terrible financial crisis, do not even have enough savings for a down payment on a house. As they accumulate any savings, moreover, they are surrounded by finance “experts” who encourage them to put money into their Wall Street destined 401(k) or IRA. In fact, the smartest move may be to ignore the experts, pay down the credit cards, and amass enough of a down payment to get at least a small home.

> **A local program called the Circle, lets participants lend money to one another to share space, hope and resources.**

Investing in Community Solar

Lois Irwin, 70, a retired community organization developer in Spokane, decided that a smart way to invest in her community was to participate in her electrical utility's program for deploying solar energy arrays. She invested $5,600 in the program, and will receive an estimated $7,200 worth of electricity credits over five years — a 29% rate of return.

"I don't care a whole lot about money," Irwin admits, "If you know your needs are being met, I prefer sharing." That's why she participates in a local program called the Circle, where participants lend money to one another "to share space, hope and resources."

Irwin has been interested in "alternative economics" for decades. "I was a hippie out of Bezerkeley," who dabbled in bartering systems, local currencies and housing cooperatives. She also installed a solar system in one of the early homes she had lived in, but her current home was a bad candidate for solar because it was in the shadow of a hill. Then came an unexpected opportunity.

Partnering with the Clean Energy Collective, Avista Utilities Washington implemented a program to provide its customers with the opportunity to invest in community solar electricity. Unlike many other utilities, it decided not to focus on rooftop solar, because, according to the program's website, "many homes in the U.S. are not ideal for the installation of traditional solar for a variety of reasons, including shading limitations, shared rooftop ownership, structural issues, accessibility for maintenance, HOA limitations, etc. Since community solar is not located on your property, Avista Utilities Washington electric customers can participate regardless of these limitations."

Avista customers could buy between one and four panels at a cost of $1,400 to $5,600, and receive between $1,800 and $7,200 in electricity credits over five years.

Irwin first thought about using her IRA to make the investment. She had been investing her IRA in a socially responsible equity fund managed by TIAA-CREF, and now she had a local investment option for her funds. But then she had a better idea. Her adult son lived in a separate house on her property and was paying his share of the utilities, which happened to work out to about $5,000 per year. He agreed to prepay for a year's electricity and Lois used the funds to buy four panels.

Irwin was so pleased with the savings she realized that she decided to "pay it forward" by covering the bill of a young couple she knew who were financially struggling and had one more year of university expenses. She had their bill moved to her account for a year — and perhaps more, she says, until they find good jobs. "Look, I don't have grandkids," she says, "and it's a way of helping other kids complete their education and succeed. It's nice when you are in a position where you can lend a helping hand."

Cooperatives

DESCRIPTION

Consumer cooperatives offer a second readily available local investment opportunity for grassroots investors. When you join a co-op, you put your capital into an enterprise that rewards you with discounts and other benefits. Additionally, in cooperatives that allocate patronage dividends, the more you use a consumer cooperative, the larger your patronage — your end-of-the-year bonus that's the cooperative equivalent of a profit. Add it all up, and you can do better than putting your money on Wall Street.

A group of scholars at the University of Wisconsin recently surveyed the landscape of U.S. cooperatives and counted nearly 30,000 cooperatives operating at 73,000 locations.[17] The vast majority are consumer cooperatives, with 343 million memberships (many people belong to multiple co-ops, hence the number of memberships exceeds the U.S. population). Credit unions, which are essentially banking cooperatives, have 92 million members. Electrical utility co-ops reach 42 million Americans. The cooperative sector owns $3 trillion in assets, generates half a trillion dollars a year in revenue, and pays 856,000 people $25 billion in annual wages. Significantly, almost all cooperatives qualify as locally owned businesses.

As a member of a cooperative, other local investment opportunities might become available to you as well. For example, a number of cooperatives borrow money from their members for capital projects at very attractive interest rates. In New Mexico, the La Montanita Co-op Food Market created a revolving loan fund for supplier farmers and other local food producers in which members could invest.

CHALLENGES

Your local investment opportunities here, of course, are limited by which co-ops operate in your community. Most people can easily find a local credit union and a grocery co-op, but other kinds of cooperatives may be harder to find.

Opportunities to lend to one's cooperative are fewer still. Because such loans are securities, it takes a fairly sophisticated and well-established co-op to perform the necessary legal work. That said, co-ops embrace a solidarity principle of helping other co-ops, which means that if one co-op in your state does the necessary legal work for a loan, it's often willing to share it with your co-op which, with modest edits, can make good use of it.

Central Co-op

Washington State has many successful food co-ops. Central Co-op in Seattle is an example with 14,600 members. In 2015, sales exceeded $24 million and the co-op employed over 120 people.

Anyone can join. The one-time membership fee is $100, which can either be paid at once or, if coming up with $100 at once is a challenge, you can also pay for membership in ten $10 installments at the cash register. Member-owners elect representatives to the board of directors that governs the cooperative. In profitable years, there can also be redistribution of profits to member-owners through patronage dividends. In 2015, $124,610 was distributed to member-owners through this mechanism. The co-op also has an annual meeting to give member-owners additional input. In 2016, roughly 200 members attended.

As a matter of investment, $124,610 split over 14,600 members is $8.54 per member — or an 8.5% return on $100 invested. That's three times better than Wall Street! And co-op members who shopped more than the average member got still higher returns.

Central Co-op | Seattle

Central Co-op is also unique in a couple of ways. One is that it recently shifted from being a consumer co-op to a "solidarity co-op," with worker-owners and a consumer members group each owning a 50% share of the business. To make the worker equity equal in value to the consumer equity, the cost of worker ownership is considerably more, currently $6,340. A worker buys a share over a period of 12 years through a payroll deduction, making ownership accessible. The board consists of three elected consumer members and three elected worker-owners, the general manager, and two appointed consumer members.

Mark McFarlan, a full-time worker in the maintenance support team, is one of these worker-owners. McFarlan said that the members approved the rules changes in December 2015 to offer workers the opportunity to buy into the co-op as worker-owners, with an initial $100 payment, followed by $20 installments in twice monthly paychecks. McFarlan said that being an owner was voluntary, but common. "It gives you a sense of ownership and pride. We're all behind it."

The co-op has also been an industry innovator in other ways. For example, co-op member-owners chose to add five principles to the internationally recognized seven co-op principles. The added principles are concern for the ecosystem, concern for workers, a commitment to skilled cooperative management, a commitment to strategic leadership, and commitment to building an innovative culture. These principles are not just words on a page. To implement the "concern for workers" principle in 2015, the co-op signed a contract with UFCW local 21, becoming, in the words of Susanna Schultz, Marketing Director and Second Vice President at Central Co-op "as far as we know the highest in terms of entry level compensation" in the food co-op industry, with a base wage of $15 an hour, and an automatic cost-of-living escalator (the floor increased to $15.64 an hour in 2016). In short, the 2015 contract implemented the $15 per hour floor seven years before the store would have been required to pay $15 an hour by city law.

Washington State Employees Credit Union

The co-op also focuses on supporting local producers. As Schultz notes, "As a relatively small store, we focus on people who are producing products in our area. We strive to offer small independent Seattle makers a venue for their products. We have many, many products that are made right here from Seattle or Tacoma on our shelves. Whether it is candles, kimchi, salsa, hummus or jewelry. We aim to give people the opportunity to try these local products. This is a core part of who we are."

Local Bank or Credit Union

DESCRIPTION

During the financial crisis of 2008, when several large banks jacked up the fees on checking accounts, Arianna Huffington (who was publishing online the popular Huffington Post), financial televangelist Suze Orman, Rob Johnson of the Roosevelt Institute, and Eugene Jarecki teamed up to encourage Americans to "move their money" out of big banks in the name of community revitalization. Hundreds of thousands of Americans, perhaps even millions, did so. Jarecki, a filmmaker, even made a short film that used clips from "It's A Wonderful Life" to illustrate the problem. (https://www.youtube.com/watch?v=Icqrx0OimSs).

The case for moving your money into a local bank or credit union is powerful. A dollar deposited in a local bank or credit union is about three times more likely to be lent to a local business than a dollar deposited in a big interstate bank. As Stacy Mitchell at the Institute for Local Self-Reliance argues: "Although small and mid-sized banks ($1 billion or less in assets) control only 22% of all bank assets, they account for 54% of small business lending. Big banks, meanwhile, allocate relatively little of their resources to small business. The largest 20 banks, which now command 57% of all bank assets, devote only 18% of their commercial loan portfolios to small business."[18]

Studies from sources as varied as the Federal Reserve and Consumers Union suggest that, compared to big banks, regional scale and community banks pay more on savings accounts, charge lower fees, have lower administrative overheads, and have lower default rates. Plus, they reward customers with the kind of personal service that has all but disappeared from larger banks.

CHALLENGES

If you just have a savings and checking account, moving your money is relatively easy. Many Americans, however, have a variety of credit cards and loans with their banks, which means that changing banks may take a focused effort over many months or even years. Refinancing a mortgage through another bank, for example, can be quite time-consuming.

A mindful local investor seeking to refinance a mortgage through a local bank or credit union must also make another inquiry. Will the institution resell your mortgage to a larger banking institution or repackage it onto the secondary market? If the answer is "yes," then the benefits of local banking will be short-lived and the 30 years of mortgage interest ahead will instead go to a nonlocal institution. Fortunately, it's usually possible to find a local institution that doesn't resell its mortgages.

The Washington State Employees Credit Union

Founded by 40 state government workers in 1957, Washington State Employees Credit Union (WSECU) today is the state's second largest credit union with nearly 250,000 members and total assets of $2.58 billion. WSECU has grown rapidly in recent years (assets were just $1.5 billion in 2010) and now operates statewide. Vice President of Public Relations Ann Flannigan reports that about 78% of WSECU assets are currently invested in the form of loans to other members, which works out to roughly $2 billion in member loans.

Flannigan adds that WSECU also gives back four percent of net income to nonprofit organizations in the communities WSECU serves. In 2016, WSECU distributed more than $700,000 to causes and organizations in a range of fields, including education, self-sufficiency and entrepreneurship.

WSECU, like a for-profit bank, offers a wide range of products and services. As a not-for-profit, earnings are reinvested in the cooperative to the members in the form of better rates or investment in new or enhanced services. The credit union is increasingly focused on technology innovations to deliver greater value to members. As consumer expectations for digital services increases, WSECU is adapting to this rapidly changing landscape. Flannigan notes, "The real differentiation between us and for-profit financial institutions comes from being a purpose-driven and people-focused organization. As a not-for-profit, WSECU's motivation comes from meeting our members' and the community's needs; it's not about profit motives for shareholders. There are no shareholders."

Beneficial State Bank

Beneficial State Bank is a social enterprise bank founded in 2007 by Kat Taylor and Tom Steyer. Their banking model aligns with their goal of a triple bottom-line of social justice, environmental resilience and economic sustainability. Kat Taylor believes that banking is the most powerful form of crowd funding and calls her bank "unusual" in that it is a value driven bank that recognizes its community public interest role.

One of the more unusual characteristics of the bank is that the founding team donated all the economic shares to the non-profit Beneficial State Foundation. That means the Foundation owns all of the economic rights of the Bank. When profits of the Bank are distributed, they can only be distributed to the Foundation, which is mandated to reinvest those proceeds back into the communities.

The more deposits the bank has, the more opportunity for local businesses. The city of Seattle has a law to consider socially responsible business practices when choosing a bank. In light of legal findings against Wells Fargo, Beneficial bank is encouraging the city to consider replacing its deposits into smaller and community banks.

With 12 branches in Washington, Oregon and California their vision, in part, is of a banking system that is "fair to the person with the least bargaining power; provides access to financial services for all our communities, particularly the traditionally underserved; and contributes to the sustainability of the environmental commons.

Community banks reward customers with the kind of personal service that has all but disappeared from larger banks.

All investors, whether or not they are accredited, can take advantage of self-directed IRAs.

DIY Investment Portfolios

DESCRIPTION

Since virtually no pension funds today offer meaningful options for investing in local business, one alternative worth considering is to create your own self-directed IRA. Under existing tax law, you can hire an IRS-licensed custodian who must follow and implement all your investment decisions — including, if you want, local investments. All investors, whether or not they are accredited, can take advantage of this.

Any investments you are permitted to make as an individual are possible with your tax-deferred IRA dollars with two exceptions: To simplify a bit, you cannot invest in your own business or your kids' business. And you cannot invest in your own house or your kids' house.

If you shop around, you should be able to find a licensed custodian who will charge you as little as $200-300 per year. A list of some of the licensed custodians can be found here: http://selfdirectedira.nuwireinvestor.com/list-of-self-directed-ira-custodians/

You also might convince your local bank or credit union to provide a self-directed IRA as a service for their customers generally. (General requirements for setting up a self-directed IRA can be found with the Internal Revenue Service.)

If you are self-employed, you might consider setting up a solo 401(k). Unlike a self-directed IRA, a solo 401(k) does not require a custodian — you control the account as your own trustee — and you can put significantly more money into it each year (in some circumstances, as much as $120,000). You also can borrow up to $50,000 from the account to pay down things like high-interest credit cards.

CHALLENGES

The custodian you hire to administer your self-directed IRA, by law, cannot provide you with any investment advice (except to let you know if you're violating any specific rules noted above). That means that you have to do much of the work finding, vetting and choosing investments yourself. Ditto for a solo 401(k)—and you also need to learn the rules so you don't accidentally get stuck with a bunch of penalties. The DIY investment portfolios require a serious time commitment.

Also keep in mind that even a $200 annual fee can be a significant drain on your bottom line unless you have a large portfolio. For example, if you have an IRA with $20,000, a $200 fee reduces your annual rate of return by 1%. Some providers operating charge significantly more, $500 to $1,000 per year, and often add further charges for more exotic transactions such as investing in real estate. Of course, many mutual funds you have now may be charging you fees like these that you're not even aware of!

Real Trust IRA Alternatives

Dana Gross, Account Manager and Self-Directed IRA Specialist at Real Trust IRA Alternatives, tells her 700 clients that a self-directed IRA is "no different than your Wall Street IRA. Except that it allows you to take the control from Wall Street back to your street."

Self-directed IRAs have been around since IRAs were first introduced. But conventional firms such as Fidelity and Schwab typically won't do them except for larger account holders. That's where providers like Gross come in.

With a self-directed IRA you can "buy real estate in your local neighborhood", Gross says. "You could buy the house across the street with your IRA money if you have it in your account. That's pretty local."

Gross adds that there are big well-known companies that are looking for investors. "Those are all local companies." An example is Blueprint, a Seattle-based real estate investment trust. "Blueprint provides construction financing for small-scale builders. It pays monthly dividends for its shareholders."

Private placement investments are another focus for accredited investors using self-directed IRAs. "Real estate and private placement are probably about three quarters of what our investors do," Gross reckons.

With self-directed IRAs, the role of firms like Real Trust is to administer the funds and ensure compliance with IRS rules. "We cannot knowingly participate in an illegal transaction, so we go over the IRS dos and don'ts." Gross notes that there are some categories of investment like precious metals, life insurance, collectibles, antiques, or fine wine that are prohibited. You also can't use self-directed IRAs to invest in a business owned by family members.

Gross' firm can also help clients convert their self-directed IRA to a Roth IRA, which means that the client must pay tax up front on the present valuation of the investment. In exchange, the client can withdraw proceeds at retirement tax free.

"Local retirement dollars going to local companies is pretty much what we deal with," says Gross. "The guys with Blueprint: They create structures to be built. They are house builders. They are working with local contractors to build a home. They have money circulating and generating local jobs."

Pension Fund

DESCRIPTION

Very few pension funds offer local investment options right now, but as local investment opportunities spread in the larger economy — and especially as local investment funds get established — this will change. For many investors, the best you can do is apply pressure. You can write letters to your fund managers or to the top brass insisting that they create a local option, or better still, organize your colleagues to carry out a letter-writing campaign. This is how, over the past 25 years, proponents of "screened" or "impact" investing convinced many pension funds to divest from companies involved in apartheid South Africa or manufacturing nuclear weapons.

Few people in the country have been more effective at pressuring companies than Bruce Herbert, founder and CEO of Newground Social Investment in Seattle. For more than 20 years, Herbert has shown up to shareholder meetings and asked boards difficult questions regarding their corporate behavior. For example, in 2011 he led a shareholder resolution to push Nordstrom "to issue a report describing the company's vendor standards as they relate to reducing supply chain environmental impacts – particularly water use and related pollution."

If you ask your pension fund to invest locally, you might point out that your request is not unprecedented. A few large state employee pension funds have made some experimental investments in what they call "in-state businesses." Since 1999, the New York State Common Retirement Fund has targeted more than $800 million into in-state investments, including $271 million in 107 companies based in New York.[19] In 2008 the Michigan Retirement System committed $300 million to Invest Michigan!, which contains two funds that support promising companies based in-state. Similar investments can be found from public employee pension funds in Ohio, Indiana, North Carolina and New Jersey. CalPERS, the California state pension fund, created a Green Development Fund to support promising businesses in the state, and also has invested in California real estate projects.

These "economically targeted investments" have been criticized for their relatively poor performance, but the blame hardly belongs to the "local" character of the investment.[20] Almost all these investments went into global companies with few ties to the state, save perhaps, a headquarters. Pension fund investment in truly locally owned businesses, as defined here, has yet to be tried.

CHALLENGES

Under a federal law called the Employee Retirement Investment Security Act (ERISA), pension fund managers have to fulfill a number of fiduciary duties. Some are straightforward, such as no stealing and no self-dealing, and report your every investment action often and honestly. More formidable is the duty to exercise a standard of care, skill, prudence and diligence. More than a few fiduciaries have taken the position that this standard demands they give their pensioners only the options of traditional stocks or bonds — period.

LINC Foods | Spokane

For now, the absence of actual local mutual funds makes arguing about the contours of your representative's fiduciary duties rather abstract and premature. Once more local investment funds are around, employees can then begin demanding that their fiduciaries include them on their 401(k) menus. The argument is simple: How can you possibly claim to be my fiduciary if you insist on investing my money, against my wishes, in destructive global businesses rather than in the local businesses I care about? You are my fiduciary, not Wall Street's.

The Washington State Investment Board

Public pensions are an important source of potential local investment capital. As of September 30, 2015, the Washington State Investment Board (WSIB) managed $103.4 billion.

In February 2016, the WSIB issued its thirteenth annual report on economically targeted investments (ETIs). In 2003, the WSIB approved a policy defining ETIs "as investments having the primary objective of investment return to pension trust fund assets with the possible collateral effect of assisting the regional economy and the economic well-being of the state of Washington, its localities, and its residents." Polling private equity general partners, the study found that 35 investment firms receiving WSIB funds had examined 747 Washington-based private equity opportunities. Of these, 447 investments were still under consideration as of Sept. 30, 2015 and 36 local investments had been completed.

Current local investments from the pension fund total $1.8 billion. While this is only 2.2% of the total pension fund, this is greater than 0.5% rate that, absent the ETI policy, would occur if the pension board distributed its assets evenly in accordance to gross domestic product across "the investible universe within which the WSIB invests."

The $1.8 billion figure also represents a $700 million increase in pension fund local investing since 2010. Most of this $1.8 billion is invested in three areas: real estate ($847.9 million), public equity ($557.8 billion), and private equities ($269.3 million), with the remainder in fixed income and tangible asset investments.

Local Investment Club

DESCRIPTION

Many of the investment options mentioned above, like a self-directed IRA, require considerable work on your own and require you to assume considerable risk yourself. If you want to share some of the work and the risk, you might consider forming an investment club with an express mission of investing locally.

The SEC exempts investment clubs from formal approval on one big condition: Every single member must be actively involved in every single investment decision. Consensus is not required, just open decision making. If that criterion is met, a club can create an LLC, pool money from its members, invest in any securities it wishes, make profits and provide its members with a nice check at the end of each year. But as soon as even a single member becomes passive and starts relying on the investment advice of others in the club, legal alarms get tripped.

Clubs must have fewer than 100 members and, practically speaking, they probably should have fewer than 30. If you're going to put together an investment club, you want to have a good, working relationship with other members. And you should have a good time when you meet! If you have too many members, with the requirement that everyone debate every decision, the club could become a bureaucratic nightmare.

One of the first local investment clubs was No Small Potatoes in Maine, launched by the local chapter of Slow Money. It involves about two dozen members, including some unaccredited investors, each of whom has contributed \$5,000-\$10,000 into an LLC. As a group, they then interview farmers and local food producers who wish to obtain small loans. Slow Money currently has 13 chapters that have created investment clubs.

CHALLENGES

Note that unaccredited investors cannot pool their money in an investment club and magically be transformed into one accredited investor. In fact, if a club has a single unaccredited investor, then the pool can only invest in businesses that legally can accept money from unaccredited investors. In the case of No Small Potatoes, the club received special permission from the Maine Department of Securities to make small loans to struggling farmers and food entrepreneurs.

Local Vision Investing

Here's how the Local Vision Investing club in Spokane pitches itself on its website to potential borrowers: "You might be a farmer, a food producer, a supplier. Perhaps you grow apples and make cider. Maybe you raise worms, sell worm castings, and make great composted soil. Perhaps you raise bees and make honey, or bread, or goat cheese. Whatever is your role in local food production, we value and support you."

The next step for getting Local Vision funds, if you're a local food producer, is to fill out a short form indicating the amount you wish to borrow, at what interest rate, and for how many years. The club looks to make loans of under \$5,000, at 5-10% interest, for terms up to three years, though it will consider other requests. The highest priorities are "loans for equipment or special projects that will help a farm or food business operate more efficiently and/or support growth." The focus is on existing businesses, not startups. Applicants are encouraged to provide a business plan, credit and business references, tax returns, and credit histories. The club aspires to read applications and offer a preliminary opinion within two weeks.

The club is an LLC that was organized in 2013 by friends at a local Unitarian Universalist Church. It currently has a dozen members. It has given just one loan thus far, and it has been a stunning success.

To share some of the work and risk, you might form an investment club with an express mission of investing in your community.

The recipient, LINC Foods, credits the club with providing its first $10,000 of credit. It paid back the loan in less than a year, but then asked the club to reinvest. To even out its income flow, LINC Foods decided to expand into the malting business and asked if the club wished to buy stock. The club agreed to buy $15,000 worth, and that's largely where its portfolio is today.

According to Linda Moulder, one of the founders of the club, the venture has since become inactive. "We got discouraged because we couldn't find anyone to borrow our money! We wanted to support food-related businesses and focus on farmers. But we found that these entrepreneurs are very conservative and do not want debt. We gave presentations, visited farmers markets, had booths at fairs, but no one showed interest."

Moulder also notes that many of the club's members "got discouraged with how long it took to build relationships and make progress."

Consequently, the club is no longer growing its membership or portfolio. That could change, of course, as more local investments present themselves. For the moment, Moulder is happy with what they accomplished. "Helping to get LINC Foods established was worth it."

Sometimes it can be frustrating to discover how long it takes to build relationships and make progress.

Interested in securing local investors for your business? If you just look at the usual options — accredited investors, angel funds, venture capitalists — a growing number are interested in local businesses. So are many community foundations and cooperatives. Plus, there are expanding options for obtaining capital from pre-selling, donation crowdfunding and peer lending sites. Changing laws are making it easier for you to raise capital from unaccredited investors through private offerings, direct public offerings and equity crowdfunding.

There are nine tools discussed in this section.

Conventional Sources: Approach the conventional 3Fs — friends, family and fools.

Accredited Investors: Raise funds from accredited investors, including angels or venture funds.

Program Related Investments: Ask Washington's leading philanthropists for capital.

Cooperative Options: Form a co-op as a low-cost way to launch a business.

Pre-Selling: Sell products in advance to circumvent some of the burdens of securities law.

Sponsorship Sites: Use Kickstarter, Indiegogo and other donation crowdfunding sites.

P2P Lending Sites: Microlending is not just for underdeveloped countries — you can use it here, too, for a startup.

Private Offering: Find investment funds that might back your business.

Direct Public Offering: Take your company public and tap unaccredited investor capital.

Conventional Sources

DESCRIPTION

If you are like many entrepreneurs seeking capital for your business, you will naturally turn first to yourself. You might choose not to take a salary or to retain company earnings for reinvestment. You might take out a second mortgage on your home or you might take a cash advance on a personal credit card, in which case you should certainly prioritize doing these things with your local bank or credit union (see page 22). Other sources of local capital that might be available include microenterprise funds, economic development funds, community development financial institutions, and community development corporations. The SBA has programs that help shore up loans from nervous banks, though they too require that you put your house on the line.

If you've exhausted these resources, you can also approach the so-called three Fs — friends, family and fools. If you can't find enough capital from these locals, you can always search more widely.

CHALLENGES

The most common sources of capital for early stage entrepreneurs — second mortgages, credit cards, SBA programs — are all about debt. If you, like many entrepreneurs who barely survived the last financial crisis, are now trying to get out of debt, some of these options will be unacceptable. Plus, you might not have enough equity in your home to qualify for additional funds. Remember, all banks — including those that are locally owned — are very conservative with their money and prefer lending only to borrowers with ample collateral.

Additionally, credit cards, as discussed earlier, even those nominally issued by a local bank or credit union, suck many of your repayment dollars outside the community. It's good to find local alternatives.

Finally, remember that if you take a loan from friends or family, and you promise to pay it back with interest, the law considers that transaction a security. Most states don't require exhaustive paperwork for such transactions among friends and family, but different states define these "pre-existing relationships" differently.

Mariam International Foods | Spokane

Mariam International Foods

Mariam International Foods was founded in Spokane in 2015. It is a 1,200 square-foot retail outlet selling international food. Most of the fare is vegetarian. Among the wares it sells are some canned food, cheese, meats, tea, Turkish coffee and other kitchen items.

Founder Mahdi Maheed, an Iraqi refugee, moved to the United States about six years ago and settled in Spokane. The local Small Business Development Center provided about half of his financing ($23,000), and Maheed used personal credit cards to get the rest (about $17,000).

Prior to starting the business, Maheed had worked at a local Walmart store. Asked why he took the risk of starting his own business, Maheed replied, "Having your own business is better. It's hard. It's risky. But you can't be afraid."

Maheed said that his example shows how it is possible for refugees like him to start their own businesses. "I started with little money. And I made something. People like it. They are happy with it. Many people tell me that they like my store. They like what I do. You can make something from small things."

Accredited Investors

DESCRIPTION

Because securities laws have historically given accredited investors the freedom to invest as they see fit, this type of investor is among the easiest potential sources of capital for your business. You might approach angel investors — that is, wealthy individuals who might have a passion for your business. You might ask a nearby club of angel investors if they would allow you to pitch their members. You might talk with a nearby venture capital fund, which typically invests deeply in dozens of businesses with high growth potential for five to 10 years. You might approach local institutions with strong community ties, such as churches or labor unions that have pension funds.

Still another local institution that might invest in you is a major company with whom you do business. For example, Whole Foods has been committed to strengthening small food businesses that are its most promising suppliers.

Some accredited investors might enter a one-on-one debt relationship with you, drawn up specifically for the transaction. If you enter into a debt, equity or royalty agreement with multiple accredited investors, you may need to formalize it through a private offering (see page 39).

CHALLENGES

While almost every economic development department in the country now touts the activities above as indicators of their support for local business, the hard truth is that the chance of any local business receiving investment from any of the above is exceedingly low. Even churches and unions, among the most mission oriented investments, tend to prefer publicly traded socially responsible businesses.

Despite accredited investors having the legal freedom and means to invest locally, very few do so. Unaccredited investors, especially those putting smaller amounts of money into local businesses through crowdfunding, have shown themselves to be less focused on the promise — usually the hype — of high rates of return.

Finally, a special caution about venture capital. All venture funds, including those with the words "community development" in their title, pose serious risks to community economies. Venture capitalists typically take over the companies they are "nurturing" and can then fire the founding (local) management team. After five to 10 years of support, they will take the most promising one or two businesses public, which destroys local ownership. And the rest of the companies are quietly disposed of. In the end, a community that created these promising companies has nothing left.

Element 8

Because Washington State has become a global hub for startup technology companies, many investment intermediaries have been set up to raise capital for them. Element 8, formerly known as the Northwest Energy Angels, is a member organization made up of accredited angel investors. The firm focuses on advancing clean technologies by investing in highly promising, early-stage companies. Element 8 invests in companies across North America, but several companies that it has invested in are based in Washington State.

Eric Berman, Co-Chair of Element 8, highlighted a few of these. "Green Canopy Homes," Berman says, "is one of our largest recipients of investment. They do infill housing in Seattle and now Portland. They used to buy distressed homes and give them a deep energy retrofit and bring them up to date and flip them. Now they are doing more infill. They have been building like crazy and doing well."

Beta Hatch is another company in Element 8's portfolio. "They are near SeaTac airport and are raising meal worms," Berman explains. "It is high protein for animal feed and uses almost no water. It is a very efficient way to generate protein for animal feed and fertilizer that you can use for farming. It is very sustainable."

A third company that Berman highlighted was Pota Vita. "They do water purification for the developing world. You put water out and the sunlight disinfects it. They have a sensor that determines how much UV has been received; it tells you when the water is safe to drink. Aid agencies love it — they can collect data on usage and actual impact on people."

Berman says a typical deal supports a company that has a pre-investment valuation between $500,000 to $3,000,000. "More and more our deals are convertible debt," which means the company initially enters a loan and, if it's successful, it then converts it into equity shares. The firm typically participates as a partner in a large investment raise, with Element 8 partners investing perhaps $100,000 to $300,000 as part of a larger investment raise that might total between $500,000 and $3 million.

Program Related Investments

DESCRIPTION

A new kind of accredited investor that might invest in your business might be a local foundation. A foundation is a nonprofit that wealthy individuals, families or companies give money to that is then obligated to use the money in perpetuity to serve the public interest. Tax law requires that a foundation give away at least 5% of its assets each year to qualified individuals or nonprofits. It is free to invest the remaining 95% however it wishes — including locally — as long as the investments meet basic standards of prudence. Mindful of this, many foundations have begun engaging in "mission-related investing" (MRI).

You might approach a local foundation to consider making an MRI investment in your company. Your case will be stronger if the foundation is a "community foundation," which has an express mission of supporting local well-being. According to the Council on Foundations, there are about 750 community foundations in the United States that give away about $4.3 billion each year. Some of their $86 billion in assets can

All venture funds, including those with the words "community development" in their title, are usually harmful to community economies.

> **Most foundations have outsourced their investments to conventional investment advisors who have little interest in local investing.**

and should be invested locally. Indeed, several community foundations, such as the Incourage Community Foundation of Wisconsin, have committed themselves to investing 100% of their assets locally.

If your business is related to the programs of the foundation, your local philanthropists might have an additional reason for investing locally. Hence, a foundation that fights hunger might be interested in investing its endowment in local food businesses. The Internal Revenue Service has a number of rules concerning so-called "program-related investments" or PRIs. For example, the principal purpose of the investment can't be to profit, and qualified investments should offer "below market" returns. The principal of such an investment counts against the foundation's 5% grant obligation in the year invested. If it gets returned, it must be regranted within a year. Only actual investment returns above what was invested can be reincorporated into the endowment. As such, PRIs give a foundation two bites at the apple for use of its money!

CHALLENGES

Even though foundations have enthusiastically discussed PRIs for a generation, very few actually use them. Today, about one-tenth of one percent of foundation assets is being invested this way. Most foundations have outsourced their investments to conventional investment advisors who have little interest in local investing. Bigger foundations with in-house investors tend to erect a "Chinese Wall" between the grant-giving side and the investing side, with the latter not being very open to the unfamiliar world of local investing. Smaller foundations that have founder participation often have more flexibility.

The rationale for bringing a foundation's 95% invested in line with its grants is quite compelling. Some foundations trying to prevent climate change, for example, have been stunned to discover that their financial advisors were placing most of their assets in fossil fuel companies!

Massena Foundation

Shaula Massena, one of many early "Microsoft millionaires," used to operate her own private foundation and has now rolled it into a donor-advised fund. (She also personally has been an angel investor.) "The strategy behind the Massena Foundation has been continuous learning," Massena explains. "What I have come to believe is that personal empowerment is best facilitated through economic development. And economic development needs a capital base. Many community-focused businesses don't make money fast enough to repay at market competitive rates. And so, I think strategic community building includes supplying capital to build that capital base."

Massena knows of other local foundations that have made at least a few PRIs. Sometimes, they take the form of low-interest loans that support the lending activities of community development financial institutions (CDFIs). A 2014 report noted that the Greater Tacoma Community Foundation had invested $1.5 million to support small businesses: $750,000 in the National Development Council to create the Grow Pierce County Fund; and an additional $750,000 in the regional CDFI Craft3 for Pierce County-specific opportunities. The same report noted that The Seattle Foundation had made a $1 million investment in Craft3 as well as a $1 million direct investment to support commercial building energy retrofits (donors contributed an additional $675,000) and a $1 million investment in a small business revolving loan fund called Grow King County.

Massena also points to the Seattle Foundation that is supporting four-percent interest notes to finance the work of Bellwether Housing, which provides affordable housing for more than 3,000 residents. Similarly, the Forterra Strong Communities Fund is designed to attract both MRI and PRI funds and offers a payout of two percent. "Its goals," Massena says, "are to capture strategic real estate and make sure it gets turned over to community development organizations when they are ready to develop it. And by having this target two percent return, the fund has room to ensure a manageable price for the community development partner. This is the smartest example I've seen of using a concessionary market rate effectively to achieve a social goal and not just to facilitate the participation of more demanding capital."

Massena sees great potential to expand impact investing by pooling smaller investors through donor-advised funds. Donor-advised funds that are housed at a community foundation or another body are beginning to allow non-accredited investors to make socially minded investments. Donations by small investors can be pooled by the host organization, creating the potential for supporting organizations that need larger capital. Fledge, a Seattle-based business accelerator is one beneficiary of donor-advised fund impact investors.

Cooperative Options

DESCRIPTION

Cooperatives not only provide a relatively simple way for consumers to invest in their community (as discussed earlier), but also a tool for entrepreneurs to raise capital — in at least three separate ways. First, a company that structures itself as a co-op can amass a significant amount of capital without triggering expensive securities laws. The reason is that under federal and state laws, a co-op membership is not considered a security. Co-ops can be created around several different types of stakeholders, including consumers, workers, producers, or a combination of these (a so-called hybrid co-op). Whenever a business requires significant capital to get started, a co-op structure offers an inexpensive way of raising it.

Second, as noted earlier, a co-op can borrow money from its members, and many pay their members very handsome interest rates. But a loan program like this *is* a security, and if — as is likely — a significant number of the members are unaccredited, your co-op will have to prepare an offering statement, or "borrow" one from another co-op (as discussed earlier).

Third, a co-op can invest up to 40% of its capital in other businesses without being treated as an investment company (which would carry very expensive legal and accounting costs). For example, Co-op Power in Western Massachusetts provides discounted energy goods and services to its members, but one of the tools that it uses to strengthen its partner businesses is investment. So it has invested in local companies manufacturing biofuels, installing solar cells, tightening household efficiency and making woodchips for household heating.

CHALLENGES

Co-ops are highly democratic business structures that excite some entrepreneurs and worry others. Every member gets one vote and many co-ops find themselves investing significant time in electing boards, holding meetings vetting management, and setting exacting standards of governance.

Entrepreneurs who prefer working in a team rather than going solo tend to find cooperatives more satisfying.

It's worth noting that in Canada, the provinces of British Columbia and Alberta allow co-ops expressly for investment. This kind of structure is not permissible in the United States, in part because our national Investment Company Act covers all kinds of companies, including co-ops.

Farmland Trust PCC

An example of how a cooperative can facilitate local business investment can be seen in the PCC Farmland Trust, which started in 1999 by Puget Consumer Co-op, Washington's largest food co-op. The trust is now entirely separate, with its own board, staff and budget, but Puget Consumer Co-op continues to provide financial support. For example, with the support of Puget Consumer Co-op, the trust raised $160,000 through a sponsored wine sale.

The trust works statewide, but its focus is Puget Sound — specifically, King County (Seattle), Pierce County (Tacoma), and Snohomish County (Everett). In these urban counties, farmland is disappearing rapidly, with two thirds expected to be gone in the next ten to fifteen years. The trust started when Nash Huber, a local farmer who supplied PCC with produce, was threatened with losing his land. Huber came to the co-op and asked: "Shouldn't the co-op care about that?"

Yummy Local Foods | Yelm

Today, the organization has an operating budget of $1.6 million and a staff of 12. It aims to raise a $26 million fund through a three-year comprehensive fundraising campaign. The current targets are $12.25 million in philanthropic dollars, $7.5 million in public dollars (used to purchase easements), and $6.25 million in capital from an impact investment note and other creative financial vehicles.

The trust uses three strategies to preserve land. One strategy involves conservation easements, in which the landowner agrees to restrictions on development rights to protect agricultural values, including the soils, water rights and open space. A related strategy is what is known as a "simultaneous sale," through which the trust purchases a conservation easement while the farmer purchases the land; which enables a farm buyer to purchase land at its agricultural value (i.e., at the value of the land when stripped of commercial development rights). A third strategy is a sequenced transaction, where the trust purchases farmland property and then, over time, sells it to a qualified farmer or arranges a lease-to-own contract with a farm tenant. A typical hold period is five to seven years. This gives farmers enough time to build up their business sufficiently to be able to financially handle the purchase of land.

In terms of financing these transactions, Melissa Campbell, associate director of the trust, says the focus has been on direct loans from accredited investors who are willing to take a reduced rate of return — 2 to 2.5% interest — to support the benefit of land conservation. The trust is also looking at adding two new financing vehicles: a pooled loan guarantee fund; and impact investment notes for $20,000 or more with a seven-year lock-up period. The idea, says Campbell, is to provide a "structured fund that people can fit into" and to enable the trust to continue to expand its work with philanthropic and private dollars, even if public dollars to fund the purchase of conservation easements become more scarce.

Pre-Selling

DESCRIPTION

Pre-selling is another simple and inexpensive way of raising capital locally. For example, when Awaken Café in Oakland, California lost its lease, it needed to raise $100,000 to move to another location and didn't want to waste tens of thousands of dollars on attorney's fees. It decided to pre-sell coffee to its most loyal customers with the following deal: Buy $1,000 worth of coffee today and we will give you $1,200 worth when the new store opens — a 20% rate of return.

Another creative example of raising capital from pre-selling comes from a website called Credibles which came up with the concept of "edible credits." Users can pre-purchase foodstuffs from local food sellers and obtain deep discounts, while providing vendors with an immediate cash flow that they can use for multi-purposes, including capital improvements that would normally be impossible without investors.

Pre-selling like this does not require any securities paperwork in most states. It's considered more of a contractual arrangement between you, the seller of goods and services and the buyer. If you have a loyal clientele and need only a modest amount of capital, pre-selling might offer an ideal solution.

CHALLENGES

In about two-thirds of the states, pre-selling does not qualify as a security. The other third — including Washington — however, apply what's called the Risk Capital Test, initially articulated by the California Supreme Court in the case of *Silver Hills Country Club v. Sobieski*.[21] These states consider pre-selling a security if, among other things, the business is a startup or is offering products that do not exist yet. Note that Awaken Café, in the example above, was okay under this standard because the café and its coffee roasting business were operating already.

A business that engages in pre-selling also should remember that a pre-sale is a contractual commitment. It needs to structure customer fulfillment claims so that there's never a sudden stampede.

Yummy Local Foods

Yelm-based Yummy Local Foods, located about a half hour southeast of Olympia, uses original recipes to make prepared local, organic, ready-to-eat foods, such as garlic basil dressing. The business was founded by Susie Kyle, a local organic farmer for 20 years. In addition to the dressing, Kyle also produces garden burgers, a whole line of quinoa salads and protein peanut butter bars, as well as seasonal products, such as pico de gallo in the summer.

Kyle, now 71, created her business when her son and daughter took over her farm business, Winlock Meadows Farm. Kyle has her own processing kitchen that she leases on a 200-acre sheep farm licensed by the Washington State Department of Agriculture.

Part of the way Kyle had supported the farm was by operating a community-supported agriculture (CSA) program. "That was the most successful financial part of my farming," Kyle recalls. "It really did what it said that it does. It deepened the connection to the customers, and between the customers and the food. We had about 20 to 25 buyers at its peak. The average contract might be $500; they varied from $200 to $1,000."

Kyle is currently trying to raise $30,000 to expand operations. At a minimum, she would like to raise $5,000. "The Garden Burgers that we make — people want them," Kyle says, "If I make them, it takes me eight hours to do 100 burgers. I need a convection oven, sheet trays. We are looking to streamline production. $5,000 would get us where we need to be for the garden burgers. Additional funds could expand sauce production, which needs a professional label and a blender."

As one potential source of the $5,000, Kyle is looking at Credibles, where she could pre-sell Yummy's value-added products that Yummy is producing. She is especially excited that "we would be listing ourselves alongside all those other farmers and food producers — and that feels right."

Sponsorship Sites

DESCRIPTION

Kickstarter is a website designed to support great projects in the fields of food, design, fashion, technology, games, comics and journalism. People pitch their idea (often with a memorable video), lay out their financing goal, ask for contributions in small change, promise small gifts to patrons (T- shirt, record albums, books, special-events invitations), and if the goal is met in the targeted time, the deal consummates. Because Kickstarter awards sponsors gifts of only token value, securities law is circumvented. Who would possibly give $25, $100, or $1,000 for a T-shirt? Well, in 2014 Kickstarter did about a half billion dollars of transactions.

To date, Kickstarter users have pledged over $3.1 billion and successfully funded more than 126,000 projects. However, Kickstarter is not a guaranteed source of funding because only about a third of the projects reach their fundraising goals (projects that fall short receive no funds). Nonetheless, many people have become familiar with the site.

While Kickstarter's rules explicitly say "no business funding, projects only," the fine print provides clever entrepreneurs with

If you have a loyal clientele and you need only a modest amount of capital, pre-selling might offer an ideal solution.

> **In 2014 Kickstarter did about a half billion dollars of transactions. However, it is not a guaranteed source of funding.**

a clear map on how to proceed: "If your project hopes to make money, that's perfectly fine! Rather we're underlining that we only allow projects. A project is something finite, with a clear beginning and end."

Other sites are more explicitly welcoming of businesses. Peerbackers doesn't monkey around with Kickstarter's caveats — it's specifically about crowdfunding new businesses. Hundreds of sites now can be found with names like GoFundMe, CommunityFunded, RocketHub and CrowdRise.

CHALLENGES

While there are examples of spectacularly successful campaigns on Kickstarter, a business raising funds there should know that the typical successful raise is under $10,000 — and, again, usually for a narrowly defined project. Success depends on the business appealing to its pre-existing fan base. Businesses without such a list are unlikely to win the hearts and minds of complete strangers.

Another problem is that Kickstarter, IndieGoGo, and the other most successful sites are global. While they can be used by local businesses connecting with nearby fans, a truly local raise might prefer to use one of the smaller web portals. Better still, use a site that has established an ongoing presence in your community — so that the fans of Business A can potentially become the fans of Businesses B, C and D.

Sea Wolf Bakery

In 2014, Kit Schumann and his brother Jesse founded a family-owned, craft bakery in Seattle. For two-and-a-half years, their breads were baked out of borrowed kitchen spaces around Seattle using cast iron pans. In August of 2016, their Sea Wolf Bakery found a permanent home at 3621 Stone Way North in Seattle's North Lake Union neighborhood — thanks to a Kickstarter campaign.

Setting a fundraising goal of $25,000, the Schumann brothers ultimately got 284 people to pledge a total of $32,310. The money raised, according to Kit, paid for "front-of-house retail equipment and furniture – things that would be seen by customers, which is a way for us tying it into their experience."

Schumann chose Kickstarter over one of the many other donation crowdsourcing sites, because of its name recognition. And key to their success was networking: "We relied on our social media platforms, including Facebook, Instagram and whatnot." It was important, Schumann adds, to "get family and friends to donate early in the first week. That brings your numbers up and helps put you on Kickstarter's profile. Then they display you more prominently on their website. That gets people's attention."

There were smaller tokens provided to donors outside the Seattle area and some larger items for super-donors. Most people just got future loaves of bread.

Schumann cautions that a successful Kickstarter campaign requires a significant investment of time. "You need to keep getting your message out. You need to send out videos and reminders. Continue to ask people. It is a bit of a struggle to shamelessly promote yourself."

Schumann said that contributions were highest during the first week, followed by a dip, with a spike at the very end. This is "a pretty typical pattern."

With the campaign behind them, the brothers are settling into their storefront bakery and the business is "doing well," Schumann says. "The Kickstarter campaign also got us on a lot of people's radar. We are a neighborhood bakery. People enjoy having us around, which is awesome. We haven't gotten our end-of-year financials yet, but all signs point to a profitable first quarter. It is a lot of work: 16 hours a day, 7 days a week. It's not the easiest way to make money. But it seems to be paying off, which is gratifying."

P2P Lending Sites

DESCRIPTION

Another type of crowdfunding that might provide your business with a quick loan at an affordable rate is peer lending. Inspired by the Grameen Bank, which proved that female entrepreneurs in Bangladesh organized into peer groups could be reliable borrowers of microloans, Kiva set up a platform that enables entrepreneurs in the global south to receive microloans from northerners.

Because investors only get their principal back and do not earn interest, this is not considered a security — and thus has become a brilliant end-run around securities laws. In recent years Kiva Zip has made it possible for U.S. businesses to receive microloans as well if they have a fan base (trustees) that will vouch for its bona fides.

Prosper and the Lending Club also can provide your business with unsecured lines of credit as high as $25,000 to $30,000. Nominally, the loans are for personal use and most borrowers use these loan to refinance credit card debt. But nothing precludes a borrower from using the funds for his or her business. These loans carry higher interest charges than bank loans (especially on individuals with lower credit scores), but significantly, these charges are lower than credit cards. Because these sites pay lenders interest, the loans constitute securities, and these companies have had to pay millions of dollars for legal work to enable unaccredited investors to participate as investors.

CHALLENGES

Local investors will find that the biggest challenge with many of these sites is their national scope. Prosper and the Lending Club give only limited information about the geographic location of borrowers and lenders. Other competitor sites, however, are emerging that provide enough information to facilitate local investing.

Furrow Horse Farm

Furrow Horse Farm is a two-acre, horse-powered farm, located near Morton, a small town in the Cascade foothills. It was started by Brandon Wickes and his partner Caitlin Arnold in 2014. Collectively, Wickes and Arnold have more than 10 years of farming experience.

As the name suggests, the farm uses horsepower instead of tractors. "The primary reason," Wickes says, "is to use less fossil fuel. We started to research and inquire about other draft horse farms." Wickes and Arnold found many Amish farms doing this and a few models outside Amish Country in Vermont, Massachusetts, Maine, New York and Ontario. Prior to starting their own farm, they both did a year-long apprenticeship at a farm in Ontario.

Furrow Horse Farm | Morton

To help finance the Furrow Horse Farm, Wickes and Arnold used Kiva Zip. Kiva was selected in part because they were unaware of other options like Prosper or Lending Club. "It was our first step," Wickes recalls. "We wanted to prove that we had a public loan and pay it back, and go from there."

Wickes and Arnold decided to start small leasing two acres to start. That required $20,000 in startup costs. The maximum loan from Kiva Zip was $5,000 and the repayment period only two years. "We decided we could afford $100 a month. So, we sought out a $2,400 loan. It was as much as we felt comfortable taking at the time." That said, Wickes acknowledged that "If we did it again, we would take on a bigger loan. It is zero interest and community funded." Friends and family covered the rest of the startup capital.

The couple currently grosses about $40,000 a year growing vegetables, with farm income supplemented by off-farm seasonal employment. They hope to raise more money that could help finance expansion. Wickes said that once their first loan is repaid, they could request a $10,000 loan from Kiva Zip.

Kiva Zip requires its borrowers to have a sponsor and Wickes and Arnold were able to get sponsorship from Green Horns, a young farmers' organization based in New York. "I was fortunate to have done an internship in New York State a couple of years earlier," Wickes says. "They knew me, and sponsored us after a quick phone interview."

Lease Crutcher Lewis Co. | Seattle

The other qualification for a Kiva Zip borrower is to successfully raise funds through the business' social network. "That was as simple as putting it on Facebook," says Wickes. "We got that community support in pretty much no time. It took less than 24 hours — and was exhilarating."

Employee Stock Ownership Plans

DESCRIPTION

Employee Stock Ownership Plans (ESOPs) are another form of local investment. Formally implemented in 1974 through the Employee Retirement Income Security Act (ERISA), ESOPs enable a company to give equity to its employees and for smaller companies, this almost always means to local employees. There are roughly 11,000 companies in the United States today with ESOPs, with 11 million workers participating. The latest available data show fewer ESOP plans than a decade ago but with more participants. In the vast majority of these companies, however, the workers are minority shareholders. More than 100 Washington businesses have adopted ESOPs.

ESOPs benefit employees and employers alike. Employees who receive stock have another source of income from their work and a greater stake in the company. Various studies have found that ESOPs increase worker motivation and productivity. Many employers of companies have discovered that once they implemented ESOP programs, sales and employment in the company expand. ESOPs also provide employers with additional sources of capital for corporate expansion and allow the founder to retire or exit without destroying the local character of the company

CHALLENGES

ESOPs carry a number of legal, accounting and tax complexities. Any employer seeking to introduce an ESOP program will need to invest considerable time and money in its planning and execution.

While ESOPs give employees a stake in the company, they do not necessarily give them significant power. As minority shareholders, ESOP-owning employees still might not have a seat in the boardroom (in Germany, in contrast, worker seats on the boards are required). It's important, therefore, that employers and employees both have realistic expectations about what an ESOP program can accomplish.

Lease Crutcher Lewis

Lease Crutcher Lewis is a construction company with a history that stretches back 128 years and four generations of family ownership. The company started in Montana, but moved to Seattle in the early 1900s. Today, the firm employs more than 500 people and has sales of over $500 million a year.

By the mid-2000s, CEO Bill Lewis, great grandson of the founder, realized that no one in the family wanted to run the business after he retired. Various national companies sought to buy him out twice, but Lewis declined. It wasn't the right fit. "So much of the value of the company was tied up with its local ownership and longstanding local roots. If you sold to a large national or international competitor, you would lose that," notes company CFO Berger Dodge.

Lewis recognized that the success of the company was largely due to the commitment of his people and started to think about an ESOP as an ownership transition strategy. In 2008, the company sold the majority of its stock to the ESOP, with Lewis and other senior employees retaining the remaining shares. Ultimately, the ESOP will own 100% of the company.

Dodge, the CFO, says that being an employee-owned company helps create a sense of ownership among current employees and is a differentiating factor as the firm recruits new employees. "For example, we recently hosted a college recruiting event with the goal of hiring high quality summer interns who will ultimately join the company as full-time employees. We highlighted the ESOP, our employee ownership, and how those are important parts of our culture and identity. Employee culture and engagement is a very big deal for us, and our ESOP and employee ownership are unique differentiators in the competitive market for talented employees."

Dodge emphasizes that the ESOP also is critical, because it has provided the company a way to retain local ownership. "When we are out in the marketplace, being local is an important way that we differentiate ourselves. There are a lot of building owners who appreciate the value of working with a locally owned commercial general contractor.

"It is not just about going for the home team. It is also about local decision-making and local leadership. If there is a problem or opportunity and someone wants to talk with our CEO or president, we're happy to do it. Relationships are central to what we do and being proximate is important. Our project managers — we encourage them to be entrepreneurial, responsive and to make decisions that benefit the clients without lots of corporate oversight or restrictions.

"Relationships matter also on the supplier side. This a very busy time in our industry and you need to be able to engage high quality subcontractors. Doing so is much easier and much less risky if you have known somebody for years. Such local relationships, both in our supply chain and customer base, have proven to be very important."

Private Offering

DESCRIPTION

Since securities laws were enacted in the United States in the 1930s, "exemptions" have been available for local businesses to obtain investment from grassroots investors through personal contacts. And this investment can be in any form — debt, equity, royalty or things in between like convertible notes.

The most common exemption is Regulation D, Section 504, which allows a company, after filing a simple form, to raise up to $1 million from as many as 500 accredited investors and 35 unaccredited investors. Recent federal legislation increased this ceiling to 2,000 accredited investors. If your company exceeds this number, it is then presumed to be a "public company," which greatly increases the annual requirements of reporting to the SEC and to your shareholders.

Other provisions of Regulation D, Sections 505 and 506, allow businesses to raise more money, but require more paperwork and legal expense.

CHALLENGES

If a business has even one unaccredited investor, it must prepare a Private Placement Memorandum, which is basically a structured business plan. A business can prepare this on its own — there are lots of models on the web — but hiring an outsider to do one could impose an additional expense.

The principal difference between a private and a public offering is the ability to advertise. With a private offering, you historically were only able to approach investors with whom

Employees who receive stock have another source of income from their work and a greater stake in the company.

All banks, even locally owned ones, are very conservative about lending money.

you had a "pre-existing relationship." The JOBS Act has altered this, creating a specific — and complicated — pathway to advertise to accredited investors. The pre-existing relationship requirement, however, still governs private sales of securities to unaccredited investors. (Companies engaged in crowdfunding have a little more latitude to advertise, as we will elaborate shortly.)

MM Pacific NW

Burt Hamner has been working in the clean tech industry for over 20 years helping entrepreneurs, corporations and policymakers make business more sustainable. While serving as CEO of a firm called Hydrovolts (which no longer exists), Hamner had to raise $3 million and became intimately familiar with the Seattle angel investing scene. He ultimate raised half from two venture capitalists and the rest from angel investors.

One advantage of private offerings, Hamner argues, is that you can engage "six rich dentists" or angel investors who are all used to the game and are relatively easy to work with. But, Hamner cautions, "An accredited investor is not necessarily a sophisticated investor. You really want a small number of investors who have done a lot of investing before so they are realistic about what to expect."

Hamner says one effective means of raising capital is to issue preferred stock, which allows the entrepreneur to maintain governance control in exchange for giving investors the extra protection that comes from getting paid first. This can be done by "a downtown attorney" for about $1,500.

Hamner says there are about six or seven active angel investment groups in Seattle. For example, in 2015, the Northwest angel investment collective Keiretsu Forum doled out $43.5 million to 57 groups, 35 in the Pacific Northwest. About a third of the investments were seed funding while the other two-thirds were for later investment rounds. Companies involved with real estate, life sciences and tech received 87% of the total funds. One recipient was the Poulsbo-based LumiThera, a startup developing a medical device that uses low-level light emissions (photobiomodulation) to treat people, especially elderly patients, suffering from macular degeneration in their eyes.

Direct Public Offering

DESCRIPTION

The way big companies enjoy capital from grassroots investors is to "go public" through an initial public offering (IPO). The typical IPO aims to place a security on the NASDAQ or another major stock exchange, raises hundreds of millions of dollars (or more), involves major underwriters like Goldman Sachs, and incurs legal expenses that easily can cost millions. The architects of securities laws understood that there needed to be more affordable routes for small businesses to go public, and so various "exemptions" to full-scale securities registrations were enacted.

One federal exemption is Regulation A, which historically allowed a company seeking to raise less than $5 million to involve an unlimited number of unaccredited investors and advertise freely to acquire them. An example of a company that used Regulation A is Annie's Homegrown. The company recruited consumers of their popular macaroni and cheese products by having the offering statement pop right out of the box along with the uncooked noodles. The legal work for this exemption, however, can easily cost $50,000 to $100,000. (The JOBS Act recently created a new sibling exemption, called Regulation A+, which allows bigger companies to raise up to $50 million.)

A more popular and inexpensive exemption is the intrastate offering. Federal securities law basically leaves it to states to regulate securities offerings small businesses make just to in-state residents. The requirements for this kind of offering — that the company sell mostly to in-state residents and have facilities mostly in the state — are slam dunks for the vast majority of locally owned businesses. When Ben & Jerry's first went public, the company only allowed residents of Vermont to invest. Many states allow intrastate offerings without limiting the size of the offering or the number of unaccredited investors who can participate.

These various exemptions are often called direct public offerings (DPOs) because they are usually sold directly by companies through their websites. IPOs, in contrast, are usually underwritten by large investment banks and then sold through licensed broker-dealers.

CHALLENGES

Lawyers typically charge $25,000 to $50,000 for a DPO and may require several months to get a proposed DPO approved by a state securities office. Cutting Edge Capital offers lower rates for local businesses that wish to go through a do-it-yourself "boot camp."[22]

Quimper Mercantile

Over the years, Port Townsend has seen its premier variety stores – JCPenney and Sprouse-Reitz – move out or shut down. A growing number of citizens complained that they had nowhere to buy socks or underwear. The best you could do was drive an hour to big-box malls. The mayor, Michelle Sandoval, called a meeting when Swain's Outdoors shut down. As she told Seattle Business, "A real town needs a real store."

Thanks to remarkable planning and organizing, Port Townsend now has the Quimper Mercantile Company in the refurbished 16,000 square-foot space that Swain's once occupied. But what was essential to the success of this endeavor was a DPO of local stock.

Peter Quinn is the co-founder of the Mercantile and served as its founding and current CEO. He is also the executive director of the economic development council (EDC) of Jefferson County, which also goes by the name "Team Jefferson." "The effort to create Quimper," says Quinn, "resulted from when we had a general merchandise store that went out of business. As an EDC, we started to hold meetings to figure out what to do about it."

After efforts to get an existing business to take over Swain's space failed, Quinn and his partners decided to restart the business on their own. Using a direct public offering, Quimper raised more than $700,000 from local resident investors and opened its doors on October 11, 2012.

The store, Quinn said, "provides everyday things so people don't have to drive 40 minutes to get what they need. We'll probably do $2.3 million in sales in 2017. We will be profitable for the fourth year in a row. We sold shares at $100 a piece. People of all capabilities purchased the shares. We have 830 shareholders and they are some of our best customers." So far, no dividends have been paid out because the company has been focused on paying down debt, but ultimately the board hopes to pay out dividends by the end of 2018.

Quimper Brain Trust | Port Townsend

Putting together a public offering, Quinn argues, was challenging but doable. "We had to go through an attorney review, but we didn't have $100,000 to spend." So, the team wrote the 80-page legal document themselves. They had to go through three rounds before the final documents were approved by state securities regulators, but by doing most of the work themselves they kept attorney fees down to around $2,000.

The biggest challenge in writing the prospectus and getting it approved by the state was to accurately portray the risk. "Doing a DPO for a pure startup was very risky. People giving us $700,000 didn't know if we would make it happen or not. State regulators wanted to make sure that we gave an accurate picture that people might not get their money back."

Using a DPO often means that the founders give up some equity. For Quinn and his partners, this was not a concern. "We didn't want to own 100% of the business. We created bylaws that state that no one can own more than 10%. We didn't want to have someone take it over. We have an ownership system that is extremely community focused. The most anybody owns is six percent of the business."

Quimper Mercantile | Port Townsend

"A DPO is a lot of work," Quinn cautions. "We did it because we accurately assessed the community. We're in a community whose members knew they had to step up or it would be a long time before that building filled up. Not every opportunity has the sizzle that ours did."

If you are already involved in the financial industry, there are lots of creative ways you can catalyze more local investment. You could help start a local credit union. Or launch special lending programs within an existing local bank or credit union. Or put together a local investment fund. Or you might pioneer two ideas that barely exist yet — a local stock market or a local mutual fund.

There are six tools discussed in this section:

Credit Union: Starting a credit union may seem like a daunting task, but Washingtonians have done it in the past — and can do so again.

Specialized Lending: It is possible to set up a special program with a local bank or credit union that augments its ability to lend to local businesses.

Federal Programs: Tax credits and other investment incentives can be important tools for local investors.

Local Investment Fund: There are a few investment funds in Washington currently, but there could be more over time.

Local Stock Market: While there is no local stock market, the presence of a community portal in Oregon could inspire creative initiatives in Washington.

Local Mutual Fund: Another possibility that has not yet come to fruition is a local mutual fund, but we imagine what can be done in the near future.

Credit Union

DESCRIPTION

Not every community has its own bank, and not every community with a bank has one that's locally owned. Given the fact that a *local* financial institution is three times more likely to provide commercial credit to a local business than a nonlocal financial institution, and that nonlocal financial institutions often move deposits to other branches far away, a community without a local financial institution might want to create one.

The general view now is that creating a new bank — especially in an era of tougher regulations under Dodd-Frank — could require at least $12 to $20 million of capital, with hundreds of thousands of dollars of legal expenses.

But the price tag for setting up a credit union is considerably lower. According to the National Credit Union Administration, the key steps include organizing 500 initial members (if you can top 3,000, the regulatory requirements are lower), collecting an initial member fee of $5 to $25 per person, and creating an overseeing committee, ultimately with at least one CPA. Small credit unions can be operated from a desk with a computer and need not have a full-time staff person.

CHALLENGES

While starting a credit union is easier than starting a bank, it's not necessarily easy. Without full-time staff, it's essential that a volunteer board be prepared to invest significant time to start and run the institution.

Moreover, small credit unions are run like a cooperative on behalf of their members, which means that the highest priority is usually personal financial products: checking accounts, debit cards, mortgages, loans for education, etc. Usually a credit union must grow quite large before it has enough capital to begin giving commercial loans. So starting a credit union, while localizing local finance generally, may not immediately boost local business.

Developing the Spokane Tribe

Norm LeBret, former Chair of Spokane Tribal Enterprises in Eastern Washington, thinks that the key to local economic development is a bank. Since closure of a nearby uranium mine in the early 1980s, the 159,000 acre Spokane Tribal Reservation has struggled to sustain itself with a declining timber industry and two small casinos. The tribe's government has created a few new businesses — some convenience stores, an RV park and a marina — but many more businesses are needed and their startup is not possible without new capital.

For several years, LeBret and other community members have been trying to build support within the tribe for creating a new bank. This would increase local sovereignty and nurture local entrepreneurs. But challenges in raising capital and mobilizing the right talent to run the bank have been daunting. For the moment, LeBret's strategy is to find the right partner. The Colville Tribal Credit in Nespelem, Washington, 62 miles away, is one possibility. Optimus Lending, another regional financial institution, is another.

But a remaining obstacle is tribal politics. Should the bank be owned by the Spokane Tribe's government itself or by its Section 17 Corporation? The spheres of power and people running each are different and the two entities do not always play well together. And how will either react to an outside financial institution coming into the reservation? LeBret argues that putting the bank in the Section 17 Corporation will give it political independence and bring in non-tribal investors.

For now, the bank remains a dream. LeBret and his colleagues are laying the foundation by making sure the tribe is taking advantage of the Indianpreneurship Program created by Our Native American Business Network (ONABEN). One of the instructors, Ted Piccolo, was instrumental in growing Colville Tribal Credit and LeBret hopes that perhaps Piccolo and his graduates will make the Spokane Tribe's bank real.

Specialized Lending

DESCRIPTION

All banks, even locally owned ones, are very conservative about lending money. The law demands this. That's why banks usually insist that their clients fully collateralize any loans. A mortgage must be collateralized by the land and the building, an equipment purchase by the machinery itself, and a commercial loan to an entrepreneur by the borrower's house. This has led grassroots groups and businesses to devise clever ways to provide more collateral to banks so that they can open the doors to more lending to local business.

All banks, even locally owned ones, are very conservative about lending money.

Here are some examples:

- Influenced by the ideas of E.F. Schumacher, the Self-Help Association for a Regional Economy (SHARE) convinced Great Barrington Savings (now Berkshire Bank), based in Massachusetts, to create a special savings account, the proceeds of which then collateralized small loans to local businesses recommended by SHARE. With 70 depositors, the program made 14 loans of $3,000 each in the 1980s.
- The Alternatives Federal Credit Union in Ithaca, New York, has a Community Partnership Lending Program, in which nonprofits can run their own lending programs collateralized by their members and other supporters.

CHALLENGES

The absence of more than a handful of models for these special kinds of Certificate of Deposits (CDs), and the significant differences on how each of these models is structured, has made it difficult to convince other banks and credit unions to adopt these models. Each requires serious commitment from the partner bank or credit union to make it work. Ultimately, a sponsoring institution may need to be convinced that it's not just a do-good program but also will bring new customers through the door.

Farmer Reserve Fund

An intriguing local example of how a group of motivated Washington residents were able to get their financial institution to do more for local business is the Farmer Reserve Fund, led by Tim Crosby and his colleagues in Slow Money Northwest. Crosby developed the program in 2012 in collaboration with the North Coast Credit Union, a credit union that operates in Northwest Washington in Skagit and Whatcom counties. He basically created an account within the credit union that serves as a loan loss reserve for loans to beginning farmers, and then mobilized donors to contribute $5,000 to Slow Money Northwest which then deposited the funds into the account. Students and graduates of a local farmer incubator program can apply for loans and lines of credit that collectively add up to $25,000 from the credit union.

The fund's website explains, "All farm businesses need access to credit for seed, equipment, soil amendments and to pay operating costs between planting and harvest. Beginning farmers may not have the credit history or assets to qualify under conventional bank guidelines. Building on the credit union's internal system of risk management, we are able to leverage small foundation grants and non-profit technical assistance to provide a pool of capital to help new farm businesses succeed while assisting the credit union in its ability to invest in its community."

Slow Money Northwest wanted to lend money to beginning farmers but wasn't sure it wanted the hassle of running a program. The investors decided that a credit union, because of its commitment to its local members, would make an ideal partner. After evaluating various credit unions in the state, they concluded that North Coast had an exemplary relationship with community businesses. The two entities agreed upon a 20% default rate, over twice the national default rate. This meant that the $5,000 donation could yield $25,000 of outstanding loans at any one time.

A key partner in this endeavor is Viva Farms, a farmer incubator located in Skagit County, within the Credit Union's territory. According to Slow Money Northwest, "with both production knowledge and business planning. Viva Farms helps to mitigate the risk by pooling large equipment purchases, providing improved farmland, business education and resources, and direct marketing of produce. In addition, the personal and professional relationships developed between the Viva Farms staff and the farm incubator participants gives additional insight on the borrowers' ability to repay loans that a financial institution will not know from a credit application."

This partnership allows Slow Money Northwest to forego researching every request from North Coast in order to use the account for a loan loss reserve. Instead, Slow Money Northwest only has to ask Viva Farms if it would recommend a particular applicant. If Viva says "yes," then Slow Money Northwest approves use of the account. By trusting Viva Farms to recommend only quality students, Slow Money Northwest does not have to spend its own resources on due diligence on every student. One prospective donor describes this relationship "as the way we used to bank, via portfolio management, where we actually knew the applicant, or via a neighbor, who could vouch for the applicant."

Viva Farms | Burlington

Thus, Slow Money Northwest raises donations for the Farmer Reserve Fund to cover defaults while Viva Farms provides a farmer training program and vouches for the borrowers who have participated in its program. Donations are then deposited into an account at the credit union to increase cash reserves, dramatically reducing the risk for the lender. The credit union then issues and administers the loans to students from the Viva Farms training program.

As the loans and lines of credit are repaid, the borrowing farmers build assets, credit history and banking relationships with the credit union. They also will be able to transition away from this program into other lending programs, creating a more stable and sustainable food system. Typical loan amounts and lines of credits are for less than $10,000. Interest rates tend to fall between 6% and 8%, with a term of between six months and three years.

Begun in 2011, the fund has been used for four loans and three lines of credit, with an actual default rate below 1% (there was one late payment).

Federal Programs

DESCRIPTION

The federal government has several programs that can be tapped to deliver more capital to local business. As noted in the Introduction, the Treasury Department administers a program to support Community Development Financial Institutions (CDFI). This program was initiated when the Clinton Administration signed the Riegel Community Development and Regulatory Improvement Act of 1994 into law. The bill created a process whereby various financial institutions — banks, credit unions, loan funds — could apply for a federal designation as CDFI and qualify for infusions of federal capital. The Clinton Administration also launched the New Markets Tax Credits, which provided investors who put funds into federally approved Community Development Entities (CDEs) with tax credits amounting to nearly 40% of the investment. According to the website of the Department of the Treasury, which oversees these programs: "Since its creation, the CDFI Fund has awarded $1.11 billion to community development organizations and financial institutions. It [also] has awarded allocations of New Markets Tax Credits which will attract private sector investments totaling $26 billion."

If you run a financial institution that targets poor communities or if you are interested in creating one, these programs can be invaluable. Indeed, one could argue that these are the most important federal pots of money that exist today that support local investment.

CHALLENGES

Taking federal money, of course, is not without its costs. There are huge regulatory, accounting and reporting burdens with which you must comply. And federal support is usually limited, often one time, which means that ultimately you still must have a viable business model for your local investment program.

Underlying all these programs is an assumption that all businesses linked with community development are necessarily wobbly. Poor people are seen as not having the capital to fully finance their own Community Development Corporations (CDCs), credit unions and banks. And these institutions are seen as higher risk, because they cater to poor homeowners who are more likely to default and to poor businesspeople who have sketchier credit records. In fact, we know from the experience of institutions like the Grameen Bank in Bangladesh that the poor actually are extremely reliable borrowers, if programs serving them are organized well.

Rural Community Development Resources

An example of a CDFI in action in Washington State is Rural Community Development Resources (RCDR), based in Yakima and founded in 1991 to support rural business development. For the first years of operation, the agency focused on outreach and education but not lending. In 1996 it received its certification as a CDFI and began lending. Today, the agency has more than $2.8 million in assets. According to founder Luz Gutierrez, the agency's annual operating budget is roughly $500,000.

Unlike many CDFIs that focus more on consumer or community facility finance, RCDR focuses entirely on businesses lending. The size of its loans can vary, from as small as $5,000 to as large as $250,000. Over the past five years, the agency has closed an average of 10 loans per year. For the first 11 months of 2016, RCDR reported that 60% of loans had been to borrowers at 80% of median income or below, with 92% of loan dollars going to Latino borrowers. Over the past

20 years, RCDR estimates that its loans have helped create 441 jobs in the Yakima Valley as well as retaining an additional 365 jobs.

"Most of the people to whom we provide loans, about 90%" notes Gutierrez, "are immigrants that come with that 'can do' spirit." Among the immigrant businesses RCDR supports have been Mexican specialty shops, bakeries, meat markets, beauty salons and auto mechanics.

Despite its CDFI designation, RCDR struggles for funds. Federal fund distributions usually favored CDFIs that focus on less risky consumer and community facility lending markets. In 2014, however, RCDR was awarded a $124,999 technical assistance grant from the CDFI Fund and this leveraged additional support from the Northwest Area Foundation in St. Paul, Minnesota.

"We know we have to get into the bigger loans in order to survive," says Gutierrez. One loan she would like to make right now is to a tamale manufacturing plant. "We have been working with the owner for 25 years. He is a very conservative guy, but now he is ready. We have been pushing him. We know the potential."

Local Investment Fund

DESCRIPTION

In principle, a local investment fund is attractive to local investors, because it is run by an experienced manager who saves them the trouble of vetting companies one by one. A fund offers local investors another advantage too — diversification. Investors usually want a local portfolio with enough differences among the securities so that for every company that goes bad there are another dozen that are thriving. Unfortunately, very few such funds exist today.

What has limited the creation of local investment funds is the same thing that has limited the issuance and trading of local securities — obsolete federal and state securities law. Here, the main piece of legislation is the federal Investment Company Act of 1940. To become fully compliant, a new investment company might have to spend hundreds of thousands of dollars.

The few existing funds have sought to fit in one of the "exemptions" in the act. Among those institutions that are exempt are banks and credit unions (they are regulated by other laws), investment clubs and nonprofits. The last exemption has been the most important, because many community and economic development institutions actually are nonprofits.

A local investment fund offers local investors diversification.

There are two good examples of national nonprofits that invest directly or indirectly in local businesses and in which unaccredited investors can participate. RSF Social Finance, a descendant of the Rudolf Steiner Foundation, makes loans to local businesses or projects related to food and agriculture, ecological stewardship, or education and the arts. And the Calvert Foundation issues Community Investment Notes and then uses the proceeds to support affordable housing, community development corporations, community loan funds, microfinance funds (domestically and internationally), and fair trade businesses.

About a dozen smaller nonprofits have set up funds that allow unaccredited investors in their state to place money in them. The New Hampshire Loan Fund, for example, supports all kinds of local businesses in the state. Similar funds are the Vermont Community Loan Fund, the Biz Mountain Fund in North Carolina, and the Economic and Community Development Institute in Ohio. The recently set up Pioneer Valley Grows Fund (PVGrows) plans to make investments in local food businesses.

By buying multiple squares in multiple companies, local investors have the ability to create their own investment portfolios

CHALLENGES

Unaccredited investors cannot tiptoe around the income requirements by pooling their money with others. Every single security in a pool of money involving an unaccredited investor must come from a local business that has gone public or fits within one of the SEC exemptions that allow unaccredited dollars.

It's important to realize that even though nonprofit funds are exempt from the Investment Company Act, the securities they each issue to investors must be "papered" under the Securities Act. Every year, these funds must go through the cumbersome process of filing with state securities agencies for the right to sell their securities to unaccredited investors. RSF Social Finance and the Calvert Foundation do this in every state in which they are selling securities. Some states make this process easy; others are very difficult.

Community Sourced Capital

While there are no local investment funds in Washington, Community Sourced Capital comes close. It provides an on-line crowdsource lending platform that does zero-interest lending, much like Kiva. Formed by a group of four students who came out of Bainbridge Graduate Institute at Pinchot University, Community Sourced Capital launched in 2013. After graduating, two of the four, Rachel Maxwell and Casey Dilloway, decided to, in the words of Maxwell, "make it real." Alex Mondau, a former classmate, joined the group very shortly afterward.

The average loan size on the platform is $20,000 to $25,000. Between 2013 and 2016, there were 96 loans issued. Of these, as of December 2016, 26 were fully repaid, five borrowers had defaulted, and 65 were continuing to make payments on active loans.

Lenders who participate on the site "buy a square" costing $50. The maximum number of squares an individual can purchase is 20, lending up to $1,000. As a loan is repaid, the payments are distributed to squareholders pro-rata. "There are no carrots, discounts, prepays or interest," Maxwell explains. "It is not a traditional investment nor is it a donation. You're not a consumer, philanthropist or an investor. You're something different. You're building value in your community in a trust based, reciprocal relationship with a business you know."

By buying multiple squares in multiple companies, local investors have the ability to create their own portfolios — and this is why Community Sourced Capital might be considered the only local investment fund in the state. In 2014, the state Department of Commerce partnered with CSC and targeted businesses in rural counties under the program Fund Local.

Community Sourced Capital was initially incorporated in Washington as a social purpose corporation and a certified B corporation. The corporation dissolved in 2017 and gifted the platform and the Community Sourced Capital brand to a new nonprofit corporation. As a nonprofit, Community Sourced Capital will focus its loan activity on disadvantaged businesses who have trouble accessing capital through traditional means while pursuing a larger educational mission of rewiring people's thinking about money, using the platform as a tool.

"We do charge businesses to use the platform," Maxwell explains. "We charge flat fees for services rendered." Businesses pay $250 to get onto the platform, and then $50 a month during their entire repayment period." But it's not enough to cover all costs without some foundation or donor backing.

Many businesses have benefitted from the lending platform. One example is Starvation Alley Cranberry Farm in Long Beach, located in southwest Washington on the west coast. Initially, the farm raised $12,000 from 112 people for an industrial juicer. Having the juicer enabled them to expand operations and sell berries year round, which improved their cash flow and boosted revenues. When they paid off their first loan, they ran a second campaign and received a new loan of $33,000 involving 252 people for a bottling line and juicer upgrade. Most of their original squareholders rolled their repaid funds into the second loan.

Local Stock Market

DESCRIPTION

Ultimately, a healthy local investment ecosystem requires a place where holders of local securities, whether debt notes or stock, can resell them to other potential local investors. Because doing this directly with just the people you know is not very efficient, stock markets emerged to provide convenient venues for these transactions. One hundred years ago, there were local stock markets across the country, specific places where people could scream their bids and offers at one another under a uniform set of rules. Now there are basically just two such places in the United States, the NASDAQ and the New York Stock Exchange, and most of their transactions are done virtually.

These exchanges facilitate public trading of companies all across the planet that have nothing to do with local investment. But there is growing interest in creating local stock exchanges, and the state of Michigan recently passed a law mandating that the state create one.

It's important to differentiate stock exchanges from community portals being used with crowdfunding. Stock exchanges are institutions where offers and bids for securities are made in real time and the last transaction (where offers and bids match) sets the presumptive price for the next. Since the securities being sold are already owned by someone, these transactions are called "secondary trading." Stock markets are fast moving and can change dramatically in the course of a few seconds. They are also governed by the Security Exchange Act of 1934.

The concept of community portals was introduced by the JOBS Act and similar state reforms. They look more like eBay than E-Trade. A seller posts an offer and it can be days, weeks or months before someone buys the securities at the listed price. The transaction has no influence on any other pending transaction (though traders are, of course, interested in how others are pricing a given security). Right now, these transactions are limited to the initial sale of securities, not secondary trading.

CHALLENGES

Under the Security Exchange Act, it is not clear whether states like Michigan have the right to create stock exchanges even if the securities are 100% owned and traded in the state. It's not even clear they have the right to create community portals. While the SEC could issue a "no action letter" to permit these kinds of state initiatives, it has not done so yet.

There are clearly permissible approaches to creating local stock exchanges, but they are difficult and expensive. The existing exchanges, like the NASDAQ, have the authority to set up state exchanges as part of their business. A new exchange also could file for a license under the rules for Alternative Trading Systems — a space for some experimentation in the field.

If you're interested in setting up an exchange or a portal, also remember that state rules right now limit their operation to broker-dealers. One advantage that the JOBS Act offers over state laws is that it allows grassroots groups to operate a community portal and take success fees (where are arguably necessary for the long term success of a portal as a business).

Starvation Alley Cranberry Farm | Long Beach

Hatch Oregon

Washington approved a state crowdsourcing law in November 2014 and issued regulations enacting it the following October. Yet, according to Faith Anderson, Chief of Registration in the Washington State Department of Financial Institutions, Securities Division, as of December 2016 only two firms had sought crowdfunding authority under the state statute. Only one was approved. And that firm, Cuz-D-Industries — a firm with a patent-pending, handheld saw design — ultimately chose to raise its funds through other mechanisms. One reason for this disappointing track record is the absence of a state portal — a legally compliant space where in-state investors can easily find in-state businesses.

To the south, in Oregon, however, the nonprofit called Hatch Innovation has put up a statewide portal called Hatch Oregon and begun to get serious results with its crowdfunding law. Hatch executive director, Amy Pearl, led the campaign to get a crowdfunding statute passed in Oregon.

Hatch Program Manager Danielle Olson reports that because Oregon's crowdfunding reforms occurred through regulatory changes rather than legislation, they were implemented much faster than anticipated. There was "not a lot of time to prepare for the launch." Hatch did a lot of outreach to make Oregonians aware of the crowdfunding law, and introduced them to its funding portal. "Now," Olson says, "we have had 450 Oregon investors invest across the state. The first year after it launched we did a big tour around 22 counties in the state. That was the key thing that pushed its awareness."

"About 15 companies have gone up on the Hatch Oregon platform," Olson says. "Three companies have raised their maximum. Three have raised the minimum. Two are still raising funds. The rest ended their campaigns for one reason or another."

In Oregon, the regulations were on the books January 15, 2015, nine months before Washington. People could start investing on January 22. Under Oregon law, the maximum an individual can invest is $2,500, while the maximum a business can raise is $250,000 total. "We're coming up on two years," Olson says. "To date, 428 investors have invested $469,299 in 18 companies through Hatch's platform."

Olson adds that Oregon's law also has one novel and important requirement: For businesses to qualify for using the exemption, they must meet with a state-certified technical assistance provider. All Small Business Development Centers are automatically considered certified for this. Economic development districts are also automatically certified, and nonprofit incubators may apply to be certified. Providers are not authorized to review the offering prospectus, but are tasked with reviewing entrepreneurs' business plans.

Red Wagon Creamery, a small batch artisan ice cream company, raised $120,000 from 173 investors and was the first business to have its crowdfunding campaign fully subscribed. Other companies that have raised money through Oregon's crowdfunding law include Agrarian Ales, a farm-based brewer, and Crescendo Organic Spirits, a distillery.

Local Mutual Fund

DESCRIPTION

Most unaccredited investors today tend to put their money into mutual funds. A mutual fund is a special category of investment fund, professionally managed, that invests primarily in publicly traded securities. Investors can buy into and sell out (or redeem shares) of a mutual fund as they wish, with the price of each share set by the "net asset value" of the fund. Most mutual funds specialize, which means you can find bond funds, stock funds, large and small cap funds, value and growth funds, and index funds. There are about 7,500 mutual funds in the United States, but not a single one invests in local business. A growing number of these funds invest in companies that are green, labor friendly, cruelty free, or meet some other criteria for social responsibility, but none of these companies are locally owned.

Mutual funds must comply with a myriad of federal regulations under the Investment Company Act of 1940, but two of the rules bear strongly on the challenge of their going local. The first is that mutual funds must be "open-ended." The term refers to the ability of an unlimited number of investors to put money into the fund or withdraw it as they wish. The total number of dollars in an open-ended fund can expand or contract like an accordion. A mutual fund manager has some criteria — big-company stocks, computer stocks, a mix of 60% stocks and 40% bonds, socially responsible stocks, and so forth — by which she invests the pool, and then exercises her best judgment about how to maximize the rate of return. When you invest $1,000 into an open-ended fund, the manager adds your money to the pool and continues to invest by the declared criteria. When you want to take $1,000 out, the manager has to sell $1,000 of the pool's securities evenly, consistent with these criteria. A "closed-end" fund, in contrast, is a fixed pool of money. Once its shares are sold, you cannot enter unless an existing shareholder sells to you.

The second important rule governing mutual funds, implied by their open-ended character, is that they must be liquid. By law, a mutual fund manager must be prepared at any moment to honor an investor's decision to exit. Within seven days, the manager must be able to pay cash for the investor's shares at more or less their value when the sell order is given. If a mutual fund were made up entirely of stocks that could not be resold for months or years, this would be impossible. The legal mandate of a mutual fund manager is that no more than 15% of the fund can be illiquid.

Given the absence of local stocks markets and the relatively illiquidity of most existing local securities, it would be hard to create a local mutual fund today. But not impossible. One could set up a mutual fund made up of 85% municipal bonds, which can easily be bought and sold, and then hold local business securities for the other 15%. If you're a finance entrepreneur ready to make history, then perhaps this project is for you!

CHALLENGES

The legal expenses of setting up a mutual fund are considerable — perhaps as high as half a million dollars to start the venture, and tens of thousands for compliance every year. Plus, the managers of such a fund must individually obtain a number of licenses and approvals from the SEC and FINRA.

The Dream of an All Washington Fund

The idea of a local mutual fund in Washington is still such a new idea that we don't have a case history to tell about how it works, so here is our shared dream about how it might work.

It is 2025 in downtown Tacoma. The streets and storefronts are filled with successful local businesses — coffee shops with fair trade coffee brewing, clothing stores with locally sewn fashions that compete with the best you can get in big cities like New York, and restaurants serving food that is all grown within 20 miles of the city by organic farmers who are living economically healthy lives.

It wasn't always like this. Back before local investing was the norm, the stores in downtown were struggling to compete with the big Walmart nearby, restaurants closed when new national chains opened and underpriced them with cheap food from factory farms, and clothes were almost all imported from distant places, while local seamstresses struggled to repair them, with little ability to create new fashion ideas.

Things began to change when the state started to make it easier for people to direct their savings and investment to local companies. Crowdfunded investments took off, as people from all walks of life could offer small investments in new companies. As they made the returns on investments, everyone had more disposable income to spend on the new products — products that were made locally, eliminating the need for carbon intensive, expensive shipping from countries where child labor, slavery and deplorable working conditions were the norm.

There are about 7,500 mutual funds in the United States, but not a single one invests in local business.

Then some creative entrepreneurs had the idea that individual crowdsourced investments could be pooled together into local mutual funds, so that the risks could be spread around among a variety of startup businesses, making the money people were investing a bit more stable. Several new funds sprung up: The Washington First Food Fund, the Net Zero Energy Fund, the Arts Alive Creative Economy Fund, and the Hitchhiker's Guide to Fossil Fuel Free Transportation Fund, which helped people convert from gas guzzling automobiles to bicycles, transit and new electric car alternatives.

Things begin to change when the state makes it easier for people to direct their savings and investment to local companies.

Some of the best ways of supporting the local investment revolution are to involve everyone — investors, businesses and finance professionals. Indeed, you could do this even if you're just a student activist. You can create a chapter of the Local Investment Opportunities Network (LION) or Slow Money. You could put together a helpful list of local businesses and local investors (and let them do the talking).

There are three tools discussed in this section:

Investor Networks: When people get together to talk about opportunities, relations can be formed that facilitate local investment.

Community Lists: You can prepare an online list of businesses seeking capital in your community.

Slow Munis: Cities and towns can use their bonding power to foster more local investment.

Investor Networks

DESCRIPTION

One of the challenges of securities laws noted earlier is that even after you do enormous legal paperwork under the traditional exemptions, unless you take your company public, you still can only approach investors with whom you have a "pre-existing relationship." What constitutes a pre-existing relationship varies from state to state, but it probably means more than just being a Facebook friend. That said, there's no question that creating better relationships between businesses and investors can help to facilitate a legally compliant investment.

That was the motivation for investment adviser James Frazier to set up the Local Investment Opportunities Network (LION) in Port Townsend, Washington in 2008. He basically organized monthly parties for all the local businesses and investors in this town of nearly 10,000, plied attendees with free food and drinks, and then asked attendees to indicate at the end of each event with whom they now had a pre-existing relationship. He then would circulate business plans and pitches for funding he received from local businesses accordingly, leaving it up to individual investors and entrepreneurs to meet and strike their own deals. Unaccredited investors could participate, and ultimately it was up to each business to decide whether to create a deal structure that allowed unaccredited investment. Because LION does not sell any securities nor take commissions or fees, it tiptoes around the SEC proscriptions against public solicitation.

The result of this one modest social invention has been about $1 million of local investment per year in Port Townsend since its founding. More recently, Frazier has been helping organize other LIONs across the country and opened a clearinghouse for local investors called the Local Investing Resource Center (LIRC).

CHALLENGES

The law regarding solicitation is complicated and confusing. The JOBS Act of 2012 changed federal law, freeing up any company to approach accredited investors for funding. But unaccredited investors still cannot be freely solicited, even by companies with securities on crowdfunding portals. Only the portals themselves can do the solicitation, and only in broad terms.

For local investments that are wholly within a single state, state solicitation rules apply, and as noted, these vary enormously.

If you're interested in setting up a LION, it's wise to consult with a securities attorney first to elaborate the dos and don'ts for solicitation in Washington State.

Spreading LIONS

Peter Quinn, a member of the original LION in Port Townsend, reports that his group has helped spread the concept to a half dozen other communities, including Clallam County and Whidbey Island. "They are neighbors to the west and to the east," Quinn says.

Chapter scales vary. In Port Townsend, the first of the LION groups, Quinn estimates that $3.5 million in investment capital has been raised since 2012 and maybe $5 to $5.5 million since its founding. "Clallam County is just getting started. It has made a few investments in the $50,000 to $100,000 range," Quinn says. "Whidbey Island has been going for 18 months. They are at the $1.5 million."

Finnriver Farm & Cidery | Chimacum

Quinn's role as executive director of the Jefferson County Economic Development Council, is to administer the Port Townsend LION. "The way I put it," says Quinn, "if we didn't have LION, this county would be in so much worse shape. They helped businesses start in the Great Recession that otherwise wouldn't have any chance of starting. Those businesses hired roughly 200 employees just from the first four or five companies."

The advantage of the LION approach is it provides a vehicle for low-cost, small business lending. "I was in the venture capital and angel world before," Quinn explains, "and LION is the friendliest money I've ever seen. It is totally character lending. If they believe you will be a good entrepreneur and have a decent idea, investors will work with you."

Businesses receiving LION money include Finnriver Farm & Cidery, Mt. Townsend Creamery and Hope Roofing. The way the LION works is to provide individual investors with the opportunity to meet business owners. "Each investor makes his or her own decision. That is the key tenet of the thing. They do not invest together. Really, it is a coordinated and enhanced email list. They sit down with the borrower and negotiate their own deal. A borrower might have five different loans with five different sets of terms." While occasionally the deals involve equity, most," Quinn says, "are pure and simple loans. Sometimes it is interest only for a year or no interest for a year or a straight note. Most of the time it is a promissory note between the borrower and the lender."

Terms, of course, can vary widely. Quinn estimates that a common interest rate might fall between 5% and 7%, with a three to five year payback period, which is often structured as an unsecured promissory note. Again, though, Quinn notes that there is plenty of room for creativity. "The Mt. Townsend Creamery lenders get cheese credits as part of their payback," Quinn said. "There are a lot of 'cheese wealthy' people in town."

Community Lists

DESCRIPTION

One huge obstacle to local investment is information. Investors think there's no local "deal flow." And businesses think there's no critical mass of interested local investors. Both groups are probably wrong, but understandably so, because each lacks information about the other.

A simple way to overcome this obstacle is to create a website listing local companies that are interested in local investors. Think of a Yahoo! Finance page, only it's listing local businesses. No transactions. No pitches. No details about the deal. Just information about the company, that lets investors know, if they are interested, who they can email or call to explore a potential investment opportunity. Additionally, the web page might also provide a list of local providers of self-directed IRAs (see page 24) who could help investors move tax-deferred retirement savings into these companies.

Your community could do this as well. By providing web visitors with just this most basic information about local securities, your community can begin to set in place a local investment marketplace — essentially an electronic LION.

CHALLENGES

Believe it or not, even this kind of sketchy information might violate your state's laws governing solicitation for securities. It may be necessary, therefore, to sit down with your state securities department and negotiate what posted information is permissible. Better still, you might work to change the securities laws to allow free communication about investment opportunities for all your state residents, as Vermont recently did.

Investibule

There actually is an online list of promising local investment opportunities in Washington State, and it can be found at Investibule.co. It's a national site with state listings, and over time, as its listings expand, it hopes to present deals specific to communities.

Investibule aggregates investment offerings from a wide range of funding platforms and offering types — everything from Kiva loans and pre-pay opportunities to DPOs, JOBS Act and intrastate crowdfunding. It also lists some CDFIs, some pooled funds such as RSF Social Finance, and even listings from the American Homeowner Preservation Fund. It makes it easy for people to discover opportunities to invest directly in their communities, whether that is the place they live or a group they feel aligned with, such as women entrepreneurs, sustainable agriculture, craft beer or B Corps. Users can search for investment opportunities by state, category or funding type (equity, loan, pre-pay and rewards).

As an aggregator, Investibule does not handle transactions. It simply gives users enough information to pique their interest. If they want to learn more or invest, their interest gets passed on to the originating funding platform.

The site was co-founded by Amy Cortese, author of the pioneering book *Locavesting*, and Arno Hesse, who helped launch great local economy projects like Bernal Bucks and Credibles.

"Our premise," says Cortese, "is, if we want to change who gets funded, we have to change who does the funding. Crowdfunding eliminates the gatekeepers and broadens the pool of investors. And that promises to level the playing field for entrepreneurs who have been left out of the conventional financial system, particularly, women, people of color, rural entrepreneurs — and anyone that's not white, male or leading a tech startup."

The site is still in beta mode. After a year of testing, it has featured 600 offerings from 28 different platforms. More than 30% are women-owned enterprises and almost 20% have had a minority founder.

Slow Munis

DESCRIPTION

At some point, most local government entities in the United States borrow money and one of the most common tools they use is municipal bonds — or in investor parlance, munis. Some munis are called general obligation bonds and put the full faith and credit of the local authority on the line. Others are called revenue bonds and commit future revenues from a given project like a power plant. Like other securities, they are fully "papered" by attorneys who usually make them purchasable and tradable by unaccredited investors. One feature of munis that makes them especially attractive to investors is that the interest paid, that is the income paid to the bondholders, is exempt from personal income tax.

Munis are often used to support major civic infrastructure projects like bridges, stadiums, convention centers and housing projects. They also have been used by local authorities to support economic development projects, usually corporate attraction packages that benefit nonlocal business. Several years ago, Slow Money proposed that municipalities issue "slow munis" to support the development of local food businesses. In Cleveland, for example, a proposal was discussed to issue "food bonds," the proceeds of which would collateralize local loans to high-priority food businesses.

> ***Like munis used by local governments for infrastructure projects, "slow munis" can be used to support local businesses.***

Using municipal bonds results in significant financial savings.

While the concept of "Slow Munis" has yet to be widely used, there are some examples. The state treasurer of Massachusetts, Steve Grossman, issued "green bonds" to support the spread of local energy and storm water management infrastructure in the state. The website Neighborly also works with cities to issue very specific munis — say, "zoo bonds" or "public market bonds"— that are more likely to attract grassroots investment, and then does the legal work needed for residents to buy these bonds.

CHALLENGES

Some government jurisdictions and agencies require special voter approval for bonds. The willingness of public officials to issue bonds, moreover, may depend on the financial health of the entity. Ultimately, no one will want to issue bonds unless there's a clear cash flow to pay back bondholders in the future. For example, the food bond idea, described above, probably requires a municipal fund to charge banks and credit unions fees for the collateralization to cover risks of default.

Pike Place Bonds

An example of the creative use of municipal bonds to support local businesses comes from the Market Front expansion project at Pike Place Market which Seattle approved in 2015. The $8.5 million bond issue helped build out physical and transportation infrastructure that includes, among other things, over 40 additional tables for small business and farmers at the market and 10,000 square feet of new commercial space (occupied by four tenants — a brewery, a chocolatier, a biscuit maker and a Spanish seafood restaurant). "All of this," says the Development Director for Pike Place, Ben Franz-Knight, "helps us meet the producer mission of the market."

Using municipal bonds results in significant financial savings. Pike Place was able to borrow money at just under 4%. The final issue was $24 million and was done in two investment series. Series A were long-term 20-year bonds. Series B was a short-term bond issue of $4.5 to 4.6 million that was to cover interim financing needs while waiting for philanthropy and new market tax credits to come in that weren't yet closed. Another benefit is that when the bonds are fully repaid, Pike Place will have a track record that will enable it to finance another campus-wide upgrade that it anticipates needing. "For a district that is chartered and mandated to support small businesses and farmers having those resources for long-term viability is huge," Franz-Knight adds.

Franz-Knight says this is the first time a public authority "has issued bonds absent a city guarantee." The market could do this because of its "long and successful track record of being able to service debt on a consistent basis. The process of analysis of our capacity was quite exhaustive. It looked at sales trends for over a decade, revenue stability, the market itself, the capital investment in the buildings, and the strength of the leadership and management internally and externally by our Council. S&P took all of this into account when they issued our bond rating."

Washington State has more than 60 public development authorities. Not all have a business support mission, but some do. They also could use bonds to finance supportive infrastructure for local businesses. And by working with a site like Neighborly, they could make those bonds purchasable by all Washington residents.

If you are a politician, policymaker or grassroots wonk, you might want to think about ways the state can facilitate local investment. Washington could further reform its securities laws (it's already made some helpful reforms). It could create a public bank. It could make better use of municipal bonds. Or it could expand the role of quasi-state initiatives like the Flex Capital Fund.

There are three tools in this section:

The JOBS Act at the State Level: Washington has taken steps to get ahead of the SEC rules about crowdsourced investment.

Change State Law: Other legal and regulatory reforms could foster a healthy local economy.

Public Banking: Washington could mandate local investment of state deposits.

The JOBS Act at the State Level

DESCRIPTION

As discussed earlier, the federal JOBS Act creates a relatively simple path for any local businesses to raise up to $1 million through federally licensed "portals" (see "Local Stock Exchanges"). Any investor can put into a qualifying company up to $2,000 per year per company, and this ceiling increases with one's income.

While the rules for "Title III Crowdfunding" exemption were supposed to be completed in a few months, it actually took four years. Frustrated with the slow pace of change, 37 states passed their own versions of the JOBS Act under their authority to write laws regulating intrastate offerings (see Public Offerings). Most of them, like the JOBS Act, limit the total size of the offering to $1to $2 million, limit investors to several thousand dollars per company per year, and impose very little legal paperwork on companies. Maryland has created an exemption for local companies wishing to borrow up to $100,000 in-state, allowing residents to lend up to $100 each with almost no paperwork whatsoever.

CHALLENGES

From the standpoint of a local investor, the JOBS Act did not create an ideal pathway, because it makes it easier for companies to raise money across the country from people who have no connection to the business, which increases the probability of fraud. Moreover, the costs could be as great as a traditional direct public offering. A company seeking $500,000 to $1 million needs to have a full audit, which can easily cost $15,000. (Companies raising less than $500,000 have smaller and relatively inexpensive accounting burdens imposed on them.) Plus it has to pay the portal listing fees (possibly thousands of dollars), and several percentage points of the offering as a success fee.

Emerging state laws, which are limited to small companies seeking local investors in the same state, are more promising. Most, however, are not well known by the public and have barely been used. Many of the earliest state laws are also incomplete. For example, they do not clearly say whether securities can (or must) be bought on an internet portal, how such a portal might be licensed, whether it will be limited to broker-dealers (which increases the cost), and whether operators who are not broker-dealers can charge a success fee (which might be essential for a portal as a business model). In other words, these states will probably have to pass follow-on pieces of legislation to clarify and improve their laws.

If you live in a state with one of these laws, organizing a grassroots effort to recruit companies and investors to use it is key to its success. That's what Hatch Oregon, a Portland-based incubator, did after they convinced their state securities department to create a crowdfunding exemption. In the first five weeks, they convinced nine companies to use the exemption, and collectively they raised over $120,000.

Washington's Crowdfunding Reform

In 2014, Washington enacted its own version of the JOBS Act under its authority to regulate intrastate offerings (discussed above). A qualifying in-state business may seek up to $1 million in equity investment from residents in the state during any 12-month period. A company has up to a year to sell its shares (and possibly two years).

The amount a participating Washington resident may invest is quite similar to the JOBS Act. If you have annual income or net worth under $100,000, you may invest up to $2,000 or 5% of your annual income or net worth. If your income or net worth is over $100,000, the limit is 10% of either.

In some respects, the state's law may prove to be more expensive and difficult than the federal JOBS Act:

- It allows companies only to sell equity shares, not debt notes, royalty payments or convertible securities.
- While the state law does not require a company to get an expensive audit, it must prepare basic financials such as a balance sheet and an income statement for the most recent quarter. (Federal crowdfunding rules, in contrast, only dispense with audits if a company is raising less than $500,000.)
- The state requires a company issuing these securities to publish a quarterly report on its website that follows a prescribed format.
- The state precludes real estate companies, including real estate investment trusts, from engaging in crowdfunding.

But the intrastate nature of Washington's law carries certain advantages over federal crowdfunding laws.

- While any federal offerings must be open to purchase by people across the United States, a state offering must be inside the state. That means that there's a greater chance of investors having a real relationship with the company, which cuts down on the probability of fraud.
- Unlike federal offerings, which only can be sold online, Washington's exemption permits face-to-face sales. Thus, for example, a company might be able to hold an event for local customers and then sell securities at the event. The state also allows local economic development organizations or port districts to help businesses put together their offerings.
- The federal laws mandate that portals collect certain kinds of information from businesses. The state has streamlined this process with "check-the-box" questions and a defined list of short answer questions. No attorneys or accountants are needed to prepare the answers.

State Funds

DESCRIPTION

Beyond reforming securities laws, states also can create their own financial institutions to lead local investment initiatives. While many state funds are simply economic development programs, redirecting public money to private companies, a few states have created funds in which private investors can participate as well. Usually, only accredited investors can get involved, but there's no reason a state could not open up these funds to unaccredited residents.

Several Canadian provinces have reformed their securities laws to make it easier for grassroots groups to form investment funds. Alberta allows consumer cooperatives to invest, on behalf of their members, in other local businesses (and not just cooperatives). Nova Scotia, a province with one million residents, now has more than 60 Community Economic

Development Investment Funds, which allow residents to place tax-deferred savings into these new pools of local securities. For example, FarmWorks invests more than a million dollars on behalf of grassroots investors in Nova Scotian farms and food businesses.

A state also might change other laws to incentivize participation in local investment funds. Many provinces in Canada give 30% income tax credits to residents who place an investment for several years in local co-ops (Alberta), local investment funds (Nova Scotia), or local businesses generally (Manitoba). New Brunswick provides its residents with a 50% tax credit for local investments above $1,000. A tax credit like this in Washington State would motivate mainstream investment professionals to figure out how to help their clients take advantage of the tax credit and invest locally.

CHALLENGES

While the tax credits found in Canada could be implemented here, other reforms may be difficult to replicate. While U.S. states have clear authority to set their own rules for the issuance of local securities, it's not clear that their authority is for the trading of securities (e.g., whether they can create a local stock exchange) or for the pooling of securities (e.g., whether they can create special types of local investment funds). Michigan just passed a law to create the Michigan Stock Exchange and a potentially huge fight over federalism looms.

Public Banking

DESCRIPTION

Where is your state or city doing its banking? If it's not local, you might lobby for a change.

In 1919, the state of North Dakota set up the first and only state-owned bank in the United States. Rather than allow the roughly $6 billion of state tax collections and federal transfer payments it now receives annually to be deposited in, say, Chase Bank, where the money might support robust economic development in Singapore, North Dakota places the money into its own bank, which then re-deposits the funds in local banks and credit unions throughout the state. For many years, the state has enjoyed one of the highest number of local banks per capita and one of the lowest rates of unemployment. (These trends, by the way, manifested long before the recent fracking boom.) The bank currently has $6.8 billion in assets and earned the state $94 million in 2013.

A populist movement for creating public banks in other states has been gathering steam around the country. For the moment, however, reformers are focusing on a more modest goal of convincing municipalities to switch their banking. And one of their prime success stories comes from the land of Barry Goldwater — Phoenix, Arizona.

In July 2012 the city announced plans to invest $50 million in local banks and credit unions. The tricky part was to ensure that every deposit received insurance from the Federal Deposit Insurance Corporation, and that limit is set at about $250,000 per bank per year. The solution was to use the Certificate of Deposit Account Registry Service (CDARS), which spreads the money through a network of local banks nationwide to ensure that every dollar is covered by federal insurance. The system encourages reciprocity, so for every $250,000 placed on deposit in, say, Bangor Savings Bank in Maine, Bangor Savings makes a $250,000 deposit in a Phoenix bank.

What were the costs of setting up this program? "None," according to city treasurer Randy Piotrowski, "It's at market rate, so we're not losing any money. And recently when we reached the two-year mark, we ended up rolling over most of the maturing CDs. The only real cost is internal, but we have an investment manager already on board, so it's no additional work for him." The program was supported by the mayor, the city council and civil servants. Even skeptics lauded the fact that it was a zero-cost economic development initiative. "It helped the local banking community," says Piotrowski, "and provided liquidity to lend to local businesses and the public in general."

A populist movement for creating public banks in other states has been gathering steam around the country.

Activists seeking public banks have encountered fierce opposition by mainstream banks, even in very progressive states like Oregon and Vermont.

CHALLENGES

Activists seeking public banks have encountered fierce opposition by mainstream banks, even in very progressive states like Oregon and Vermont. The reason, of course, is that an initiative that might move public capital back into local financial institutions poses a threat to the bottom line of big banks. An essential political step to creating a state bank, therefore, may be to build a countervailing coalition of local banks and credit unions.

A Washington Public Bank

Every issue needs a champion and when it comes to the concept of public banking, Bob Hasegawa, State Senator from the 11th district leads the effort for Washington taxpayers. He has been working diligently on a state bank for years. Since 2010, 17 states have drafted legislation to establish public banks to generate revenue and become more efficient based on the North Dakota model.

Senator Hasegawa, has studied the North Dakota model extensively and is the prime sponsor of the Washington legislation, calling for a proposal for a publicly-owned bank. He believes it is a simple concept that will reap huge benefits for Washington. "A state bank could provide huge financing capacity to fund critical infrastructure like clean water systems, schools and roads, without having to sell bonds through Wall Street brokers. We simply don't have enough money to keep going into debt to Wall Street to fund the infrastructure that every Washingtonian relies on."

For a legislature that is constantly struggling to pay for necessary services, Hasegawa has introduced numerous pieces of legislation for consideration over the years. Limited revenues in Washington have resulted mostly from the cost of borrowing from Wall Street banks and not from overspending. As the Senator explains it, "currently, all tax revenues go into a 'Concentration Account' held by the Bank of America. BoA makes money off our money and we never see those profits again. Instead, we can create our own institution and keep taxpayers' dollars here in Washington, working for Washington."

According to the Center of State Innovation, a public bank would show a positive return on investment within three years. It will continue to escalate substantially in each succeeding year. That could mean revenue could be available to invest in more schools and more roads for local communities or placed in a rainy day fund to deal with the numerous disasters that have been plaguing the Northwest over the years.

For those who worry that it will create a bigger government, the opposite is actually true. It will consolidate a number of government functions like the Public Works Trust Fund that supports infrastructure development, the Housing Trust Fund that assists in affordable housing and a number of other funds that are scattered throughout the government. By putting them under one umbrella, it will make government more efficient with better economies of scale that leverage money back into our local economy.

The recent legislature has shown some hope for Senator Hasegawa's dream to come true in his efforts to keep our tax dollars working for the people of Washington. A proviso was included in the state operating budget that appropriated $75,000 for a state bank task force. The task force will examine the financial needs of local governments necessary for constructing public infrastructure, as well as the feasibility of creating a publicly owned bank, among other objectives. They will provide draft legislation based on their findings to the legislature by December 1, 2017 for consideration in the 2018 legislative session.

SOME FINAL THOUGHTS

If you've made it this far, congratulations! You are now more knowledgeable about local investment that 99% of the financial professionals in the United States — investment advisors, stock brokers, securities lawyers, you name it — who claim that keeping your money in your community is unsound, unworkable and unwise. But we can't rest on our laurels. Here are 10 final thoughts to keep in mind:

- **Be Cautious.** All investment, whether or not it's local, is risky. Beware of anyone promising a get-rich-quick scheme. Only invest what you can afford to lose — especially if you invest in local stock.
- **Be Mindful of Your Needs.** Some of us need our money in 40 years; others need it tomorrow. Think about what your stage in life is, what you need and when, and organize your investment strategy accordingly.
- **Resist the Hype.** You read it here but you still probably do not believe it, so it's worth repeating. The average stock market investor does not earn eight, 10 or 12% per year. It's 2.7%. A sober view of today's market is essential to making the right local choices.
- **Start Small.** As the old saw goes, don't let the perfect be the enemy of the good. Think about investing a little bit of your savings — maybe 5% — locally. If that goes well, add another 5% next year. And, so on.
- **Think Big.** Bigger than your neighborhood, that is. The universe of deals is small now — though growing quickly. Be open to investment possibilities in the next town or county. The key is that you should have a real relationship with the person, company or project you're investing in.
- **Find Entrepreneurs You Have Loved for Years.** Remember that local investment doesn't mean investing in just start-up companies. Startups are, by definition, very risky. Think about local companies that have been around for years, maybe even generations — that great Italian restaurant, your family grocery store, a hundred-year old advertising firm — and talk with them about their capital needs.
- **Go Beyond Companies.** If you can find promising entrepreneurs in your community to invest in, great. If not, you still have plenty of options. At several points in the handbook we have pointed out ways you can invest in your neighbors (help them buy their home), students living nearby (help them pay off high-interest credit cards), or your local government (buy some stormwater management bonds).
- **This Ain't Easy.** Local investment is fun, rewarding and potentially lucrative. But for the moment, it cannot be easily outsourced to others. You have do a lot of the work yourself. You need to review potential investments, help put together the papers and monitor your deals like a hawk. But you don't need to do this alone. Think about creating a club or a partnership so you can share the work with others.
- **Pass It Forward.** If you found this handbook interesting and inspiring, please share it with others. Heck, the PDF version is free — just attach it to an e-mail and tell the recipients that legend has it that anyone who shares this with 100 other people will win the lottery within a week.
- **Recruit Other States.** If you live outside Washington, consider working with us to create a version of this handbook for your state. Or your province, canton or country. We are eager to spread the word as far and wide as possible. Our contact information is in the front of this handbook.

VIEW FROM THE FIELD

Builders say go deep before going high. It's a fundamental rule of construction, one that ensures a building will have a solid foundation. This rule can be applied to many other efforts requiring a solid footing, such as empowering character in children and promoting civic initiatives.

Washington Dollars, Washington Sense explores the successful foundations of building a thriving local economy. In my own economic development work, I am known as a field guy. I have the privilege of visiting communities throughout the state and responding to their requests. I experience both the challenges and the tireless drive citizens possess to succeed on behalf of local businesses and the community at large.

Complex and lively communities build character in all of us: visitors and residents alike. Supporting initiatives that empower has long-lasting results for communities. Today's emphasis on local investing is bringing new benefits across the state.

This handbook is designed for investors, businesses and finance entrepreneurs — which is to say almost anyone interested in growing and sustaining successful local economies. These skills are within reach of anyone who wants to participate, despite embedded assumptions in the market economy that discourage local investing. This body of work requires ideals and rigorous planning.

Yes, all investing has risks. It is about making bets on outcomes and with any outcome, there can and will be winners and losers. Billion dollar deals among distant corporations is one thing; supporting local enterprises in a community is another. Risk can be reduced through intentional dialogue and planning in an atmosphere of trust that are qualities inherent in our businesses and families.

Authors Shuman and Forman know our state inside and out and have detailed successful local investing in great communities that enjoy thriving cultures. Hundreds of food producers and start-ups have benefited, struggling businesses have been revived, and young entrepreneurs have found support from Forks to Pullman. Washington has a long history of flourishing cooperatives, local credit unions and informal investment groups. What has been called "the donor economy" is emerging in numerous towns where altruistic residents, concerned about the quality of life and future of their children, work together to produce their own funding tools.

There is a saying that "if we don't know how we got here, we don't know where we are going." Communities have the gravitas of time and generations in place that are absent in our current financial institutions. The kinds of initiatives discussed in this book have proven credibility and are built upon century-old philosophies and practices of American businesses.

The successful programs described by Shuman and Forman are applicable wherever there are concerned and informed citizens. The programs are unique in that they are traditional while being disruptive. Economic theory is a human construct as fluid as our lives and is without fixed laws. It is always surprising that some of these scalable ideas are often dismissed as unrealistic or naïve by the experts while the failures of conventional financial decisions are glossed over or ignored.

There is ample "deal flow" in our communities for investors to fund. Citizens who work together take power back from indifferent institutions and provide increased economic sustainability and civic engagement.

What follows are proven investment tools that are already working in our world. For them to be successful, we will need great talent and engaged community members, something we already have. We will rely on metrics of success presented in this book and elsewhere that redefine the meaning of living well with strength and security. And, we will see that local investment strategies do pencil out, often better than using other global lending models. These achievements are necessary for our communities to not only survive, but thrive.

Terry Lawhead
Community Outreach Program Facilitator
Washington State Department of Commerce

ENDNOTES

1 Federal Reserve, Z.1: *Financial Accounts of the United States*, First Quarter 2017, June 2017. Households and nonprofits currently hold a total of $75 trillion of financial assets. The biggest categories are: pensions ($22 trillion), corporate stock ($16 trillion), mutual funds ($7 trillion), bonds ($4 trillion), and life insurance funds ($1 trillion). These total $50 trillion. In a well-functioning capital marketplace, at least half these funds would be invested in the half of the economy (by jobs and output) occupied by small and medium scale business.

2 Amy Cortese, *Locavesting: The Revolution in Local Investing and How to Profit from It* (Hoboken, NJ: Wiley, 2011); and Michael H. Shuman, *Local Dollars, Local Sense: How to Shift Your Money from Wall Street to Main Street and Achieve Real Prosperity* (White River Junction, VT: Chelsea Green, 2012).

3 It's worth noting, however, that this website, and the Dun & Bradstreet data it uses, defines "local" as a business with a headquarters within the same state.

4 Edward L. Glaeser and William R. Kerr, "The Secret to Job Growth: Think Small," *Harvard Business Review*, July-August 2010.

5 David A. Fleming and Stephan J. Goetz, "Does Local Firm Ownership Matter?," *Economic Development Quarterly*, 2011.

6 Anil Rupesingha, "Locally Owned: Do Local Business Ownership and Size Matter for Local Economic Well-Being?," monograph, August 2013.

7 See, for example, Michael H. Shuman, *Local Dollars, Local Sense: How to Shift Your Money from Wall Street to Main Street and Achieve Real Prosperity* (White River Junction, VT: Chelsea Green, 2012), pp. 17–25. Also see Stacy Mitchell, *The Big Box Swindle: The True Cost of Mega-Retailers and the Fight for America's Independent Businesses* (Boston: Beacon Press, 2006).

8 Don Grant et al., "Are Subsidiaries More Prone to Pollute?" *Social Science Quarterly*, 84:1 (March 2003), pp. 162-73.

9 C. Wright Mills and Melville Ulmer, "Small Business and Civic Welfare," in *Report of the Smaller War Plants Corporation to the Special Committee to Study Problems of American Small Business*, Document 135. U.S. Senate, 79th Congress, 2nd session, February 13. (Washington, DC: U.S. Government Printing Office, 1946); Thomas A. Lyson, "Big Business and Community Welfare: Revisiting A Classic Study," monograph (Cornell University Department of Rural Sociology, Ithaca, NY, 2001); and Thad Williamson, David Imbroscio, and Gar Alperovitz, *Making A Place for Community: Local Democracy in a Global Era* (New York: Routledge, 2003), p. 8.

10 Although recent growth in renewable energy deployment is impressive, there are physical limits to how far and fast the modern industrial economy can be weaned from oil within the next few decades. See Tom Butler, Daniel Lerch, and George Wuerthner, *The Energy Reader: Overdevelopment and the Delusion of Endless Growth* (Healdsburg, CA: Watershed Media, 2012).

11 *Statistics Canada*, "Firm Dynamics: Variation in Profitability Across Canadian Firms of Different Sizes, 2000–2009," Publication 11-622-M, No. 26.

12 See, for example, the SBA Office of Advocacy, "Frequently Asked Questions," March 2014, https://www.sba.gov/sites/default/files/advocacy/FAQ_March_2014_0.pdf.

13 There is disagreement about how far efficiency and renewables can go. An optimistic view is Amory B. Lovins et al., *Winning the Oil Endgame: Innovation for Profits, Jobs, and Security* (Snowmass, CO: Rocky Mountain Institute, 2004). A more pessimistic view is the report by Post Carbon Institute, "Searching for a Miracle: Net Energy Limits & the Fate of Industrial Society" (http://www.postcarbon.org/report/44377-searching-for-a- miracle)

14 Of course, nondurable goods can be made more durable through reuse and recycling.

15 Well-designed illiquid securities nevertheless can provide assured streams of value. Bonds and loans, for example, can provide a steady stream of payments to the security holder. Preferred stock might guarantee an annual dividend.

16 ABC News' *Good Morning America*, "Warren Buffett's Tips for How You Can Make Money Now," 10 July 2009.

17 Steven Deller, Ann Hoyt, Brent Hueth, and Reka Sundaram-Stukel, "Research on the Economic Impact of Cooperatives" (Madison, WI: University of Wisconsin Center for Cooperatives, 19 June 2009).

18 Stacy Mitchell, "Banks and Small Business Lending," *Huffington Post*, 9 February 2010.

19 "Taking Action on Job Creation: Invest Michigan! Fund," *Dispatch, Progressive States Network*, 21 November 2008, at www.progressivestates.org.

20 See, e.g., Edward Glaeser, "Local Pension Funds Should Invest Farther Afield," *Boston Globe*, 5 May 2011, citing a study by Yael Hochbert and Joshua Rauh, two Northwestern economists who found that in-state investments generated 8.62% less annually than out-of-state investments (available at http://www.kellogg.northwestern.edu/faculty/hochberg/htm/HR.pdf . All the "in-state" investments, however, turn out to be "in-state" hedge and venture funds that then invest in global companies.

21 The jurisdictions following the Risk Capital Test are Alaska, Arkansas, California, Georgia, Guam, Hawaii, Illinois, Michigan, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Washington, Wisconsin, and Wyoming.

22 Co-author Michael Shuman is a fellow of Cutting Edge Capital.

RESOURCES

The field of local investment is fast growing, with an expanding universe of books, studies, articles and websites.

BOOKS

Among the best books to read to get a good understanding the field are:

Amy Cortese, *Locavesting: The Revolution in Local Investing and How to Profit from It* (New York: Wiley, 2011).

Carol Peppe Hewett, *Financing Our Foodshed: Growing Local Food with Slow Money* (Gabriola Island, BC: New Society, 2013).

Jenny Kassan, *Raising Capital on Your Own Terms: How to Fund Your Business Without Selling Your Soul* (San Francisco: Berrett-Koehler, 2017).

Michael Shuman, *Local Dollars, Local Sense: How to Shift Your Money from Wall Street to Main Street and Achieve Real Prosperity* (White River Junction, VT: Chelsea Green, 2012).

Woody Tasch, *Inquiries into the Nature of Slow Money: Investing As If Food, Farming, and Fertility Mattered* (White River Junction, VT: Chelsea Green, 2010)

Elizabeth U, *Raising Dough: The Complete Guide to Financing a Socially Responsible Food Business* (White River Junction, VT: Chelsea Green, 2013).

CLEARINGHOUSES

There are several websites that provide excellent clearinghouses for the field:

Cutting Edge Capital
www.cuttingedgecapital.com

Local Investing Resource Center
www.local-investing.com

Locavesting
www.locavesting.com

National Coalition for Community Capital (NC3)
nc3.comcap.us

Slow Money
www.slowmoney.org

CASE STUDIES

If you are interested in learning more about our case studies, here are links and other contacts to help you learn more

Burt Hamner (Private Offerings)
wbhamner@gmail.com

Central Co-op
www.centralcoop.coop

Community Sourced Capital
www.communitysourcedcapital.com

Element 8
www.element8angels.com

Farmers Reserve Fund
http://www.slowmoneynw.org/for-entrepreneurs/farmer-reserve-fund

Farmland Trust PCC
www.pccfarmlandtrust.org

Furrow Horse Farm
www.furrowhorsefarm.com

Hatch Oregon
www.hatchthefuture.org

Investibule
www.investibule.co

Lease Crutcher Lewis
www.lewisbuilds.com

Local Investor Opportunities Network (LION)
l2020.org/economic-localization/lion/

Local Vision Investing
www.localspokane.com/local-vision-investing

Lois Irwin (Personal Finances)
lois.irwin@mail.com

Mariam International Foods
mahdimajeed85@yahoo.com

Massena Foundation
www.massenafoundation.org/

Newground Social Investment
www.newground.net

Norm LeBret (Credit Unions)
nononorm@gmail.com

Pike Place Development Authority
www.pikeplacemarket.org

Quimper Mercantile
www.quimpermerc.com

Real Trust IRA Alternatives
www.realtrustgroup.com

Rural Community Development Resources
www.centerforbusinessdevelopment.org

Sea Wolf Bakery
www.seawolfbakers.com

Slow Money Northwest
www.slowmoneynw.org

Washington State Department of Finance and Investment
www.dfi.wa.gov/small-business/crowdfunding

Washington State Employees Credit Union
www.wsecu.org

Washington State Investment Board
www.sib.wa.gov

Washington State Public Bank Coalition
www.washingtonpublicbankcoalition.org

Yummy Local Foods
www.yummylocalfoods.com

Michael H. Shuman is an economist, attorney, author, and entrepreneur, and a leading visionary on community economics. He's Director of Local Economy Programs for Telesis Corporation, a nonprofit affordable housing company, and currently an adjunct instructor at Bard Business School in New York City and at Simon Fraser University in Vancouver. He's also a Fellow at Cutting Edge Capital and at the Post Carbon Institute, and a founding board member of the Business Alliance for Local Living Economies (BALLE). He is credited with being one of the architects of the 2012 JOBS Act and dozens of state laws overhauling securities regulation of crowdfunding. He has authored, coauthored, or edited nine books. His two most recent books are *The Local Economy Solution: How Innovative, Self-Financing Pollinator Enterprises Can Grow Jobs and Prosperity* and *Local Dollars, Local Sense: How to Shift Your Money from Wall Street to Main Street*. One of his previous books, *The Small Mart Revolution: How Local Businesses Are Beating the Global Competition* (Berrett-Koehler, 2006), received a bronze prize from the Independent Publishers Association for best business book of 2006. A prolific speaker, Shuman has given an average of more than one invited talk per week, mostly to local governments and universities, for the past 30 years in nearly every U.S. state and more than a dozen countries.

Maury Forman was the Senior Manager for the Washington State Department of Commerce for 26 years until his retirement in 2016. His focus was on creating healthy communities and developing a culture of entrepreneurship in rural areas. He was the founder and director of the award-winning Northwest Economic Development course at Central Washington University in Ellensburg, Washington where over 2,000 practitioners graduated. He has received numerous awards for his work in rural communities and became the first recipient of the Finkle Leadership Award from the International Economic Development Council in Washington, DC for his "integrity, tenacity, and philanthropic spirit in the profession." In addition to his 16 publications and numerous articles and presentations in the field of economic development, he also was the founder of three startup businesses. In his retirement, he has continued to provide his wit, wisdom and resources for practitioners on mauryforum.com

Cover Photo: Port Townsend, Washington. Photo page 6: Langley, Washington

Washington Dollars, Washington Sense.

Anyone who's tried to improve economic conditions in rural communities knows it can feel like pushing a massive boulder up a hill. But don't despair, Shuman and Forman have created a community investors handbook and self-help program that is adaptable for nearly any region that will act like a bulldozer for that boulder. I fully intend to plagiarize the heck out of their techniques!

Colleen McAleer
President
Washington Business Alliance

Forman and Shuman are seasoned practitioners who deliver in-depth advice on how to participate in the economic/community development revolution aimed at recognizing Main Street as the most valuable venue for creating real and lasting value in the overall market place. The authors make a compelling case that – the best bang for the economic development investment buck is found on Main Street. Your time, dollars and *"sense"* could not be better spent!

John Powers
Executive Director, Kitsap Economic Development Alliance

A must read for Washington economic development professionals focused on growing Main Street. Highlighting success stories from across the State, Shuman and Forman explain how communities can adopt programs and strategies to make it easy and profitable for the average Washingtonian to invest in local businesses."

Jonathan Smith
Chair, Washington Economic Development Association

Meaningful job growth exists right under our own noses! Elected officials, community decision-makers, economic developers and bankers need to read this handbook and financially support both new business creation and the retention of our valuable base of existing businesses rather than chasing giants.

Pete Chase
Founder
Purcell Systems/Serial Entrepreneur

In this accessible and well organized handbook, Shuman and Forman provide a toolbox we might not have known we needed. Washington State is a place where people care about the vitality of their communities, their friends and neighbors. Now we can support our community entrepreneurs and businesses even more effectively - we can invest in them.

Senator Lisa Wellman
41st District
Washington State Legislature
Vice Chair, Democratic Caucus

This excellent book by Forman and Shuman gave me a useful education on how local citizens have the means to provide capital to the businesses they value in their community. I will be referring to the practices described and guidance given as opportunities emerge among my friends and neighbors.

Dan Rankin
Mayor of Darrington, Washington

Washington Dollars, Washington Sense is thorough and inspiring. Michael and Maury have written a book that demystifies how finance works and explains how everyone can move their money to strengthen local economies and local communities.

Derek Long
Executive Director
Sustainable Connections

The driving forces of history are challenging the economic vitality of our communities. The authors, Forman and Shuman, have pushed back crafting a viable economic growth strategy for local communities that has "sizzle and opportunity" and speaks to the ingenuity and creativity of the next generation of community leaders. Their economic growth strategy to revitalize our communities builds on the innate strength, and retention and expansion challenges of local industry. It shows the local team how to leverage existing resources to make their communities places where their children can and want to stay, work, play and raise their families.

Senator Maralyn Chase
32nd District
Washington State Legislature

This book by Shuman and Forman provides both new ideas for developing strategies for funding local economies and entrepreneurs as well as a strategic guide for building a vibrant economy that is accessible for all communities. I've shared the basic elements of this book with several colleagues and they all agree, it should be required reading for all community/economic development practitioners as they develop efforts and strategies to grow and support local economies.

Michael Cade
Executive Director
Thurston Economic Development Council

There's no better starting place for Washington residents interested in local investment. You'll find dozens of tools and inspirational stories of people actually doing local investing. Every state should have a resource like this.

Amy Cortese
Author of "Locavesting"

Now more than ever we need to make real investments in the economy of rural Washington. This is a great blueprint to follow as we work to improve our rural economy across Washington State!

Representative Mike Chapman
24th District
Washington State Legislature