Community Equity Endowments

A New Form of Community Benefit

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March 2021

Stark disparities in wealth holding exist in the United States, created by long-standing public- and private-sector actions such as discrimination in hiring, redlining, Jim Crow laws, and race-restricted covenants that systematically denied communities of color access to income and wealth-building means and tools. Addressing these disparities will take solutions both large and small. An earlier brief in this series discussed mechanisms for community investment in real estate development projects that can provide new opportunities for wealth building (Theodos and Edmonds 2020). This brief articulates a new approach for equitable development: supporting underresourced neighborhoods through a vehicle for community benefit from profits derived from local real estate development.

The wealth disparities among racial and ethnic groups in the US show that the need for change is pressing. White families have seven times the wealth of Black families (a disparity that has increased with time) and five times the wealth of Latinx families (Kijakazi 2019). The actions and inactions that led to these gaps facilitated wealth accumulation by white families and impeded families of color from building wealth or stripped wealth from them (Kijakazi 2016; Lewis 2015; Oliver and Shapiro 2006). Meanwhile, tribal nations and other communities have faced exclusion, forced migration, and segregation that have led to modern-day economic disparities. And the racial wealth gap is compounded by other forms of disinvestment in the built environment, including policies that codified segregation and have contributed to negative outcomes such as limited access to grocery stores and increased exposure to pollution (Frumkin 2005).

Community benefits agreements are one approach to fostering economic inclusion and shared growth at the local level. These agreements often are contracts between community groups and a real estate developer that require the developer to provide amenities or benefits—such as investment in a community center, contributions to an affordable housing fund, or local hiring—to a neighborhood. However, community benefits agreements have been criticized as poorly enforced (Been 2010; De Barbieri 2016; Marantz 2015) and do not offer residents a direct financial stake in their neighborhoods.

This brief considers another approach to bridging the racial wealth gap. What if community members could benefit from a financial stake in new development in lieu of or on top of promises of jobs or other benefits that may not materialize? Community equity endowment (CEE) is an innovative model that transfers some portion of the value accrued through a real estate development (either as equity or another ownership interest) to a community endowment that provides grants and supports to residents. This approach can be used in combination with community shareholding models described in Theodos and Edmonds (2020) that offer residents the opportunity to purchase equity shares in a real estate project and benefit financially from new development in their neighborhood. And the model could be used in place of or as a part of a community benefits agreement. With this approach, longtime residents of an area can accrue wealth and see broader community benefits as a portion of a development's profits is transferred back to the community through grants and contributions to residents and services.

Adapting Models of Community Investment

Motivated by the desire to reshape approaches to neighborhood development in cities around the US, Emerson Collective, an impact investment and philanthropic organization, teamed with the Urban Institute to help design a model for shared ownership. To begin this process, Emerson convened a panel of real estate professionals, advocates, community representatives, and economic development and financial professionals to discuss community benefit models and challenges. The group explored case studies from cities across the country and the needs and requirements of bringing a community equity investment model to underresourced communities.

Using a large potential neighborhood development as an opportunity to explore the CEE model, Emerson initiated a two-years-long series of community engagement dialogues. This included its partners' attending, speaking at, or hosting more than a dozen events that ranged from formal plan reviews to convenings of neighborhood residents. Through these events, Emerson and local business and community organizations created a forum for discussing the project, as well as broader community development efforts. Emerson and the Urban Institute vetted the emerging design for the CEE model with community representatives and other real estate and finance experts. What follows is a proposed model for community equity endowments based on lessons from the design process.

Design

To address the exclusion of many families of color from real estate–related wealth creation, the CEE model builds a direct, personal financial connection between a neighborhood economic development project and residents of the surrounding neighborhood. Recognizing that economic development can lead to economic and geographic displacement of longtime residents, CEE ties the personal economic benefit of residents to the financial success of a project.

As designed, a CEE project would set aside a portion of project equity or another form of long-term, beneficial ownership interest for residents in the surrounding neighborhood. This ownership interest would be transferred to a nonprofit entity (the trustee) that would hold it in trust for the residents. As the project generates profits, the ownership interest would accumulate financial resources that would be available for distribution to eligible community members. Distribution would happen in the form of grants or gifts made in accordance with criteria developed in collaboration by the trustee and the community or its representatives. Eligibility would not be an entitlement that conveys a direct, personal ownership interest. This structure would therefore avoid transferring an asset interest that may reduce participants' eligibility for government programs, financial aid, or other means-tested benefits. Although the specifics of this design are new, two examples in Alaska show how profit sharing can be operationalized using direct cash transfers from shared assets—in these cases, from oil extraction (box 1).

BOX 1

Government Equity Stewardship

Community equity endowments are a new concept, but interesting examples of policymakers' stewarding resources on behalf of residents exist. Two from Alaska—Alaska Native corporations and the Alaska Permanent Fund dividend—show the possibility of providing financial compensation to residents from development, namely oil extraction.

Through an act of Congress meant to settle land claims by Alaska Natives and to provide them with economic opportunities, 40 million acres of land were allotted for division among 12 regional Native corporations and dozens of village corporations. The people who hold shares in these corporations receive dividends from oil profits. Alaska Natives and descendants born before 1971 could receive 100 shares in their village corporation and regional corporation, and shares can be passed down to family members. In addition to the oil payments, Native communities benefit in areas where the corporations contribute to social programs, provide scholarships, and pay for cultural programs.[a]

The Alaska Permanent Fund dividend program also shares profits from oil extraction. The program provides an annual, unconditional direct cash distribution to all Alaska residents. About half of Permanent Fund earnings are allocated to the dividend program; the rest go toward increasing the balance in the fund. Research suggests that the Permanent Fund dividend has a positive influence on recipients' education, health care use, financial health, migration, and general welfare (Guettabi 2019).

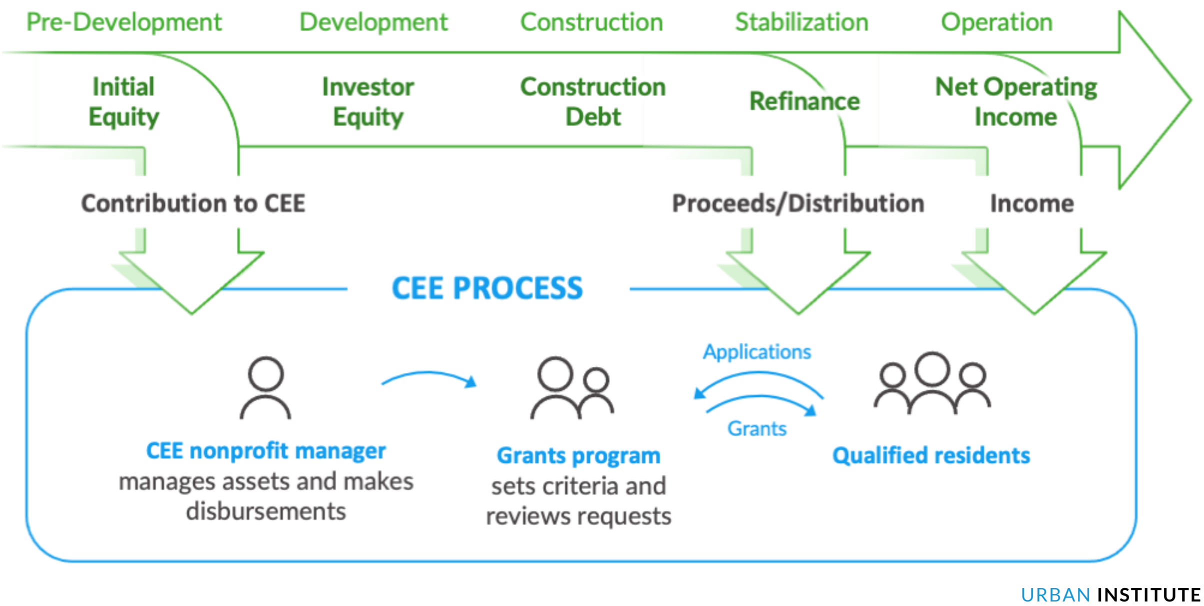
[a] Jennifer LaFleur and Michael Grabell, "What Are Alaska Native Corporations?" ProPublica, December 15, 2010, https://www.propublica.org/article/what-are-alaska-native-corporations.

Sound reasons exist for having a nonprofit, grantmaking intermediary—such as a community foundation or a community land trust—steward the financial resources set aside for community benefit. One is to ensure that the ownership interest is substantial enough to be able to participate in project decisionmaking. A second is to provide long-term management and oversight of the asset. A third is to reduce the individual burden of fractional ownership shares that might have personal tax, reporting, or other consequences, such as reducing a person's ability to qualify for public benefits or other forms of means-tested financial aid. (Even small amounts of assets can render people ineligible for some supports.)

The principal challenge of community-based wealth creation in historically marginalized communities is that residents do not have resources to invest. To address this challenge, CEEs set aside a portion of long-term beneficial interest and value of a project to be distributed to specific populations in proximity to the commercial development using criteria such as length of residence, attendance at a local school, or community participation or other criteria developed by the community itself (figure 1). Through this process, CEEs create a form of inheritance and ownership. This inherited entitlement is conveyed through residence or engagement in a community. A CEE, therefore, is a type of community benefits agreement that generates direct economic benefits for residents, linking their personal financial opportunity to a project's success, without their needing to have the means to invest in the project.

FIGURE 1

Community Equity Endowment Process



Source: Authors' analysis.

Principles for Implementation

Successful community equity investing models have strong and ongoing community engagement and inclusive governance. In this section, we discuss these key principles, which inform the CEE model.

Community Engagement

Community engagement is pivotal to the success of community equity investment strategies. Previous community investment efforts have found that engaging residents takes considerable effort (Theodos and Edmonds 2020). Community engagement is no less important in implementing the CEE model than it was in designing it.

Projects using the model will need to follow a robust local engagement effort to ensure the approach adequately matches local context, opportunities, priorities, and needs. Local engagement includes active governance responsibilities, described later. It also includes a regular schedule for community meetings and outreach. Finally, partnering with a local stakeholder that can manage the endowment, provide financial education training, and introduce investment, job training, and entrepreneurial opportunities to residents is necessary for long-term success.

Engaging the community is also necessary for earning support from community members and helping foster a sense of ownership. Case studies of community shareholding models suggest that community financial participation and project performance are connected. For example, a survey of residents in Portland, Oregon, who hold shares in the Plaza 122 commercial development through a community investment trust found that they were more likely to use the shops at Plaza 122 because they were owners and had increased pride in the community (Theodos and Edmonds 2020).

Governance

Governance—structure, management, and oversight—is key to the success of a CEE. Governance should be both project-based and community-based to ensure community buy-in, support, and participation. Between the project and the community is the essential governance layer, the CEE trustee.

We expect the CEE trustee to be a nonprofit, community-based organization that can receive, manage, and distribute the proceeds of the initial endowment gift. A mission-aligned organization with strong ties to the community is best-positioned to manage the endowment. Provisions will need to be made to fund the necessary management, oversight, and distribution of the asset and its proceeds. An advisory committee composed of community representatives who will oversee the endowment and the distribution of the proceeds is likely the best means of ensuring transparency and support for distribution criteria. The advisory committee's role should be to develop eligibility and distribution criteria, maintain engagement in project development and decisionmaking, and oversee the eventual distribution of the proceeds through grantmaking.

For the model to succeed, the project developer and other finance sources should include the CEE managers and advisory committee in project updates, decisionmaking (as appropriate), design, and strategy. Building a community-serving project that reflects community input and suggestions increases the likelihood of long-term viability and reduces the possibility of opposition in the planning, entitlement, or construction phases. Indeed, by linking the surrounding community's economic benefit to the success of the project, sponsors may find a more receptive political and regulatory environment.

Looking Ahead

The racial wealth gap, health and economic consequences of segregation, disinvestment from communities, and displacement of longtime residents all conspire to limit opportunities for residents to benefit from new neighborhood investments. Even in instances where communities of color are not displaced, new investments can fail to benefit longtime residents; there is no guarantee that economic benefits will be shared.[1] Community benefits agreements rarely accompany development, and even when they do, many do not provide larger opportunities to build wealth in communities (Marantz 2015).

The US needs policy and investment practices that confront and counteract systemic violence and exclusion, and steps both large and small must be taken to address disparities in wealth holding and opportunity. Community equity endowments can be one piece of the puzzle. By providing an affordable means for residents to build an economic stake in their own neighborhood, community equity investment can bring together economic benefit, community building, and community control. It is time for a "new and improved" form of community benefits agreement.

The CEE approach can help reduce inequality and exclusion. Cities, counties, development authorities, philanthropy, anchor institutions (such as universities and hospital systems), and other local actors can lead the way. By exercising their considerable influence over local development—whether through zoning, direct subsidy or tax abatements, or the sale of public land—they could require or encourage CEEs that directly benefit residents financially. While exerting different forms of control, states and the federal government can also help by creating advantages and incentives for local wealth creation and stewardship (Theodos et al. 2020). CEEs could be one of these tools to create wealth in communities without traditional paths or access to capital. With engagement across sectors and levels of government, we can create a new mechanism for local economic inclusion.

Note

1 "The Uprooted Project: Understanding Gentrification and Displacement," University of Texas at Austin, accessed August 17, 2020, https://sites.utexas.edu/gentrificationproject/understanding-gentrification-and-displacement/.

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Acknowledgments

This brief was funded by an anonymous donor. We are grateful to them and to all our funders, who make it possible for Urban to advance its mission.

The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders. Funders do not determine research findings or the insights and recommendations of Urban experts. Further information on the Urban Institute's funding principles is available at urban.org/fundingprinciples.

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