

The Citizens Land Bank: A Just Third Way for Financing Urban Development

By Norman G. Kurland

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“Funding Right-Sizing Cities”
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Bucky Fuller, one of my intellectual heroes, said, “We are called to be architects of the future, not its victims . . . [Our challenge is to] make the world work for one hundred percent of humanity in the shortest possible time with spontaneous cooperation and without ecological damage or the disadvantage of anyone.” So, welcome, fellow architects of the future.

As a practical matter, as was suggested by my fellow panelists, each of you should pursue financing for your projects, as well as for the project I will propose today, through all conventional sources — public sector, foundation, and existing private sector sources.

But in today’s troubled world of mounting budget deficits and shrinking private-sector bank loans, how many of you think that these sources will be sufficient for funding all of the city right-sizing, brownfield redevelopment and new community development projects you think should be implemented? Please raise your hands.

My major purpose in coming before you today is to encourage you to think outside-the-box, beyond the short-term, and in ways that would empower every American with a personal stake in a market-based version of grassroots economic democracy. I want you to consider how we could reinforce in economic terms what our Voting Rights Act of 1965 did in lifting racial barriers to universal participation in today’s political democracy. I want you to think long-term and optimistically about the impact your most creative initiatives could have over the next 100 years for people living in your community, assuming there was enough money to fund your projects.

My hope is to convince enough of you mayors and professionals in this audience to be willing to explore a non-conventional but politically timely approach that would tap into an existing but overlooked source — a “hidden reservoir” — for financing your boldest vision of the future.

We call this new approach “Capital Homesteading.” It would create communities where new investment and new private-sector jobs would be created, and where every man, woman and child —no matter how poor — could become a capital owner of growth capital. In this new way, have-nots could become haves without depending on or taking anything away from current haves. As will be explained, this approach would employ 100% leveraged bank financing, which is available today under Federal law for worker-owners.

If I succeed today, members of this body will decide to form a task force for Capital Homesteading, who would in turn select other mayors and professionals with experience in Capital Homesteading financing. Together, the task force would study, develop strategies and

mobilize a critical mass of “people power” that may be needed to gain access to this hidden reservoir of money.

The source of new money for urban development that I will describe to you today is not subject to budget deficits. It is not dependent on local, State or Federal taxpayer support. The source of this new money and how to tap into it starts with the preamble of the original Federal Reserve Act of 1913, which reads:

“An Act to provide for the establishment of Federal reserve banks, to establish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes.”

The key to monetizing private-sector growth so that it provides ownership-expanding financing not for the few, but for every member of your community, is in the opening sentence of the second paragraph, Section 13, of this original act. This reads:

“Upon endorsement of any of its member banks, with a waiver of demand, notice and protest by such bank, any Federal reserve bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of the Act.”

Before I explain what this paragraph means for financing your community’s short-term and long-term development projects, and the specifics of how you architects of the future can access the “hidden reservoir,” let’s first consider a new, people-centered version of economic growth.

Some of you may have read the recent remarks of the UK’s former prime minister Tony Blair in the September 25th issue of the *Wall Street Journal*. Blair called for a “Third Way,” a strategy in which government should be for empowerment of all citizens, not for entitlements. He suggested that government policies should encourage strong growth and create wealth. He suggested that the tax system should encourage hard work, and enable enterprises to be competitive in global markets. I agree with him to that extent.

But, with all due respect, America needs not just a “Third Way.” We need a *Just Third Way*. We need governments at all levels, but especially at the federal level, to empower all citizens economically and lift all artificial tax, monetary and financing barriers to rapid market-disciplined growth that pulls all the unemployed and underemployed into new private-sector jobs. We need government to ensure as a fundamental right of citizenship more equitable access by every man, woman, and child to ownership of wealth-producing growth capital. Such growth capital would include all development land, infrastructure, new technologies, new rentable space, and even intangible assets like participatory management and quality control systems.

As John Dondanville mentioned, I was an architect of the laws making 100% leveraged employee stock ownership plans legislatively available. Considering the many local economies

in the Great Lakes region that have suffered a loss in their manufacturing base, I am reminded of the testimony of Walter Reuther in 1967 before the Joint Economic Committee, a year before his untimely death. Walter called for such an ownership-expanding, bottom-line-oriented approach to save American jobs from being outsourced to other countries with workers who are willing or forced to work for a fraction of wages negotiated by unions in America.

Under the Just Third Way, as proposed under what we call the “Capital Homestead Act,” we could lift those artificial tax, monetary, and financial barriers to universal access to participation in capital ownership. This is the big picture. We hope this act can be passed by 2012, the 150th anniversary of Abraham Lincoln’s Homestead Act of 1862. This would make it possible for every citizen to become an owner of growth capital.

As with the leveraged S-Corp ESOP today, a few key reforms in Federal tax laws and Federal Reserve policies, low-cost capital credit and more just tax laws would enable people who are today propertyless and who cannot afford to reduce their consumption incomes to acquire ownership shares in viable projects, such as those you would like to see financed. Future profits could be used to repay the capital credit. Private-sector loan default insurance would cover the risk of default.

Such leveraged financing of professionally designed and well-managed projects would pay for the capital costs from the full stream of future profits generated by the assets themselves. Financial experts call this “leveraged financing of ‘self-liquidating’ assets.” In other words, unlike non-productive uses of credit, the financing of sound capital projects is not dependent on past savings, but is best done on credit advanced to produce “future” savings.

One example of one hundred percent leveraged financing is Mid South Building Supply, Inc., headquartered in Springfield, Virginia, and a client of our investment banking and consulting business since 1985. We arranged for the first one hundred percent bank-financed leveraged buyout by all the workers with a \$7.3 million loan extended by Equitable Bank of Baltimore. No worker put up one cent. No worker had to reduce his or her take-home pay or consumption income to become an owner. No worker was personally at risk in the event the loan failed. The loan was repaid entirely with pre-tax corporate profits. Today the company, 25 years later, is almost ten times its original size. Six workers have become millionaires. The average worker who has been with the company at least five years has approximately \$100 thousand in his or her tax-sheltered ESOP account.

Given the success of the Mid South model, how could leveraged financing work for the benefit of every citizen in your community? We developed a model for a Just Third Way approach to urban redevelopment for the City of East St. Louis, Illinois. That city, right across the Mississippi River, right across from the famed Gateway Arch in St. Louis, was once a thriving industrial center. It is now one of America’s poorest cities, a virtual wasteland of brownfields. We were invited by the late State Representative Wyvetter Younge to develop a plan for financing a new city which in the 1970s she and the internationally famed choreographer Katherine Dunham and R. Buckminster Fuller conceived and called “Old Man River City.”

In the mid-1990s, Representative Younge discovered our “Just Third Way.” We worked with her to develop what she called a for-profit “Citizens Land Cooperative.” Because of her passionate commitment to the empowerment of all citizens and her leadership in the Illinois Legislature, she was able to persuade the Illinois House of Representatives to pass a bill we drafted by 114-0 to establish a demonstration Citizens Land Cooperative for East St. Louis and ten neighboring communities. The features needed for such a demonstration are explained in the pamphlet distributed to each of you. We now call this advanced empowerment and financing tool a “Citizens Land Bank.”

Our East St. Louis plan was to launch the model initially with conventional funding sources from the public and private sectors. What made our financing strategy unusual (besides its strategy for making every man, woman and child an equal shareholder of this for-profit, professionally-managed land planning and development enterprise), is that local political leaders would be mobilized to lift barriers for local banks to discount the CLC’s loan paper under the second paragraph of Section 13 of the Federal Reserve Act of 1913. Under this provision, the St. Louis Federal Reserve and each of the eleven other Federal Reserve Banks has the power, as I pointed out earlier, to issue “out of thin air” new asset-backed, interest-free money for financing the Old Man River City project and similar redevelopment projects in East St. Louis and its neighboring “demonstration communities.”

Eleven mayors agreed to serve on the interim board of what became known as the “Metro East Citizens Land Cooperative” prior to a precinct-by-precinct election to a community assembly that would designate elected community representatives to serve on the CLC’s board of directors. Unfortunately, Representative Younge died. Without such a visionary, true “servant leader” filling her shoes, the plan is now gathering dust, waiting for a new servant leader with the courage and selfless commitment to the principle of doing “what’s right.”

I’m distributing to you a paper we developed with Rep. Younge, entitled “Linking People to Land and Technology Through Ownership” [*see attached*]. These charts and explanations describe briefly the seven stages for organizing, financing and implementing a for-profit Citizens Land Bank in your communities, plus a one-page “system overview” that explains the role of the Federal Reserve for financing citizen-owned city redevelopment:

My mission today has been as a “seed dropper.” I hope that in this audience will be one or more bold servant leaders like Wyvetter Younge and the late Senator Russell Long of Louisiana, once one of Washington’s most powerful leaders. Senator Long became our champion on Capitol Hill for ESOP financing, following a four-hour dinner that ESOP inventor Louis Kelso and I had with him on November 27, 1973. Senator Long became so fired up by the common-sense justice of our proposal that he picked up the check. How’s that for effective lobbying?

Besides my few words on the Federal Reserve System and Citizens Land Banks, I suggest each of you examine other “Just Third Way seeds” (like the Homeowners Equity Corporation and other Capital Homesteading reforms) as described in papers at two important websites. The first is the “virtual library” of our non-profit arm, the Center for Economic and Social Justice (CESJ), <http://www.cesj.org>. The second is our social entrepreneurial investment banking and consulting business, Equity Expansion International, Inc. (EEI), <http://www.eei-consultants.com>.

Again I would like to express my sincerest appreciation to John Dondanville and Bob Colangelo of the National Brownfield Association for honoring me with the opportunity to speak before other architects of the future.

Now that these “seeds of thought” have been planted, I hope that members of this audience will organize a task force to study the Capital Homestead Act and the proposed model for Citizens Land Banking. I now look forward to answering any questions you might have.

Citizens Land Bank

“Linking People to Land and Technology Through Ownership”



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The for-profit “**Citizens Land Bank**” (“**CLB**”), also referred to as the for-profit “Citizens Land Cooperative”(“CLC”) and “Community Investment Corporation” (“CIC”), is one of several innovative credit financing vehicles aimed at realizing a free enterprise vision for re-humanizing the future of the American economy.

The CLB is a keystone of a new private sector strategy known as “Capital Homesteading,” which recognizes the ownership of productive capital as a new right of citizenship and supplemental source of personal income.

The CLB is designed to finance livable and inspiring "new communities" in which every worker and resident would be afforded the right and the effective means to participate personally in capital ownership accumulations, profits and local decision-making. It functions just as the Rouse Corporation did in building Columbia, Maryland or the Reston Corporation did in building Reston, Virginia — but with a difference. The CLB turns community residents into its principal shareholders.

The CLB offers a planning framework for financing local infrastructure to increase land values and attract new worker-owned industries and entrepreneurial opportunities. It can also provide financing incentives for introducing and commercializing advanced technologies that can be owned by local workers, create new private sector jobs, and enhance the economic growth of the community within local, national and global markets.

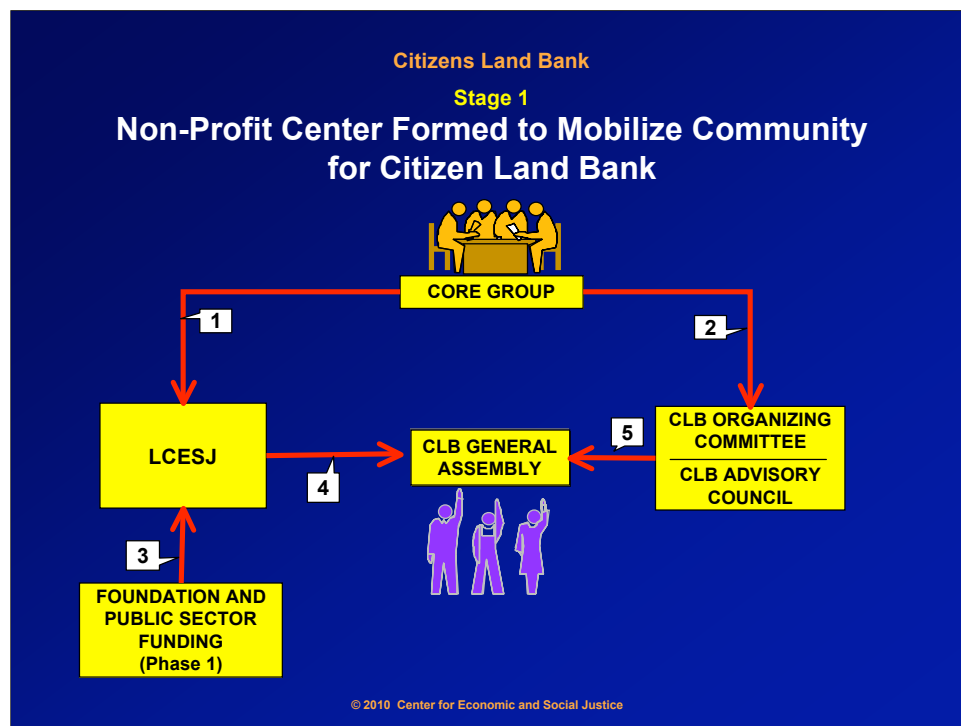
Citizens Land Bank

Stages of Implementation

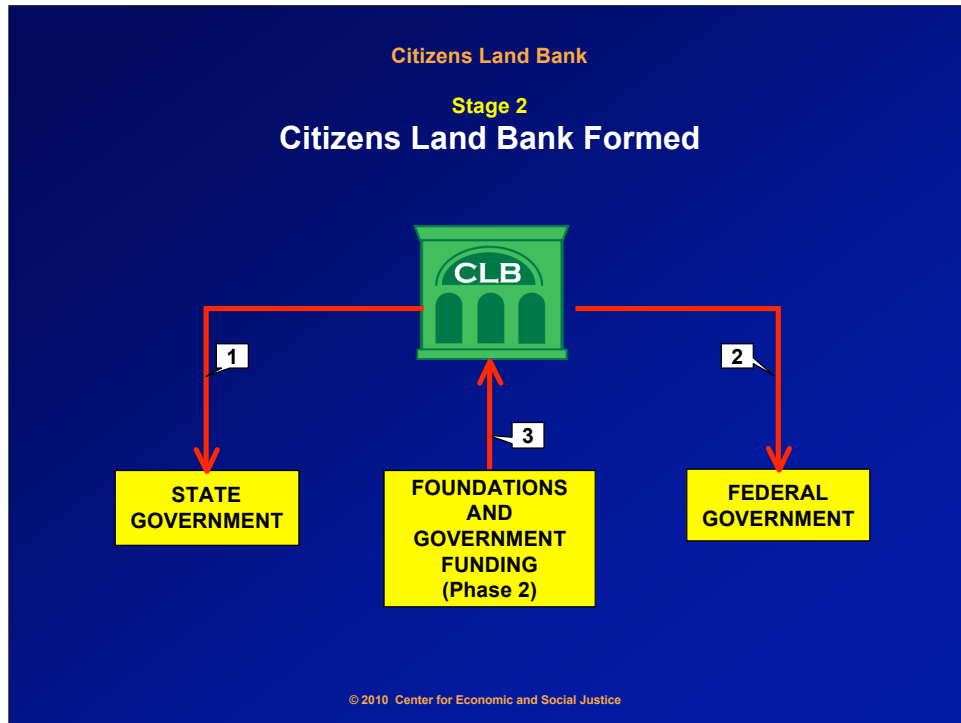
- Stage 1** Non-Profit Center Formed to Mobilize Community for Citizen Land Bank
- Stage 2** Citizens Land Bank Formed
- Stage 3** Turnkey Developer Coordinates Development Planning
- Stage 4** Turnkey Developer Negotiates Funding and Transfer of Sites to CLB
- Stage 5** CLB Becomes Activated
- Stage 6** Financing and Issuing of CLB Shares
- Stage 7** Community Shareholders Earn Shares and Dividends from CLB Profits

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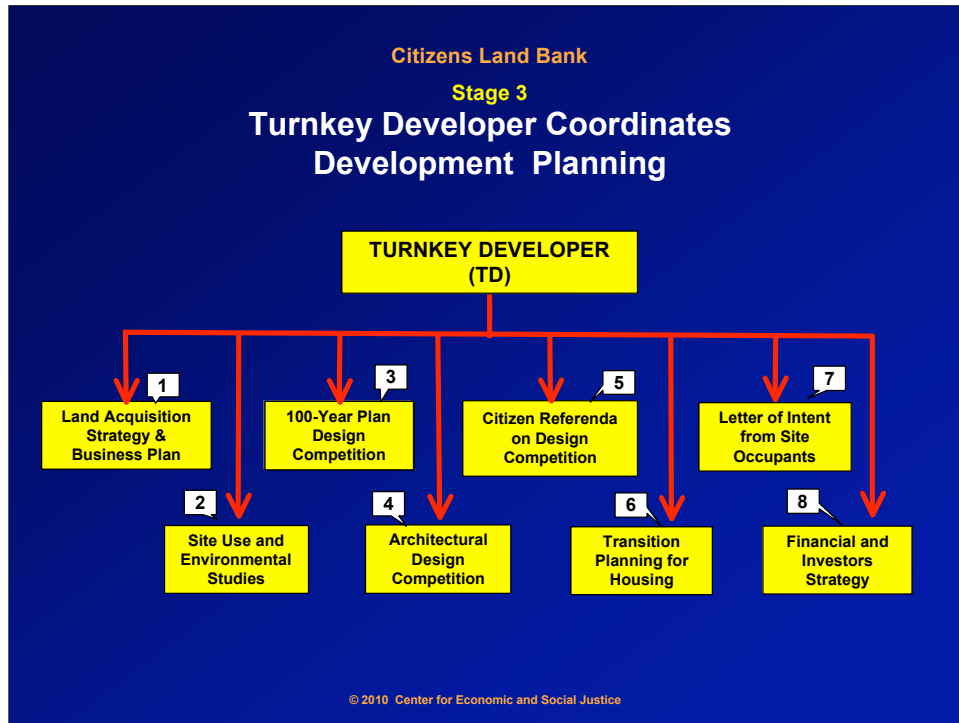
Outlined in the following diagrams is a national demonstration project for commercializing advanced technologies linked with broad-based ownership participation in land development among area residents and workers.



1. Core leadership group organizes and incorporates a not-for-profit Local Center for Economic and Social Justice (LCESJ). The LCESJ would educate all members of the community on free enterprise principles of economic and social justice, economic empowerment goals, new sources and mechanisms for financing economic development, and personal benefits they would receive through organizing a Citizens Land Bank.
2. LCESJ organizes a volunteer CLB Organizing Committee consisting of a diverse group of community leaders, and a CLB Advisory Council made up of professionals and influential supporters outside the community. The two organizing bodies develop the initial vision, strategy, operational plan and tasks for forming a CLB and prioritizing initial projects, including broad-based citizen participation in the CLB planning process.
3. LCESJ applies for and receives public sector and foundation funds to organize a non-partisan election for selecting neighborhood representatives to a CLB General Assembly. The General Assembly would structure the CLB's governance process, form committees to develop basic policies and goals, and facilitate formation of the CLB.
4. LCESJ organizes neighborhood or precinct elections to select representatives to a CLB General Assembly.
5. CLB Organizing Committee and Advisory Council provide volunteer assistance to CLB General Assembly and standing committees of CLB for mobilizing support and approving Citizen Shareholders Participation Plan, CLB bylaws, and initial sites to be developed by CLB.

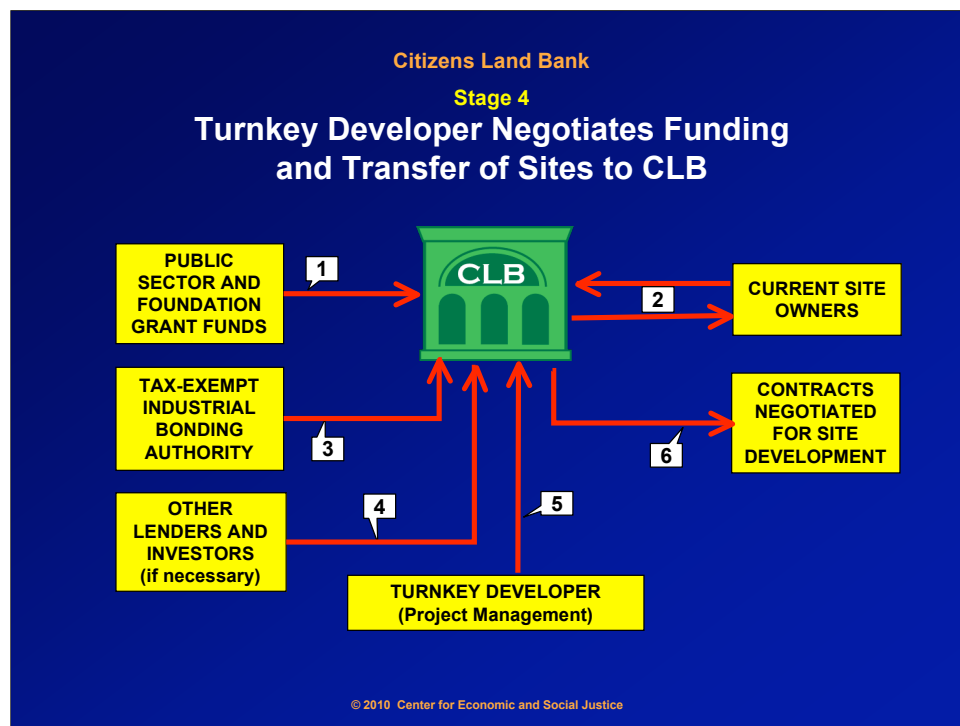


1. CLB applies to the State Government for a charter as a for-profit, citizen-owned land planning and development entity. It would be empowered to acquire land by purchase or donation, to be delegated by government to exercise powers of eminent domain, to plan land uses, and to distribute shares and citizen dividends from land use and infrastructure fees. To encourage faster rates of local development, local governments would be encouraged to shift from property taxes to taxes on all forms of income above the poverty line that would be tied to growing personal incomes from wages, salaries and dividends that would result from the CLB growth model.
2. When chartered, the CLB would apply for and receive from the Federal Government comparable tax benefits for citizen-shareholders as current tax laws provide for worker-owners of an S-Corporation Employee Stock Ownership Plan (“S-Corp ESOP”). The CLB would also receive the same tax treatment as a 501(c)(3) corporation for receiving donations of land from government, private donors and foundations.
3. Front-end funding is provided to enable CLB to hire a qualified Turnkey Developer (TD) to plan, manage and arrange financing under CLB board approval for developing CLB land under a 100-year plan that will sustain maximum dividend incomes and ownership participation rights of all citizen-shareholders.

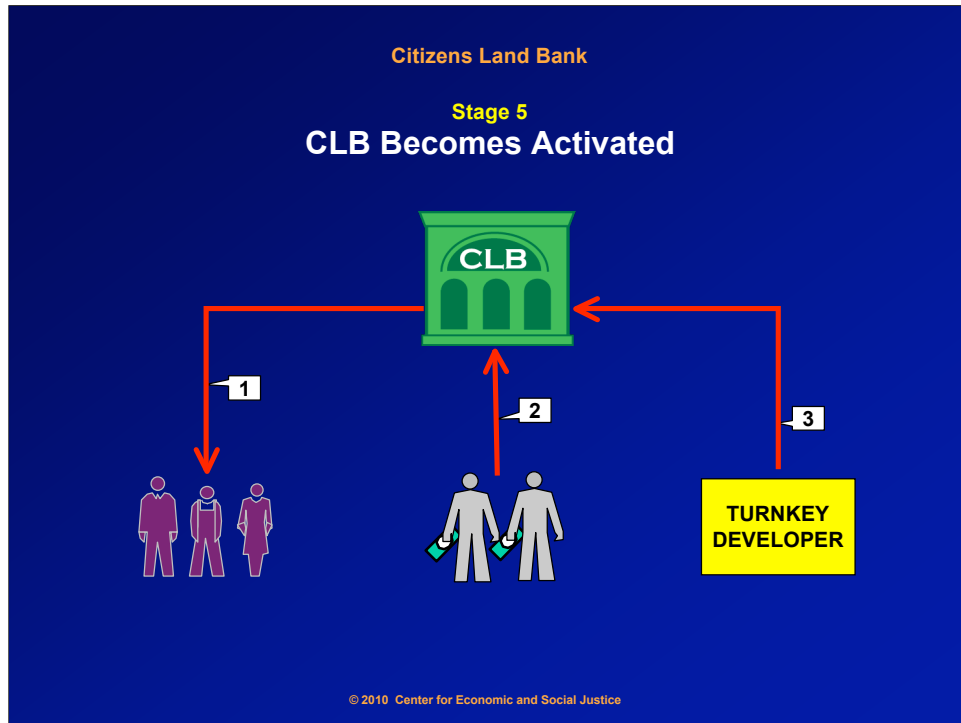


Subject to CLB Board approval, a TD develops:

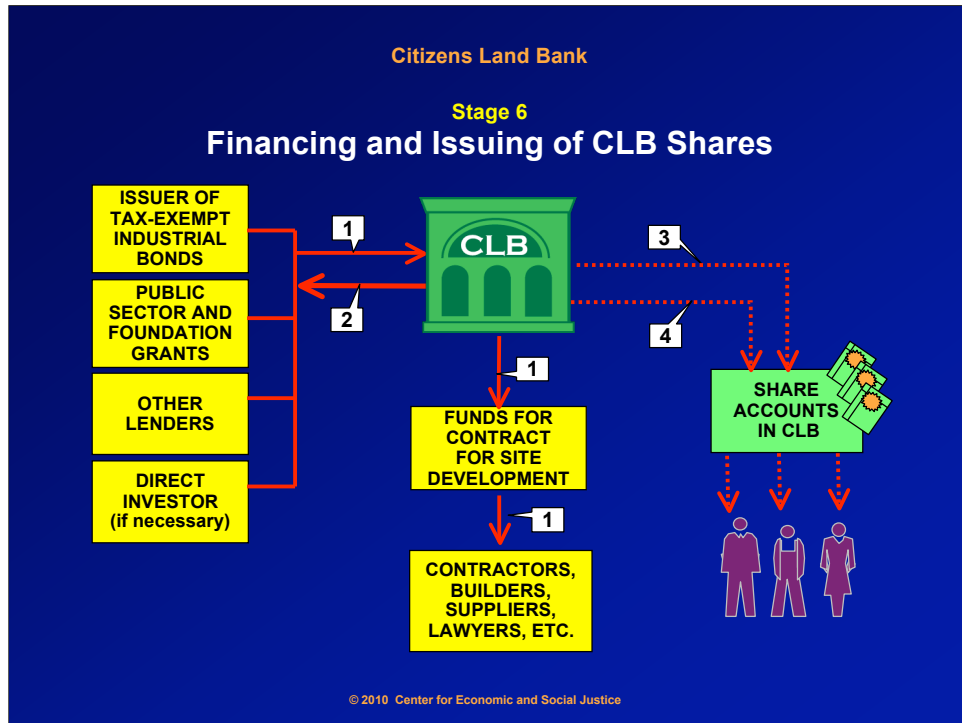
1. Land acquisition strategy, site appraisals, overall CLB business plan, and all aspects of project management, from initial concept through planning and development and site management.
2. Site use, environmental, economic and financial feasibility studies.
3. Design competition process for 100-year plan for comprehensive anticipatory and life-enhancing development that empowers all members of the community.
4. Architectural design competitions for basic community facilities and infrastructure to attract private sector and government users of space.
5. Plan for vote by citizens, following expert panel selection of top competitors in design competition.
6. Plan for meeting housing transition problems of citizens during development process.
7. Letters of intent negotiated with prospective occupants of sites.
8. Financial strategy and, if necessary, negotiations with outside partners and investors.



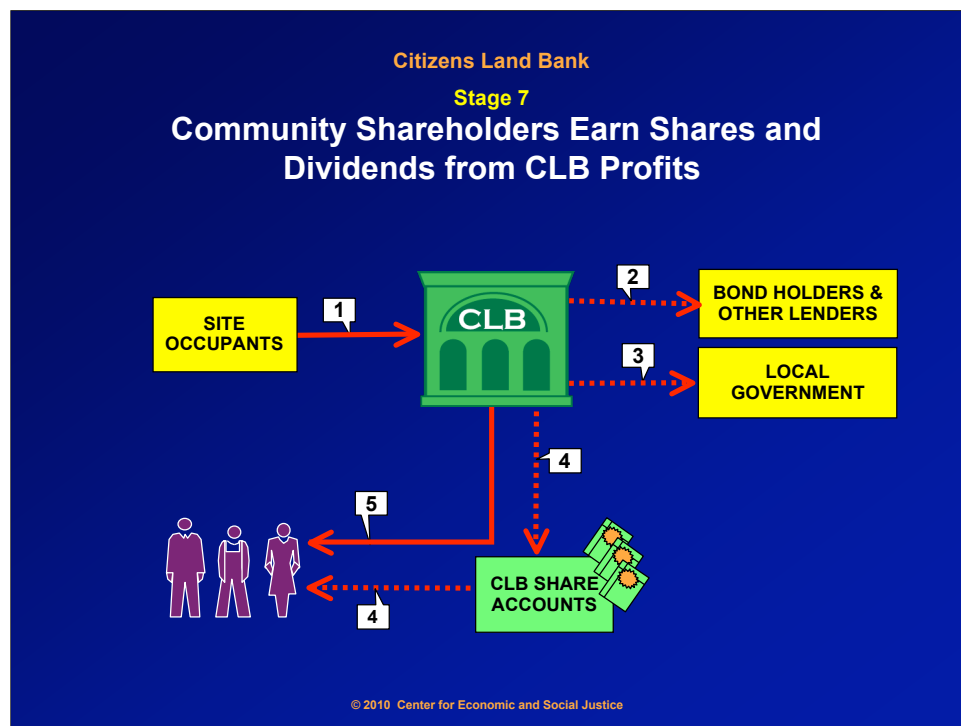
1. CLB approves TD proposals for public sector and foundation grants to pay for planned acquisitions of land, and for recruiting and training a permanent CLB management team to handle all aspects of land and infrastructural development, real estate marketing, management and site maintenance, and supporting services to viable companies and users of the CLB sites.
2. CLB negotiates for cash-free transfers of government-held land and purchases of project lands from private owners.
3. CLB negotiates tax-exempt industrial bonds for infrastructure development.
4. CLB seeks and negotiates with other lenders and investors to close gaps in overall funding requirements.
5. TD, on behalf of CLB shareholders, provides overall project management.
6. Contracts negotiated with qualified bidders for site development.



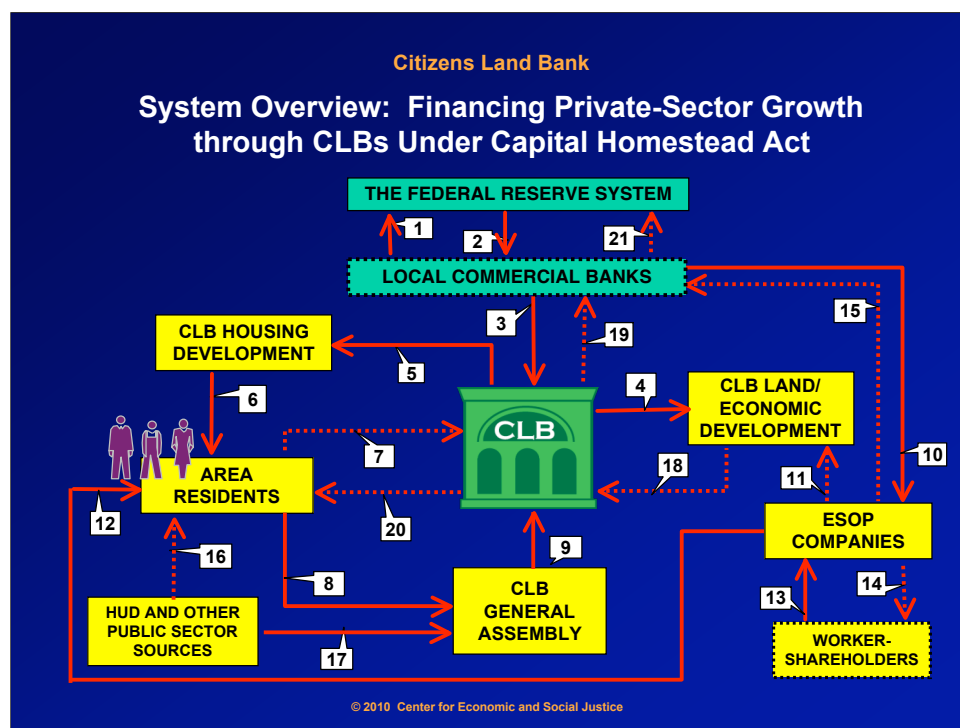
1. Citizens acquire rights to participate as shareholders of CLB, with each man, woman and child who remains or becomes a permanent resident receiving a free, lifetime, non-transferable voting share in the CLB. The share would be voided upon death or change of permanent residence.
2. Additional investment in CLB shares from outside investors if necessary, but subject to repurchase by CLB on agreed-upon formula price.
3. Overall development plan submitted for CLB board approval and CLB General Assembly.



1. Funds transferred for developing sites.
2. CLB guaranties loan repayment, pledging as collateral the land and other assets of the CLB.
3. CLB issues free, non-transferable, full dividend payout, voting shares to tax-sheltered accounts within CLB for broad-based ownership by local citizens.
4. Special CLB bonus shares awarded under the CLB's Community Participation Plan to citizens or public servants who make special contributions to improving the quality-of-life of the community.



1. Revenues received from long-term leases of CLB land, space and facilities rentals, extraction and infrastructure user fees, and maintenance contracts.
2. CLB repays debt to bondholders and other lenders on CLB loans for land acquisition and infrastructure development. Lenders release CLB land and other assets pledged as collateral as loan is repaid.
3. Dividend withholding taxes provide public sector revenues lost by the exemption from property taxes on all property on land owned by the CLB.
4. Citizen Dividends (CD) distributed monthly in cash to every CLB shareholder from land rentals and other CLB fees, after operating costs, CLB debt service payments, and dividend withholding taxes.
5. Community Shareholders receive annual CLB shareholder reports and summary of annual citizen dividends.



1. CLB's approved ownership-expanding loans are presented for Fed discounting (Sec. 13 of Federal Reserve Act).
2. Fed monetizes CLB's qualified bank loans for private-sector growth at fee of 1% or less.
3. Banks make low-cost loans to CLB for land, community facilities and infrastructure development.
4. CLB invests in land and infrastructure for industrial, commercial, agricultural and other development.
5. CLB invests in land and infrastructure for housing and community facilities.
6. CLB provides technical assistance to homeowners to obtain mortgage loans.
7. Citizens and businesses pay rentals to the CLB for long-term leases on land upon which their homes and improvements are situated. (Rentals would provide CLB dividends to all citizens.)
8. Citizens form CLB General Assembly and participate in community activities.
9. Community Participation Plan developed to enable citizens to "earn" bonus CLB shares.
10. Banks make low-cost loans to ESOP companies, repayable with tax-deductible profits.
11. ESOP companies lease land from CLB.
12. ESOP companies recruit, hire, train and offer ownership sharing opportunities to citizens.
13. Worker-owners participate in wealth creation through their labor and productive capital contributions.
14. Workers earn wages, dividends, bonuses and ESOP shares.
15. Companies pay off their ESOP loans with future pre-tax company profits and/or dividends.
16. Housing vouchers provided to low-income families for mortgage payments.
17. Grants approved for developing community participation plans.
18. CLB earns profits from long-term land leases, rentals, user and extraction fees, and maintenance and service contracts.
19. CLB pays off bank loans with future pre-tax profits.
20. CLB dividends are allocated as taxable incomes to citizens as CLB repays bank loans.
21. As CLB's bank loans are repaid, new money (created to finance expanded citizen ownership of private-sector growth assets) is cancelled or recycled for additional growth.