

*Midwest Conference on Labor in  
the New Energy Economy  
New Capital Strategies for Workers*



Cleveland  
**Blue and Green  
Investment**  
October 23, 2007



**Heartland  
Labor/Capital  
Network**



*How to Find Heartland*



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## Quick overview, SVA and the SEWN Network

### WORKING TOGETHER TO SAVE JOBS

#### WHAT IS THE STRATEGIC EARLY WARNING NETWORK?

The Steel Valley Authority is a unique development agency founded in 1986 to retain and revitalize the region's economic base and preserve jobs.

In 1998, the State of Pennsylvania charged the Steel Valley Authority with developing a Strategic Early Warning Network to help save area companies and jobs. Since then, the Steel Valley Authority has helped scores of companies and saved thousands of jobs.

Our Strategic Early Warning Network provides a wide variety of professional and consulting services at no charge. We work with all interested parties: workers, management and owners.

Our only objective is to save jobs in Pennsylvania.

Experience shows us that a company's problems are easier to address before they reach the crisis stage. It is also easier and less costly to save an existing local company than to create a new business or attract one from outside the region.

With 48 hours of your call, the Steel Valley Authority's staff will contact your company's management, owners or employees to set up site visits and plant tours. We will assess the situation and help to define your company's critical problems. Then, working with all parties concerned, we'll inventory all available resources and help develop solutions.

## Have a Latté\* with the SVA

(\*Layoff Aversion Training/Technical Expertise)



## On the Economy and Sustainable Development



## Effective Economic Development

### Why is Manufacturing Retention Important?

In the 20th century, "economic development" has taken different forms, from early "waves" focused on industrial recruitment, to programs providing business loans and business planning assistance.

Business retention has become a mainstream economic development practice.

Manufacturing industries continue to fuel productivity growth (McGuckin and Stiroh 1998) and **remain critically important to economic well-being**. Nations depend on their manufacturing sector for increases in wealth, for improvements in living standards, and for competitiveness in world markets." (from *Manufacturing Advantage*)

## Why Manufacturing Still Matters

- a. Productivity leader
- b. 2/3 of all R&D investment
- c. Primary source: innovation
- d. Leading purchaser of new technology
- e. Leading purchaser of financial and technical services
- f. Leader in new work org and processes
- g. Opportunity: economic ladder with rungs at all levels
- h. Foundation: industries of the future



## *There is a Role for Government to Play...*

- **Advocacy**
  - for worker-friendly trade policies
  - for employee ownership
- **Early warning and layoff aversion**
- **Long-term transition and transformation**
  - to globally competitive enterprises
- **Government procurement: transit, energy**
- **Government leadership in renewable energy portfolio, other key resources**
  - that supports domestic growth
- **Pension ETI Programs and Incentives**

## Capital Partnerships...

Heartland has promoted partnerships with state and local governments to explore:

- Joint investment opportunities (in advanced manufacturing, renewable energy, green housing, etc.).
- Investment guarantees and tax credits.
- Public and community purchasing and "demand-push".

## *Building from the Region's Foundation Economies*

- From "Getting Serious About Good Jobs" in *The American Prospect Magazine* (on how communities can create job opportunities in the environmental field):
- "Pennsylvania can attract high-tech (windmill factories) because it hasn't written off the manufacturing sector. Croft explains that building Next Generation manufacturing required the Commonwealth to fully reassess which manufacturers would be suppliers to, and customers for, these new technologies". Without a manufacturing infrastructure and skilled workers, we can't build the industries of the future.



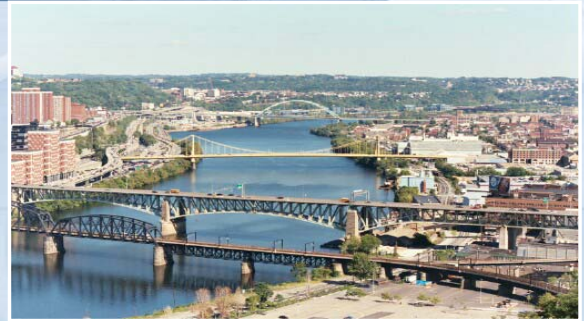
## *Big Picture?*

Dean Baker, an economist at CERP, was one of the first economists to predict the possibility of a recession in the U.S. in 2007.

Main factor: Weakness in the housing market, due to asset bubbles and sub-prime loans. Result? Foreclosures, falling prices, construction and home sales down, tightening credit, downturn in investment and spending.

When added to auto downturn and continuing trade impacts: Bad News.

## *An Overview of the Heartland Network*



## *Labor's Capital: New Tools*

- **Labor's Capital provides new tools to bolster workplaces, build a stakeholder approach to the economy, and re-position a region's jobs foundations for new industries and growth.**

## *Heartland: Background*

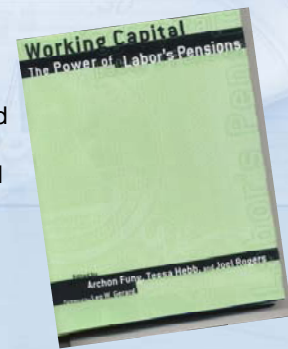
- Heartland has been exploring and promoting practical, jobs-oriented investment strategies since 1995.
- Heartland has encouraged responsible pension capital investments and helped bring attention to a broader universe of worker-friendly investment strategies, including private equity and real estate funds.
- The Network was founded by the SVA and the Steelworkers, and a Working Group of U.S. and Canadian capital stewards and advocates, in 1995.

## "Working Capital"

- In addition to two international conferences and several regional roundtables, the Network commissioned *Workers' Capital: The Power of Labor's Pensions*, published by Cornell Press in 2001.
- The Network runs a "capital strategies" website, [www.heartlandnetwork.org](http://www.heartlandnetwork.org), to track developments in the workers' capital field. The site has featured prominent U.S. and Canadian economists, pension and investment experts and authors-of-note.

## "Working Capital"

- *Working Capital* received widespread notice in U.S. and Canadian press and media.



## *The Nuts and Bolts of Responsible Investment*



## Pension Funds...

- The Capital Stewards of pension funds and workers' savings programs in the U.S. and Canada have been developing a new generation of worker-friendly investment programs to invest in real industries. Today, Labor's Capital investors, through worker-friendly funds own \$25-30 billion in assets.
- Labor's Capital investors have invested across the U.S. and Canada in all parts of the economy, including advanced manufacturing, construction, transportation, communications, food and restaurants, technology and medical, affordable housing, commercial real estate, hotels and hospitals.

## Pension Investments...

- Labor's Capital investors are exploring investments in advanced manufacturing, alternative energy and transportation industries, green building and green products.
- We are buying and building the "industries of the future". Working people need to anchor the growth of these new industries in local communities.

## Pension ETIs...

- Pension funds and other labour-sponsored funds, can be targeted to generate specific social, economic and environmental benefits along with financial returns.
- This targeted approach is referred to as economically targeted investment (ETI), alternative investment, socially targeted investment, or undercapitalized market investment.
- As long as the investment aims to provide a competitive risk-adjusted rate of return, the pension fund can seek to also obtain "collateral benefit".

## Pension ETIs...

- Specific examples of "collateral benefits", in addition to providing competitive rates of return:
- Increase the availability of affordable housing;
  - Provide capital to small and medium enterprises (SMEs);
  - Revitalize communities such as inner cities or rural economies;
  - Support underserved markets including emerging and developing country markets;
  - Support non-traditional industries such as renewable energy.

## Types of ETIs



**Real Estate  
Trusts**

**Private Equity or  
Venture Capital  
Funds**

**Infrastructure  
and Project  
Financing**

**Sectoral  
Targeting: Green  
and Energy  
Funds**

Coming Soon:  
"Responsible Capital"

"Responsible Capital"

- Heartland's new book, *Responsible Capital*, was written with the help of long-time pension advocate Teresa Ghilarducci, Notre Dame University. It will examine portfolio investments that yield not just good returns-on-investment, but also collateral benefits for working people, the community and the environment, including new environmental technologies.
- The survey will highlight the work of over a dozen responsible worker-friendly investors in the U.S. and Canada, and will reveal practical and successful investment principals that capital stewards and policy advocates can use in their everyday duties. It will be distributed internationally.

"Responsible Capital"

- We met with most of these responsible fund managers in the U.S. and Canada, and visited some portfolio investments, to get a first-hand look from the field.
- The report will identify not only profile *responsible investment* funds and case studies, but will describe *irresponsible investment* schemes, such as Wall Street and Bay Street mega-Hedge Funds and irresponsible private equity investors that "strip and flip" the companies they buy.

"Responsible Capital"

- The most important finding? The stewards of workers' capital have shown that they can make responsible, long-term investments that earn a good rate of return but also yield important collateral benefits. Thus pension managers can align investments with the interests of pension beneficiaries.
- Most surprising? Managers of responsible funds interpret financial and economic information differently from the rest of the pack. This group of managers believes that information about labor relations, environmental quality, and impact on the localities is a clue to risk-adjusted profitability, and aims to earn large and sustainable returns by considering factors other investors are missing.

## On Closer Analysis.... Blue and Green Deals



## Private Equity/VC Funds

- KPS Special Situations (New York)
- Paladin Capital Group (Washington, D.C.)
- GESD Capital Partners (San Francisco)
- Yucaipa American Alliance Fund (Los Angeles)
- Solidarity Fund (Montreal)
- Working Opportunity Fund/GrowthWorks (B.C., National)
- Landmark GCP (Boston)

## Real Estate Funds

- Amalgamated Bank (New York),
- Long View ULTRA Landon Butler and Company (Washington, DC)
- AFL-CIO HIT-BIT (Washington, DC)
- ULLICO, Inc. J for Jobs (Washington, DC)
- The Erect Fund - PenTrust Real Advisory (Pittsburgh)
- The BUILD Fund (Troy, Michigan)

## PE Investments: WOF and Xantrex

- The Working Opportunity Fund (WOF) is a venture capital investment fund owned by approximately 50,000 individual British Columbians. The Fund currently has approximately \$400 million in assets and has almost half of its assets invested in small and medium-sized BC businesses. It made a major investment in Xantrex.
- Xantrex Technology, Inc. is a company that produces inverters, chargers and accessories in solar and wind energy systems. The company has 500 employees, and the HQ is Vancouver, B.C., with facilities in Arlington, Livermore, Elkhart, and Barcelona, Spain.

## PE Investments: WOF and Xantrex

- Xantrex products are said to provide reliable, high-quality “green” electricity as an alternative to centralized power generation or combustion generators. Xantrex products are smaller, lighter, more efficient, reliable and intelligent than traditional power conversion equipment.
- The Xantrex PowerHub is said to be the first backup power system that can be re-charged with solar and wind inputs, in addition to a generator or the utility grid. Its use of sustainable energy sources provides consistent sources of power. Xantrex makes on-grid and off-grid options.

## PE Investments: KPS and Blue Ridge Paper

- KPS is an investment fund focused on special situations and turnarounds, with over \$1.8 billion in capital, based in NYC.
- With the help of the unions, KPS and the workers together bought, in 1999, a paper mill, an extruding plant, and five converting plants from Champion International for \$200 million.
- The new company, Blue Ridge Paper Products, was launched with 2,200 new employee owners (who came to own a share of firm through a 45% ESOP).

## KPS and Blue Ridge Paper

- Due to a \$400 million investment in new technology over a decade, the pulp facility has been noted as one of the most efficient and environmentally-friendly pulp mills in the world.
- In July 2007, Blue Ridge was sold to Packaging Holdings Corp. KPS returned approximately 2.5x its invested capital to its investors, and employee-stockholders had approximately \$30 million of cash deposited into their ESOP accounts.



## KPS and Blue Heron Paper

- KPS created Blue Heron in May 2000 to acquire the newsprint assets of the Smurfit-Stone Corporation in Oregon City, Oregon. In July 2005, Blue Heron also acquired the Pomona, California assets of the former Smurfit Newsprint Corporation of California.
- Headquartered in Oregon City, Oregon, Blue Heron Paper Company is one of North America’s leading producers of newsprint and other specialty products from a predominantly recycled fiber base, with annual revenue of \$220 million and production capacity of over 360,000 tons.

## *KPS and Blue Heron Paper*

- KPS worked in partnership with senior management, the United Steelworkers and the Association of Western Pulp and Paper Workers (AWPPW) to create Blue Heron.
- After completing a very successful turnaround of Blue Heron and re-growing it, KPS sold its controlling equity ownership interest to an ESOP formed by the Company, creating a 100% employee-owned company in September 2006. KPS returned more than five times its invested capital in Blue Heron to its investors.

## *RE Investments: HIT-BIT's Gulf Recovery Project*

- The AFL-CIO's Housing and Building Investment Trusts are the oldest worker-friendly real estate funds in the U.S., with over \$6.2 billion in assets.
- The Gulf Program is a \$1 billion commitment to rebuilding the Gulf that focuses on helping the hard-hit residents of the Katrina disaster recover. It targets residents' needs for housing, healthcare and good jobs. The AFL-CIO aims to anchor its Gulf initiative with an affordable housing and commercial re-investment plan.
- The Gulf Coast Revitalization Program breaks new ground by combining construction and permanent jobs strategies with a broad community revitalization campaign, entailing job training, youth services, community organizing, and economic development.

## *RE Investments: HIT-BIT's Gulf Recovery Project*

- HIT-BIT is spearheading the development of a unionized manufactured housing facility in NOLA, partnering with the Housing International and Telesis Corporation.
- This facility will help fill the region's critical shortage of high-quality, affordable homes while also providing good jobs, training and other workforce development services for local residents.
- The project will prioritize "green" building processes, utilizing steel-frame and other sustainable building products that are designed to withstand the region's climate.

## *RE Investments: HIT-BIT's Gulf Recovery Project*

- When at full capacity, this plant is expected to produce up to 2,000 homes and 400 full time union jobs annually. The plant workers will be represented by the Metal Trades Department.



## RE Investments: MEPT's Octagon Apartments, NYC

- The Multi-Employer Property Trust (MEPT) is a \$6.8 billion investment real estate trust in Washington, D.C.
- MEPT invested in and re-constructed the original Octagon Building on Roosevelt Island (once the Metropolitan Hospital for New York built in 1839 before being destroyed by fire).
- MEPT financed two new residential complexes providing 500 new living units, using all union labor. An estimated 1.5 million job hours were created for building trades members.

## RE Investments: MEPT's Octagon Apartments, NYC

- Octagon consumes 35% less energy than comparable new buildings. It was constructed with locally produced materials and the building has high-efficiency boilers, rooftop solar panels, and Energy Star appliances.
- The Octagon received the EPA LEED Silver Award and the NYC Green Apple Award.



## A New Approach to Pension-Capitalized ESOPs:

- A newer worker-friendly fund approach was just launched by "American Working Capital", an advisory service of the Yucaipa Companies. AWC will partner with employees, management teams and owners to form new ESOPs, to transition existing ESOP companies to majority and/or 100% ESOP owned S-corporations, and to provide existing ESOP companies with capital for growth, acquisitions or repurchase obligations.



## "Responsible Capital"

Workers' pension funds in North America have succeeded in achieving:

- Hundreds of thousands of jobs, saved and created, providing livable wages and benefits.
- The retention, modernization and creation of strategic industries.
- Hundreds of thousands of new and renovated living and working spaces, especially affordable and workforce housing.
- Investments in essential infrastructure and regional economies, ranging from co-ops and micro-firms to small and medium businesses.
- The investment, creation and development of new renewable energy and transportation systems and the supply chains that feed those systems; and
- The growth and retrofit of green buildings, products and services making living and working spaces healthier.

## Questions ????



## Why we're here: Creating and Saving Good Jobs



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- Tessa Hebb



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