



**Shared
Equity in
Economic
Development**
Fellowship



**CITY OF
DURHAM**

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.



Democracy at Work Institute
US FEDERATION OF WORKER COOPERATIVES

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



CitiCommunityDevelopment.com



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KELLOGG
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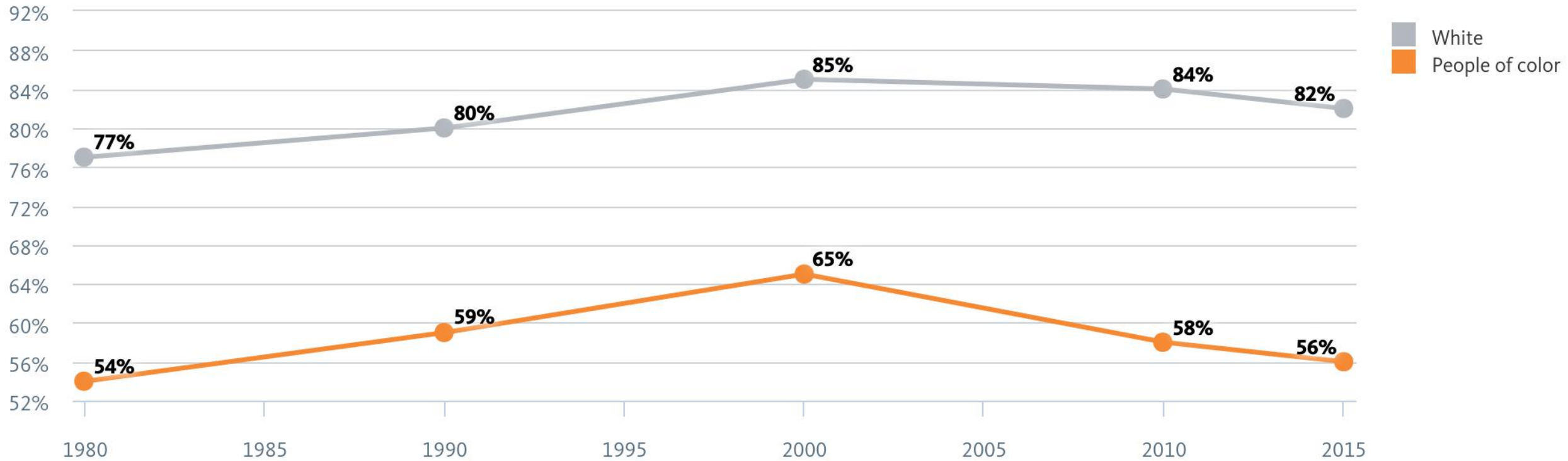
TOP 10 ISSUES OVER THE LAST FOUR YEARS

Number in parantheses indicates previous year's rank.



Durham's pay disparity

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

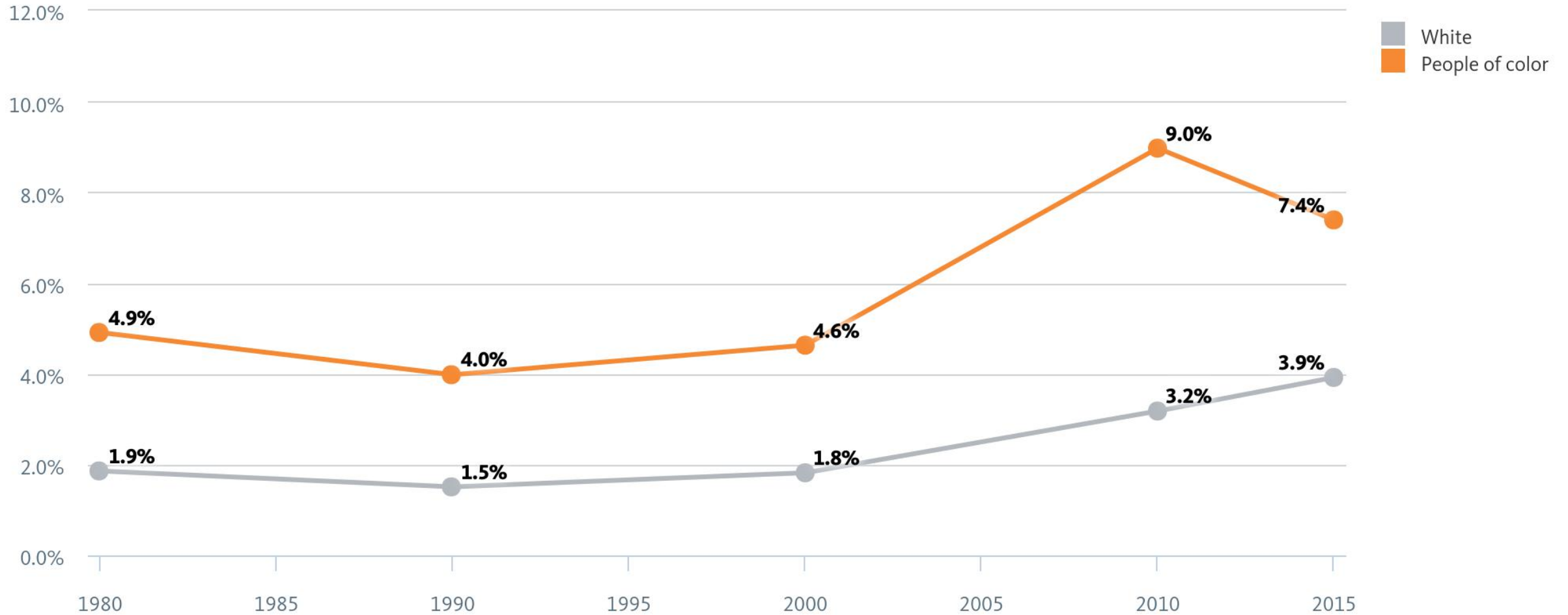


IPUMS

PolicyLink/PERE National Equity Atlas, www.nationalequityatlas.org

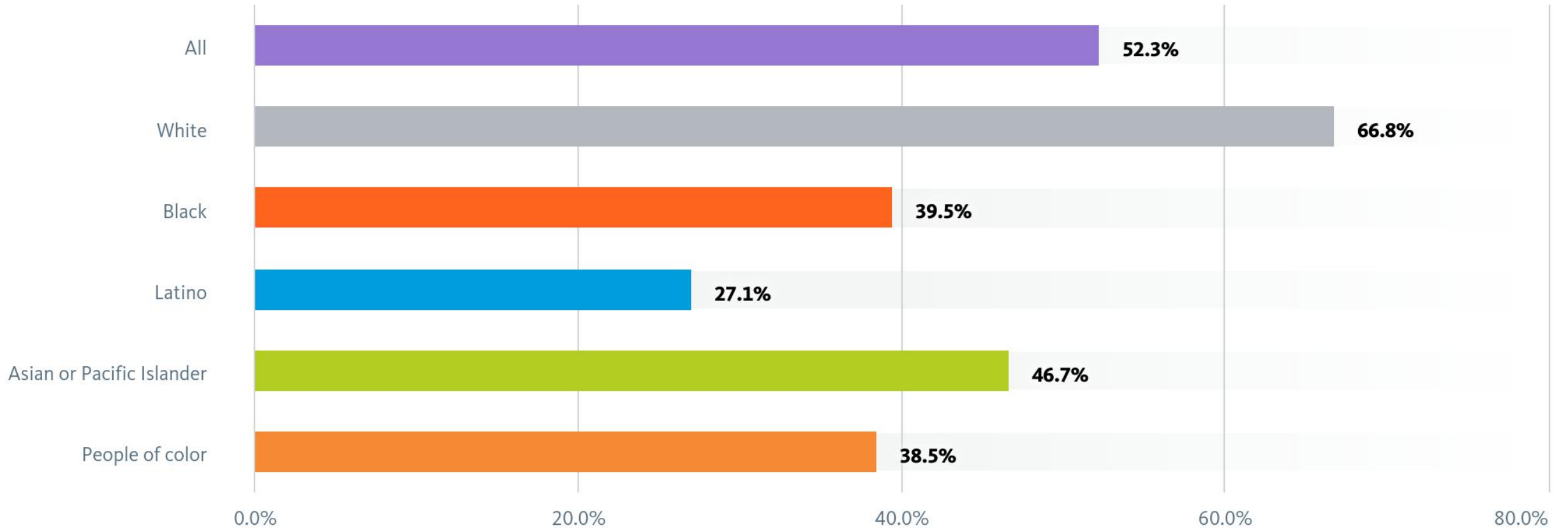
Durham's unemployment disparity

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



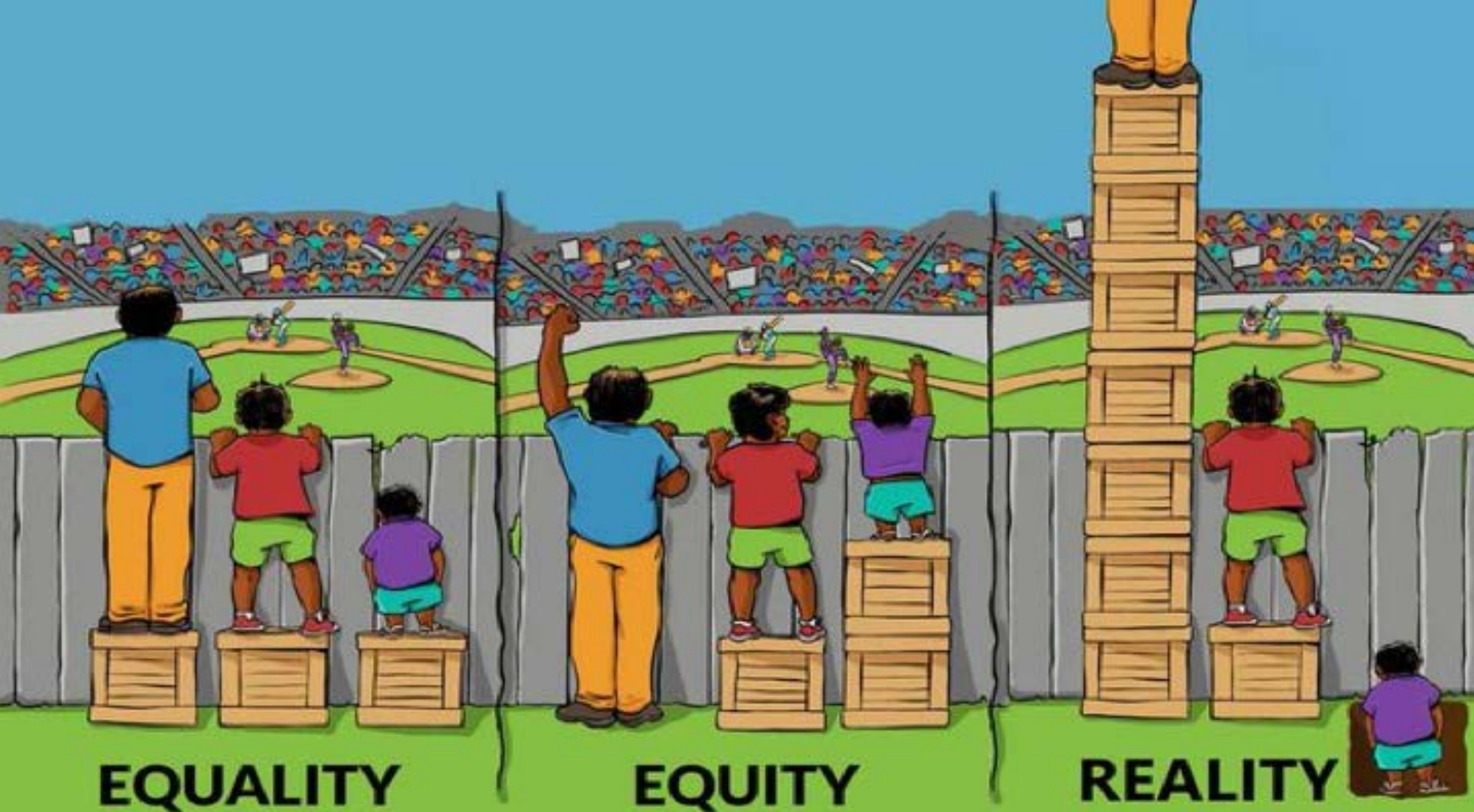
Durham's home ownership disparity

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



IPUMS

PolicyLink/PERE National Equity Atlas, www.nationalequityatlas.org



EQUALITY

EQUITY

REALITY



Shared Equity in Economic Development

Fellowship

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.

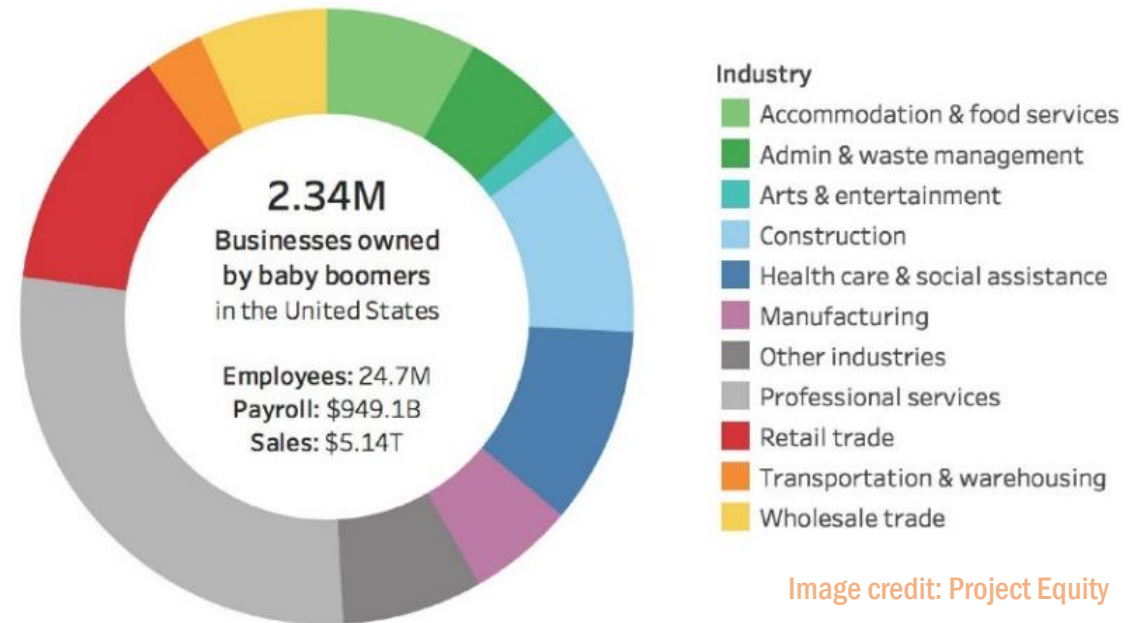
Twin Pressures: Racial Wealth Gap and Business Closure Crisis

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.

\$10 Trillion in assets
will transfer in the next 20 years



Have succession plan: 17%
Successful family transfer: <15%





Andre Pettigrew

Director
*Office of Economic and
Workforce Development*



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Deborah Giles

Director
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La-Tasha Best-Gaddy

University Program Specialist
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Advisory Panel

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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

An aerial photograph of a city, likely Atlanta, Georgia, showing a dense urban area with numerous buildings and a large green forested area. A blue diagonal overlay covers the bottom-left portion of the image, containing the text for the agenda.

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.



Context: Past, Present, Future

**Visionary Leadership
in the New South**

Black leaders John Merrick, R.B. Fitzgerald, A.M. Moore, J.A. Dodson, J.R. Hawkins, W.G. Pearson, J.E. Shepard, C.C. Spaulding, S.L. Warren, and G.W. Stephens created successful business, educational, and cultural institutions in Durham despite challenging race relations.

1890 - 1915

Legacy of African American Entrepreneurship

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

Legacy of African American Entrepreneurship (cont.)

- 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

Loss of African American Legacy Businesses

A legacy business can be defined as a:

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



**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?

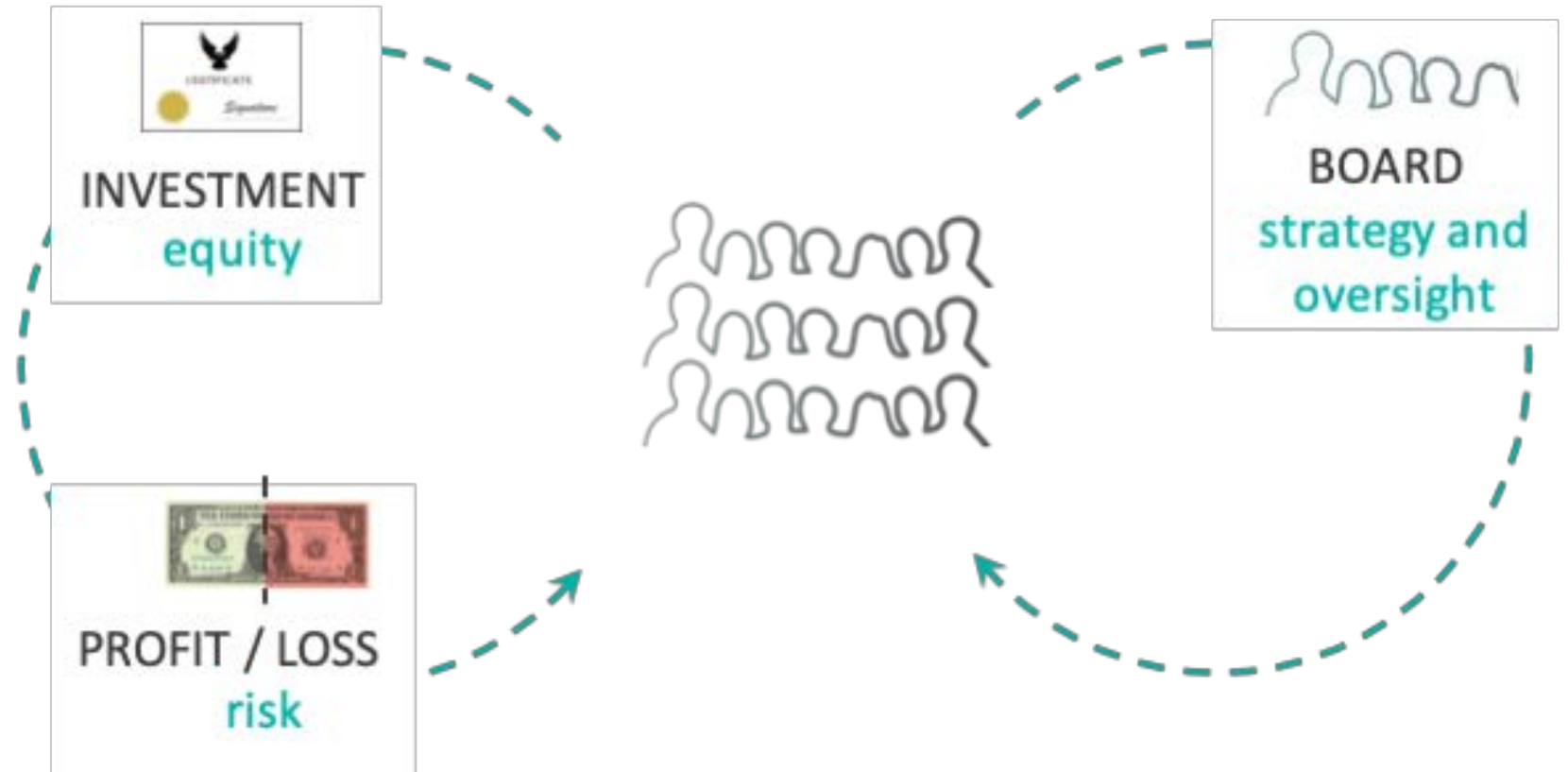
- Identify businesses whose owners are ready for retirement or are looking to sell
- Provide education about succession planning
- Introduce Employee Ownership as a succession planning strategy

Stages of a Conversion to Employee Ownership



A Business Owned and Controlled by Employees

What is Employee
Ownership?



Employee ownership for the right legacy business

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, not a silver bullet

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

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BLACK WALL STREET

In the early decades of the 1900's Durham acquired national reputation for entrepreneurship. Businesses owned by African Americans lined Parrish Street. Among them were N.C. Mutual Life Insurance Co. (moved to Parrish, 1906), led by John Merrick, Dr. Aaron Moore, & C. C. Spaulding and Mechanics and Farmers Bank (1907), led by R. B. Fitzgerald and W. G. Pearson.

NORTH CAROLINA OFFICE OF ARCHIVES AND HISTORY 2004

Capacity and Ecosystem Building



2014 Disparity Study

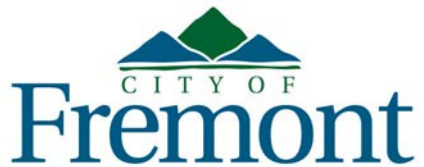
Summary of Findings

- 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

Worker Cooperative Ordinance



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

Recommendations

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

Partnering with Technical Assistance Providers

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



WORKERS TO OWNERS



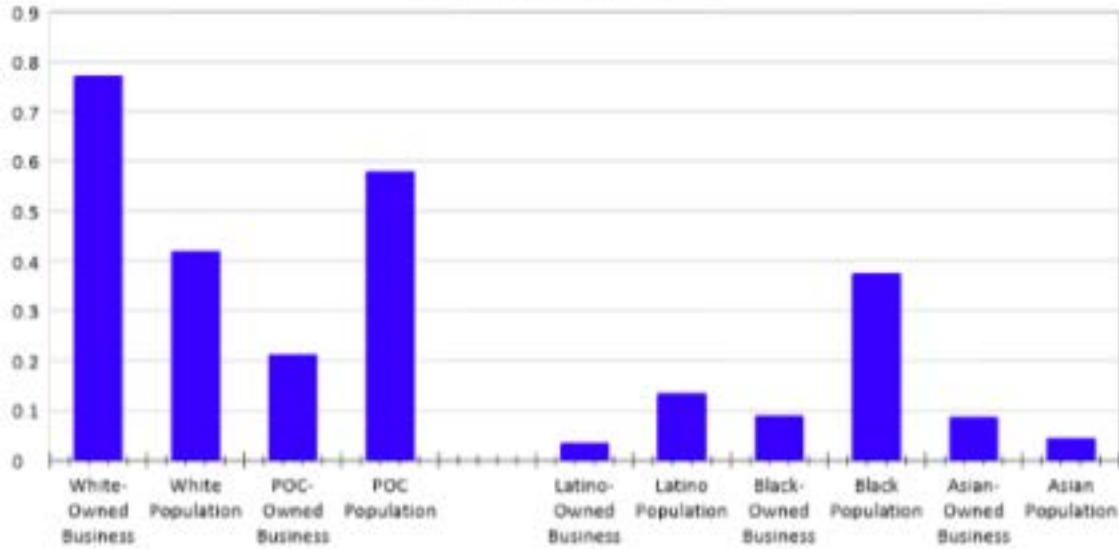
THE WORKERS TO OWNERS COLLABORATIVE
<http://becomingemployeeowned.org/>



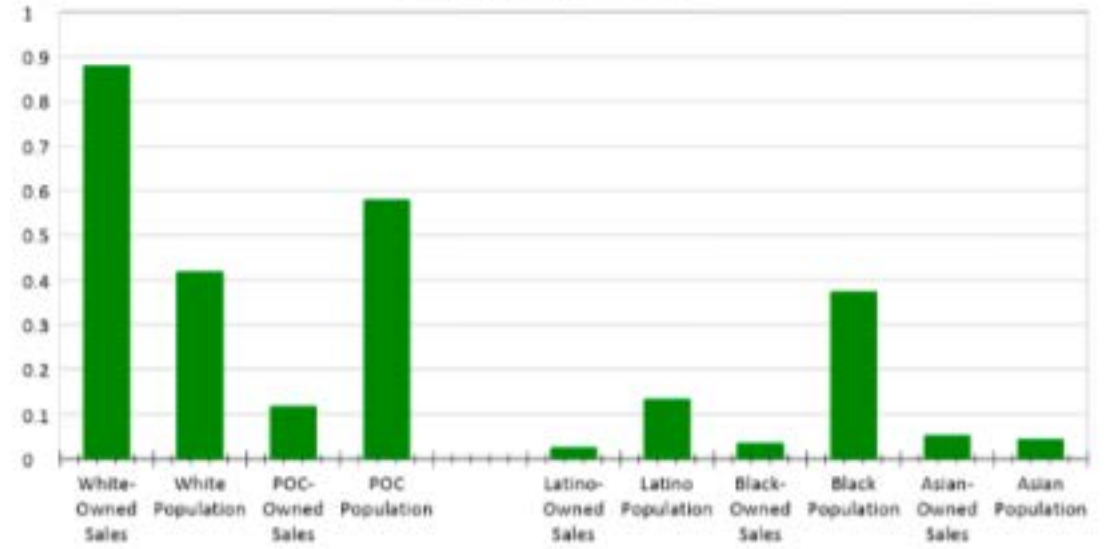
Data Collection and Modeling

Data that we have (Durham County 2012)

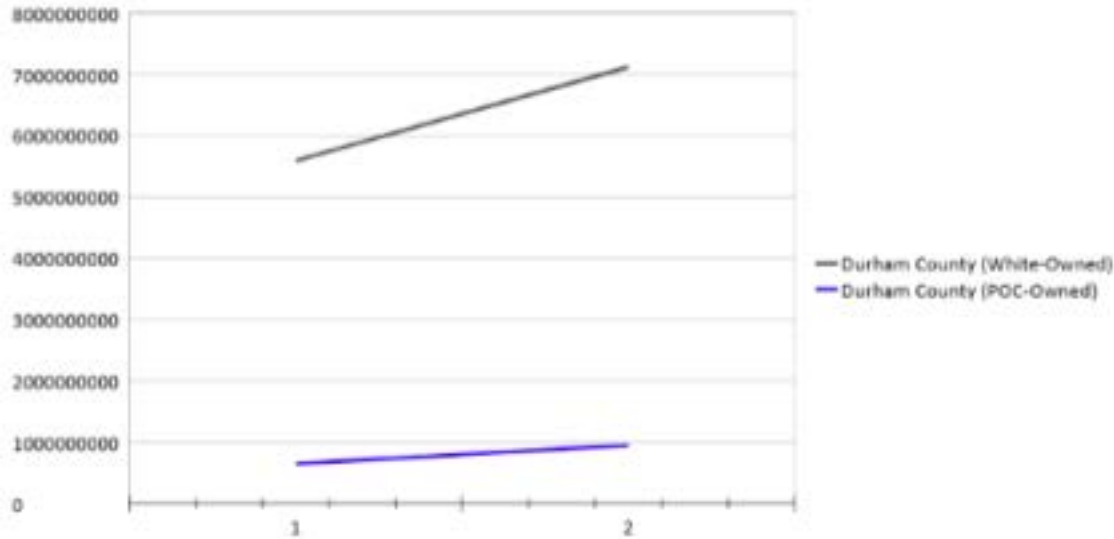
Durham County Firms, 2012



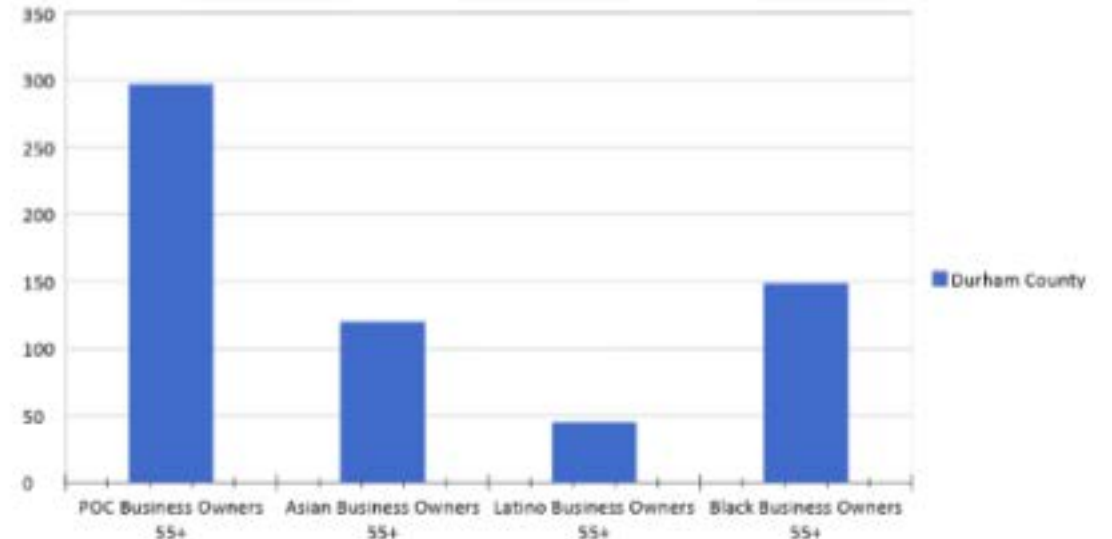
Durham County Sales, 2012



Durham County Sales Trends, 2007 -2012



Estimated # of Business Owners Near Retirement, 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 Steps

**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.



Shared Equity in Economic Development Fellowship



Thank you to the following people for assisting our panel:

The Honorable Steve Schewel, Mayor City of Durham | DeDreana Freeman, Councilmember City of Durham | Charlie Reese, Councilmember City of Durham | Keith Chadwell, City of Durham | Anne-Claire Broughton, Broughton Consulting, LLC | Thomas Beckett, Carolina Common Enterprise | Aaron Dawson, Industrial Commons | Teia Evans, Carolina Common Enterprise | Joy Mickle, Carolina Common Enterprise | Gil Fitts, Pivot Point Media | Reed Frankel, Resilient Ventures | Merald Halloway, Community Purchasing Alliance | Lashon Harley, Durham Tech's Small Business Center | Denise Hester, Phoenix Square | Larry Hester, Phoenix Square | Shelia Huggins, Shelia A. Huggins PLLC | Wendy Jacobs, Durham County | Berta Johnson, City of Durham | Lori Jones Gibbs, PNC Bank | Autrice Long, SunTrust | I. Jarvis Martin, Stewart, Martin & McCoy | Germaine McIver-Cherry, Carolina Small Business Development Fund | Patrick McHugh, North Carolina Justice Center | Joy Mickle, Carolina Common Enterprise | Kim Moore, North Carolina Mutual Insurance | Wanda Page, City of Durham | James Rogers, A&J Capital, Inc. | Stanley Rose, Rose's Paint and Auto Body | Mary Speight, Speight's Automotive Center | Melvin Speight, Speight's Automotive Center | Nicole Thompson, Downtown Durham Inc | Felipe Witchger, Community Purchasing Alliance | Leila Wolfrum, Durham Coop Market | Joseph Henry Yongue, Yongue Architects | Sara Young, City of Durham