Shared Equity in Economic Development (SEED) Fellowship Technical Assistance Panel Visit

November 2018
Who we are

The National League of Cities (NLC) is dedicated to helping city leaders build stronger, equitable, sustainable and inclusive communities.

The Democracy at Work Institute (DAWI) was created by the U.S. Federation of Worker Cooperatives (USFWC) to expand worker ownership in a movement that is adequately supported, effective, and strategically directed.
The SEED Fellowship is made possible with support from
### TOP 10 ISSUES OVER THE LAST FOUR YEARS

Number in parentheses indicates previous year’s rank.

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<th>Year</th>
<th>Economic Development</th>
<th>Infrastructure</th>
<th>Public Safety</th>
<th>Budgets</th>
<th>Education</th>
<th>Housing</th>
<th>Data/Technology</th>
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<th>Demographics</th>
<th>Health Care</th>
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<td>2016</td>
<td>Economic Development</td>
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<td>Public Safety</td>
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<td>Housing</td>
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- **2018**
  - Economic Development (1)
  - Infrastructure (3)
  - Budgets and Management (4)
  - Housing (5)
  - Public Safety (2)
  - Health & Human Services (8)
  - Education (6)
  - Energy & Environment (7)
  - Gov’t Data & Technology (10)
  - Demographics (9)
Durham’s pay disparity

Share of workers earning at least $15/hour by race/ethnicity: Durham City, NC, 1980-2015

IPUMS
Durham’s unemployment disparity

Unemployment rate by race/ethnicity: Durham City, NC, 1980-2015

IPUMS
Durham’s home ownership disparity

Percent owner-occupied households by race/ethnicity: Durham City, NC, 2015

- All: 52.3%
- White: 66.8%
- Black: 39.5%
- Latino: 27.1%
- Asian or Pacific Islander: 46.7%
- People of color: 38.5%

IPUMS
The Shared Equity in Economic Development Fellowship (SEED) is a partnership between the National League of Cities and the Democracy at Work Institute that convenes and equips city leaders with tools, resources, and expertise to build equitable economies using democratic business ownership through a year long program of leaderships development, peer-to-peer learning, and strategy design support.
African-American wealth is disproportionately lower than that of white wealth. This drives a cycle of poverty and unemployment. The loss of minority-owned legacy businesses will further exacerbate these issues.

The Silver Tsunami is forecast to be one of the biggest changeovers of privately-held businesses in U.S. history.

Helping owners **convert their business to employee ownership** can tap this for the good of our employees and of our local economy.
Andre Pettigrew
Director
Office of Economic and Workforce Development

Chris Dickey
Economic Development Coordinator
Office of Economic and Workforce Development

Deborah Giles
Director
Office of Equal Opportunity and Equity Assurance

La-Tasha Best-Gaddy
University Program Specialist
Small Business and Technology Development Center (SBTDC)
North Carolina Central University
Advisory Panel

Katrina DeBerry, Program Officer, Community Foundation of Greater Atlanta, Atlanta, GA

Stephanie DeVane, Vice President of Entrepreneurship and Business Development, National Urban League, New York City, NY

Nathan Hixson, Director of Lending and Operations, Local Enterprise Assistance Fund, Boston, MA

Sandy Lila, Contract Compliance Analyst, City of Miami, FL

Jamila Medley, Executive Director, Philadelphia Area Cooperative Alliance, Philadelphia, PA

Jim Terrell, Principal Project Coordinator and Manager of Participation Loan Programs, City of Minneapolis, MN
Durham Problem Statement

1. Durham has a rich history of African American businesses. Many legacy businesses remain and are vital to the community fabric.

2. We intend to preserve minority-owned legacy business and expand small business ownership through conversions to employee ownership and business succession planning.

3. Our goals: Build an ecosystem of strategies that support the conversion of minority-owned legacy businesses to employee ownership:
   1. Work with community partners to design and implement the approach
   2. Identify interested business candidates
   3. Link businesses to specialized TA
Agenda

1. General Observations
2. Challenges and Opportunities
3. Context: Past, Present, and Future
4. Capacity and Ecosystem Building
5. Data Collection and Modeling
6. Homework
General Observations

• The Durham economy is booming with unprecedented growth and private investment.

• The City of Durham has a strategic plan that centers shared economic prosperity as one of its key goals.

• Durham has a rich history of African American legacy businesses and many are now under risk of closure due to owner retirement.

• City leadership is aligned on addressing issues of equity and inclusion.

• The increased cost of living has made it challenging for long term residents to remain in the city.

• The city has intentionally invested in streetscapes and commercial corridor growth and development.
Challenges

- The enduring effects of segregation and discriminatory policies are difficult to overcome.
- There is a need for greater community trust around neighborhood redevelopment that requires greater transparency and consistent implementation.
- Real estate prospecting and prices could hamper efforts to preserve affordability.
- Lack of available data on business local demographics.
- Small business resources and technical assistance are fragmented.
- Current zoning, regulations and permitting processes create barriers to business development and retention.
- Limited awareness among the public, business community and financial institutions of shared ownership models.
Opportunities & Strengths

• The Mayor and City Council are broadly dedicated to equity and equitable economic development specifically.

• There is a rich history of successful black entrepreneurship (Black Wall Street) that is widely celebrated and remembered.

• The continued presence of several legacy businesses can provide leadership and support for black business retention efforts.

• The City has a strong ecosystem of civic and grassroots organizations that support business owners of color (PACs, Chain, Black Chamber, etc.).

• The introduction of a Participatory Budgeting Process can provide community-directed support for the initiative.

• Durham has the ability to leverage research & resources of large local universities.
Visionary Leadership in the New South


1890 - 1915
Durham has a long history of black entrepreneurship demonstrated by the existence and legacy of Black Wall Street which provided:

- A robust economy that served the needs of African Americans in Durham when they were traditionally excluded from mainstream options
- Embedded knowledge, skills, and collective economic development in Durham’s African American community
- Wealth and jobs for African Americans in Durham
Black Wall Street didn’t disappear, it was intentionally destroyed

Even after that destruction, the African-American community was resilient

They worked hard to rebuild their businesses and create new ones

Then the 2008 recession hit and AA businesses were severely impacted

And when much of the country recovered, AA businesses were consistently left behind

Some of these legacy African American businesses still exist and are vital to the fabric of Durham
A legacy business can be defined as a:

- Long standing viable business
- Cultural community asset
- Provider of a key service
- Key economic driver

Loss of African American Legacy Businesses
Can you imagine a Durham without Legacy Black Businesses?

What would be lost?

- Cultural identity of the community
- Wealth
- Jobs
- Delivery of critical services or products
- African American business leaders as advocates for the business sector
What needs to be done?

Stabilize, retain and grow wealth for those businesses at greatest risk of closing.
How do we do it?

• Identify businesses whose owners are ready for retirement or are looking to sell
• Provide education about succession planning
• Introduce Employee Ownership as a succession planning strategy
Stages of a Conversion to Employee Ownership

1. Key stakeholders **EXPLORE** the idea
   - **VARY**ES
   - OWNER COMMTS RESOURCES

2. Professionals **ASSESS** feasibility
   - 12 MONTHS
   - DEAL IS DEEMED FEASIBLE

3. A team **STRUCTURES** the transaction
   - 6 MONTHS
   - FINANCING IS READY

4. The transaction is **COMPLETED**
   - 3 MONTHS
   - OWNERSHIP TRANSITION

5. Operations and culture are **SUPPORTED**
   - **VARY**ES
   - SUCCESSFUL OPERATIONS
What is Employee Ownership?

A Business Owned and Controlled by Employees

INVESTMENT
- equity

PROFIT / LOSS
- risk

BOARD
- strategy and oversight
Encourage African American legacy business owners to consider selling their businesses to their workers, particularly when they are at risk of closing.

This will:
• keep the business alive
• retain jobs
• compensate the owner for the value of the business
• transfer wealth and new skills to workers

This is the creation of new employee-owned businesses.
Defining Equity

The City and community need to be aligned in their definition of equitable economic development, particularly what that means for African American legacy businesses.
Coops are a tool that should be used as part of an economic development toolbox that:

• Supports the continuation of legacy businesses

• Encourages future wealth-building for members of the community who are often left out of the equation

• Builds community cohesion among various stakeholders

• Removes barriers for minority business owners
Capacity and Ecosystem Building
Summary of Findings

- City only spent about 3% of procurement with MWBEs
- These firms were significantly underutilized as prime and subcontractors
- MWBEs have less access to capital than non-MWBEs
- Anecdotal evidence shows that without a program, minority-owned firms will not be awarded contracts

Recommendation

- The City will need to track the improvements against the gaps that were identified; then use it to improve their current processes and ultimate performance
Here are a few options to consider for elements of this ordinance:

- Cultivate expertise in worker coops at city-supported business service organizations
- Promote worker coops as a business model through outreach and education
- Create market opportunities for worker coops by giving preference points in city contracting
- Facilitate access to funding by providing loan guarantees to financial institutions that lend to coops
- Invest in worker coops through grants to finance coop start-ups and conversions
- RFP’s to solicit Technical Assistance providers to help support coops and provide training and feasibility studies
- Streamline regulatory processes and reduce land use fees and business taxes for newly formed worker coops
- Set goals around City’s engagement with WMBEs
  - Create clear measurable targets for contracts
  - Develop transparent quarterly reporting
Conduct deliberate outreach and education targeting older business owners

**City’s Role:**
- Facilitator for the community and partner organizations/providers
- Responsible for marketing and outreach which will speak to the value of a worker cooperative through:
  - Advertisements: website, newsletters, etc.
  - Informational sessions which will include providers
- Direct interested businesses to select providers in technical assistance and financing
We recommend that the City work with both local and national TA providers to assist in this effort.

Technical Assistance providers that will:

- Educate the public on worker coops and conversions
- Provide information on succession planning
- Advocate on the ground floor
- Identify the appropriate businesses for conversion
- Market and outreach to prospective clients
THE WORKERS TO OWNERS COLLABORATIVE
http://becomingemployeepurchased.org/
Data Collection and Modeling
Data that we have (Durham County 2012)
**WHAT:**
Granular Database of Durham Businesses

Database to include, but not limited to:

- Identifying information (Name, address, zip, phone etc.)
- Source of information
- Census tract location
- Ethnicity, age, and gender of business owner
- Entity form
- Primary commodity category (NAICS and SIC codes)
- DUNS number
- Annual revenue
- Number of employees
- Length of time in business
- Property ownership
- Existing city/county/state vendor status

Example of actionable list available from database:

- African-American businesses with 55+ owners and 10+ employees
**WHAT:**
Optimal Attributes for “Conversion Potential” Businesses

**Data-Driven Attributes:**
- 10-100 employees
- $500K-$10M in annual revenue
- Been in business for 7+ Years
- Age of owner
- Appropriate Industry

**Interview-Based Attributes:**
- Owner who’s interested in selling / owner considering exit
- Owner willing and able to provide seller financing
- Owner willing to remain involved as advisor post-conversion for 1-2 years
- Availability of collateral for business
- Healthy/Viable business
- Low staff turnover
- Appropriate business and technical support system
Employee Ownership Examples

A SLICE OF NEW YORK
Location: San Jose, CA
Industry: Restaurant
Number of employees: 33
Conversion date: 2017

NEW ERA WINDOWS
Location: Chicago, IL
Industry: Manufacturing
Number of employees: 15
Converted: 2012

A CHILD’S PLACE
Location: Queens, NY
Industry: Childcare
Number of employees: 50
Conversion date: In Process

To see more stories, visit http://becomingemployeeowned.org/
WHO:
Possible Information Sources and Partners
HOW:
Leveraging External Resources

City should utilize external partners to assist with data collection and organization:

University teams collect data to populate and organize database
• Example - City of Minneapolis - Carlson School of Business team of MBA students - 4 month engagement to examine viability of REITs as tool for wealth creation in challenged communities (no cost to city)

Leverage significant presence of Durham universities to assemble teams of university students with City oversight:
• High quality work at little to no cost to the City

Actively engage with high “conversion potential” businesses:
• Utilize relationship with information source partner to approach business owner
WHY:
Data Collection and Management Value Proposition

Current knowledge of Durham business landscape is anecdotal

Without robust business database:
- Nature and extent of challenges is unknown
- Time-sensitive opportunities may be missed
- Solutions implemented may not solve desired problems

Collection and analysis of data enables accurate and equitable solutions

Long-term commitment to tracking this data inspires businesses to participate at the outset and allows City to see trends and progress
WHY:
Sense of Urgency

“Each day, more than 10,000 Baby Boomers turn 65, a trend that is expected to continue through 2030. Baby Boomers own the majority of U.S. small businesses, and only 17 percent of them have a formal exit plan.”

“Far too often, [lack of planning] results in businesses closing when owners retire. This eliminates jobs while simultaneously removing businesses that provide core services and contribute to the local economy.”

“Since 2000, in the sectors and regions examined as part of this report, more than 1,200 of these older businesses, employing more than 52,000 people, closed.”
Next Check-In: Mid-Year Retreat
February 2019
Homework

1. Review and connect with existing coop funding models from other cities (i.e. NYC, Philly, Madison) to determine the feasibility of a grant framework for Durham.

2. Work with City Manager’s office to convene interdepartmental senior leadership and community stakeholders in order to build a common definition of equitable economic development and establish shared priorities.

3. Utilize tools, resources and training from the Worker to Owners Collaborative to equip local TA providers who can conduct business succession readiness assessments.

4. Meet with local universities to engage them in data collection opportunity for legacy business preservation project. Invite them to collaborate on collection, aggregation, and analysis of current market potential.
Thank you!
Thank you to the following people for assisting our panel: