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ACORN City Sustainability Project

Narrative for ACORN¹ Currency Design

The ACORN electronic currency is being designed to maximize local currency benefits to all socioeconomic groups in the City of Oakland. This design is intended to factor in an extensive understanding of the economic and the social history of the community with an eye to correcting negative tendencies and enhancing economic well being to the residents, neighbors, workers, and small locally owned businesses. But, most immediately, it is intended to encourage and facilitate significant positive change in economic behavior by consumers, commercial enterprises, and government users who participate in the project.

Convenience to all users is of critical importance. A thorough study of the more than **sixty** local currencies that exist or that have been tried in the United States will show the critical importance of convenience to their spread and sustainability. Convenience requires attention to culture, differing levels of economic literacy, strengthening familiarity with multiple currency use, and technological availability and accessibility. The basic debit card technological base offers the level of greatest availability and familiarity by both merchants and consumers. This technological base also provides a substantial level of security, privacy, flexibility to manage the program, to allow room for innovation and adaptation, and to maximize monitoring and transparent reporting.

The implementation of a City of Oakland municipal identification card (February 2013) that statutorily anticipates a local electronic currency as a phased-in function that will enhance the attractiveness and use of the City ID card adds substantial weight to the choice of this technology. Equally influential in the choice is the establishment of the Oakland Grown small merchant's movement. Oakland Grown has established an independent card based values point program (Oak-share) which incentivizes local spending in locally owned businesses. Oakland Grown has also committed to a phased in local electronic currency. The ***ACORN City Sustainability Project (ACSP)*** will manage the local currency system on both the municipal identification card and on a separate branded card or cards. Initially there would be two versions both carrying the same local currency: (1) a municipal identification card with a industry standard magnetic strip on the back that would only be available to Oakland residents purchased

¹ ACORN = Alternative Currency for Oakland Residents and Neighbors

through the City licensed vendor and (2) a ACSP branded debit card without an identification picture and cardholder address on the face that will allow any card holder to use local currency. ACSP will work closely with Oakland Grown and other community entities who may want to produce other hosted cards that would also carry the same local currency, the ACORN.

Community Description

Before describing the organizational structure, the technical aspects, the outline of the administrative team, the financial aspects of the design, and possible future advanced functions, we believe that it is important to understand the community for which this currency is designed. Local currencies work best that fit well with the economic and social parameters of the community. A great deal can be done with marketing but marketing has limitations. Our design is well suited to the political/social history and the present day circumstances of Oakland's micro-economy.

Oakland was incorporated in 1852 and was a major part of the territory of the Ohlone Muwekma (The First People) tribal area. The land was once densely covered with Oak trees and the acorn was a critical part of the Ohlone people's diet and economy. Oakland is the eighth largest city in California and is the largest city in the metropolitan statistical area that it is in, which includes Alameda and Contra Costa Counties. During most of its life, Oakland was the retail hub of the two-County area. Post World War II politics, suburban growth sparked by the GI Bill, and the spread of national retail conglomerates into the suburbs removed Oakland's retail primacy.

At times Oakland has been noted as the most diverse community in California both in terms of socioeconomics and race/ethnicity. It is about 27% African American, 26% Caucasian, a little more than 25% Latino, nearly 17% Asian, and it has the highest concentration of urban Native Americans west of the Mississippi river. The population in the last census was calculated at about 390,700. There are nearly 50 defined neighborhoods in Oakland and for the most part those neighborhoods are significantly diverse. Generally the socioeconomic geographical pattern stretches from the lower income 'flatlands' nearest the Bay to the working class middle income neighborhoods as one moves east to the foothills to the upper middle class and upper income residents as one moves up the hill to Oakland's boundary with the East Bay Regional Parks.

In 2008 the median *household* income in Oakland was \$48,596. The per capita income for the City has been measured at \$30,094. Like most Bay Area communities the cost of living in Oakland is higher than it is in most parts of the United States. It is estimated that 19.4% of the population and 16.2% of families' incomes are below the poverty line. The unemployment rate as of August 2009 was 15.2% with pockets of greater unemployment among the young and in neighborhoods of greater ethnic concentrations.

The Port of Oakland is the fifth busiest port in the United States by cargo volume. Oakland's largest employer is Alameda County followed by Wells Fargo, Oakland Unified School District, City of Oakland, Cost Plus World Market, Kaiser Foundation Hospitals, and the Peralta Community College District.

Nonprofits and community based organizations (CBOs) are an unusually large sector of Oakland's micro-economy. Governments, *which pay no property taxes*, are the major industry in the City; however, medical services may be the fastest growing industry sector over the longest sustained period of time. The growth of business in Oakland and in the region is generally forecast to be good. The fact that upwards of 70% of both private and public jobs are held by commuters who spend their incomes in surrounding communities causes Oakland's **multiplier rate** to likely be the lowest in the State. Oakland residents and its local retail sector do not fully benefit from growth when so much of the dollar volume earned in Oakland skips out of the community so quickly. Oakland residents, unfortunately, are habitually stuck in that same unsupportive consumer spending pattern. A 2007 retail study (Conley Consulting Group) found that Oakland residents spend more than \$1 Billion a year for retail purchases outside of Oakland. The diversity of Oakland economic base is compromised by both its substantial dependence on governmental entities and the very low multiplier rate. **Oakland's economy lacks much sustainability or resiliency.**

Organizational Structure

The anticipated currency organizational structure will be a three pronged cross-connected one, bound together through formal contractual agreements. The three prongs all currently exist and in one way or another are active. They are as follows: the City of Oakland, SF Global (the City licensed for-profit identification card vendor), and the ACORN City Sustainability Project (ACSP), a project of Seven Generations Consulting and Wilson Riles.

The **City of Oakland** is a charter city in the state of California. In October of 2011 the City of Oakland began negotiations with SF Global, one of three vendors that responded to the City's request-for-qualification (RFQ). The RFQ was designed to solicit proposals to establish a municipal identification card that will carry a debit card function and add functions that will assist the local economy. The City was seeking qualifying firms with which to negotiate a more specific agreement. In February 2013 subsequent to the completion of a licensing agreement, SF Global LLC began the distribution of the Oakland Identification card with a Master Card branded debit function processed through University National Bank of St. Paul, Minnesota. The City monitors the license agreement through a staff committee composed of representatives of the City Administrator's office, the Police Department, the City Clerk's office, the City Finance Department, the Economic Development Agency, and the City Attorney's office. This body monitors the performance of the card vendor, sets the parameters for the card vendor (SF Global), and reports to the City Administrator and the Oakland City Council. During the process of the development of this license agreement, from the very beginning two years ago to final passage and implementation, the Council and City staff agreed to the future phase-in of local currency on the ID card as long as it does not add a substantial financial burden on the City or the vendor and is technologically and administratively feasible.

SF Global is a social enterprise company associated with a group of companies including SF TECH, LLC which develop and operate the Transfercel debit card platform in various countries. SF Global is

committed to the development of affordable, secure, and accessible financial services to individuals excluded from the banking system, utilizing technology created and deployed by its technology partners. The principle director of the program is Dr. Raul Hinojosa. He is an internationally recognized expert in integrative card and mobile technologies, international trade and migration, and innovative **remittance** based programs and products to abate poverty in migrant receiving and sending countries. He has held various academic and policy research positions in a number of universities and public institutions, including the World Bank, InterAmerican Development Bank, the White House Council of Economic Advisors, the United States Trade Representative, Stanford University, and the University of California.

Inspired by local Oakland community-based efforts and examples of communities in the U.S. who have historically innovated beneficial mechanism in times of hardship, the **ACORN City Sustainability Project (ACSP)** is an effort of Seven Generations Consulting. The Seven Generations Consulting was founded by former Oakland City Council Member Wilson Riles and was an early participant in the grassroots Oakland City ID Card Coalition that originated and advocated for the Oakland municipal identification card for more than three years. The ACSP and Seven Generations is committed to strengthening Oakland's local economy, social well being, and unique sense of place. We encourage local purchasing by residents, local business growth, and local entrepreneurial creativity and are particularly adept at linking visible disruptive community phenomena with precursor systemic failings and presenting practical, doable long range problem solving mechanism. There is a history of success through the promotion and management of thoroughly researched and thoroughly vetted projects that benefit the community as a whole.

ACSP will develop a contractual agreement with SF Global to fulfill that portion of the license agreement with the City to address the City's and the community's expectations for a universally beneficial system that will crank up Oakland's **multiplier rate** for the benefit of all residents and businesses. This local currency will offset microeconomic losses due to *migrant remittances* of dollars to their home countries. The program will be flexible enough to encourage the local spending of private sector and government workers, inject additional liquidity into the micro-economy at the level where it is most needed, encourage local hiring for entry level positions, and bring interest and benefit from the City identification card to all Oakland residents, neighbors, and businesses. **This Project will contribute greatly to building community and enhancing community self reliance.**

ACSP will also establish a currency governance body made up of individuals that are members of each stakeholder group: documented card holders, undocumented card holders, unbanked cardholders, retail merchants, professional service business persons, emerging new economy business persons, City staff and/or Council Members, private sector employees, nonprofit sector employees, public sector unions, and nonprofit sector administrators. Decisions of the currency governance body will be made through a well articulated consensus process; each new member of the body will be thoroughly trained in consensus decision making. Decisions by majority vote can be disruptive and problematic in groups that are not or cannot be fully representative of all constituencies. Consensus decision making is more likely to produce decisions that are universally beneficial to all stakeholders.

Initial decisions in the design parameters will be made by ACSP in collaboration with the staff monitoring committee and the Oakland ID Card Coalition out of which the concept first arose. These decisions will be made with an eye on the long term growth and sustainability of the currency. Once established, changes or innovations in these parameters will rest in the hands of the currency governing body which will be a nonprofit entity. The currency and the currency system will be the fiduciary responsibility of this governing body.

The following are the known decisions that will be the jurisdiction of the governing body:

1. Choose the formal name for the local currency
2. Set a minimal discount rate for merchants for local currency purchases
3. Retain or set a different exchange rate than the initial 1 for 1
4. Approve the annual budget for the local currency operations
5. Hire the operational administrator or executive director
6. Approve retainer contracts and other outside contracts
7. Approve the implementation of a local currency transaction fee
8. Approve explorations and initiations of new functions and card versions
9. Approve the implementation of a **Demurrage**² system
10. Approve exchanges and exchange rates with other local currencies
11. Approve changes in agreement with SF Global

Technological Structure

The electronic local currency will be built using the protocols and some of the parameters established in the Oakland Grown (Oak-share) program. This program utilizes that portion of the debit card magnetic strip that is usually reserved for merchant's points programs. It will not impinge on the SF Global US dollar based debit card function. An application program interface (API) will be developed between the card holder account data and the local currency systems for use of the card holders that choose to activate their card's local currency function. The architecture of the "rails" is graphically displayed in the attached file.

² **Demurrage** is the cost associated with owning or holding currency over a given period. Many successful complimentary currencies employ a demurrage device to incentivize circulation above accumulation.

The ACORN currency function will operate on most point-of-sale (POS) swipe devices. Very little will need to be done to adapt those few POS devices where it does not currently work to accommodate local currency or cheaply swap those devices out. The virtual closed-loop system on which the local currency card will function will not interfere with the debit cards functioning in an open-loop. A key press on the register will control the opening and closing of this gate; and error messages will result if the cashier makes a mistake.

The API or set of APIs will allow card holders management of their account through computer/internet, regular phone (through voice-response network) and smart phone, and/or through office visits. Conversion of US dollars to local e-currency will happen through the same systems. Pay checks in US dollars could be partially or in total converted into local currency through standard direct-deposit processes and uploaded on to the card at established retail outlets. Receipt of funds into the account or withdrawals from the account will warrant an immediate internet and/or telephone notice. Person-to-person account-to-account “on the street” transfers could also be made once the receivers account number is known. Access to the account will be controlled by a unique user ID and a password. The primary card account holder can have subordinate cards issued to family members (children) that will be controlled by the primary account holder. These subordinate accounts could be controlled by the primary with a toggle off (toggle on) switch, preset limits on use, with balance and use notifications.

ACSP will contract with a local bank or credit union to manage the local currency card accounts. The security of the system will be equal to or better than that of current US dollar carrying cards. Data will be encrypted in the same fashion and the main frame computer hosting the accounts will be secure in the facility of the financial institution. This will provide the same personal data protections that are afforded the debit card accounts through SF Global. Essentially the same banking privacy processes and arrangements will be in place.

Operational Administration

Operational administration will be focused on building the currency network deep into Oakland’s micro-economy. The benefits to all users and the community as a whole multiply as the currency flows expand into new industries and into new resident constituencies. This growth is essentially synergistic: as the card users expand, the number of businesses interested in accepting the card will also expand. As those businesses find additional value in using the currency – paying employees, paying for professional services, **increased access to merchant’s loans** - , they will accept more use of the currency and increase the discount for purchases with the local currency thus attracting more card holders and increasing the use of the card. The primary activity of the operational administration is to *increase and expand this virtuous circle* of local currency growth and flow.

The Operational administration will generally follow the guidelines indicated in the Transitional Communities *Ten Steps to Creating Your Own Local Currency*. Where that British nomenclature guide speaks of a “trader liaison” function the Oakland local currency small business focus staff (SBF) will support and recruit small Oakland businesses into full participation. This SBF staff will also work with

enrolled small businesses to identify new industries to approach where participating small businesses may spend the ACORN currency they take in from their customers. The SBF may approach specific businesses by way of the recommendations of participating businesses. They may also open up opportunities with the City of Oakland to allow small businesses to pay fees and charges for services that the City demands and receives from businesses. Finally the SBF staff will recruit community-based organizations and nonprofits to accept local currency as contributions. These nonprofits will be presented to small businesses as a community-serving opportunity for their charitable contributions in local currency that they will be able to account for in their tax filings of Federal and State tax deductions. By law all Federal and State taxes of retail sales and professional service sales are accounted for whether in US dollars or local currency; so, of course, contributions in local currency are also counted for tax purposes. The SBF will also support the small business in their local currency record keeping through the software data programs.

Where the Transitions' Community guidelines recommends a community liaison function, Oakland will have a card holder focus (CHF) staff. This staff function will support and recruit card holders. The SBF staff and the CHF staff will closely collaborate. The CHF staff will generally organize public and special events in the community to promote use of the card-based currency. They will also speak to public and private labor unions to work with their public and private sector employers to receive local currency for services and products and to pay their employees in local currency. They will also work with others to recruit young and older entrepreneurs to utilize and accept local currency in their new cutting-edge environmental and locally-generated-urban-food enterprises. Oakland has a thriving urban agriculture and farmer's market activity base with which Seven Generations Consulting has already established a relationship. The City is also increasing business and work opportunities in environmental energy areas.

The CHF and SBF staff groups will be supported by administrative staff including an administrator who will be the public face of the currency, provide supportive supervision of staff, support the governing body, establish the annual budgets and monitor expenditures based on a budget approved by the currency governing body. There will be at least three consulting retainer agreements: (1) with a legal firm specializing in alternative currencies and innovative business financing mechanism, (2) with a firm specializing in debit and credit card industry technology and procedures, and (3) with an entrepreneurial and business plan development specialist.

As much as possible the community will be mobilized to promote the card(s) and their benefits to fellow consumers and to merchants. An additional function of the senior staff will be to anticipate new technology and programs such as convenient "aps" and to prepare for and design additional card functions and opportunities. At the end of the design description we will outline some of these new directions. It is estimated that upon full administrative function mobilization the cost of the administration of the card program will average about \$46,000 (or its ACORN equivalent) **per month**.

Financial Aspects of the Design

Card holder costs and Benefits:

There will be a \$4 charge for purchasing the ACSP non-ID card. This card is up-loadable. ACORNs will be loaded on the card in a 1-1 conversion ratio up to @1000³ per card. There will be **no** initial incentive ACORNs on this card because there is no single identification associated with this card and the incentive one-time-only ACORNs are intended for only the first time use of Oakland residents to get them started with the currency. However, the purchasers of the non-ID version of the card will benefit from the merchant's discounts for purchases paid for with ACORNs. Other non-ID but specially branded cards will be handled in the same manner. Residents that first hear about the non-ID version of the currency card will be encouraged to purchase the resident ID version where they will receive the initial incentive ACORNs.

The resident Identification card is sold for \$15 with a \$5 discount for seniors and children. When residents activate the local currency function of the card, \$7.50 or half of this charge is transferred to the ACSP leg of the tripartite organizational structure. On initial purchase for an ID card, @30 will be programmed on the card. Thereby new ID card purchasers will double their spendable benefit from the initial \$15 purchase; thereafter they can upload ACORNs on the card with a 1 to 1 conversion. They will then, also, benefit from the merchant's discount when they buy using ACORNs.

Because the local currency functions on that portion of the card magnetic strip and that portion of the "rails" where no transaction percentage is currently charged, neither the merchant nor the cardholder will be charged transaction percentages. *The ACORN Governing Committee could decide to charge a transaction percentage on each transaction to fund the administration of the currency.* Cardholders will be eligible to contribute ACORNs to their favorite Oakland charity and deduct that from their Federal and State taxes. They will also be able to manage their account in the same manner as described above.

Merchants' costs and benefits:

Merchant costs for the Oakland Grown card are expected not to change when the local currency is added to that card and to the City ID card. Other than the monthly system costs of \$10, these costs are dependent on any need for swipe terminal changes and requests for other business services by the merchant. They will include as follows: terminal set up (\$5), sales compensations (\$5/month), cashier staff training (\$2), direct marketing (\$6/month), merchant support (\$5/hour). The merchant will be required to give *some* discount for the purchase of goods or services with ACORNs; **the amount of that discount will be left to each merchant.** *The local*

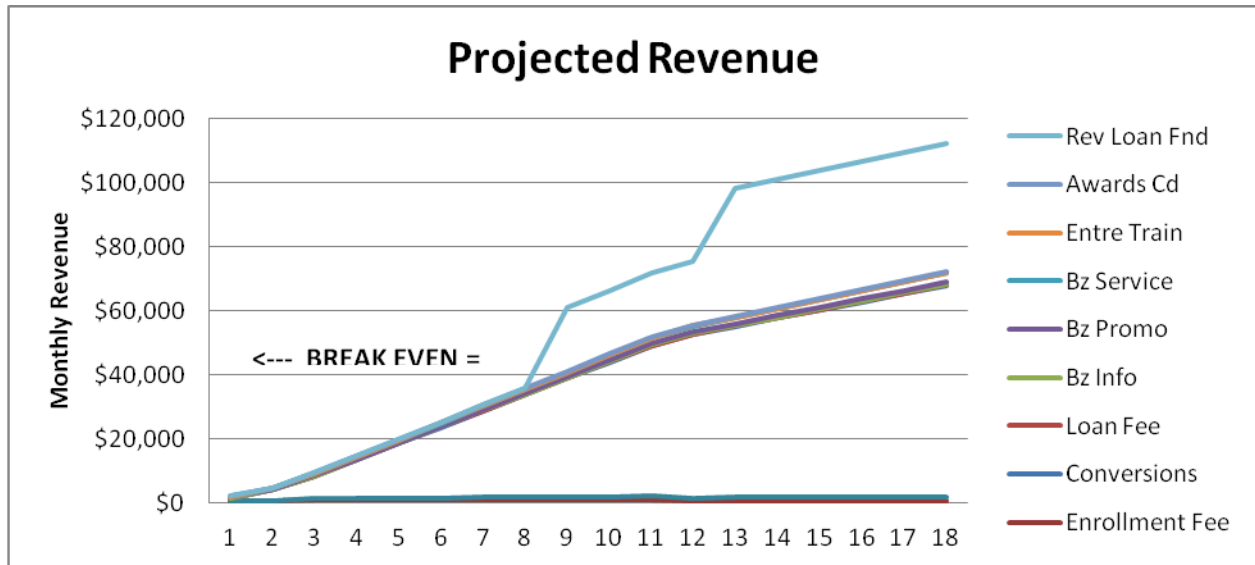
³ The ampersand symbol (@) is being used to denote the number of ACORNs in the same way that the dollar sign (\$) is used to indicate the number of US dollars.

currency governing body may set a minimum discount rate at some point. The merchant will be asked to identify which industries and companies they currently contract with for business services such as lawyers, accountants, shelf builders, employment services, advertising services, etc. Also payments for fees and services from the City and the County will be evaluated. The currency administration team (SBF group) will use that data to open up opportunities for participating merchants to spend the ACORNs they receive back into circulation. The currency team will also work with the merchants to achieve agreements with their employees to accept local currency as compensation; thus will the currency circulation flow be expanded.

The merchant will also receive information and evaluation of the effectiveness of local nonprofit agencies to which contributions could be made in local currency; this will both expand the currency flow and provide charitable deductions for Federal and State taxes. The merchants will benefit from a system that will significantly increase customer loyalty and enhance and stabilize the micro-economy in which they operate. Finally, the participating merchants will be eligible to receive merchants' business loans (in US dollars) at ZERO interest. They will only pay for the cost of processing the loan. [The funds for these loans will be available from the currency exchange pool when US dollars are exchanged for ACORNs by cardholders – the cardholders who desire the discounted pricing when they pay in ACORNs.] The merchants will be able to repay these loans in either US dollars or ACORNs.

A budget was devised from currency startup to the 18th month after startup. This budget includes a number of conservative assumptions. One of those assumptions is that 5 merchants a month could be enrolled in the first six months and 6 merchants a month could be enrolled in the next 12 months. This is conservative because Oakland Grown already has about 50 merchants enrolled in the Oak-share local spending points system, most of whom are aware of the phasing of the points system into a local currency. Another conservative assumption in the budget is that 50 cardholders could be enrolled in the first month and 100 could be enrolled in subsequent months before the rate will drop down to 50 per month again. This is conservative because Oakland Grown already has about 500 card holders and SF Global has already signed up 6,000 ID card holders. Another conservative assumption in this budget is that cardholders will average @50 expenditures per month. The final assumption is that merchants loans will be taken from the conversion pool at the rate of \$100 for each \$20,000 and that loans could be repaid in \$US or ACORNs.

Based on these conservative assumptions and the numbers that are available, a chart of the program will look as follows:



This projects a breakeven point that could be achieved within one year. **A \$200,000 grant or program related investment could assure achievement of these phenomenal outcomes.**

Sustainability and Resiliency

The ACORN will be a complementary currency not intended to replace the dollar. Bernard Lietaer (*The Future of Money: Creating New Wealth, Work, and a Wiser World*) has written extensively on the history of multiple currency use and the resiliency and prosperity that this use has brought about. He is a creator of successful new currency forms around the world. One currency has very rarely been able to serve all the transaction needs of any community and has almost always been detrimental to large sectors. During times of economic stress disparate and creative communities have adapted by creating new forms. There is a rich history in the United States of alternative and complementary currencies. The ACORN is designed to meet the microeconomic needs of Oakland.

Because it, in large part, eschews interest mechanism and debt mechanism, it does not burden the currency volume with the need for uncreated units. Hardly any of the currency flow is extracted in a fundamental way. In fact, by allowing dollar debts to be paid in ACORNs some of the stress on the dollar system at this level of economic activity is relieved.

The larger the volume of currency flow in the community, the greater will be the community sustainability and economic stability. Both the private sector and the public sector will have more assurance that if they are providing needed and attractive services and products that value will be paid to them in exchange. The community can recognize and maximize the benefits of self reliance. There is a obvious benefit to paying attention to the needs and wants of those in your community as opposed to a predominate attention to those much farther away.

Jane Jacobs (*The Death and Life of Great American Cities*) speaks of the importance of **import replacement**. When communities are able to generate vital needs within their sphere of direct contact, they are better able to survive and respond to damaging circumstances. There is no question that we are all part of a state, national, and worldwide community; Oakland with its port is a critical part of that. But neither is there any question that the availability of local critical resources makes a huge difference to individual and community survivability and resiliency. A local currency designed like the ACORN that gives some small benefit to local spending encourages local hiring, import replacement, and entrepreneurial creativity.

Future functional possibilities

The flexibility of this technology provides the possibility of consideration of expanding the community needs that could be addressed through this project. Here we will outline a few of them.

When the City accepts payments of fees and for services in ACORNs a number of options become possible. One will be using the ACORNs that the City receives from the payments of fees and for City services in the City's "gun buyback" program. Currently the City pays out coupons or vouchers redeemable for the purchase of goods or services in exchange for guns. By distributing ACORN cards the City will be able to make sure that those resources stay within the community's currency circulation. This will discourage out-of-towners from bringing in their weapons to Oakland. Then the gun exchange will not only take guns off Oakland streets but will also directly boost the local economy. This highlights a general security benefit of the widespread use of local currency. In a similar manner as national retail firms, criminal enterprises generally pull money out of the local economy. When the poor and working class – who are targets of many criminal enterprises – heavily use local currency those resources cannot be taken out of the micro-economy and Oakland residents become less desirable targets for external-to-the-City criminal activity.

Adapting a different version of the card for Oakland Unified School District and Peralta Community College student identification cards also opens up important options. Bernard Lietaer designed the Saber educational currency for Brazil. It is handed out by the Brazilian Ministry of Education. The currency is given for free to students, who can use it to buy tutoring from older students. The currency propagates from lower grades to higher grades and finally propagates to colleges where it is used to pay tuition. Allowing Peralta colleges to accept such a currency, convert it to ACORNs, pay staff who then will spend those ACORNs back into the Oakland micro-economy will be a powerful boost to the economy and also to youth education.

The final future possibility we will present here is being currently investigated. Alameda County distributes many of its assistance services through the debit card technology. These cards are known as Electronic Benefit Transfer (EBT) cards. The following benefits are given in this way: CalFresh (SNAP), CalWORKs, Refugee Cash Assistance, Cash Assistance Payments to Immigrants (CAPI), and General Assistance. Unfortunately, these cards represent tens of millions of dollars in Oakland. If the County allowed recipients to convert those dollars to ACORNs (with the same spending restrictions), the recipients will benefit because their funds will go further and the local business community will also

benefit. Ultimately, this will mean – as the local businesses did better and as recipients started their own businesses – more job opportunities that will help recipients transition off County services.

We believe that this currency design is sound and practical. It will be a powerful benefit to the City of Oakland and the City's residents and neighbors. It will be a huge boost to the locally owned small business community. The currency, as designed, will play a major role in knitting the community together and facilitating the well being and prosperity of all.

By Wilson Riles