LOPSIII - Operating Agreement Formation Guidance - version IV

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LO - Locally Owned

PS - Profit-Sharing

III - Income Inequality Inhibitor

This LOPSIII Operating Agreement Formation Guidance serves as information for new and current business owners to assess their own economic orientation and convert their existing business or to create a new Operating Agreement to more responsibly participate in the for-profit economy. This *living document* will evolve over time.

The Operating Agreement (OA) is an important document that lays out the framework for how people, money and things flow through a business, and how they are to be organized and directed. The OA is the final and fundamental authority on the flow of capital. In lieu of alternatives, the vast majority of for-profit businesses in the United States adopt a similar model of capitalism through the (often thoughtless) implementation of a boilerplate OA that channels the net proceeds of an enterprise, ultimately, to the (usually exclusive) ownership tier at the top of the administration. Such is the hyper-efficient model of capitalism in the *beforetimes*. Automation, digitization, and countless other unpredictable disruptions have already devastated, and will continue to erode the efficacy of the antiquated mode of capitalism thereby necessitating a new alternative. A LOPSIII is a business model for the future.

Through centuries of trial-and-error, capitalism in the United States has produced a remarkably powerful and efficient method of extracting profit from commercial activity through *profit-trickles-up* structures. Many individuals have grown incredible wealth from this process, largely, and literally, at the economic expense of the hardworking citizen. So long as businesses are legally and structurally organized in the same (extractive) manner *on paper*, business-as-usual will continue, and income inequality will flourish as *profits trickle up*. All businesses that are structured as a typical LLC will eventually settle into this extractive behavior if they can prove profitable enough to survive.

The LOPSIII model circumvents the harmfully extractive nature of the business-as-usual model of capitalism. By redirecting profit and value into the community with *ineradicable mechanisms* in the OA, a LOPSIII and its host surroundings (local tax base) *feed* each other symbiotically, generating revenue and opportunity for both. By combining the powerful factors of being Locally Owned (LO), Profit-Sharing (PS) and *necessitating* an Income Inequality Inhibitor (III), any for-profit business plan can participate in generating a mutually beneficial and equitable local economy.

LO - Locally Owned

Being Locally Owned (LO) is a necessary imperative for *true* LOPSIII business. Not only does being authentically LO prevent wealth extraction from the community of consumers who constitute the revenue and tax bases, it also naturally vets and trains Managers/Owners for healthy economic integration.

Instead of trickling up, net profits in a LOPSIII *trickle out* into the community that hosts it and the local workforce that makes it possible, generating a mutually beneficial relationship with material flow and financial substance, not just high hopes and ideals.

In order to qualify as being LO, ***51%+ of a LOPSIII entity's Ownership must have a primary physical residency within the same geographic area (local tax base) as the business itself, which also must match the customer base that supports the business***.

Additional Details:

- This LO measure ensures that *where the product/service/IP is produced and delivered* is *where the majority of the profits remain*. Without this provision, the extraction of wealth to "outside" owners is an eventual certainty according to the nature of capital flow.
- If a LOPSIII customer base is larger than the single city within which it is registered (ie: the Front Range Foodshed), then the LO ownership requirement functions at the larger scale, as is the case with all such similar conditions up to and including statewide coverage.
- If the primary customer base is national, international, or online to a similar effect, then the ownership requirement functions with respect to the LOPSIII's designated state tax authority.
- Any Manager appointment within a LOPSIII must be to an individual who has her/himself worked as a Member at the LOPSIII involved for *no less than 12 months* in total. If more than one new Manager is being considered, each new Manager must individually fulfill the 12 month requirement.

Local Environmental Impact

Local Ownership ensures a vested interest in the impact a LOPSIII has on its local environment. All LOPSIII enterprises should strive towards *carbon neutrality* or better.

Any LOPSIII that is found to have deliberately or dismissively caused environmental harm due to poor operational planning will have its LOPSIII certification revoked.

PS - Profit Sharing

Profit Sharing is a critical cornerstone of forming a LOPSIII. It is the basic function of how workers in the business are equitably compensated for their labor and effort in keeping the business operational, and it requires the prohibition of any regularly distributed compensation as a business expense. This function provides all LOPSIII Members with a strong financial incentive tied to the operational success of the business, also known as "skin-in-the-game".

1. **No Member may receive a salary, hourly or any predetermined regular wage.**
    a. All workers must be established as PS Members (or Managers), or else they must qualify as 1099 contractors.
2. Sharing of Retained Earnings, in conjunction with the prohibition of salary/hourly wages, is the only way to guarantee that excess capital doesn't accumulate at the top of the organizational structure. No LOPSIII business owner can earn more than a few multiples of the lowest earning Member.
    a. PS is the only way to equitably compensate workers for work produced. As such, it counteracts the wealth extraction that occurs when a company operates successfully but its employees are paid at a fixed rate.
3. PS must reach directly into the community beyond the act of compensating the local workforce that constitute a LOPSIII business. This PS-with-the-community goal is achieved through the Income Inequality Inhibitor (III) and the Local Fund. In this way, the PS and III elements of a LOPSIII work hand-in-hand.

<u>Profit-Sharing distribution:</u>

Allocation and distribution of profits in a LOPSIII:

- ➢ All Members must receive one (1) share of the PS earnings
- ➢ All Managers must receive two (2) shares of the PS earnings
- ➢ All Owner-Managers must receive (2) shares of the PS earnings
- ➢ All Owners (non-Manager) must receive one (1) share of the PS earnings
- ➢ **<u>The III</u>** - The Local Fund (LF) must receive one (1) additional share of the PS earnings for each additional multiple of the **mean monthly income per capita above the Locality Threshold** (LT = double the host city's monthly average income per capita*).
    - Ex: $25,000 in monthly retained earnings
      <u>Owner-Member x 2 = 4 shares</u> - <u>LT = $6,000</u>
      $25,000 / 4 (shares) = 6,250 -> higher than LT, so **+1 share for Local Fund**
      $25,000 / 5 (4 Owner-Member shares **+ 1 Local Fund share**) = 5,000/share
      5,000 x 2 = $10,000 for each Owner-Member
      5,000 x 1 - $5,000 for Local Fund

* Per capita income data available for all cities with pop. 5,000+, verified through census.gov

III - Income Inequality Inhibitor

The Income Inequality Inhibitor (III) is an accounting mechanism as well as an ideology.

To understand the III, it is helpful to imagine the profits of a LOPSIII business as the growing branches of a tree. When the branches of the tree multiply with healthy growth (business profits), some of the new branches (profits) are *lopped* off (redirected) by the III and given (granted) to various aspects of the environment that support the tree. This *lopping* mechanism (the III, hard at work) ensures both that the LOPSIII business itself never extracts an unsustainable amount of revenue from its host community (harm typically caused by unfettered capital accumulation in business-as-usual competition) and that the workers who support the LOPSIII are ethically compensated (never too many branches "lopped" relative to profits generated).

The III effectively operates to inject a portion of the profits retained back into the Locality (host/local municipal community) in which it is registered, through the Profit Sharing (PS) framework that a LOPSIII provides. This portion, which accrues in the Local Fund (LF), must be granted and/or donated, *in its entirety*, with no expectation of repayment, to aspiring entrepreneurs and businesses/organizations who:

1. Provide proof of residency in the same Locality as the LOPSIII;
2. Provide a *maximum* one-page document detailing:
    a. Why they are an ideal recipient of funds reserved for those who have been *historically, economically disenfranchised in the US*; and
    b. How they plan to use the money; and,
    c. How much money they are requesting, and why said sum is ideal.

The III *must* operate in a LOPSIII without fail. Because the III functions with respect to the Locality Threshold*, the financial demographics of the Locality naturally guide levels of LOPSIII economic activity to become *sustainable* and *sufficient*. Networks of LOPSIIIs working together will result in a positive growth feedback loop in the Locality.**

Without an III *lopping* mechanism, an increase in business profits eventually results in an increase in wealth extraction from a community. Without a *built-in* III in the OA of a business, the natural drive towards efficiency in the capitalism-as-usual model of the beforetimes precludes the ability to retain earnings ethically. All LOPSIIIs, by including the III, are fully encouraged to engage in profit-seeking endeavours, as that which benefits the LOPSIII financially benefits the community also.

* Locality Threshold (LT) = (Average Income per Capita among residents within Locality x 2)
** A pure LOPSIII network also includes local market-driven price points coordinated with other LT data (e.g. a group of restaurants whose menu prices are all maximally capped at the monetary equivalent of one hour of work earnings at the local minimum wage rate.)

LF - The Local Fund

The Local Fund (LF) is a distinct account that accrues profits (received from shares generated for it by the III) that are to be allocated to various programs and recipients within the Locality, and distributed as grants as rapidly as possible.

Any local resident or locally owned organization can apply for grant money from the LF.

At the end of every fiscal quarter, any funds that remain in the LF are to be automatically donated to the respective state's chapter of the **NAACP Empowerment Programs** 501(c)(3).

Profit accrual into the LF, followed by the rapid injection of those funds out into the LOPSIII's host community is the primary goal of the Income Inequality Inhibitor (III) *lopping* mechanism.

An effective LOPSIII is one which smoothly and continuously distributes the entirety of its LF to historically economically disenfranchised individuals and their entrepreneurial aspirations.

The LOPSIII has the right, responsibility and privilege to guide the money in the LF "out the door" as soon as possible. Since the LOPSIII holds a privileged vantage point (it has skin-in-the-game by being LO), it is particularly qualified to helpfully guide the rapid release of funds from the LF into the community.

Of the many possible uses and causes that grant funds from the LF could feasibly assist, personal development (that is, non-institutional education) is one area in particular whose long-term benefits greatly exceed the initial investment, both for the individual and the community. It is also an area which has been largely excluded from the economically disenfranchised due to the nature of costs.

- ➢ All LOPSIIIs ought to aspire to spread as much knowledge about financial responsibility to those who receive from the LF as is possible.

<u>Possible LF Distribution Channels:</u>

- BIPOC Entrepreneurial plans and professional development
- Local Ecology/Environment Sustainability Projects led by the historically disenfranchised*
- Programs Designed to Support the Economically Disenfranchised
- LOPSIII Startups (Local) by the historically disenfranchised, and the remodeling of existing businesses into a LOPSIII structure

*These are an important opportunity since environmental sustainability has a disproportionately strong effect on the economically disenfranchised.