LOPSIII - Operating Agreement Formation Guidance - version V

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LO - Locally Owned

PS - Profit-Sharing

III - Income Inequality Inhibitor

This LOPSIII Operating Agreement Formation Guidance serves as a guide for 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 continue to 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 general flow of capital through a company. 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, “artificial” intelligence and countless other unpredictable disruptions will continue to redesign global capital flows, and will continue to erode the efficacy of the ubiquitous yet antiquated mode of capitalism-as-usual, thereby necessitating a new alternative. A LOPSIII is a business model for the future.

Through centuries of trial-and-error, capitalism in the Western world has produced a remarkably powerful and efficient method of extracting profit from commercial activity through *profit-trickles-up* structures. Many individuals (all capitalists, who deploy their capital to productive forces, rather than their labor efforts) 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*, capitalism-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 capitalism-as-usual model of business. By redirecting profit and value into the community with *ineradicable mechanisms* embedded in the OA, a LOPSIII and its host surroundings (local tax base) *feed* each other symbiotically, generating cash flow and opportunity for both. By combining the powerful factors of being Locally Owned (LO) and Profit-Sharing (PS) and also *necessitating* an Income Inequality Inhibitor (III), any for-profit business plan can participate in generating a mutually beneficial and equitable local economy.

Anyone can form a LOPSIII, using this guide at no additional cost, on their own, at any time.

LO - Locally Owned

Being Locally Owned (LO) is a necessary imperative for *true* LOPSIII business. Not only does local ownership prevent wealth extraction from the community of consumers who constitute the revenue and tax bases, it also provides a "natural" selection mechanism for Managers/Owners who are personally invested in the healthy integration of their enterprise into the local community.

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 that are capped by wage ceilings.

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***.

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's primary customer base is larger or different than the single city within which the LOPSIII is registered (ie: a Honolulu, HI-based business that sells to the mainland), then the LO ownership requirement functions at the level of local tax registration.
- 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. Each new Manager must individually fulfill the 12 month requirement.

<u>Local Environmental Impact</u>

Local Ownership ensures a vested interest in the impact a LOPSIII has on its local environment. As alternative energy generation methods proliferate, all LOPSIIIs should strive for net carbon neutrality.

PS - Profit-Sharing

Profit-Sharing (PS) is a critical cornerstone of forming a LOPSIII. Regular employee payouts are the basic function of how workers in a business are equitably compensated for their labor and effort in keeping the business operational, but capitalism-as-usual has corrupted the compensation dynamic (via the profit motive) and pigeon-holed it into a never-ending field of contention between the two primary types of contributors to a business: the capitalists who deploy their money, and the workers who deploy their labor. The debate about compensation for workers has been embedded into this bi-polar dialectic, with the positions of both sides continually reinforcing the structure of the argument as a given circumstance; a change of perspective is *necessary*. Over time, certain groups have become historically, economically disenfranchised through this conflict of economic interests.

Actually, and perhaps counterintuitively, the most-ethical distribution of cash flows to workers within a company requires the *prohibition* of any pre-figured disbursement of compensation as a business (labor) expense, such as wages and salaries. Business operations subject to mandatory regular wage distributions are critically crippled in their flexibility and adaptability to commercial market evolution. Whenever a firm needs to reorganize/restructure to accommodate a changing commercial environment, jobs, which are typically the single largest expense of a business, are virtually always lost.

The PS 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". LOPSIII members learn to be financially savvy enough to manage their personal finances in such a way as to accommodate the possibility of being paid less in a particular period of slow business, while being paid much, much more during periods of enterprise success and profitability. The financial interplay between a business and its workers need not be so rigid as the wage-based supporters, both capitalist and laborer, contend.

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. The 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 extend directly into the community—beyond the act of compensating the local workforce that constitutes a LOPSIII business. This PS-within-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.

The Structure of LOPSIII Profit-Sharing Distributions:

Allocation and distribution of profits in a LOPSIII:

- All Members must receive one (1) total share of the PS earnings
- All Managers must receive two (2) total shares of the PS earnings
- All Owner-Managers must receive two (2) total shares of the PS earnings
- All Owners (non-Manager) must receive one (1) total share of the PS earnings
- **The III** - 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)** (LT = double the host city's monthly average income per capita*).

    - Ex 1: Small, 2-person business with $25,000 in monthly retained earnings: (LT = $6,000)

      Owner-Manager x 2 = 4 total shares

      $25,000/4 shares = 6,250 -> higher than LT, so **+1 share for Local Fund**
      Therefore, recalculate new total with LF share:
      $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

    - Ex 2a: Small, 8-person business with $100,000 in monthly retained earnings: (LT = $5,000)

      Owner-Manager x 1 = 2 shares
      Manager-Member x 1 = 2 shares
      Member x 6 = 6 shares -> 10 total shares

      $100,000/10 shares = 10,000 -> *double* LT level, so **+2 shares for Local Fund**
      $100,000/12 (10 Member shares **+ 2 Local Fund shares**) = $8,333/share
      8,333 x 2 = $16,666 for Owners, Manager
      8,333 x 1 = $8,333 for Members
      8,333 x 2 = $16,666 for Local Fund

    - Ex 2b: Same structure as 2a, $100,000 in retained earnings, but in expensive locality: (LT = $15,000)

      $100,000/10 shares = 10,000 -> below LT level; no contribution to **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 procedure 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 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 capitalism-as-usual competition), and that the workers who support the LOPSIII are ethically compensated, as there are 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. Each LOPSIII must accrue this ever-accumulating portion into an account called the Local Fund (LF), which 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. The III functions with respect to the Locality Threshold*, so 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 and profit-maximization in the capitalism-as-usual model precludes the ability of a company to redistribute earnings ethically. All LOPSIIIs, by including the III, are fully encouraged to engage in profit-seeking endeavors, as that which benefits the LOPSIII financially benefits the community also.

[* Locality Threshold (LT) = Average Income per Capita among Locality residents x 2]

LF - The Local Fund

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

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

At the end of every fiscal year, 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 (including 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. Promoting financial literacy is an important, ongoing goal of all LOPSIII enterprises.

<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 impact on the economically disenfranchised.]