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10 Plausible State Policy Reforms To Accelerate the Local Investment Revolution[1]

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(1) List Offerings – The state should create on its web site a new section listing all locally owned businesses seeking capital. The site might offer a turnstile for accredited investors, who would be permitted to see greater levels of detail about each offering. To the extent that existing state securities law does not permit unaccredited investors in the state to learn information about local businesses seeking capital, it should be amended. There is no excuse in an internet era for withholding from any resident basic information about a company seeking capital.

(2) Self-Directed IRA Agents – The state should encourage residents to shift funds from regular IRAs, which can only be invested in mutual funds disconnected from local business, into self-directed IRAs, which are permitted to invest in a wide range of local investments. A careful shopper today can find a custodian providing this service who charges $200-300 per year. The state should issue an RFP seeking in-state accountants prepared to serve as a custodian for 1,000 accounts for $100 each. Presumably, a great many accountants would be interested in receiving $100,000 of business each year.

(3) Public Bank – Establish a public bank akin to the Bank of North Dakota. At a minimum, this Bank should place state surplus funds – that is, yet-expended state tax collections or federal transfer payments – on deposit in local banks and credit unions, to enhance their lending capacity. Since these financial institutions are many times more likely to lend to local businesses, this policy is a powerful economic stimulus. Additional functions of the Bank of North Dakota, such as providing direct depository capacity for residents and investing in state economic-development programs, also might be added.

(4) Securities Law Reforms – Two securities laws reforms should be considered. First, the state should consider implementing the JOBS Act immediately, as the state of George has done. That is, the state should permit in-state portals to offer in-state securities immediately if the offering comports with the requirements of the JOBS Act (e.g., a capital raise <$1 million). Additionally, the state should consider enact one of the early proposals that led to the JOBS Act – the creation of a $100 exemption. The practical implication would be that community-development groups could mobilize capital raises around small local companies or programs without exorbitant transaction costs.

[1] This paper is a brainstorming effort, aimed at shifting capital more rapidly from Wall Street to Main Street. Because relevant laws differ state by state, some of these ideas will make more sense in a given state than others. That said, suggestions for improving and adding to this list would be welcome. Please send suggestions to the author by e-mail (shuman@igc.org) or phone (202-669-1220).

(5) Community Investment Funds – The state should consider creating a new legal fund category, as the Canadian Province of Nova Scotia recently did, that would permit grassroots groups to create their own investment funds to support local businesses or projects. (The Nova Scotia law has spawned dozens of new funds supporting local farmers and small food businesses.) A qualifying fund would have to focus on companies or projects with exclusively in-state owners. To ensure the grassroots character, investors in the fund might be limited to, say, $100. This would be open to investments of tax-deferred, self-directed IRAs.

(6) Coop Funds – The state should consider creating a new category of coop – investment coops. Today, coops can be formed by consumers, workers, and producers for their mutual benefit. Why not coops for investors? The other principles of coops would still operate. For example, every investor would have a single vote over the management of the fund independent of the amount of money invested. This would be open to investments of tax-deferred, self-directed IRAs.

(7) Cutting Edge Land Trusts – Today, nonprofit land trusts protecting green space, farmland, and affordable housing are commonplace. Why not expand land trusts to allow investment in downtown development and neighborhood housing? For example, businesses in a downtown area could create a land trust to become their own landlord, and residents in a neighborhood association could create a land trust to provide their own mortgages. These companies should be open to investments of tax-deferred, self-directed IRAs.

(8) State Stock Exchange – Companies like Mission Markets now are ready to offer turn-key “community portals” that provide legally compliant spaces for in-state investors to buy and sell shares of in-state companies. These portals provide much needed accountability, visibility, and legal oversight to emerging local securities markets. They also provide investors with needed liquidity. Local stock exchanges were commonplace in the United States a century ago, but have become obsolete now that the NYSE and NASDAQ (the only remaining exchanges) focus exclusively on Fortune 500 companies. The emergence of new securities markets at the state and local level warrants the resurrection of the type of exchange.

(9) Fiduciary Responsibility – Many pension fund trustees believe that their legal obligation to investors is to invest in only proven markets – which to them means nonlocal securities. State law should make clear that responsible investments in local credit unions, coops, local businesses, land trusts, and local investment funds constitute compliant behavior.

(10) Tax Credit – States have hundreds of tax credits promoting all kinds of indefensible economic-development projects (like big-dollar corporate attractions). The state of Maine offers at 40% tax credit for investors in certain high-tech, non-local ventures. Why not a much more model tax credit, say 5%, for every dollar invested in a qualified locally owned business? Similar tax credits in Canada helped to expand labor-sponsored investment funds twenty years ago.