To understand how community and capital intersect in Washtenaw County, the Ann Arbor Area Community Foundation (AAACF) commissioned the AAACF Washtenaw County Capital Research Report, the first research of its kind to establish an independent and objective understanding of the local investing ecosystem. AAACF contracted both quantitative and qualitative expertise—The Urban Institute of Washington DC, EntryPoint of Ann Arbor, and Revalue of Ypsilanti—to produce a comprehensive analysis of the county.
To Invest for a New Future: The AAACF Washtenaw County Capital Research Report

Since 1963, the Ann Arbor Area Community Foundation (AAACF) has provided community capital to Washtenaw County, distributing proceeds from endowed funds made possible by 15,000 donors as grants to local nonprofits and as scholarships.

Washtenaw County has strong communities, hosts hundreds of independent businesses, has access to major transportation hubs, and is anchored by several institutions of higher education. Today, the Foundation is looking with new vision at the communities it has served over the past half century.

2020: We Can Do Better, We Must Do Better

In spite of our county’s strong communities and economic success, its mainstream financial capital has never been distributed equitably. Ethnic and racial minorities, low-income individuals and areas outside of downtowns have repeatedly, often shockingly, been disadvantaged by: lack of access to business and personal capital; discriminatory housing policies; underfunded schools; insufficient public transportation, and other conditions that simply should not exist in our community.

Today, AAACF sees an opportunity to shape our local future in a more just and equitable way. In addition to our role as grantmaker, we are taking on a new role: that of mission-based investor.

We are paying particular attention to the ways in which minorities and low-income areas have been denied access to capital. Lack of education, underdeveloped business networks and sparse track records may prevent individuals and businesses from securing the very loans and investments that might help to lead them out of those conditions.

To understand how community and capital intersect in Washtenaw County, AAACF commissioned the AAACF Washtenaw County Capital Research Report, the first research of its kind to establish an independent and objective understanding of the local investing ecosystem. AAACF contracted both quantitative and qualitative expertise—The Urban Institute of Washington DC, EntryPoint of Ann Arbor, and Revalue of Ypsilanti—to produce a comprehensive analysis of the county.

The Urban Institute data identifies institutional “capital deserts” and opportunities at the macro level to address inequities; the EntryPoint report identifies potential investing opportunities across five industries that can produce positive social and financial returns; and the Revalue report synthesizes important “community voice” feedback from local residents and opportunities for new conversations and action together.
Executive Summary: The AAACF Washtenaw County Capital Research Report

Collectively, the AAACF Washtenaw County Capital Research Report:

- shows inequities in how investment capital flows within the county and identifies how we might change it to better support all neighborhoods, especially those that have been historically disinvested, resulting in concentrated poverty;
- shows AAACF and other local investors how to take action toward a more equitable and accessible local investment ecosystem; and
- can start critical conversations on how investment capital can be used as a local force for social justice, equity, inclusion, and prosperity for all.

Based on the comprehensive research, and on almost 60 years of work in the county, AAACF is now seeking to work with others for a more equitable local investing ecosystem that will empower all county residents with the capital they need to build strong, successful businesses, interconnected communities, and lives.

[NOTE: The COVID-19 pandemic has disproportionately affected communities of color and small businesses, here and across the country. The EntryPoint report explains how the pandemic impacted this study and its participants.]

Where Capital Flows In The County... And Where It Doesn’t

This year, more than $2 billion of investment capital will circulate in Washtenaw County. But the flow of that capital—and the flow of economic opportunity—will go mainly to those already privileged.

Today in Washtenaw County...

- Eighty percent of businesses are White-owned. Small-business lending favors low-poverty, majority-White neighborhoods.
- The county’s accredited business investors (those with a net worth of $1 million+) are 88% White and 78% male.
- Neighborhoods that are 60%+ White receive 3-5 times more investment per household than racially diverse neighborhoods; low-poverty neighborhoods receive 2-5 times more investment than high-poverty neighborhoods.
- The median income for Black families is 53% of that for White families. One in four Black households has a zero or negative net worth.
- Single-family home lending and sales favor White households and high-income ZIP codes. Nonresidential lending and sales favor low-poverty, majority-White neighborhoods.
- Energy and resources go into nurturing populous/downtown areas while regions beyond suffer neglect. The county’s economic strategy is based on high-growth businesses that tend to be geographically concentrated (e.g., all venture-backed companies are in Ann Arbor), while the Urban Institute reports the existence of “capital deserts” elsewhere in the county.
- Capital is mostly available to large businesses, while 70% of county businesses actually have fewer than 10 employees. Founders of these small businesses must invest their own capital, but they nonetheless contribute to job creation and to local “Main Street” culture.
- Mission and Federal Community Development Capital are trending toward equitable access, but their share of lending in our community is less than 1%.

Shaping the Future Through Impact Investing

“Impact investing” refers to investments in businesses in order to generate a measurable, beneficial social or environmental impact and financial return. Impact investing can significantly influence societal change by
channeling gargantuan capital markets toward greater positive community impact. Rather than separately donate to nonprofits and invest in traditional for-profit businesses, the impact investor blends charity and business, investing in for-profit businesses that use their companies for social impact and in nonprofits with revenue and earned income streams. This intentional type of investing can address societal problems that government and philanthropy cannot solve alone—poverty, inequality, healthcare, and climate change.

Impact investing occurs in all sectors of business and all asset classes. Small and emerging companies generally produce more community impact, though larger corporations and asset classes can have positive societal impact as well: double-bottom-line companies expand the bottom line to include positive social impact as a performance metric; triple-bottom-line companies add the environment. No matter what type of company one wishes to invest in, investment opportunities exist that can have positive social and/or environmental impacts.

**Investing Locally Matters**

<table>
<thead>
<tr>
<th>Local businesses and local investing:</th>
</tr>
</thead>
<tbody>
<tr>
<td>● keep as much as 48% of capital in the local economy (for chain businesses, the figure is only about 14%);</td>
</tr>
<tr>
<td>● help support job creation, as more than half of all U.S. jobs today are with small businesses;</td>
</tr>
<tr>
<td>● support the kinds of businesses that are the foundation of a community and that contribute to unique, vibrant local cultures; and</td>
</tr>
<tr>
<td>● support local nonprofits and community causes, as small businesses donate 250% more to these than large businesses.</td>
</tr>
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**Opportunities for Improvement**

Our research clearly identifies opportunities for impact investing that can help rectify historic inequities.

Washtenaw County is rare in its socioeconomic diversity and sense of community culture. This positions us well for growth, but we must close gaps in our economic infrastructure and create systemic shifts that will permit more inclusive entrepreneurial practices.

| ● The county imports jobs and relies on temporary (student) residents; instead, we should promote a residential workforce pipeline, with particular attention to residents of color. |
| ● Lack of affordable housing across the county creates low-income enclaves, where fewer resources are allocated to public goods including education. |
| ● Outdated zoning, abandoned/foreclosed land, and restrictions on mixed- and single-use development prevent entrepreneurs from securing places to operate, especially in low-income areas. |
| ● Small businesses (fewer than 10 employees) constitute 70% of the corporate ecosystem and are more often owned by people of color, but lack adequate funding opportunities. |
| ● The EntryPoint report identifies five business areas that offer investing opportunities for positive social and financial returns: care-giving, private educational services, food supply, real estate, and independently owned “Main Street” businesses. White-owned businesses dominate all five sectors, with private education services being 100% White-owned. |
| ● Washtenaw County businesses in these five sectors can leverage $608 million in growth capital over the period 2020-2023. This indicates enough deal flow to justify locally focused investing and perhaps a future dedicated investment fund. |
Some Recommendations to Consider for an “Integrated Capital Approach”

Our research suggests some possible roles for AAACF in concert with other like-minded institutions and individuals. The need and opportunity for change in our community can only be met in partnership. We welcome feedback on the optimal roles we might play and how others might engage in the work of creating a resilient and equitable local economy.

Social capital: AAACF could educate professional advisors, donors and grantees; influence public policy that affects local investing; and influence banks/Community Development Financial Institutions (CDFIs) to increase capital flow to under-served business owners.

Community narratives: AAACF could share stories of this and its other projects; and work with University of Michigan student teams to gather and disseminate case studies.

Infrastructure: AAACF could use philanthropic and operating dollars to fund economic ecosystem development; procure locally; value microeconomy developers; increase small business access to legal services; and support financial education.

Capital flow acceleration: AAACF could engage an experienced community deal flow developer to originate community investment opportunities; make investments that other local impact investors will see and can emulate; consider both social impact and financial metrics; and invest in capital ecosystem R&D.

Some Questions for Discussion

- With this reasonable proof that there is enough deal flow in the county to justify local investing, which institutions might come together to deploy their capital to local businesses?
- What is our collective capacity to invest in our own county? How much wealth is liquid and easily deployable at individual, private institutional, and public institutional levels?
- How much wealth do extractive entities, structures, and practices take out of the community that could otherwise be available for local circulation and wealth-building?
- How does your institutional or personal investing differ from what is presented in this report?
- What does community success look like in 20 years after shifting capital, practices, and relationships to be a resilient and equitable local economy? How does community success impact your success?

AAACF looks forward to conversations around this research—and, more importantly, action.

Historical inequities in Washtenaw County continue to impact economic access and mobility. Our research demonstrates that sufficient capital flow is present to promote a more equitable local investing ecosystem and a healthier, vibrant economy. Together, starting now, we can all invest in creating a new history in our community.
The **Urban Institute** data identifies institutional “capital deserts” and opportunities at the macro level to address inequities.
Washtenaw County Capital Flows

Brett Theodos, Eric Hangen, Brady Meixell, Prasanna Rajasekaran
Demographic and Economic Context

Population, 2005 - 2018

% of 2005 population

Author: Urban Institute
Source: U.S. Census Bureau, Intercensal Estimates of the Resident Population
Note: The graph shows percent change over time with 2005 indexed to 100%
Jobs, 2005-2018

% of 2005 jobs


Ann Arbor
Washtenaw
Michigan

Author: Urban Institute
Note: The graph shows percent change over time with 2005 indexed to 100%

Unemployment Rate, 2005 - 2018

0% 2% 4% 6% 8% 10% 12% 14% 16%


Ann Arbor
Washtenaw
Michigan

Author: Urban Institute
Median Single-Family Home Sale Price, 2005-2018

Poverty Rate, 2014-2018

Author: Urban Institute
Source: US Census Bureau, 2014-2018 American Community Survey; map layers from Esri, HERE, Garmin, OpenStreetMap contributors, and the GIS user community
Population Distribution of Residents by Race or Ethnicity, 2014-2018

Author: Urban Institute
Sources: US Census Bureau, 2014-2018 American Community Survey; map layers from Esri, HERE, Garmin, OpenStreetMap contributors, and the GIS user community

Single-Family Real Estate

Flickr/Dennis Sparks
Countywide Single-Family Real Estate Lending

Average Annual Single-Family Lending per Household by Neighborhood Poverty (at median)

Author: Urban Institute
Source: HMDA; U.S. Census Bureau American Community Survey
Note: Figures are in constant 2019 dollars.

High Poverty
Low Poverty
High Student
Average Annual Single-Family Lending per Household by Neighborhood Race (at median)

Author: Urban Institute
Sources: Lending data from Home Mortgage Disclosure Act; household data from US Census Bureau, American Community Survey; map layers from Esri, HERE, Garmin, OpenStreetMap contributors, and the GIS user community
Note: Figures are in constant 2019 dollars. Tracts with less than 100 households and with more than 60% white and 30% Black and Latino population were excluded. In 2018, there were 18 tracts with a Black and Latino population above 30% and 64 tracts with a white population above 60%.

Average Annual Single-Family Owner-Occupied Lending Volume per Household, 2005-2018

Author: Urban Institute
Sources: Lending data from Home Mortgage Disclosure Act; household data from US Census Bureau, American Community Survey; map layers from Esri, HERE, Garmin, OpenStreetMap contributors, and the GIS user community
Note: Figures are in constant 2019 dollars.
Average Annual Single-Family Sales per Household by Neighborhood Race (at median)

Author: Urban Institute
Sources: Zillow; U.S. Census Bureau American Community Survey
Note: Figures are in constant 2019 dollars. Tracts with less than 100 households and with more than 60% white and 30% Black and Latino population were excluded. In 2018, there were 18 tracts with a Black and Latino population above 30% and 64 tracts with a white population above 60%.

Average Annual Single-Family Owner-Occupied Sales Volume per Household, 2006-2017

Author: Urban Institute
Sources: Sales data from Zillow; household data from US Census Bureau, American Community Survey; map layers from Esri, HERE, Garmin, OpenStreetMap contributors, and the GIS user community.
Note: Figures are in constant 2019 dollars.
Agriculture, Commercial, Industrial, and Institutional Lending and Sales

Countywide Ag., Comm., Ind., Inst. Investment

Author: Urban Institute
Sources: CoreLogic; U.S. Census Bureau American Community Survey
Note: Figures are in constant 2019 dollars
Annual Average Ag., Comm., Ind., Inst. Lending per Household by Poverty (at median)

Author: Urban Institute
Sources: CoreLogic; U.S. Census Bureau American Community Survey
Note: Figures are in constant 2019 dollars. High poverty tracts defined as having above 20% poverty rate. Low poverty tracts defined as having below 20% poverty rate. Student tracts are defined as having 18-21 populations above 30% and poverty rates above 25%. Tracts with under 100 households were excluded. For 2018, there were 25 high poverty, 67 low poverty, and 3 student tracts.

Annual Average Ag., Comm., Ind., Inst. Lending per Household by Race (at median)

Author: Urban Institute
Sources: CoreLogic; U.S. Census Bureau American Community Survey
Note: Figures are in constant 2019 dollars. Tracts with less than 100 households and with more than 60% white and 30% Black and Latino population were excluded. In 2018, there were 18 tracts with a Black and Latino population above 30% and 64 tracts with a white population above 60%.
Average Annual Agriculture, Commercial, Industrial, and Institutional Loan Volume per Household, 2005-18

Annual Average Ag., Comm., Ind., Inst. Sales per Household by Poverty (at median)

Author: Urban Institute
Sources: Loan data from CoreLogic; household data from US Census Bureau, American Community Survey; map layers from Esri, HERE, Garmin, OpenStreetMap contributors, and the GIS user community.
Note: Figures are in constant 2019 dollars.
Average Annual Agriculture, Commercial, Industrial, and Institutional Sales Volume per Household, 2005-18

Author: Urban Institute
Sources: Loan data from CoreLogic; household data from US Census Bureau, American Community Survey map layers from Esri, HERE, Garmin, OpenStreetMap contributors, and the GIS user community.
Note: Figures are in constant 2019 dollars.
Countywide Small Business Lending

![Image of a city street scene with buildings and signs.](Flickr/Dennis Sparks)

Author: Urban Institute
Sources: Community Reinvestment Act (CRA); Small Business Administration
Notes: Figures are in constant 2019 dollars. CRA loans to firms with revenues <$1M and SBA loans may be included in CRA loans <$1M to the extent they meet that qualification.
Average Annual CRA Small Business Lending per Household by Neighborhood Poverty (at median)

Author: Urban Institute
Sources: Community Reinvestment Act; U.S. Census Bureau American Community Survey
Note: Figures are in constant 2019 dollars. Tracts with less than 100 households and with more than 60% white and 30% Black and Latino population were excluded. In 2018, there were 18 tracts with a Black and Latino population above 30% and 64 tracts with a white population above 60%.

Average Annual CRA Small Business Lending per Household by Neighborhood Race (at median)

Author: Urban Institute
Sources: Community Reinvestment Act; U.S. Census Bureau American Community Survey
Note: Figures are in constant 2019 dollars. Tracts with less than 100 households and with more than 60% white and 30% Black and Latino population were excluded. In 2018, there were 18 tracts with a Black and Latino population above 30% and 64 tracts with a white population above 60%.
Average Annual CRA Small Business Lending Volume (Loans <$1M) per Household, 2005-18

Author: Urban Institute
Sources: Loan data from Community Reinvestment Act (CRA); household data from US Census Bureau, American Community Survey; map layers from Esri, HERE, Garmin, OpenStreetMap contributors, and the GIS user community.
Note: Figures are in constant 2019 dollars.

Average Annual CRA Small Business Lending Volume (Revenue <$1M) per Household, 2005-18

Author: Urban Institute
Sources: Loan data from Community Reinvestment Act (CRA); household data from US Census Bureau, American Community Survey; map layers from Esri, HERE, Garmin, OpenStreetMap contributors, and the GIS user community.
Note: Figures are in constant 2019 dollars.
Countywide Mission Lending

Author: Urban Institute
Sources: CDFI Fund; CoreLogic; Opportunity Finance Network
Note: Figures are in constant 2019 dollars. We include NMTC projects in mission lending as they are often structured as loans not grants.
Average Annual Mission Lending per Household by Neighborhood Race (at median)

Author: Urban Institute
Source: CoreLogic; CDFI Fund: Opportunity Finance Network; U.S. Census Bureau American Community Survey
Note: Figures are in constant 2019 dollars. More than 60% White, More than 30% Black and Latino population were excluded. In 2018, there were 18 tracts with a Black and Latino population above 30% and 64 tracts with a white population above 60%. We include NMTC projects in mission lending as they are often structured as loans not grants.
Average Annual Mission Lending Volume per Household, 2005-18

Author: Urban Institute
Sources: Lending data from CoreLogic, CDFI Fund, New Markets Tax Credit, and Opportunity Finance Network; household data from US Census Bureau, American Community Survey; map layers from Esri, HERE, Garmin, OpenStreetMap contributors, and the GIS user community.
Note: Figures are in constant 2019 dollars. We include NMTC projects in mission lending as they are often structured as loans not grants.
Countywide Federal Spending

Source: Low Income Housing Tax Credit; Community Development Block Grants; HUD HOME program; EPA Brownfields program; US Census Bureau, American Community Survey

Note: Figures are in constant 2019 dollars. Increased federal spending in 2010 and 2013-2015 reflects large LIHTC developments during those years. We include NMTC projects in mission lending as they are often structured as loans not grants.

Average Annual Federal Spending per Household by Neighborhood Poverty (mean)

Source: Low Income Housing Tax Credit; Community Development Block Grants; the HUD HOME program; the EPA Brownfields Program; US Census Bureau, American Community Survey

Note: Figures are in constant 2019 dollars. High poverty tracts defined as having above 20% poverty rate. Low poverty tracts defined as having below 20% poverty rate. Student tracts are defined as having 18-21 populations above 30% and poverty rates above 25%. Tracts with under 100 households were excluded. For 2018, there were 25 high poverty, 67 low poverty, and 3 student tracts.
Average Annual Federal Spending per Household by Neighborhood Race (mean)

Author: Urban Institute

Sources: Low Income Housing Tax Credit; Community Development Block Grants; the HUD HOME program; the EPA Brownfields Program; US Census Bureau, American Community Survey

Note: Figures are in constant 2019 dollars. Tracts with less than 100 households and with more than 60% white and 30% Black and Latino population were excluded. In 2018, there were 18 tracts with a Black and Latino population above 30% and 64 tracts with a white population above 60%.

Average Annual Federal Investment per Household, 2005–18

Author: Urban Institute

Sources: Investment data from Low Income Housing Tax Credit, Community Development Block Grants, the HUD HOME program. Household data from US Census Bureau, American Community Survey; map layers from Esri, HERE, Garmin, OpenStreetMap contributors, and the GIS user community.

Note: Figures are in constant 2019 dollars.
Composite Lending

[Image: Composite Lending]

Flickr/Andy Piper

Author: Urban Institute

Sources: As described above

Note: Figures are in constant 2019 dollars. Multifamily lending activity not included.
The **EntryPoint** report identifies potential investing opportunities across five industries that can produce positive social and financial returns.
2020
Washtenaw County
Small Business Capital Report

Ann Arbor Area
Community Foundation
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Executive Summary

Ann Arbor Area Community Foundation commissioned this research from Revalue and EntryPoint to assess the flow of capital across Washtenaw County. Over the past two years, AAACF has embarked on a journey of discovery around a vision to help build an equitable economic development ecosystem that includes place-based impact investors who are contributing to sustainable and inclusive prosperity for all of Washtenaw County’s residents. Our vision in commissioning this report is to determine the sources of capital investment into Washtenaw County-based businesses, who is benefiting from that capital investment, how much capital might be at play in any given year, and a first attempt to quantify how much capital is needed to have a thriving and equitable economy. While the community has access to a wide array of data sets, how capital is flowing through the county is something that has not yet been studied. To do so, EntryPoint analyzed results from 593 unique institutional investors, registered investment advisors, bank trusts, Washtenaw County companies, and individual investors.

With further information regarding these critical issues, the investors, economic development organizations, and the wide array of stakeholders that weave the fabric of Washtenaw County’s economic ecosystem may make more equitable and inclusive decisions. Of course, knowing how capital is flowing and how much of it is available is not enough to shift behavior by itself. All community stakeholders have the opportunity to assess what roles they play in the findings of this study and are invited to contribute to removing barriers so that inclusive prosperity can truly come to fruition.

This report is organized into four parts that each address different sets of these key issues. In Part I, we analyze the general economic characteristics of the county, including its general culture, business landscape, and workforce demographics. We found consistent patterns of wealth disparity in the county, including historically-based racial discrimination, disparities in school funding, and a lack of consistent access to affordable housing. Additionally, we discuss the trends in funding received by Washtenaw businesses. Companies in the county received external funding of approximately $279 million in 2019, and in this report, we isolate the common sources of that funding. While these traditional sources of funding all have advantages, we find that they also carry significant disadvantages that exacerbate the inequities underlying many elements of Washtenaw’s economy. As such, we advocate that greater emphasis be placed upon locally-focused impact investing.

Part II presents a more specific analysis of the five key industries that largely define the business ecosystem of Washtenaw County: the caregiving, real estate, food systems, education, and independently-owned main street sectors. Over 2,200 businesses in the county fall within one of these focus sectors. Thus, in this report, we examine the state of each industry, focusing on the type and amount of funding received, ownership demographics, and challenges facing each sector based upon trends present in 2019. Several of the obstacles faced by businesses in the focus sectors revolve around competition from one another and from larger, wealthier organizations, as well as difficulties in locating and sustaining businesses in productive locations that are also reasonably-located for employees. Part II also includes spotlights for businesses of each industry type that serve as examples of how integral these sectors are to their communities.
Much of the data in this report is based upon activities from 2019, and we use these patterns to help us understand current and future opportunities for businesses in Washtenaw County. However, the impact of COVID-19 on business operations in 2020 cannot be ignored. Therefore, Part III considers data from 2020 regarding the impact of the pandemic on Washtenaw County businesses, including how their operations changed and how they were forced to adapt. 98% of responding businesses indicated that they were affected by the pandemic and/or policies implemented to slow its surge, and many of these establishments reported feeling unprepared for a crisis of this nature. As a result, businesses have been suffering loss of revenue, hiring freezes, spending reduction, and cuts to personnel. More positively, most participants have been able to apply for loans to support ongoing operations, and while many of those requests are still in process, the vast majority of applicants have been approved.

As the conclusion of this report, Part IV considers the findings of all previous data, focusing particularly on the elements of the economic landscape in Washtenaw County that may inhibit business growth and restrict the prosperity of residents. We use these patterns to present a variety of areas of improvement, as well as suggestions for initiatives that could place Washtenaw County and its people in a position that is both more grounded and more fruitful.

In particular, our research suggests that a common cause of these obstacles to growth in Washtenaw County is inequity across its inhabitants and regions. Findings indicate that this disparity in opportunities is historically-rooted and extant in a variety of areas. First, great efforts have been made to foster the economies of populous, urban, and downtown areas of the county while neglecting other regions. As a result, some school districts have received significant funding, while others have been consistently underfunded over the years. Similarly, initiatives to develop land and locate small businesses into commercial segments in more populated areas have left areas in Washtenaw with lower rates of residency without the means to build successful, stable communal infrastructures for their businesses. Second, several of the resources vital to economic growth and stability are far less accessible to some segments of the greater Washtenaw community than they are to others. For example, affordable housing is not consistently available across the county, as costs of residency vary greatly across jurisdictions; this results in the concentration of lower-income individuals into shared spaces, manifesting in underserved neighborhoods marked by poverty. Further, opportunities to receive funding are much more readily-available for larger, wealthier businesses with several employees, while smaller businesses with fewer than ten employees are often unable to obtain the funding they require to grow. Finally, it is especially important to note that these patterns of disparity are compounded by racial inequality. Funding opportunities are even further limited for businesses owned by people of color, as are employment opportunities in general when compared to those available to White residents. Additionally, these low-income neighborhoods are home to people of color at disproportionate rates.

Ultimately, Washtenaw County has wonderful resources, including a diverse range of business types, dedicated entrepreneurs, and a strong community culture. The obstacles facing the economic growth of the county may seem imposing, and will certainly require time and effort to overcome; however, Washtenaw has great potential for economic progress, and these resources can certainly be leveraged to make the improvements necessary to promote a resilient, stable, and successful entrepreneurial ecosystem.

Funding for this project was provided by the Ralph C. Wilson, Jr. Foundation.
Part I: Washtenaw County’s Business Community

Part I will analyze the entrepreneurial landscape of Washtenaw County, focusing on its small “main street” businesses as well as the economic trends that affect them. Specifically, we first provide an overview of life in the county, including its culture, racial and educational demographics, housing trends, and comparative levels of income. Second, we isolate some of the qualities that profile businesses in Washtenaw County, including business types, characteristics of the workforce, and elements that distinguish the county as a competitive hub for entrepreneurship. Then, we discuss the systemic inequalities faced by people of color in the region, highlighting the historical trends that have led to the disparities in wealth and opportunity that are so frequent today. Fourth, we describe many of the mechanisms small business owners may use to obtain funding, particularly attending to the barriers members of underrepresented groups may face in these efforts. Next, we explore the trends in how Washtenaw County companies secured their funding in 2019, paying special consideration to the real estate, caregiving, education, food systems, and independently-owned main street business sectors. Finally, we conclude by examining locally focused investment and the positive impacts it can provide to all communities.

BACKGROUND OF WASHTENAW COUNTY

Washtenaw County is well-recognized for its welcoming and tight-knit sense of community, being ranked as among the best locations to raise a family and the happiest and best places to live in the country. With five institutions of higher education, three world-class health systems, a thriving high-tech industry, robust arts and culture offerings, numerous recreational activities, and exceptional K-12 schools, Washtenaw County has many unique assets that contribute to an overall high quality of life for residents.

Encompassing the Ann Arbor Metropolitan Statistical Area, Washtenaw County is home to nearly 366,000 residents (U.S. Census, 2018a). Across the county, the median age of residents is 33.4 years old (as compared to 39.7 years old in Michigan), reflecting that this is an attractive place for young families and adults to live and work. The county boasts high educational attainment among residents, with 95.2% of the population obtaining a high-school diploma (as compared to 90.5% in the state) and 55.2% obtaining a bachelor’s degree, almost double than the 28.6% of residents in the state overall.

The racial demographics of Washtenaw County are largely consistent with those of the state of Michigan as a whole. According to the U.S. Census (2018a), White residents make up 74.5% of Washtenaw County’s population (as compared to 78.5% of the state), and Black residents make up 12.7% of the county (as compared to 13.8% of the state). Native Americans constitute 0.3% of Washtenaw’s residents (as compared to 0.5% of the state), and individuals identifying as two or more races make up 3.4% of the county (as compared to 2.9% of the state). Notably, while 3.1% of Michigan’s overall population identify as Asian, 7.9% of Washtenaw County’s residents identify as Asian. This marks Washtenaw County as having the highest proportion of Asian residents of any Michigan county.
Additionally, Washtenaw County hosts a high level of ethnic and cultural diversity, providing great opportunities for cultural exchange. The county is home to nearly double the proportion of foreign-born residents than that of the state overall, with 12.4% of immigrant residents as compared to 6.7% in Michigan (U.S. Census, 2018a). Moreover, many families speak multiple languages in the home, with 15% of people in Washtenaw County speaking a language other than English, while only 9.6% of Michigan residents speak a language other than English. To support these various communities, there are numerous ethnic associations and social groups in the county, such as the Chinese American Society of Ann Arbor and the Jewish Cultural Society, often open to anyone interested in learning and sharing their cultures. Furthermore, the area is also known for its frequent cultural events and festivals that celebrate this diversity within the county. Summers in Washtenaw County are characterized by the number of festivals that line its streets, including the Milan Bluegrass Festival, the Saline Celtic Festival, and the Ypsilanti Heritage Festival, each of which offer the opportunity for family-friendly fun and cultural enrichment. In addition to these festivals, local art galleries and theater performances are especially prevalent across the county, providing access to nationally and internationally-inspired music, dance, and entertainment.

In order to meet the needs of its diverse residents, Washtenaw County offers a wide variety of housing options. The county consists of cities, towns, rural countryside, and suburban areas, providing an assortment of single-family houses, downtown lofts, condos, and apartments for rent or purchase. Generally, housing costs in the county are lower than those found on the East or West Coast, as the median sale price of a single family home is $272,500 (Zillow, 2020). In contrast to the urban feel of Ann Arbor and its surrounding cities, rural towns and farmland are prevalent in the county, as 15% of the population live in rural areas (as compared to 28% of Michigan residents overall). The 1,245 farms in the county provide fresh produce, meat products, and greenery to the community (United States Department of Agriculture, 2017).

Lastly, despite being Michigan’s third-highest county in terms of median household income at $69,434, economic prosperity has long been concentrated in pockets across Washtenaw County. Around 15% of residents live at or below the federal poverty level and 39% of residents struggle to afford basic needs (United Way, 2019; U.S. Census, 2018a). Notably, these figures are based upon data gathered prior to the surge of COVID-19; as such, these conditions are likely to have been exacerbated by the pandemic. Furthermore, people of color are twice as likely than the general population to live in poverty and live an average of 18% fewer years than White people (Washtenaw County Office of Community and Economic Development, 2015). In Michigan, Washtenaw County experiences an increasing income gap represented by its ranking of 80 out of 83 for income inequality (County Health Rankings, 2020). The county is also ranked as the 8th most economically segregated metropolitan area in the United States (Martin Prosperity Institute, 2015). Nationally, the county is in the bottom 8th percentile for upward income mobility (Washtenaw County Office of Community and Economic Development, 2018). Washtenaw County has demonstrated itself to be a successful location in many ways but, at the same time, there are certainly shortcomings in terms of economic disparity. So that we can better understand some of these nuances to Washtenaw County life, we will now delve deeper into the businesses that contribute so heavily to the culture and makeup of the county.
**WASHTENAW COUNTY BUSINESS LANDSCAPE**

**Competitive Advantages**

Washtenaw County distinguishes itself as a location full of opportunity for new and growing businesses based on three key advantages: significant local tourism, transportation access to other cities, and a network of resources and policies designed to support small business growth.

A steady stream of customers is vital to the success of any business, and the massive economic impact from tourism makes Washtenaw County an ideal destination for new and growing businesses. In 2018 alone, the overall direct and indirect visitor spending in Washtenaw County generated $1.2 billion in economic impact. Specifically, the county hosted a staggering 3.9 million annual visitors who generated $832 million in spending for the local economy. It also generated $37.1 million in state and local tax revenue, as well as $243 million in local income, to be reinvested back into the county. According to Destination Ann Arbor (2019), income, spending, and tax revenue have all increased since they were last measured in 2016 (Figure 1). Such an active and consistent tourism industry provides ample benefits to local businesses that go beyond a boom of new customers looking to explore the area.

**Annual Economic Income of Tourism**

**IN MILLIONS**

![Figure 1](chart.png)

Washtenaw County’s proximity to many important transportation hubs also serves as a key advantage. With Highway 94, the Great Lakes port of Detroit, the major Detroit Metropolitan airport to the east, and Willow Run airport in Ypsilanti for smaller air traffic, the county is easily connected to two economically-important cities: Detroit and Chicago. Compared to the national average commute time of 25.7 minutes, Washtenaw County residents have a shorter average commute time of 23.2 minutes. Overall, the commute time for residents of Washtenaw County is also below the average commute time for the state of Michigan. Furthermore, only 5.65% of Washtenaw County’s workforce has a “super commute” (in excess of 60 minutes), compared to 9.40% of the national population. This relative ease of transportation facilitates economic development, including greater access to jobs and resources, positioning the county well for economic success. It is important to note, however, that the average commute time in Washtenaw County varies greatly depending on where in the county a given individual resides. The three zip codes with the highest commute times, 48191, 48158, and 48189, are also home to the greatest populations of residents.
of color (Conduent Healthy Communities Institute, 2017). These zip codes also have some of the lowest average incomes in the county. This correlation suggests that employees of color are less likely to live in the same locations at which they work. Conversely, the population with the lowest commute times lives near downtown Ann Arbor and is predominantly White.

Finally, there are numerous resources and favorable policies both through the governing bodies and community enrichment programs that encourage economic development. A series of tax exemption policies, like the Commercial Rehabilitation Tax Exemption (PA 210), the Obsolete Property Rehabilitation Tax Act (PA 146), and Historical Preservation Tax Credits work to ensure that local companies looking to expand or entrepreneurs looking to begin can commit every spare dollar to their businesses (Conduent Healthy Communities Institute, 2017). For individuals looking to invest in a small business, Washtenaw County also has incentivizing policies like the New Market Tax Credits, a policy that allows taxpayers to receive credit against federal income tax for making a qualified equity investment into a Community Development Entity. Moreover, the Washtenaw County Office of Community and Economic Development has several community development grant and loan projects of their own that showcase their commitment to betterment of the entrepreneurial ecosystem. Other local resources include: Ann Arbor SPARK, a lead business accelerator; Michigan Works! South East, a customizable employee training program with recruiting assistance; and SCORE Ann Arbor Area, which provides free and confidential business advice. These resources are all in addition to the entrepreneurship centers at the local colleges (University of Michigan Ann Arbor, Eastern Michigan University, Washtenaw Community College) that aid locals and students in bringing their ideas to market. This combination of government-facilitated policies and local entrepreneurial support programs creates a robust set of resources for Washtenaw County small businesses.

**Washtenaw County Business Profile**

Washtenaw County is home to 8,212 physical business locations, as well as 33,195 businesses ranging in size from 1 to over 1,000 employees. 70% of Washtenaw County businesses are startups and small businesses that employ less than 10 individuals, while only 1% of businesses in the county employ 250 people or more (Figure 2). The large presence of small businesses demonstrates the growing entrepreneurial ecosystem in the county, with many businesses choosing to locate in Washtenaw County. It is also important to recognize the need for an array of resources and support services, which many economic development associations and entrepreneurial support organizations provide for these new businesses.

![Size of Washtenaw County Businesses by Number of Employees](source: U.S. Census)
Washtenaw County is also home to a robust variety of businesses across all sectors (Figure 3). The Professional, Scientific, and Technical Services sector accounts for the greatest percentage of businesses in the county at 15%, representing many small businesses and startups. With three esteemed health systems, the Health Care and Social Assistance sector accounts for 11% of businesses in the county. The remaining sectors cover all types of businesses, from warehouses and manufacturing to retail and food services.

Local businesses also obtain ample funding from varying sources of financing. Large players in Washtenaw County’s small business investment field include the Toyota Technical Center, Gestamp, and SF Motors. In 2017 alone, total investment in local Washtenaw County businesses totaled $101.1M with a return on investment of $506 in private investment per $1 in county investment. At this time, it was projected that Washtenaw County’s Business Development Investments would increase by approximately 36% annually (Ann Arbor SPARK, 2017). As of 2017, the county’s investment was approximately $271 per job.

**Washtenaw County Workforce**

Washtenaw County’s labor force, including individuals who are either working or looking for work, comprises of 64.3% of the population that is 16 years old or older, equating to about 199,942 individuals. Around 4.8% of those individuals are unemployed, as compared to 5.3% for Michigan overall. Those age 24 years old or younger have the most difficulty finding employment, with males and females under the age of 19 facing unemployment rates of 16.6% and 14%, respectively. These young adults are further placed at a disadvantage, as the three large colleges in Washtenaw County serve as a major attraction for students. This high influx of young adults who are also seeking job opportunities to complement their education makes it even more difficult for residents of Washtenaw County to find local employment.

In addition to age-related trends, there are also differences in employment and income among individuals of different races. In the county, Native Hawaiian or Pacific Islander individuals as well as Black individuals experience the most difficulty in finding employment, with unemployment rates of 17% and 8.6%,
respectively, compared to 4.1% for White individuals. In the State of Michigan, the unemployment rate for Native Hawaiian or Pacific Islander individuals is significantly lower at 2.5%, while the unemployment rates for Black individuals is significantly higher at 14.6%, with White individuals relatively similar to Washtenaw County levels at 5.2% (U.S. Bureau of Labor Statistics, 2013). Not only do people of color have more difficulty finding employment, but median family income also varies based on race in the county. The median family income for Black families is $55,828, while that for White families is nearly double at $104,550. Even in a county full of opportunity, these disparities demonstrate the economic segregation experienced in Washtenaw County and beyond.

Finally, commute method within Washtenaw County varies, with 80% of individuals driving to work (as compared to 92% for the state), 9% walking or biking to work, 6% working from home, and 5% taking public transportation. Further, 40.5% of the county’s residents travel outside of the region for work, while 59.5% of residents live and work in Washtenaw County. In addition, 53.2% of individuals employed in Washtenaw County live outside of the county and commute to work, making the county a net importer of jobs. With nearly half the workforce in Washtenaw County being imported from neighboring counties, it becomes even more imperative for residents of Washtenaw County to be able to travel a significant distance to find work. With one of the biggest barriers to employment in Southeastern Michigan being transportation, and no explicit measures or adequate public transportation to address this issue, many locals who have high school and college degrees struggle to find employment close to home. This is further reflected in the breakdown of mean income by region in Washtenaw County. Mean household income by region reflects that the proximity to larger cities (e.g. Ann Arbor and Detroit) is proportional to wealth of the workforce.

Lastly, it is necessary to recognize that these constraints on the workforce were present prior to the onset of the COVID-19 pandemic and the precautions it required. Both state-mandated restrictions and consumer hesitation have drastically affected many businesses and their employees. Businesses have had to cut employees’ hours, freeze hiring, and even furlough or lay off some of their workers. Much work has shifted to remote settings, and greater restrictions in public transportation can hinder the ability of employees to travel to work. More information on the impact of COVID-19 on Washtenaw County’s businesses will be provided in Part III of this report, but, given its implications for the workforce, it must be mentioned here as well.

Overall, the high and growing rate of small businesses in the region, as well as the wide range of sectors these businesses occupy, are signs of a vibrant economy with great potential for growth. However, in examining the trends of racial inequity in the workforce, there are certainly barriers to the success of all residents of this diverse county. Therefore, we turn to the historical practices that have manifested in these and other patterns of racial inequity today.

WASHTENAW COUNTY HISTORICAL INEQUITIES

While Washtenaw County boasts an impressively diverse demographic on the macro level, a closer look highlights that residents of color are concentrated within a few regions of the county. For example, Pittsfield Charter Township and Ypsilanti Charter Township are home to 34,000 and 55,000 Black residents, respectively. In contrast, Ann Arbor Township, one of Washtenaw County’s most prosperous zones, is home
to a mere 5,000 Black residents (U.S. Census, 2017). Those regions of higher Black residency also have significantly greater poverty, unemployment, and a lack of educational opportunities, contributing to the overall inequity in the area.

Washtenaw County does not have the same history of official redlining and zoning as other counties do. However, racially-segregated neighborhoods were enforced through other measures in the mid-1940s. Discriminatory housing contracts, known as racially restrictive covenants, prohibited the lease, purchase, or occupation of homes by certain residents (czb LLC, 2015). These were most often used to prevent Black families in the 1940s from moving into upper class White neighborhoods. The locations in which people of color were permitted to live were regions that already had a large Black population and low property value. Ypsilanti became a popular option for residents of color to locate, with its history as a safe haven for runaway slaves contributing greatly to its diverse population demographic. Although racially-restrictive covenants were deemed unconstitutional in the 1948 court case Shelley vs. Kraemer, a surge in employment opportunities at the newly-built Willow Run Bomber Plant in 1940 prompted an influx of Black and Latinx residents to Ypsilanti in Washtenaw County (Washtenaw County Assessment of Fair Housing, 2014). To this day, Ypsilanti Township alone is home to nearly 40% of the Black residents of Washtenaw County (U.S. Census, 2018b).

The state of Michigan has historically relied on local property taxation efforts to supplement state funding for district schooling. Prior to 1993, nearly 80% of funding for education was sourced through property taxation. Consequently, Ypsilanti and other regions with low property value saw their educational systems struggle. Although Proposal A redistributed school funding to be only 20% locally funded in 1993, the school systems in districts with low property value were already underfunded for nearly 40 years prior, and the newly adopted funding proposal did not allocate resources to make up for the long-term disproportionate funding (WEMU, 201). These disparities were further exacerbated when the recession hit in 2008, as most properties in lower income communities have still not appreciated back to their pre-recession value. According to the Michigan Department of Treasury (2016), compared to other regions in Washtenaw County, Ypsilanti had the greatest decrease in property value since 2008 (Figure 4).

Decrease in Property Value 2008-2016
FOR SELECT MUNICIPALITIES

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Decrease (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANN ARBOR</td>
<td>-8.4%</td>
</tr>
<tr>
<td>YPSILANTI</td>
<td>-32.5%</td>
</tr>
<tr>
<td>PITTSFIELD</td>
<td>-36.0%</td>
</tr>
<tr>
<td>SCIO</td>
<td>-20.1%</td>
</tr>
<tr>
<td>SUPERIOR</td>
<td>-14.6%</td>
</tr>
<tr>
<td>LODI</td>
<td>0.0%</td>
</tr>
<tr>
<td>WEBSTER</td>
<td>-11.5%</td>
</tr>
</tbody>
</table>

FIGURE 4
Education is directly correlated to poverty, income, and unemployment levels, and the historical underfunding of schools reflects this relationship. Regions with high rates of people of color as residents have a lower median household income than those without, with Washtenaw County as a whole boasting a median income of $65k and Ypsilanti trailing with a median income of $35k. This trend is not a recent occurrence, as Ypsilanti has had a lower median income consistently for the last 7 years (Figure 5).

Furthermore, Black residents of Washtenaw county hold the lowest average wage when compared to individuals of other races across positions as managers, nurses, teachers, and retail/sales workers (Figure 6). In addition to lower wages and unemployment rates, rates of individuals receiving SNAP benefits (public income assistance and/or food stamps) across neighborhoods of color are consistently greater than Washtenaw County’s annual averages (U.S. Census, 2017).

These imbalances in poverty, income, education, and housing cause the regional economic growth potential to vary greatly across Washtenaw County. One significant way this manifests is in the struggle of small businesses owned by people of color. An overwhelming majority (80%) of businesses in Washtenaw
County are White-owned and located throughout the county. The remaining businesses in the county that are owned by people of color are concentrated primarily in Ann Arbor and Ypsilanti (EntryPoint, 2020b). For the degree of diversity seen across Washtenaw County, that a mere 20% of businesses are owned by people of color is starkly low. An explanation for this measure can be found in the historical inequalities that repeatedly put entrepreneurs of color at a disadvantage today.

Starting a small business requires financing, and for many people of color, financial flexibility is difficult to obtain. Many people of color are already at a disadvantage simply because of where they live. In school, these students do not have access to the same resources and connections that their more privileged counterparts do, creating a large learning curve for students of color who still want to pursue entrepreneurship. Furthermore, as people of color are paid less across Washtenaw County, they are less likely to have the financial resources to leave their day-to-day jobs – as evidenced by the poverty levels, unemployment rates, and lower wages within these communities.

Businesses owners of color are also placed at a disadvantage if they seek financing options outside of their own capabilities. If seeking financing through a loan or grant, people of color are less likely to be approved for a loan, and those that are approved receive lower amounts and higher interest rates than their White counterparts (Weitz, 2018). The root causes behind these loan disparities also circle back to the systemic inequality prevalent within Washtenaw County.

The top reasons small business owners receive an unfavorable loan, or do not receive one at all, include having a low net worth, poor or little-to-no credit history, and the location of their small businesses (Weitz, 2018). As the aforementioned data illustrate, people of color have lower levels of wealth both within Ypsilanti Township and across Washtenaw County. Their overall comparatively lower property values, income, and assets make a disproportionate number of business owners of color poor loan candidates because many lack sufficient collateral or do not have strong credit histories. Moreover, the location of a small business plays a large role in a bank’s decision to issue a loan or not. The populations of people of color in Washtenaw County cluster in areas high in poverty and unemployment. Small businesses are good for revitalizing the economy in the long term, but are unfavorable to banks seeking a quick payback on their loans due to the lack of population with disposable income.

The access to funding and loan opportunities are just one layer of the system of inequality that exists within Washtenaw County. The struggles of navigating the business landscape to create an ultimately successful small business are all in addition to ability to obtain funding. In order to revitalize the entrepreneurial ecosystem for small businesses owned by people of color in a sustainable and effective manner, investment outside traditional systems is necessary because the preexisting modes have only exacerbated the inequalities that exist. Thus, we must consider the various sources of funding for small businesses, highlighting ways in which some of them may continue reinforcing these barriers for members of underrepresented groups.


**SOURCES OF FUNDING**

Individuals need access to an array of resources to help them succeed in the complicated process of starting a business, with funding being one vital piece of the process. Due to a historical lack of access to opportunities, including education, funding, and industry mentors, a nuanced and holistic understanding of the business and owner is required to support their long-term success. Many may need additional support in trust and awareness, navigating systems, and building a network. However, funding constraints must be addressed at the macro level in order to overcome the structural barriers that underserved entrepreneurs are facing.

**Sources of funding available to businesses include:**

**Non-Accredited Individual Investors**

Non-accredited individual investors are anyone who makes less than $200,000 annually (or less than $300,000 including a spouse) that also has a total net worth of less than $1 million when their primary residence is included. Prior to April 2012, when the Jumpstart our Business Startups (JOBS) Act went into effect, private companies were only able to raise funding from accredited investors – just 2% of the wealthiest U.S. citizens (Crowdengine, 2019). The JOBS Act was passed to make it easier for small businesses and startups to obtain outside funding and create more jobs. Companies are now able to obtain funding through equity investments or loans from their current customers, individuals from their community, colleagues, as well as family members and friends. Nearly 18% of new businesses start with funding from non-accredited individuals (SCORE, 2019b).

**Accredited Individual Investors**

The Securities and Exchange Commission defines an accredited investor as an individual who “has a net worth over $1 million alone or together with a spouse” or someone who “has earned income that exceeded $200,000 or $300,000 together with a spouse in each of the prior two years, and reasonably expects the same for the current year” (U.S. Government Accountability Office, 2013). These high-net worth individuals are commonly sought by business owners who are looking to obtain outside funding and are willing to give a percentage ownership in their companies in exchange. Accredited investors typically provide funding in the amount of $25,000 to $100,000 in exchange for equity in the company. Furthermore, accredited investors may also want to take on additional responsibilities, such as supervising the company’s management practices or taking a seat on the company’s board of directors.

However, there are significant drawbacks to partnerships with accredited investors in terms of the perpetuation of systemic barriers. People of color and women have not had the same opportunities to amass the wealth that White men have. More than one in four Black households have zero or negative net worth, as compared to less than one in ten White families, which has led the population of accredited investors to be 77.9% male and 87.6% White (Angel Capital Association, 2017; Jones, 2017). Bias in investment decisions leads investors to select companies led by a person of their race and gender, meaning that White male investors are more likely to invest in White male-led businesses. Systemic barriers such as these then continue the cycle of people of color facing more obstacles in entrepreneurship, preventing them from amassing wealth.
Community Fundraisers
Community fundraisers, such as silent auctions or GoFundMe pages, are frequently used by small businesses in order to get started or make it through tough times. There are various methods of fundraising, both formal and informal. Community fundraising is a way to unite local individuals to support a business. However, it can be costly and time consuming to organize a community fundraiser large enough to fund a business. Some businesses obtain small grants to finance larger community fundraisers, but most companies have started to use crowdfunding to obtain the funding needed to support their businesses.

Crowdfunding
Crowdfunding is the use of small amounts of funding from a large number of individuals to fund a business or nonprofit. Business owners utilize their social media networks and crowdfunding websites to obtain funding from their community and beyond. Below, we address investment-based crowdfunding and donation-based crowdfunding as distinct methods. We also discuss microfinancing, which merges these two approaches.

Investment-based crowdfunding refers to a registered security, which is governed by state or federal regulators, depending on what type of offering the company has developed. Funding provided to the business could be in the form of debt, an exchange for a percentage of ownership in the company, or something in between such as a revenue-sharing agreement. In some cases, individuals funding the business can invest as little as $50, which makes it easier for a broad audience of people across many demographics, geographies, and socioeconomic statuses to provide support for the business.

Crowdfunding campaigns that function through donation or an advance sale of a company’s product rather than promising a return of capital are referred to as donation-based crowdfunding. Donation-based crowdfunding was popularized by Kickstarter, which is focused on small businesses with creative projects. Each project is independently crafted by its creator, who also chooses a funding goal and deadline, as well as what rewards to offer backers. Once launched to share with their community, people can back their project, pledging money to make it happen and receive a “reward” with no financial returns or equity taken. However, Kickstarter is all-or-nothing, meaning that if a project falls short, backers are not charged, and the creator does not obtain any funding.

Microfinance companies, such as Kiva, are a hybrid of these two models of crowdfunding. Kiva is a popular microlending option that has funded $1.45 billion in loans for small businesses globally. After Kiva approves, the loan is posted on their website for lenders to support during the fundraising period. Kiva loans have a historical repayment rate of 96%, which is given back to lenders to fund new loans, donate, or withdraw the money. Lenders are provided no interest on their loans; therefore, it is not considered an investment security. Kiva launched its first U.S. location in Detroit in 2011, which also serves Washtenaw County entrepreneurs.

Traditional Bank Financing
Traditional bank financing through small business loans is a good option for someone who wants complete control of their business. Traditional bank financing accounts for 16.5% of new business funding (U.S. Census, 2016). While obtaining funding from a bank is a common option, bank loans require personal
guarantees, occasionally including a secured interest on personal assets. The need for assurance of repayment is a problem for many small business owners without personal assets to guarantee.

Many individuals face systemic barriers when attempting to obtain bank financing. Due to systemic inequalities that prevent many women and people of color from amassing the wealth that White men have, many do not have the assets needed to obtain significant bank loans at reasonable terms. These underrepresented groups also experience barriers when they obtain bank loans, as businesses owned by people of color are often charged higher interest rates on bank loans than similar White-owned businesses (U.S. Census, 2016). Further, businesses led by people of color tend to be in geographic areas that, in lending terms, banks regard as risky locations in which to operate a business. This disproportionately affects businesses owned by people of color. For example, research has shown that new Black-owned businesses start with almost three times less in outside funding than new White-owned businesses (Hwang, Sameeksha, & Baird, 2019). The significant barriers that prevent these new businesses from obtaining necessary funding perpetuates the cycle that continues to prevent underrepresented groups from being able to amass wealth.

**Government-backed Lending (CDFI, SBA Loan Programs, CRA)**

The U.S. Small Business Administration (SBA) offers SBA-guaranteed loans through lenders for individuals who experience difficulty obtaining traditional bank financing. In these situations, even if a bank determines a business is too risky to lend funding, the SBA can guarantee a loan, meaning the SBA will pay the loan back to the bank if the business is unable to pay. This reduces the risk for the bank, which enables them to provide funding. Since 2005, the SBA-guaranteed loan rate has remained at a steady $25 million annually (Theodos et al., 2020; see Figure 7).

![Countywide Small Business Lending](chart)

**Countywide Small Business Lending**

**IN MILLIONS**

![Figure 7](chart)

**SOURCES:** COMMUNITY REINVESTMENT ACT (CRA); SMALL BUSINESS ADMINISTRATION

**NOTES:** FIGURES ARE IN CONSTANT 2019 DOLLARS. CRA LOANS TO FIRMS WITH REVENUES <$1M AND SBA LOANS MAY BE INCLUDED IN CRA LOANS <$1M TO THE EXTENT THEY MEET THAT QUALIFICATION.
The Community Reinvestment Act was passed in 1977, encouraging banks to provide lending to the entire community, especially to neighborhoods with low and moderate levels of income (Theodos et al., 2020; see Figure 8). In 2005, banks made nearly $200 million in CRA qualifying loans to Washtenaw County businesses with less than $1 million annual revenue. After the 2008 financial crisis, CRA lending was cut in half and has remained relatively unchanged since, despite a robust economic recovery in the following years.

Community Development Financial Institutions (CDFIs) aim to broaden economic opportunity among low-income communities and communities of color by providing bank financing. In order to be eligible for CDFI funding, businesses must promote economic development and operate within an underserved area or population. CDFIs are able to provide funding to businesses that traditional banks would not, while still offering low interest rates. In addition, CDFIs frequently provide technical assistance and training programs to businesses in order to increase their chances of success. While there are 31 CDFIs in Michigan, Washtenaw County organizations have received approximately $90 million in investment capital, or about $7 million annually, from 2005-2018 (CFDI Coalition, 2018). Fortunately, CDFIs – also called mission lenders – have directed most of that capital toward high poverty neighborhoods (Theodos et al., 2020; see Figure 9).

**Grants**

Grants are one of the most common funding options for nonprofit businesses, but can also be obtained by for-profit businesses. Grants are typically offered by foundations, government entities, economic development organizations, or corporations.

- Foundation grants are provided to nonprofit businesses, often to fulfill a specific social or environmental goal with no expectation of a financial return.
Government and economic development grants are provided to for-profit and nonprofit businesses. These grants are given to fulfill an economic development goal with no expectation of a financial return. Frequently, these grants are provided for specific individuals or sectors, such as women veterans or businesses focused on innovation, research, and development.

Corporate grants are provided to for-profit and nonprofit businesses. These grants are given to fulfill a variety of goals that specific corporation has, whether they are driven by social, environmental, economic development, or technology interests. Frequently, these grants are provided also as a way of the corporation showing their support and values. They also have no expectation of a financial return.

There are certainly many different means of funding available to budding companies, but it is also apparent that that some of these sources may contribute to the perpetuation of economic barriers that marginalize people of color. We will now evaluate the observable patterns in which businesses obtained funding in 2019. Specifically, we will consider the caregiving, education, food systems, real estate, and independently-owned main street sectors of Washtenaw County.

**FUNDING ANALYSIS**

There are over 8,000 active businesses in Washtenaw County. While Washtenaw County includes businesses across a wide variety of industry types, we are here narrowing our analysis to five key sectors, referred to as “focus sectors” throughout this report. These sectors include:

- **Caregiving**, which can be informal, as unpaid individuals who care for a young child or elder adult, or formal, as paid care providers in one's home or a care setting. In this study, we considered formal caregiving from "cradle to grave." This spectrum includes caregiving for children, adults with special needs, and elderly members of our community.

- **Educational services**, which are provided by both private and public institutions in our community. They span across age ranges, from early childhood to continuing adult education. In this study, we considered private education, which includes preschools, tutoring agencies, and private schools.

- **Food systems**, which are complex and diverse, involving many different types of businesses. For this study, we examined any business that is involved in the food economy, from producer to consumer. This includes restaurants, farmers, processors, wholesalers, distributors, packaging companies, and grocery stores.

- **Independently-owned main street businesses**, which are those that are situated in downtown or primary commercial districts in any of the seven locales in Washtenaw County, as well as businesses operating out of traditional brick and mortar storefronts. When excluding businesses that may fall under other categories and those not owned by franchisees or larger corporations that span statewide, regionally, or nationally, the businesses are left to be counted in this category are those that tend to provide goods and services to their local communities. This group may include professional service providers like attorneys and accountants, family service providers like dry cleaners and laundromats, and niche retailers, among others.
• Real estate, which includes residential, commercial, and mixed-use buildings. Residential activities could be single-family homes or multi-family developments. Commercial activities can include new construction and rehabilitation of existing properties. Mixed-use developments include both residential and commercial activities.

There are just over 2,200 businesses in Washtenaw County within these five industry sectors, and their distribution across the focus sectors may be seen in Figure 10.

These businesses obtained outside funding of approximately $279 million in 2019 (Figure 11). In addition to outside funding, over the past 3 years, the businesses earned just over $3 billion in revenue. In fact, at the end of last year, 61% of local business owners felt that, overall, the economic landscape in Washtenaw County was better than it was five years ago (Figure 12).
Sources of Outside Funding

Most new business owners begin their first year of operations equipped with resources, including considerable relevant experience and some financial reserves. 42% of entrepreneurs start their businesses with little or no outside funding and typically, it is recommended that entrepreneurs have at least three to six months of cash reserves when starting a business. Nationally, for individuals that do not have significant personal funds, the ability to work a second job, or a positive credit history to secure a personal credit card, starting a new business can be significantly more difficult (Figure 13). After lack of market need for their product or service, and a resulting inability to find customers, the second-most common reason for new businesses to fail is running out of cash (CB Insights, 2019), making the ability to obtain outside funding when needed critical for ongoing business success.

Percentage of Businesses Nation-wide that Obtained Funding

<table>
<thead>
<tr>
<th>PER FUNDING SOURCE</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>PERSONAL FUNDS</td>
<td>66%</td>
</tr>
<tr>
<td>INCOME FROM ANOTHER JOB</td>
<td>28%</td>
</tr>
<tr>
<td>PERSONAL CREDIT CARDS</td>
<td>9%</td>
</tr>
<tr>
<td>INDIVIDUAL INVESTORS (non-accredited)</td>
<td>18%</td>
</tr>
<tr>
<td>BANK LOAN</td>
<td>11%</td>
</tr>
<tr>
<td>INDIVIDUAL INVESTORS (accredited)</td>
<td>3%</td>
</tr>
<tr>
<td>GRANTS</td>
<td>2%</td>
</tr>
<tr>
<td>CROWDFUNDING</td>
<td>2%</td>
</tr>
</tbody>
</table>

FIGURE 13
Funding in Washtenaw County

Many businesses lean more heavily on bank loans and other types of outside funding to support projects, expansions, and other aspects of ongoing operations. Over the past five years, most businesses within the focus sectors across Washtenaw County obtained funding from banks, non-accredited individual investors, and grants to fund ongoing operations (Figure 14).

- Individuals, either accredited (8%) or non-accredited investors (18%), were the most popular source of outside funding accessed by Washtenaw County businesses. In addition, most of the funding received (48%) by local businesses came from individuals, most of whom were non-accredited investors.

- Bank financing was a close second, with 22% of businesses in Washtenaw County utilizing this source of funding. However, only 27% of the funding received by local businesses came from banks.

Obstacles in Obtaining Funding

Businesses in Washtenaw County who are trying to obtain outside funding may face many obstacles, the most significant of which include:

- **Network:** Many business owners feel they do not have the necessary network of individuals or organizations who might invest in their companies. Many investors say they would prefer a warm introduction over a cold call, making it difficult for business owners who are outside of their network to begin having conversations about funding opportunities.

- **Education:** Navigating the funding landscape is difficult and can be time consuming. Business owners struggle with knowing what source of funding is best for their businesses, where to go to obtain that type of funding, and how to go about the funding process in the way that will most benefit their businesses.

- **Company History:** Both nonprofit and for-profit companies face the issue of longevity and performance when trying to obtain funding. Many sources of funding require a significant history of high-performance, which is difficult for new businesses to obtain. Companies that do not have a significant history of high-
performance frequently need to have more collateral, and also must be located in an area with a history of company success in order to secure funding. These requirements constitute additional barriers.

**Improving Access to Funding for Washtenaw County Businesses**

Business owners in Washtenaw County believe the best ways to increase access to funding and availability of funding for local businesses are:

- **Sector-Specific Local Associations:** Many local businesses find difficulty collaborating for big picture change due to the time they must spend on day-to-day tasks. The formation of sector-specific local trade associations to advocate on behalf of local businesses would be beneficial for entrepreneurs and business owners.

- **Workshops and Programs:** Business owners need education and information regarding obtaining funding, tax credits, and other financing options. Workshops and programs could address these issues, as well as key growth areas, such as marketing and sales strategies.

- **Networking Events:** In order to connect with investors and experienced business owners, many individuals say that various types of networking events would be beneficial to them.

- **Free Parking:** Many business owners state that free parking would allow for increased funding to support their businesses.

- **Community-Focused Investment Fund:** A membership-based community of investors that regularly hears presentations from Washtenaw County businesses pertaining to art, urban agriculture, social justice, social entrepreneurs, education, technology, etc.

Thus far, we have focused on traditional means of funding for businesses, as well as their shortcomings as possible remedies. Now, we offer a discussion of another approach to funding that may also serve as a solution to the barriers we have outlined: locally-focused impact investment.

**IMPACT OF LOCALLY-FOCUSED INVESTMENT**

The growing movement of impact investing, a drive toward investing in businesses to generate a measurable, beneficial social or environmental impact alongside a financial return, has the potential to make powerful societal changes. Impact investing acknowledges the potential of combining charity and business by investing in both for-profit businesses that explicitly intend to use their companies for social impacts and nonprofits with revenue and earned income streams, rather than separately donating to nonprofits while investing in traditional for-profit businesses. Through intentional investing, business and capital markets are able to address the societal problems that government and philanthropy cannot solve alone, such as poverty, inequality, health concerns, and climate change. Entrepreneurship provides the opportunity to make strides in these challenges, making investment more effective in creating value, including in the community.
Impact investing occurs in all sectors of business as well as across all asset classes. Many for-profit and nonprofit businesses within communities focus on positive societal impact, with small and emerging companies generally producing more impact. However, larger corporations or other asset classes can also have a positive societal impact. Double bottom line companies extend the conventional bottom line to add a second dimension of performance in terms of positive social impact, while triple bottom line companies view their performance in terms of three dimensions: profit, people, and the planet. Additionally, impact is an investment philosophy within asset classes, meaning that impact investment opportunities can be found in any asset class, from fixed income to real assets. No matter what type of company in which someone feels comfortable investing, there are investment opportunities within that comfort zone that can have a positive social or environmental impact.

Similarly to most investing decisions, impact investing can be done by individual investment directly into companies or by investing into a structured fund. An impact fund allows investors to make an impact with lower levels of effort required, while also creating portfolio diversification and less risk to the investors. Many investment funds focus on specific sectors, asset classes, and geographies, with the ability to have a greater impact on a specific cause than single investors alone.

A system for increasing local investment is an incredibly important tool for a community to have as it provides the opportunity to support the local community by providing greater access to funding, while also having a larger impact on the region’s economy (EntryPoint, 2020a). In the same way as an individual buying goods and services from locally-owned businesses, increasing locally-focused investment provides broader economic and placemaking benefits than investing outside of the region:

- **Money invested in locally-owned businesses stays in the local economy at a higher percentage than money invested in chain retailers.** Only 14% of money invested in chain retailers stays in the local economy, compared to 48% of money invested in independent businesses (Figure 15). Through operations,
jobs and community initiatives, money invested in local businesses stays in the local economy, while 86% of money invested in chain retailers leaves the community (American Independent Business Alliance, 2012). Therefore, investing locally impacts more than just one business’s focus, as that money is reinvested back into the community, enriching other businesses and consumers alike.

- **Small businesses significantly contribute to local job creation.** Small businesses make up a huge portion of the economy; in fact, 95% of U.S. companies are small businesses, defined as independent businesses that have fewer than 500 employees. Between 1993 and 2011, small businesses accounted for 64% of the net new jobs created, leading them to employ roughly half of U.S. employees today (Small Business Association 2012). In contrast, Amazon transactions in 2018 resulted in the displacement of 900,000 retail jobs, showing the economic impact of investing locally in strengthening employment levels and creating more future jobs in the community (Civic Economics and the American Booksellers Association, 2019).

- **Small businesses donate 250% more than larger businesses to local nonprofits and community causes.** Small businesses are more likely to have knowledge of and contribute to local causes than larger businesses, leading to an improved local community (SCORE, 2019a). Washtenaw County small businesses have demonstrated their commitment to community initiatives, as seen through the 37% of small businesses across the county responding to the Washtenaw County COVID-19 Business Impact Report with information about initiatives their businesses had launched to support the community and fellow business owners during the pandemic (EntryPoint, 2020b). Because small businesses are part of the community, they are more active in their support of different initiatives to better the community. In addition to their economic impact, small businesses donate an average of 250% more than chain businesses and online marketplaces to local nonprofits and community causes (Institute for Local Self-Reliance, 2003).

- **Investing locally supports the small businesses that are the fabric of any community and contribute to the development of a unique, vibrant local culture.** Having a vibrant local business community is part of creating a sense of place for residents and visitors of that community and contributes to a higher quality of life. The development of unique communities not only provides choices for consumers, but also leads to further positive economic impacts on other industries such as real estate, tourism, and hospitality. Furthermore, investing on online marketplaces such as Amazon erodes the small business community – Amazon transactions resulted in the displacement of 62,000 retail shops in 2018 (Civic Economics and the American Booksellers Association, 2019).

Ultimately, making investments in locally-owned small businesses is an effective and efficient way to build a resilient, vibrant local business community that grows and improves the economy, while also working to solve societal problems.
Impact investing can provide a competitive financial return on investment in addition to making positive impacts on the community. 85% of impact investors seek risk-adjusted, market-rate returns or just below market-rate returns. Only 15% of impact investors are seeking just capital preservation, meaning they only look for a return of their investment rather than a return on the investment (Institute for Local Self Reliance, 2003). Typically, 42% of family offices and 40% of foundations are seeking capital preservation (Figure 16). Larger investors, like pension funds and insurance companies, target risk-adjusted, market-rate returns (Global Impact Investing Network, 2020).

Communities who choose to launch an impact investment fund may find receptive audiences within diversified financial institutions (DFIs) and nonprofit asset managers who have returns expectations that are slightly higher than foundations and family offices but are not as high as pension funds and insurance companies. Overwhelmingly, impact investors feel their investments meet or exceed both their impact goals and financial goals. 99% of impact investors feel that their investments meet or exceed their impact expectations and 88% feel that their investments meet or exceed their financial expectations (Figure 17).
Overall, impact investing provides an opportunity to combine the power of charitable donations and traditional investments to address societal problems and positively impact local communities. With investment opportunities across all sectors, assets, and geographies, organizations and individuals can invest within their comfort zones, make a financial return on investment, and also have a large social or environmental impact.

In Part I, this report analyzed several of the factors that define the economic landscape of Washtenaw County. With this context in mind, next we will examine the key industries that operate within the area. Specifically, Part II will identify five focus sectors key to Washtenaw County’s economy and explore the trends and challenges that characterized them in 2019.
Part II: Industry Analysis

There are over 8,000 active businesses in Washtenaw County. While Washtenaw County includes businesses across a wide variety of industry types, we are here narrowing our analysis to five key sectors, referred to as “focus sectors” throughout this report. These sectors include independently-owned main street businesses, food systems, education, real estate and caregiving. There are just over 2,200 businesses in Washtenaw County within these industry sectors (Figure 18). In Part II, we discuss the results of data gathered from small businesses throughout Washtenaw County regarding these five specific sectors.

INDEPENDENTLY-OWNED MAIN STREET

Independently-owned main street businesses, which are those that are situated in downtown or primary commercial districts in any of the seven locales in Washtenaw County, as well as businesses that function out of a traditional “brick and mortar” storefront. 15% of Washtenaw County businesses fall within the independently-owned main street business sector. When excluding businesses that may fall under other categories and those not owned by franchisees or larger corporations that span statewide, regionally, or nationally, the businesses left to be counted in this category are those that tend to provide goods and services to their local communities. This group may include professional service providers like attorneys and accountants, family service providers like dry cleaners and laundromats, and niche retailers, among others. Of the approximately 1,200 Washtenaw County businesses in the independently-owned main street sector, 74% are in the professional services subsector (Figure 19).
**Demographics**

Of the businesses analyzed, 89% of independently-owned main street sector businesses were owned by a person who is White (Figure 20). Additionally, 56% of business owners identified as female.

Washtenaw County businesses in the independently-owned main street sector are predominately owned by people who are 40-49 years old. On average, these businesses have been in operation for 13 years and typically have five full time W2 employees, 1 part-time W2 employee and one contract employee. Most businesses in this sector offer free parking, paid holidays, paid time off and sick time (Figure 21). Very few offer parental leave.

**Funding**

In the last year, businesses in the independently-owned main street sector obtained outside funding of approximately $156 million. In addition to outside funding, during this same timeframe, the businesses earned just over $2.2 billion in revenue. In fact, at the end of 2019, 71% of local business owners in the sector felt that, overall, the economic landscape in Washtenaw County was better than it was five years ago.

**Benefits Offered**

By Businesses in the Independently-Owned Main Street Sector
In addition to revenue and outside funding obtained, business owners in Washtenaw County have invested over $81 million of their personal wealth into their businesses. Prior to the pandemic forcing businesses to close their operation to protect public safety, businesses owners within the independently-owned main street sector estimated they will need to obtain a total of over $256 million in outside funding over the course of the next three years to continue operating effectively.

**Sector Challenges**
Businesses in the independently-owned main street sector face a variety of challenges as an industry, the most significant of which include:

- **Mixed-Use Development:** As these brick and mortar businesses are primarily located in popular downtown locations, small businesses looking to open often must do more than just find a spot of land. The phenomenon of using a singular structure to house more than one entity (e.g., a building being home to a restaurant, gym, and apartment complex). This often results from inadequate space in the downtown area. It requires planning and management coordination with the other entities in the structure, political patience, and increases the risk taken on by small business owners in these areas.

- **Historic Preservation:** Many Main Streets, like those in Ypsilanti, Ann Arbor, and Saline, are home to several historically significant buildings and structures. These locations are protected both officially through legislation and unofficially through community sentiment. While these restrictions prevent gentrification of neighborhoods, they also severely limit the flexibility of small business owners in the industry. Those who are able to secure a location are often unable to structure it to best fit their businesses. Other types of businesses that are capital and asset intensive are unable to occupy spaces in Main Street areas all together.
• **Financing Difficulties:** With the rising cost of land in these commercial areas, independent entrepreneurs continually struggle to finance their businesses. These entrepreneurs have historically relied on small banks to provide financing opportunities, but loans from small banks have diminished dramatically as a part of the overall loan market. Furthermore, loans provided by larger banks to small businesses have higher interest rates and are lower in value. Marketplace lenders are a third viable option, but for entrepreneurs new to business, these lenders can be difficult to understand. This and generally high interest rates make them vastly inaccessible.

It should also be noted that these brick and mortar businesses were severely impeded by COVID-19 and the restrictions implemented in response to the pandemic; as such, it too is a significant challenge for companies in this sector. However, Part II considers data gathered prior to the surge of COVID-19, and as such, this portion of the report covers other extant challenges facing this sector. A more thorough evaluation of the pandemic and its implications may be found in Part III.

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**BUSINESS SPOTLIGHT**

The **M Den** is the official merchandise retailer of University of Michigan athletics located in the heart of downtown Ann Arbor. The company was founded in 1976 by life-long Ann Arbor residents and friends David Hirth and Doug Horning, who never imagined that their small sporting goods store on Main Street would evolve into the University of Michigan fans’ primary stop for game-day attire. As graduates of UoM and former teachers and football coaches, David and Doug saw the value in creating a business focused on the University so instrumental to the community’s culture. By the early 1990s, the company was named the official retailer of University of Michigan Athletics, proudly working with the athletic department to not only offer the highest-quality official merchandise, but also to guarantee that a portion of each sale directly supports the University of Michigan Athletic Program. The M Den has since been passed down to both founders’ family members in 2013 and is currently owned by David’s children, Scott Hirth and Julie Corrin, as well as Doug’s nephew, Steve Horning. Additionally, in 2015, The M Den became an official partner of the ChadTough Foundation, providing merchandise needs with all profits going back to the organization in order to support research for pediatric brain cancer, with an emphasis on Diffuse Intrinsic Pontine Glioma. Throughout its long history, The M Den has striven to embody the “Leaders and Best,” consistently strengthening its quality and service for all customers. Serving current students, alumni, families, and superfans with the finest selection of Wolverine gear, The M Den has become a true staple of the area.

**NewFoundry** is a software development studio consisting of a team of strategists, designers, and engineers who work together in Ann Arbor to solve problems brought forth by their clients, creating next-generation market opportunities, products, and services. Founded by Richard Chang, Chris Myers, and Kyle Feliks in 2012, the 19-person team provides holistic assistance from strategy development, user experience design, and software development. The NewFoundry team serves clients from a wide variety of industries, some of which include the University of Michigan, Mitsubishi Electric, Huntington, as well as other small startups. Just before their 5-year anniversary in 2017, NewFoundry was recognized in the top-third of Inc. Magazine’s 5000 fastest-growing private companies in America. Additionally, NewFoundry CEO Richard Chang was named a “Diversity Business Leader” by Corp! Magazine as recognition for his diversity initiatives and achievements within his organization and community.

**Amy Cell Talent** is a consulting and recruiting firm that recognizes the need for affordable recruiting and human resources services. The company was founded in 2015 by nationally-recognized expert and innovator in the talent area, Amy Cell, acting as an important resource for organizations across the country. Located in downtown Ypsilanti, the company works to develop and implement various innovative talent programs to solve employer and employee challenges in their job searches. Amy has made a significant impact on the community, through the creation of a job portal called Pure Michigan Talent Connect, a career counseling program for high school students, and Community Ventures, a program that acts as a career pathway out of poverty. Through Amy Cell Talent, Amy and her team are focused on supporting companies with their talent needs in order to promote community economic development.
FOOD SYSTEMS

Food systems is a complex and diverse sector that consists of many different types of businesses. For this study, we examined any business that is involved in the food economy, from producer to consumer. 8.6% of Washtenaw County businesses fall within the food systems sector. This includes restaurants, farmers, processors, wholesalers, distributors, packaging companies, and grocery stores. Of the approximately 700 Washtenaw County businesses in the food systems sector, 53% are in the food production subsector (Figure 22). The food production subsector includes businesses in which food is produced and supplied directly to the consumer. The food processing subsectors include companies in which food is processed and then supplied to other businesses that sell it to consumers.

FIGURE 22
- Food Processors
- Food Producers
- Restaurants
- Other

FIGURE 23
- White
- Black
- Asian
- Middle Eastern
- Asian Indian
- Mixed Race

FIGURE 24
- Paid Time Off
- Sick Time
- Paid Holidays
- Maternity Leave
- Parental Leave
- Healthcare Coverage
- Retirement Plan
- Free Lunch
- Free Snacks/Beverage
- Free Parking
- Wellness

Benefits Offered by Businesses in the Food Systems Sector
**Demographics**

Of the businesses analyzed, 73% of food systems sector businesses were owned by a person who is White (Figure 23). Notably, while Washtenaw County is home to many Hispanic-owned food businesses, none participated in this study; therefore, this set of self-report data does not reflect these demographics. Additionally, 52% of business owners identified as female.

Washtenaw County businesses in the food systems sector are predominately owned by people who are 50-59 years old. On average, these businesses have been in operation for 6 years and typically have 6 full time W2 employees, 9 part-time W2 employee and 1 contract employee. Most businesses in this sector offer free parking and free snacks/beverages (Figure 24). Very few offer parental leave, healthcare coverage, retirement plans, or sick time.

**Funding**

In the last year, businesses in the food systems sector obtained outside funding of approximately $55 million. In addition to outside funding, during this same timeframe, the businesses earned just over $475 million in revenue. At the end of 2019, less than half (47%) of local business owners in the sector felt that, overall, the economic landscape in Washtenaw County was better than it was five years ago.

![Image of a business and a dollar sign with a calculation: For every $1 obtained in funding from outside sources, Washtenaw County businesses in the food systems sector earned $8.61 in revenue from customers.]

In addition to revenue and outside funding obtained, business owners in Washtenaw County have invested over $101 million of their personal wealth into their businesses. Prior to the pandemic forcing businesses to close their operation to protect public safety, businesses owners within the food systems sector estimated they will need to obtain a total over $202 million in outside funding over the course of the next three years to continue operating effectively.
Sector Challenges

Businesses in the food systems sector face a variety of challenges as an industry, the most significant of which include:

- **Stiff Competition:** The food systems sector covers a broad range of business types, and it should be stated that the skills and resources needed to sustain businesses in this sector are remarkably steep. However, other than the capital required to purchase land, the food systems industry holds relatively lower barriers to open a business. This comparative ease of entry encourages stiff competition between businesses in the industry that often takes the form of undercutting prices. The saturated market, coupled with price competition, gives a large advantage to industry incumbents and makes it difficult for new entrants to compete in the market and sustain viable businesses. This challenge is especially prevalent where corporate alternatives to small businesses are highly represented.

- **Access to Talent:** The food systems industry has one of the highest employee turnover rates when compared to other sectors. While this work requires a great deal of skill, knowledge, training, and hands-on experience, workers generally do not need to have earned any specific degrees or certifications to “qualify” for employment. This can create demand for workers in roles that offer limited flexibility and lower pay. As a result of these factors, food systems industry businesses are forced to continually seek an input of willing workers in order to keep their companies afloat. Furthermore, this high rate of churn also forces businesses to perform training and other instructional activities much more often which, over time, can become costly, time consuming, and can thereby cause inefficiencies.

- **Digital Presence:** While a shift to online spaces is a growing trend across all industries, it is significantly evident in the food systems industry. Coordination with food delivery services, grocery delivery services, online ordering capabilities, virtual menus, and others are all becoming a baseline for success. Business owners are forced to navigate this continually evolving landscape alone, as resources and trainings are held infrequently and updated irregularly (for example, the Michigan Main Street Program is only held three times annually and requires a day off of work). Doing so requires time and effort invested by the business owner, and a lack of success in these spaces can deter customers.

Much like the independently-owned main street business sector, the food systems industry within Washtenaw County was struck particularly hard by COVID-19 and the policies put in place to manage the pandemic. Again, a more specific discussion of the unique challenges posed by COVID-19 may be found in Part III; this section describes other obstacles faced by food systems businesses based upon data collected prior to the onset of the pandemic.
Dos Hermanos is a family-owned Mexican market in the heart of Ypsilanti founded in 2007 by brothers Reyes and Nicholas Arreola. With a passion for authentic Mexican food, the brothers saw the opportunity to provide a much-needed service for the growing Hispanic community in an area where such cuisine was otherwise not available. The market became an instant classic upon opening in the long-empty storefront on Michigan Avenue. Customers from all around the region were especially enthusiastic for the entrance of Dos Hermanos, as it is the only grocery store in downtown Ypsilanti and one of the only Mexican markets outside of Detroit. The market has become a staple for many customers due to its fresh $1 tamales. Dos Hermanos offers a wide range of food, including fresh produce, meat delicacies, dairy products, canned and dried goods, as well as breads and sweets brought in from the brothers’ bakery in Adrian. Additionally, the market offers a hot bar featuring tacos, roasted chicken, barbecued lamb, and their signature tamales at incredibly affordable prices, providing any family the opportunity to enjoy fresh and authentic Latin American cuisine. The Arreola brothers and their staff work to create a warm environment for their customers, making the market a beloved small business for the surrounding community to call their own.

Mindo Chocolate Makers is a bean-to-bar chocolate maker in rural Dexter, founded by Jose Meza and Barbara Wilson. After returning to Jose’s home country of Ecuador, they opened an internet café in a small mountain town hoping to keep in touch with their Ann Arbor business and to help offset the high cost of internet access in rural Ecuador. In addition to roasting and preparing their own coffee, Barbara began to make brownies for the café, which quickly became popular. However, they did not have a reliable external source of quality chocolate, and so they also began making chocolate from bean to bar. In November 2009, they became licensed to also make chocolate in a home-based business in Dexter, making Mindo Chocolate Makers a business that spanned international waters. Since then, Jose and Barbara split their time between both Mindo locations, keeping both sides of the operation in direct contact and welcoming anyone interested in making their own chocolate. In their Dexter kitchen, chocolate lovers can find a wide selection of delicacies, including rustic and signature chocolate bars, drinking chocolate, cocoa beans, and cooking and baking supplies. Additionally, in both Dexter and Mindo, the company offers tours and chocolate-making classes for people of all ages, showing the full process – beginning with the tree and finishing with the chocolate bar.

Detroit Street Filling Station is a vegan restaurant located in the historic Staebler Family Oil Company filling station in downtown Ann Arbor. The establishment uses local and organic produce, makes all menu items from scratch, and emphasizes environmental sustainability. Founded in 2017 by Phillis Engelbert, Detroit Street Filling Station embraces community as demonstrated by their “10% for the Community” program through which 10% of sales on Tuesdays are donated to local nonprofits, such as Al Otro Lado. Likewise, in 2017, Engelbert’s team helped with local prisoner rights attorneys and advocated to start a nonprofit called Youth Justice Fund. The nonprofit works to assist citizens reentering society after being sentenced as youth, providing services and resources necessary to ensure human dignity and full participation in their communities. Detroit Street Filling Station is a recovery-friendly workplace, committed to hiring formerly incarcerated people and those in recovery from addiction, while offering a healthy and safe environment to eliminate barriers within the community.

Wasem Fruit Farm is a family-owned orchard in rural southeastern Michigan, located between Ypsilanti and Milan. The Fruit Farm was born out of what started as the small home farm of couple Edward Wasem and Leola (Tallday) Wasem in the early 1950s. Now managed by their daughter and son-in-law, the family takes pride in remaining true to their heritage as a working farm. The farm is a perfect place to visit, especially during the fall season as it offers families the opportunity to pick-your-own apples, pumpkins, tart cherries, and raspberries. Visitors can also enjoy the farm’s unpasteurized cider and delicious donuts which are made fresh daily. Year-round, locals can also enjoy a variety of other high-quality produce, baked goods, and jams at the Ann Arbor Farmers Market. Additionally, Wasem Fruit Farm provides educational daycare and school tours, showing youth the sources from which their food originates.
EDUCATION

Educational services are provided by both private and public institutions throughout the area. 1.6% of Washtenaw County businesses fall within the education sector. They span across age ranges, from early childhood to continuing adult education. In this study, we considered private education, which includes preschools, tutoring agencies, and private schools.

Demographics

Of the businesses analyzed, 100% of education sector businesses were owned by a person who is White. Additionally, 55% of business owners identified as female.

Funding

In the last year, businesses in the education sector obtained outside funding of approximately $48 million. In addition to outside funding, during this same timeframe, the businesses earned just over $209 million in revenue. At the end of 2019, only a third of local business owners in the sector felt that, overall, the economic landscape in Washtenaw County was better than it was five years ago.

In addition to revenue and outside funding obtained, business owners in Washtenaw County have invested over $131 million of their personal wealth into their businesses. Prior to the pandemic forcing businesses to close their operation to protect public safety, businesses owners within the education sector estimated they will need to obtain a total of nearly $118 million in outside funding over the course of the next three years to continue operating effectively.

Sector Challenges

Businesses in the education sector face a variety of challenges as an industry, the most significant of which include:
Shrinking Enrollment in Private Schools: Across the board, enrollment in private schools has decreased significantly, and the numbers of students enrolled in preschool and K-12 private schools versus public schools is starkly different (5,218 and 45,983, respectively). This is further amplified by the fact that the majority of the private institutions are located in Ann Arbor, and the Ann Arbor Public School District has had increasingly higher enrollment rates for the last 5 years (Private School Review, 2020). Moreover, a minority of attendees at the private schools are from out of the district. This creates an issue for the longevity of private schools, as they rely on tuition for funding.

Monopolization of Tutoring Industry: After the availability of teachers/instructors, the biggest competitive advantage a tutoring or instructional business can have over others is the resources it can offer its students. Access to resources is dependent on how much the business is willing to pay. Large corporations are able to easily beat out small businesses in the playing field because of this self-reinforcing cycle. With little policy or regulation preventing large businesses from entering the market, there remains no room for competition, resulting in the domination of Washtenaw County’s tutoring market by big businesses.

Lack of Equal Talent: The education as a service industry relies heavily on sourcing talent to attract customers. Washtenaw County, as a home to three major universities, holds a lot of talented and willing students that provide a great source of employees for many of these businesses. Conversely, the locations where there are not any universities or major educational institutions severely lack talented and available workers to sustain educational services. This results in stark differences in the industry across townships and cities within Washtenaw County, greatly hindering the growth of businesses in this sector.

Backyard Brains, located in the heart of downtown Ann Arbor, is an educational biotechnology company focused on democratizing neuroscience for everyone. Founded in 2009 by then-neuroscience Ph.D. students Greg Gage and Tim Marzullo, Backyard Brains creates technology to demonstrate compelling neuroscience experiments to kids and adults. Their first product, the Spikerbox, is a hand-held device able to provide insight into the inner workings of the nervous system and record the messages of neurons in the brain, or “spikes.” Since then, Backyard Brains has expanded into multiple STEM research fields, and all products are accompanied with lesson plans and experiments to make neuroscience concepts accessible for all individuals. Additionally, Backyard Brains has nine TED Talks, has been awarded four grants from the U.S. National Institutes of Health, and was awarded the “Champion of Change for Citizen Science” by President Barack Obama. For over a decade, Backyard Brains has worked to directly bring neuroscience to the community and the world.

1st Fine Arts Preschool is a unique preschool that offers a one-of-a-kind fine arts program in addition to regular academics. Situated on 40 acres in Ypsilanti, 1st Fine Arts Preschool was founded in 2015 with a focus on building students’ self-esteem and confidence in a child-centered, hands-on learning environment. Children are able to experience piano instruction, gymnastics, dance, martial arts, and STEM to nurture their creativity, curiosity, and uniqueness. 1st Fine Arts also offers a School Age Program for children 6-12 years old in which students enjoy art, music, games, a variety of sports, and homework help. Lastly, during the summer months, 1st Fine Arts operates a Summer Day Camp with fun, educational activities and field trips to keep children engaged and learning.
REAL ESTATE

The real estate sector includes residential, commercial, and mixed-use buildings. 1.3% of Washtenaw County businesses fall within the real estate sector. Residential activities could be single-family homes or multi-family developments. Commercial activities can include new construction and rehabilitation of existing properties. Mixed-use developments include both residential and commercial activities.

Funding

In the last year, businesses in the real estate sector obtained outside funding of approximately $15 million. In addition to outside funding, during this same timeframe, the businesses earned nearly $45 million in revenue. It is important to note that outside funding obtained in 2019 was less than average due to a lack of major affordable housing projects, which typically leverage a significant amount of federal low-income housing tax credits, grants and loans. At the end of 2019, only a third of local business owners in the sector felt that, overall, the economic landscape in Washtenaw County was better than it was five years ago.

In addition to revenue and outside funding obtained, business owners in Washtenaw County have invested over $171 million of their personal wealth into their businesses. Prior to the pandemic forcing businesses to close their operation to protect public safety, businesses owners within the real estate sector estimated they will need to obtain a total of nearly $21 million in outside funding over the course of the next three years to continue operating effectively.

Sector Challenges

Businesses in the real estate sector face a variety of challenges as an industry, the most significant of which include:

- **Abandoned/Foreclosed Land:** Across locations considered fiscally more affordable than Ann Arbor, like Ypsilanti, Washtenaw County’s real estate industry struggles with a lack of capital expenditures in land development. Parks, plazas, and other community spaces are in dire need of revitalization, but without
a government or external incentive to invest in these spaces, land development continues to center around populated urban areas. This unequal investment leaves parts of Washtenaw County with an excess of foreclosed and abandoned properties that hinder overall development and fiscal stability in the region.

- **Affordable Housing:** Affordable housing and/or land space for residential and commercial use is imperative to keeping a thriving economy, and yet, a significant barrier to success in this industry is a lack of cohesive understanding of what affordable housing/building actually means. Without a universal definition or protection in place by Washtenaw County, the real estate industry varies greatly across the area. What is affordable for a student living in Ann Arbor is not necessarily affordable for a minimum wage worker in Pittsfield. This weighs down the overall economic health of the location and amplifies socio-economic divides of the region.

- **Regulatory Barriers:** Real estate developers frequently face regulatory barriers in Washtenaw County, such as minimum parking requirements, unclear and lengthy civic processes, the high cost of infrastructure such as sewer and water hook-ups, and a lack of flexibility in zoning ordinances. In addition, outdated legislature in Washtenaw County hinders the ability of land developers and landlords to grow the real estate industry effectively. Two problematic consequences of these policies are limited development along transit routes and the potential lack of rental property registration. Updating the zoning ordinance to allow greater density development along transit routes would encourage small businesses to move in to cater to a commuter customer base, as the current restrictions prevent this from happening. The second solution is to regulate the renting process to encourage more oversight and accountability in renting spaces, thereby making the space secure and accessible to small businesses and other entities.

**BUSINESS SPOTLIGHT**

*Cahoots*, sprawling an entire downtown block in Ann Arbor, is a coworking space for local tech entrepreneurs to meet like-minded people and find resources that promote small startups. The company was a passion project started in 2015 by local entrepreneurs Joe Malcoun and Guy Suter, who wanted to create an innovative and collaborative space for tech startups of Washtenaw County. The owners were dedicated to improving and accelerating a vibrant tech community, especially on East Huron Street, and area that has fewer active businesses than elsewhere in the region. Boasting a large open-concept workspace, numerous conference rooms, living room areas, and a coffee bar, Cahoots hopes to energize the area. They note that the proximity to the University of Michigan campus will allow for the recruitment of new interns and team members to Cahoots and tech companies. In addition to their workspace, the company recently opened the Cahoots Café on Huron Street, providing members and non-members alike a place to relax and enjoy a wide variety of drinks and sandwiches. To contribute to the entrepreneurial ecosystem of Washtenaw County, Cahoots has 25,000 square feet of rentable coworking space as well as exceptional event space. Their unique location now offers dedicated quiet space equipped with comfy seating and a fireplace, a community kitchen, and a health club, as well as great views of Ann Arbor.
CAREGIVING

The caregiving industry consists of services that can be informal, as unpaid individuals who care for a young child or elder adult, or formal, as paid care providers in one’s home or a care setting. 0.9% of Washtenaw County businesses fall within the caregiving sector. In this study, we considered formal caregiving from "cradle to grave." This spectrum includes caregiving for children, adults with special needs, and elderly members of our community.

Funding

In the last year, businesses in the caregiving sector obtained outside funding of approximately $4.5 million. In addition to outside funding, during this same timeframe, the businesses earned just over $98 million in revenue. In fact, at the end of 2019, 66% of local business owners in the sector felt that, overall, the economic landscape in Washtenaw County was better than it was five years ago.

Homewatch CareGivers of Ann Arbor is an in-home care agency that offers a wide variety of care services to people of all ages and needs, striving to provide expert-level services tailored to each individual’s unique circumstances. Owned by Brian and Breanne Stuart, the Ann Arbor branch was founded in 2008 to serve Washtenaw and Livingston counties, deriving from the national company founded over 35 years ago. With a long history of caring for their own loved ones, the Stuarts gained a passion for caring and serving others regardless of age or health condition, offering elder and dementia care, as well as care for chronic conditions or hospital discharges. In addition to many other services, Homewatch CareGivers staff offer support with daily activities, from meal preparation, laundry, transportation, and grooming, as well as companionship to ensure individuals feel comfortable in their own homes. With this, the company aims to deliver compassionate “in-home care for the whole person, not just their condition,” aiming to improve their quality of life and promote peace and dignity. Providing clients with the opportunity to maintain a healthy level of independence and normalcy, the agency aims to enrich and empower all individuals. Furthermore, in order to uphold the highest quality of care, Homewatch CareGivers is certified through the Department of Human Services and Area Agency on Aging and maintains memberships with the Home Care Association of American Michigan Chapter and the Ann Arbor Chamber of Commerce. Likewise, employees have extensive training and experience, ensuring quality care.
In addition to revenue and outside funding obtained, business owners in Washtenaw County have invested over $6 million of their personal wealth into their businesses. Prior to the pandemic forcing businesses to close their operation to protect public safety, businesses owners within the caregiving sector estimated they will need to obtain a total of over $11 million in outside funding over the course of the next three years to continue operating effectively.

Sector Challenges
Businesses in the caregiving sector face a variety of challenges as an industry, the most significant of which include:

• **Increasing Demand:** Caregiving facilities adhere to a specific capacity more closely than any other industry. However, this capacity is being continually tested as the senior population in Washtenaw County continues to grow larger than it ever has been, and is expected to grow by 2-3% annually, with the number of seniors in poverty doubling annually as well (Ann Arbor Area Community Foundation, 2017). Caregiving is a complex business, reliant on the availability of land, skilled labor, financing, and a multitude of other factors. These high barriers to entry prevent the industry from growing at a rate that is fast enough to accommodate Washtenaw County’s growing elderly.

• **High Cost of Turnover:** Caregiving requires skilled workers across a number of fields. Such professions include nurses, physical therapists, occupational therapists, and others, which means businesses incur a significant cost to replace workers when they leave. Industry analysts estimate this can cost up to $2500 in recruiting and training costs (Morgan, 2018). This creates a huge growth curve for industry participants, as the cost of increasing facility capacity requires a large down payment.

• **Transportation:** Transportation is a large factor for both caregivers and recipients working in this industry. While the existence of public transportation traditionally gives more individuals access to transportation, it presents a unique set of challenges for both parties in the industry in Washtenaw County. Not only does public transportation vary greatly in availability across the county, it can also be incredibly inconvenient for both caregivers who have to arrive and leave work at a certain time, as well as recipients who struggle with the lack of accessibility on public transportation. This challenge prevents individuals from seeking care but also discourages individuals from entering this job market.

The goal of Part II was to unpack the economic themes that shaped Washtenaw County’s focus sectors in 2019, including their funding trends, pervasive obstacles, and exemplary businesses. The data analysis presented here reveals patterns that, without question, impact the challenges, opportunities, and decisions of these businesses today. However, it is vital to consider the impact of an unforeseen force that dramatically affected companies in Washtenaw and beyond: the COVID-19 pandemic. Thus, in Part III, we will discuss the implications of COVID-19 and its resultant policies on the county’s businesses.
Part III: Business Impact of COVID-19 on Sectors of Focus

Largely, this report is dedicated to analyzing the entrepreneurial trends that characterized Washtenaw County through 2019 so as to highlight opportunities for community development; as such, much of the data does not go beyond December 31 of that year. However, 2020 has proven to be a year defined by unexpected shocks to our social fabric, including the economy. One of these shocks was, of course, COVID-19. The COVID-19 pandemic has caused both businesses and consumers alike to radically shift their day-to-day operations. An accurate analysis of the startup and small business community is critical for providing meaningful and long-term solutions and support. Knowing the business trends of 2019 is still vital to supporting local companies; however, in order to build a more vibrant, resilient business landscape in Washtenaw County, the community also needs a firm understanding of the impacts of the recent pandemic and what major challenges it presents to businesses in a variety of sectors, demographics and geographies. This is especially important considering that several of the challenges facing both specific sectors and the general economy of the county are likely to be exacerbated by COVID-19. Only with this knowledge can we provide targeted, effective solutions that will support businesses during this immediate situation and through any long-term challenges the pandemic may create. Therefore, in Part III, we discuss the results of data gathered as part of EntryPoint's (2020b) Washtenaw County COVID-19 Business Impact Report. These findings, based upon the responses of small businesses throughout Washtenaw County, shed light upon the implications of the pandemic for the operations of companies in the area.

FOCUS SECTOR OVERVIEW

284 of Washtenaw County businesses within the focus sectors provided information on the impact of the COVID-19 pandemic on their operations. Of these respondents, 88% operate with fewer than 25 employees. This is consistent with state-wide trends; in Michigan, 85% of the organizations employ fewer than 25 people (U.S. Census, 2017). Notably, such small businesses are driving forces of the nation’s economy as a whole. In addition to being a major part of the fabric of vibrant communities, small businesses employ 48% of all US employees and account for 44% of GDP (U.S. Small Business Administration Office of Advocacy, 2018).

42% of businesses who responded to the survey are located in the City of Ann Arbor, followed by 8% in the Cities of Chelsea, Dexter, Saline, and Ypsilanti, as well as 5% in Scio Township (Figure 25). 43% of
all respondents have a business that is located within downtown areas throughout Washtenaw County. Additionally, 65% of all respondents do not belong to a chamber of commerce.

Of the 284 companies that responded to the survey, 64% operate within the independently-owned main street sector, further underscoring the significance of local, downtown-based businesses. 25% of responding companies conduct business in the food systems sector (Figure 26). The remaining focus sectors, education, real estate, and caregiving, make up 6%, 4%, and 1% of the respondents, respectively.

THE IMPACTS OF COVID-19

98% of businesses in Washtenaw County feel they have been impacted by COVID-19, and this has manifested in a variety of ways. First, the pandemic resulted in a great deal of status-shifting and confusion as businesses came to be labeled as “essential” and “nonessential.” 64% of businesses in the focus sectors were viewed as “non-essential,” while 5% were not even sure how they were categorized (Figure 27).

Second, many businesses did not feel adequately prepared to manage operations within the constraints necessitated by the rise of COVID-19. Less than half of the businesses surveyed in the focus sectors felt
they were at least somewhat prepared to operate during shelter-in-place, while 36% of companies in these sectors felt completely unprepared (Figure 28). As a result, since March, most companies have needed to reduce their spending and many companies are reducing hours and laying off employees (Figure 29). Additionally, only 17% of businesses in the county are currently hiring. Losses in revenue have also been quite prevalent. 59% of Washtenaw County businesses within the focus sectors lost more than 50% of their revenue since February, while only 7% have seen their revenue stay the same or increase during the pandemic (Figure 30).

**Companies Who Felt Their Business was Prepared for Shelter-in-place**

<table>
<thead>
<tr>
<th>Preparedness Level</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>36%</td>
</tr>
<tr>
<td>Not Really</td>
<td>18%</td>
</tr>
<tr>
<td>Somewhat</td>
<td>23%</td>
</tr>
<tr>
<td>Yes</td>
<td>24%</td>
</tr>
</tbody>
</table>

**FIGURE 28**

**Actions Taken By Companies Due to Pandemic-related Closures**

<table>
<thead>
<tr>
<th>Action</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget Reductions</td>
<td>52%</td>
</tr>
<tr>
<td>Reduced Hours</td>
<td>43%</td>
</tr>
<tr>
<td>Layouts</td>
<td>43%</td>
</tr>
<tr>
<td>Working Remote</td>
<td>42%</td>
</tr>
<tr>
<td>Closed Your Business</td>
<td>35%</td>
</tr>
<tr>
<td>Other</td>
<td>17%</td>
</tr>
<tr>
<td>None of the Above</td>
<td>6%</td>
</tr>
</tbody>
</table>

**FIGURE 29**

**Change In Company Revenue Since February 2020**

<table>
<thead>
<tr>
<th>Change in Revenue</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greater than 50% decrease</td>
<td>59%</td>
</tr>
<tr>
<td>30-50% decrease</td>
<td>14%</td>
</tr>
<tr>
<td>20-30% decrease</td>
<td>5%</td>
</tr>
<tr>
<td>10-20% decrease</td>
<td>5%</td>
</tr>
<tr>
<td>1-5% decrease</td>
<td>0%</td>
</tr>
<tr>
<td>No change</td>
<td>0%</td>
</tr>
<tr>
<td>1-5% increase</td>
<td>0%</td>
</tr>
<tr>
<td>5-20% increase</td>
<td>0%</td>
</tr>
<tr>
<td>20-30% increase</td>
<td>0%</td>
</tr>
<tr>
<td>Greater than 50% increase</td>
<td>2%</td>
</tr>
<tr>
<td>Do not wish to disclose</td>
<td>3%</td>
</tr>
</tbody>
</table>

**FIGURE 30**
Finally, many sought out support in the form of loans to help them cope with the losses caused by the pandemic. Over 74% of respondents have applied or intend to apply for loans to support their operations during and after COVID-19 (Figure 31). While many are still waiting to learn about the results of their applications, several businesses were able to report the final statuses of their requests. Overall, only 6% of these companies have had their requests denied through SBA or other sources. More specifically, 74% of responding businesses indicated that they have been approved for the Paycheck Protection Program Loan, and 26% of respondents reported that they have been approved for the Economic Injury Disaster Loan.

We can learn three lessons from COVID-19 and its impact on Washtenaw County. First, unexpected turmoil can shock all aspects of a system, including all levels of an economic landscape. Second, economic barriers in Washtenaw County, including but not limited to the pandemic, are quite extant. Lastly, and most importantly, Washtenaw County businesses have proven themselves to be both resilient and dedicated in the face of adversity. While there are certainly obstacles for the county’s companies, there is remarkable capacity for growth and stability. Therefore, in Part IV, we will consider various opportunities for improvement and progress for Washtenaw County, its businesses, and its residents.
Part IV: Opportunities for Improvement

As this report has demonstrated, Washtenaw County has a rich economic infrastructure that is rife with potential for both stability and growth. However, there are also several obstacles that inhibit the progress of the county and its residents. Some, such as the COVID-19 pandemic, have struck Washtenaw County in a fast and unpredictable way; still others, such as the disparities in education, opportunity, and overall wealth among its residents are deeply systemic. Thus, in Part IV, we will discuss how Washtenaw County can manage these challenges and better leverage its strengths.

Washtenaw County businesses attract $3.4 billion from customers and outside investors, but more than $608 million in additional investment is needed over the next three years to support the growth of these companies. In addition, access to funding and industry opportunities are not distributed equitably across race and socioeconomic status. Continued investment in local businesses increases job opportunities, enriches our quality of life, attracts new talent, and strengthens the foundation of Washtenaw County’s economy. Greater effort is needed to ensure those benefits and strengths include all Washtenaw County residents.

Due to its population size and many of its unique business and development attributes, Washtenaw County is home to individuals across a wide variety of race, religion, language, lifestyle, and other aspects of identity. While this diversity creates a dynamic local culture, it poses many challenges in building inclusion and equity for all residents.

- Quality of education and access to educational opportunities is a major contributing factor to career opportunities. Communities of color have some of the lowest educational levels and, correspondingly, limited access to resources across the board. This is further shown by the difference in pay received by Black persons and other people of color compared to White workers for the same job. Our research indicates that a historical underfunding of certain school districts has had long-lasting effects on the success and career trajectories of Washtenaw County residents in these areas.

- The cost of living, competition for jobs from the transient university student population, and the state of public transportation are forcing many Washtenaw County residents without college degrees to seek employment outside of the county. In particular, Black residents who are under 24 years old find it extremely difficult to find employment in Washtenaw County and, as a result, the median family income for Black families in the county is 53% of the median income for White families. Therefore, greater emphasis ought to be placed on fostering talent from within Washtenaw County. Rather than importing jobs and relying on temporary residents, the county should promote a residential-based workforce pipeline. Our research indicates that employment opportunities available to Washtenaw County residents are more accessible to White residents than Black residents.

- Growing disparities within housing accessibility is harming the overall economic well-being of the region and creating divides along socioeconomic lines. Affordable housing is defined differently per jurisdiction; consequently, lower-income individuals, who are often people of color, are forced to congregate into
regions of the county where housing and rental prices are the lowest. These regions are placed at a further disadvantage due to fewer resources allocated to public goods and education. **Our research shows that the lack of equitable and accessible affordable housing options across Washtenaw County creates low socioeconomic enclaves with reduced economic potential that disproportionately hinders people of color.**

- Washtenaw County has many resources and favorable policies for small business owners after they have actually opened; however, many outdated regulations prevent entrepreneurs from finding a place to operate. This includes outdated zoning ordinances preventing access to development, abandoned and foreclosed land, as well as restrictions on mixed-use and single-use development that are difficult to navigate. These are most prevalent in low-income communities where resources are stretched thin and reform is both costly and time consuming. **Our research shows that land development and the presence of small businesses is limited to populated downtown areas of certain regions, while other locations are neglected. This hampers the health of the entrepreneurial ecosystem in Washtenaw County.**

- 70% of Washtenaw County businesses are startups and small businesses that employ less than 10 individuals, while only 1% of businesses in the county employ 250 people or more. In particular, businesses owned by people of color most often employ fewer than 10 individuals. Access to outside funding opportunities needs to be made available to businesses within this same profile. According to our research, startups and small businesses that employ less than 10 individuals do not have as many opportunities to obtain outside funding as the 1% of companies that employ 250 people or more. The opportunities become even more limited when analyzing businesses owned by people of color that employ less than 10 individuals. **Our research indicates that the funding opportunities that are available to businesses within the county is accessible for larger businesses and not for businesses with fewer than 10 employees. They are even further limited for businesses owned by people of color.**

Ultimately, it is clear that there are significant challenges facing the entrepreneurial ecosystem of Washtenaw County. Given the degree to which these obstacles are steeped in a history of material disparity and racial inequity, addressing them will require a great deal of change in structural and social patterns. It is notable that Washtenaw County is not alone in Michigan, the Midwest, or the U.S. in facing these sorts of challenges. However, Washtenaw County is rare in its diversity of people and economy, its strong sense of community culture, and its resilience. As much of the findings of this report reflect, these characteristics place Washtenaw in good stead for growth, and are invaluable resources for furthering the potential of the county, its businesses, and its people. However, in order to capitalize on this potential and appropriately leverage these strengths, we must recognize and work to close the gaps in Washtenaw County’s economic infrastructure. In doing so, we may develop initiatives for the systemic shifts necessary to create more inclusive entrepreneurial practices.
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The **Revalue** report synthesizes important “community voice” feedback from local residents and opportunities for new conversations and action together.
Accelerating Impact Capital in Washtenaw County

Project Report

Created and Presented by Revalue for the Ann Arbor Area Community Foundation

September 2020
Revalue is a home for people passionate about cultivating an abundance mindset in service of community resilience and future generations. We are financial navigators, connecting people to their purpose by crafting values-aligned financial plans and creative educational programming in partnership with those we serve. We are redefining wealth, for good.

Revalue is a Registered Investment Advisor and a Certified B Corporation®. We are leaders of the global movement of people using business as a force for good™. B Corporations meet the highest standards of verified overall social and environmental performance, transparency, and accountability, and aspire to use the power of business to solve social and environmental problems. Check out our public profile at https://bcorporation.net/directory/revalue to learn more about how we prioritize people, place, and profit as a financial services firm.

This report does not constitute financial guidance. All investing involves risk. Consultant your favorite knowledgeable advisor for personalized help. For more information about our firm, refer to our Form ADV 2A Client Brochure.
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Context

The 2020 Washtenaw County Capital Report was commissioned by Ann Arbor Area Community Foundation (AAACF) after two years of local capital market discussions involving several institutions in Washtenaw County. These early adopters recognized that while we have made progress toward reshaping the local economic scene to serve all businesses and residents, it was still unclear how much capital was flowing through the County, where it was going, and why. This project – the first of its kind in the region – attempted to answer these fundamental questions and provide solutions that could be undertaken by AAACF and other stakeholders in the community.

For more information about the data used to arrive at the conclusions noted in this paper, please refer to the available reports from EntryPoint (local data) and Urban Institute (institutional data).

Vision and Objectives

The long-term shared vision guiding this project is to create an inclusive and equitable capital ecosystem in Washtenaw County. Subsequently, the project scope was designed to both collect data and build awareness as the project partners executed on the analysis. Revalue served as project manager for the initiative, including working with AAACF to scope the project, contracting EntryPoint as the local research institution to collect and analyze data, and keeping the project on track. Revalue also engaged Yodit Mesfin Johnson as a thought partner during design of the recommended solutions.

Project activities

The project officially kicked off on November 7th, 2019, and was expected to conclude on June 30th, 2020. Notably, this project was affected by COVID-19, causing the project partners to instead wrap up on July 31st, 2020. Project activities included:

- Advocacy Group recruitment, onboarding, and facilitation
- Survey audience scoping, identification, and contact information gathering
- Survey creation, review, distribution, analysis, and advocacy among survey audiences
- Best efforts inclusion of secondary data sets, including Urban Institute's deliverables
• Community voice input solicitation through a virtual roundtable, one on one interviews with community leaders, and social media discussion posts
• Research report drafting, review, feedback facilitation, and finalization
• Final project report creation with solutions in slide deck and narrative formats

Primary theses

As we considered the results of the research, the social dynamics within our marketplace and the vision AAACF has laid out, it became helpful for our team to identify a set of premises that would help us discern what solutions were appropriate to advance to the organization. For transparency, here are the foundational concepts we operated with as we considered this final leg of the work. We would like to share our candid commentary, and while we recognize readers of this report may find them off-putting, we would be remiss to not be transparent.

• AAACF sits within a broader context of the local capital marketplace change. If they want to participate and they want to support the community leading this structural change, then we must help them understand what the entire state needs on the macro, as Washtenaw County is a microcosm of those broader pain points. All our statewide strategic suggestions can be picked up by local actors, as they are applicable at a local level as pilot initiatives.

• Power centers are unlikely to answer a call for deconstruction, yet. By helping those institutions that steer wealth creation and distribution stay engaged, we believe we can influence them to continue to leverage their power for community good. In tandem, the community continues to build an alternative/expanded economic system. A small number of institutions currently drives Washtenaw County's economic development; therefore, we recognize that a call for distributed power and wealth may be viewed as an affront to those power centers.

• Local community investors are active and thriving in our community, despite a lack of support or consistent education. This group of investors is ready for acceleration, as they are already inclined toward supporting their brothers and sisters whenever possible.

• Local institutional investors are among the most risk-averse and are mainly sitting on the sidelines, despite the calls for mission-aligned action. Institutional investors are unlikely to invest for direct impact until supply chain conditions improve, which de-risks
the deals for them, and even then, they may be last to invest. The community cannot wait for institutions to get on board.

- Addressing only matters that pertain to the local capital marketplace without also addressing underlying structural oppression and theft of wealth is taking a dis-integrated view. Fundamental change must occur concurrently, across all systems, for people to experience liberation and economic freedom.

- We are specifically not suggesting the creation of a local investment fund, yet. The infrastructure is currently too weak to support this without significant structural investment. A lack of distributed power norms provides too wide of an opportunity for institutional power dynamics to be built into the foundation of the fund, potentially compromising it from the start.

- There is approximately $2 billion invested in Washtenaw County in any given year. We do not have a lack of resources; we have barriers to getting that money into different hands. To follow Memphis’ lead, "burn down the barriers."

**Taking a 100-year view**

When we began this work in 2012, and especially when the laws had changed in 2013 and 2016, we thought surely change would occur quickly. It has been a hard lesson to accept that an economic system built on 400 years of oppression, and systemically ingrained, especially in the last 100 years, is highly unlikely to change in just 10 or 20 years of effort. The work our respective organizations, along with so many others in our community and country, must take a long view, a grandchildren’s grandchildren view.

The challenge for many institutions, especially as it relates to their investment decisions, is that public market securities are predicated on quarterly earnings-based short-termism, and their institutions are evaluated on their annual reports. We recognize how difficult it is to balance short-term financial and mission management with long-term multi-generational change initiatives. While our economic justice time horizon may extend beyond our lifetimes, the best-laid plans never survive contact with reality unscathed. Economic change is an iterative process, forged by many hands, wrapped in a 100-year view. This concept is a critical underpinning to the journey on which AAACF and other peer institutions are embarking.
Equitable local capital framework

To help explain the fundamental elements of a functioning local capital market, we are leaning on a metaphor borne out of biomimicry.

If the goal is a *Resilient and Equitable Economy*, then we must tend to the needs of the soil. The bounty of our economic crop is dependent upon the fertility of our ground – improved soil results from promoting biodiversity in a system that is in constant motion and change. We must think and act holistically, with distributed relationships and agency at the core.

Key principles

As one might discern from reading this report, there is a generally accepted set of principles emerging in economic justice communities across the U.S. that are building the foundation for organizations to refer to as they proceed in their work. While each organization has a variation on these core values or they might have a much more extensive list, these four principles are a common thread.

While most of these concepts are self-explanatory, we would like to take a moment to highlight the *Integrated capital approach*, due to its applicability to AAACF's stakeholders. This is the idea that the resources available to any type of investor include multiple types of capital that are best viewed holistically. AAACF has financial capital broken into three broad categories (grantmaking, investment, and spending), social capital, and built capital by way of the physical location. Most investors tend to view their financial capital separately, leading to unintentional undermining of their purpose and mission, while not acknowledging the role that social or built capital can have altogether. AAACF can continue to drive a consistently integrated view to ensure that *all* resources are ultimately serving the mission. This view is a genuine 100% commitment to impact.
Social capital (naturally cultivating the soil)

Social capital is the invisible hand behind our local economic ecosystem; it is why investment capital goes where it goes. Most people are well familiar with the saying, "It's all about who you know, not what you know." Our experiences before this research initiative, as well as the qualitative data collected during the project, repeatedly point to how important 'who you know' is when it comes to circulating capital, obtaining jobs, and growing businesses. Examples of what social capital investments look like on the ground in Washtenaw County include:

- Engagement networks; such as Friends In Deed Circles Program, Engage Ann Arbor, Ypsi’s 9th Hour, and the Ann Arbor Area Chamber of Commerce

- Peer-to-peer advocacy and referral-making; exemplified by learning that is taking place between investment firms like Revalue and Pearl Planning in Dexter, or referrals for capital between SBDC, WCC Entrepreneurship Center, Invest Detroit, and the Michigan Good Food Fund, for instance

- Collaboration for pipeline development, due diligence, and market testing; such as the test that Revalue and AAACF did in Fall 2019 to host deal source collaboration calls with 5-10 other organizations to uncover investment opportunities
• Opportunities for active listening within communities; like the roundtables hosted in 2019 by the William Davidson Foundation and the Leaders of Color program hosted by NEW

**Storysharing (illuminating the soil)**

Storysharing is what brings people to the table and shines a light on what is already happening, allowing people to engage and co-create off those examples. When we change the story and the constructs, we change the experience and reality. With a different experience, a person can become more resilient; storytelling helps them see the path and make the shift from scarcity to abundance. Note that we do not call this *storytelling*, to emphasize that this is a participatory experience, where all parties involved share their perspective, versus speaking *at* people in a one-sided engagement. Specifically, storysharing helps this movement by doing the following:

• Drawing upon the ancient practice of wisdom sharing, which is a universally accepted cultural norm

• Describe the world as it already is and as it can be in the future

• Make knowledge accessible to all levels of learning; breaks our community out of the habit of hoarding knowledge

• Acknowledges that people operate in silos, so this strategy allows people to go deep with others in their *native tongue*

**Infrastructure (adding nutrients to the soil)**

Infrastructure refers to the technical needs of our evolving ecosystem to allow all residents to participate in the economy, so they can best serve in their roles. As a group of technicians operating in this marketplace, this is perhaps the area Revalue most intimately understands. The list of pain points or missing links is lengthy, but they generally fall into the following broad categories.

• Audience-specific education

• Easily accessible and publicly available templates accepted by pillars of the community

• Standardize Triple Bottom Line (TBL) reporting standards

• Access to affordable legal services for businesses
• Creation and distribution of tools and handouts
• Public policy change and advocacy

**Flow acceleration (water that carries nutrients throughout the soil)**

Flow acceleration is what allows social and financial capital to flow, frictionless, through the community to the places that need it most. An essential element of this component of the framework is that once stakeholders identify friction, instead of immediately working to remove it, try to learn from it to determine what is behind the point of resistance. What we are witnessing may be a symptom of a more significant systemic issue that needs to be resolved.

For instance, the reason why businesses may be raising capital without registering the offering as a security (and thereby operating in the underground economy) is that legal services are cost-prohibitive. The reason legal services are cost-prohibitive may be because attorneys often do not have access to template documents to work off to reduce the time spent. Therefore, subsidizing legal services might look like the best solution. Still, arguably a more cost-effective solution may be to hire attorneys to create templatized documents and open source those with the community.

This approach of identifying, learning from, then addressing friction and barriers relies on an agile philosophy of iterative movement built on accumulated knowledge with systems thinking approach. It ensures that while we do not know all the answers today, we will discover the solutions as the challenges present themselves, and we respond with an open inquiry. An entity or group of entities in Washtenaw County must give attention to the entire system, on an ongoing basis, to continue to uncover and address friction.
Recommended solutions

Now that we have laid out a foundational framework that leads us further down the road toward a truly Resilient and Equitable Economy, let us turn our attention to what can be done right now in our backyard.

What we now know

- At least **$2 billion**, and possibly as much as $4 billion, in investment capital is circulating in Washtenaw County annually; the chart below shows what the extrapolated capital stack may look like if what we learned about the five sectors were applied to the remaining sectors

![Capital Stack Chart]

- Five community-based sectors that represent 27.5% of our business community say they will need $608 million in new funding over the next three years, indicating that the widely-held belief that there is not enough deal flow in our County to substantiate a locally-focused investment fund is a **myth**

- SBA lending rates have remained relatively **unchanged** at $25 million since 2005; if lending rates had kept pace with inflation, our County would be receiving $36 million annually
• CRA lending has been **reduced by half** since 2005; if lending rates had kept pace with inflation after they rebounded slightly to $300 million in 2011, our County would be receiving $440 million instead of the $260 million we received in the last reportable year.

• Only **0.60%** of institutional investing came from mission-driven institutions, such as CDFIs.

• Individuals fund **more** businesses in this group of studied sectors than any other funding source.

• Institutional and nonprofit investors are largely **absent** from local impact capital conversations, with many indicating that they "do not see themselves as investors."

• Despite having 11 Opportunity Zones, investment activity is light to **nonexistent**.

• Our County has centered its economic strategy on high growth businesses, resulting in concentrated outcomes, as evidenced by MVCA's online map showing that **all** venture-backed companies are Ann Arbor-based.

This research initiative intended to assess where capital is traveling to and from, as well as identify investment priorities for AAACF and others who intend to invest for local impact. What has been revealed about our ecosystem demands a broad view of the challenges and opportunities. Subsequently, the solutions we are recommending span from tactical to strategic to structural and extend beyond AAACF as an organization. Some of these suggested solutions may be appropriate for the organization to take the lead, while others may be most appropriate to pass on to other stakeholders. These recommendations are also in addition to what EntryPoint has included in their report.

Lastly, this is, of course, not a comprehensive list of all the ways that systemic economic exclusion can and must be dismantled, but rather the most extensive view Revalue has at this moment in time. This section is organized within the ecosystem architecture laid out earlier in this report.

**Leverage your social capital**

*Influence banks and CDFIs to increase their capital flow.*

Advocacy can start by proactively scheduling meetings with leaders from other funding institutions to share the results of this study, to ask questions about how they make their
investment and underwriting decisions, and to identify where there is alignment with the needs of our community. Ask them what they need to be able to place more capital in our divested communities. In many cases, Revalue has found the answer to be 'no one has ever brought us a deal or asked for our capital.'

Expose the Professional Advisors group to education designed for them.

AAACF already has the respected ear of investment advisors, attorneys, and accountants through the ongoing gathering of the Professional Advisors group. Opportunities for further learning and influence can be created with them by organizing half-day professional development retreats to storyshare, to dig into case studies, and to learn the topics through the debate of the subjects.

Expose institutional donors and grantees to education and shared learning.

Every donor and every grantee with an investment portfolio, including those with only emergency cash allocations, can make decisions for a more significant impact with their resources. While AAACF cannot give investment advice to these stakeholders, they can provide opportunities for exposing these audiences to new information and peers who can share their journey of impact investing with them. Much like how Revalue influences capital outside of our direct management, AAACF can do the same.

Leverage your position to influence public policy changes.

Revalue is not an attorney, and this is not legal counsel. These recommendations are sourced from relationships in the legal community, mainly work done at Cutting Edge Counsel, who has a long history of advocating for change at the federal securities level for the benefit of community impact investors. Consult AAACF's public policy advocacy policies and legal counsel to understand each of these suggestions further and AAACF’s freedom to advocate for them.

Public policy change – through the passing of the MILE Act (Michigan Invests Locally Exemption) and the JOBS Act (Regulation Crowdfunding) – was built on the back of community organizing efforts that began among both those without wealth and those with wealth (in separate circles) in the post-2008 financial crisis. As securities laws began to change, the movement within both socioeconomic strata started to grow, evolve, and experiment. Public
policy can be pivotal in continuing to advance the local capital marketplace. AAACF may be able to leverage its social capital to achieve further change to laws established nearly a century ago.

**Federal and State law changes that would help our community**

- **Investment Company Act of 1940**
  - Tweak the 1940 Act (or its implementing regulations) to provide a simple self-executing exemption (i.e., one not requiring an exemptive order from the SEC) for open-end funds that can (1) raise capital publicly from community investors; (2) invest in equity securities of small businesses; and (3) do all this cost-effectively at a local scale, i.e., with minimal regulatory compliance burden. Here are two possible pathways:
    - Section 6(a)(5) (the so-called BIDCO, or business and industrial development company) could be liberalized to allow for nonaccredited investors.
    - Section 6(d) (intrastate funds) could be liberalized to eliminate both the requirement for an exemptive order and the requirement that it be a closed-end fund. It would be helpful to also increase the cap from $10mil to perhaps $25mil.

- **Securities Exchange Act of 1934**
  - Increase the section 12(g) threshold (over which a company becomes a reporting company with all the costly and burdensome requirements imposed on publicly traded companies) for nonaccredited investors from 500 to 2,000. Note that up until the JOBS Act of 2012, the threshold was simply 500 investors. The JOBS Act changed it to 2,000 investors total but kept it at 500 for nonaccredited investors. The idea here is to eliminate the two-tier approach once again, which had never been there before and make it simply 2,000 investors, regardless of whether they are accredited.

- **Federal Tax Law**
  - Minor tweaks to the Opportunity Fund tax law to make it more clear that the tax benefit of tax-free capital gains on an investment in an Opportunity Fund for ten years is available for all investments, not just rolled over capital gains.

- **Broker-Dealer (BD) Laws**
- The BD exemption scheme for Title III portals should be expanded to cover intrastate and Rule 504 offerings via an online portal up to $5 million (for offerings qualified by permit from one or more states) or $1 million (for offerings exempt at the state level).

- **Regulation Crowdfunding**
  - Remove Reg CF ban on funds exempt from the 1940 Act under section 3(b) and 3(c), to match the Reg A rules. This would allow for a wide variety of funds, like charitable loan funds and real estate funds, to use Reg CF.
  - Require Form C to be prominently incorporated into the main page of any offering, not merely accessible via a link to the SEC's EDGAR database. It should not be possible to invest without scrolling through the Form C, because that is where you find all the serious disclosures, not just the marketing fluff.
  - Require more prominent disclosure about key risk issues, such as how the company’s assumed valuation was calculated, if applicable, and the heightened risk of SAFEs (Simple Agreement for Future Equity), convertible notes, and any other derivative securities.

- **Track progress on proposed federal rule changes**
  - Support the SEC proposal to allow companies to gather pre-raise interest: [https://www.sec.gov/rules/proposed/2020/33-10763.pdf](https://www.sec.gov/rules/proposed/2020/33-10763.pdf)
  - Oppose the Department of Labor proposal to require ERISA fiduciaries to prioritize profit-maximization over ESG impacts: [https://www.dol.gov/newsroom/releases/ebsa/ebsa20200623](https://www.dol.gov/newsroom/releases/ebsa/ebsa20200623)

- **Work with CEDAM**, who is leading the effort to limit payday lending interest rates in Michigan, as this is the most extractive and costly form of capital that Washtenaw County businesses are accessing to start and grow their ventures.
  - AAACF could also provide a loan loss reserve for a community-based alternative to payday lending, which is something United Way has explored in the past.

### Address mass incarceration and the economic effects on our community

Mass incarceration costs U.S. citizens $1.8 billion annually, resulting in the theft of wealth from already oppressed communities. This list is likely just the tip of the iceberg of changes that could occur to help prevent that transfer of wealth from communities of color to the state. AAACF
could work with local organizations to better understand what other changes they recommend be implemented.

- Address qualified immunity
  - Public officials have *assumed* qualified immunity (immunity from civil and criminal liability for their actions while performing their public duties); however, they have never been given that constitutional right. Holding them accountable starts with the Prosecutor’s office, then judges, and finally, it can be stipulated through a State Constitutional Amendment that states public employees explicitly do not have immunity from civil or criminal charges while performing their work.

- Abolishment/reallocation of resources
  - Abolish cash bail
  - Give judges the right to choose appropriate sentences by eliminating minimum sentencing requirements
  - Reallocation of resources from the police to social support services

- Form pacts with other funding sources to eliminate former incarceration as a barrier for capital access

**Storyshare prolifically**

*Share the story of this project.*

This research initiative proved to be exciting, challenging, and bumpy for a variety of reasons. Something the community is unaccustomed to hearing is the story behind the story when large institutions do something new or untested. Sharing the story of what worked and what did not as five different institutions of widely varying scale and size came together to answer critical questions can be a way of making AAACF more accessible to newer impact investing audiences in the community. Our candidness has a way of humanizing us in very impactful ways. It also emboldens others to take risks on new partnerships, as we did.

*Share the story of your experiments and seek others' stories.*

Use your platform to give voice to unheard voices who have stories to share about capital stacking and capital access. Share metrics, such as time invested, capital placed, the number of opportunities you have passed on so far, and why, how long due diligence has taken, surprises,
and lessons learned. Embed returned learning into the foundation of your impact investing activities. Others will feel more comfortable with the topic if they can hear about the reality of what this looks like, not just the press release at the end when the capital is placed.

As AAACF does this, it is vital to adopt an open-sourcing attitude by freely and proactively sharing information, rather than passively requiring people to find information on a website. Bringing knowledge to where people are is of utmost importance. It is hard for people to find information when it is obscured online or technically written with massive amounts of jargon.

**Connect with University student teams to develop case studies.**

All universities have social entrepreneurship programming, and some universities now have impact investing courses as well. Leverage existing and new relationships with professors and department heads to be able to bring on student teams each year that can help advance the impact investing field in our County. These student teams can produce case studies, social media content around impact investing, and they can provide great value on the public policy front (as the UM student team did in helping to get the MILE Act passed in 2013).

Key local university relationships in this field over the past several years include:

- [Elizabeth Gerber](#) with the UM Ford School of Public Policy
- [Decky Alexander](#) with Engage @ EMU
- [Jennifer Bruen](#) with MSU Center for Community and Economic Development
- [David Contorer](#) and [Marijo Upshaw](#) at Wayne State University

**Empower infrastructure builders**

*Recognize micro economy developers as a valued role in our ecosystem.*

One of the most common complaints expressed through the community voice interviews was the lack of support for neighborhood-based informal economic developers. Since existing economic development agencies have focused almost exclusively on a subset of our economy or on those companies that will provide the most jobs, neighborhood-based entrepreneurs have turned to each other to help fill the void. Local activists are assisting people in pursuing self-employment, solopreneurship, and micropreneurship (companies with less than ten people, which is 70% of our business sector).

Informal economic developers are stepping up within their micro-economy on a volunteer basis, often as business owners themselves and without any formal training or education, to help
others around them. The burden of managing a business and providing pro bono time and counsel to those around them is costly, often resulting in reduced outcomes for their ventures. AAACF could recognize this activity as a legitimate role in the community by creating a grant program to pay them a living wage for the work they are doing to foster their local micro-economy. AAACF could provide funding support to Kristin Gapske at the WCC Entrepreneurship Center to support the grantees as a cohort, connecting them and their constituents with resources to accelerate their success. (It is noteworthy that Kristin and WCC are frequently cited by the community to be the most well-connected and generative place for services for community-based businesses.)

*Support the Financial Empowerment Center for financial education access.*

Washtenaw County OCED has partnered with the Cities for Financial Empowerment Fund to bring a [Financial Empowerment Center to Washtenaw County](https://financialempowerment.org/). Financial education and access to services are currently woven together through a patchwork of nonprofits folding the topics into their existing services to their constituents and a few personal finance courses at universities. Our community does not have a systemic approach to financial education that ensures all residents, beginning in preschool, are exposed to financial concepts.

Those aspiring to be business owners struggle to line up their finances to make it possible. Once they do get to the point of launching, they often are financially illiterate when it comes to the business’ finances and financial statements. Not only does this compromise the viability of the company, but it also creates a barrier for them to raise growth capital. We could make all the money available in the world, but if businesses show up not understanding their own business and personal finances, they are more likely to be turned down by funding sources. Revalue sees the FEC concept as a way of advancing a more systemic approach to financial education (full disclosure: Revalue is on the Advisory Committee).

If AAACF were able to provide focused financial education support, Revalue sees *young adults ages 18-24* to be the most pivotal group of people to reach with programming. This group is the most likely to experience economic hardships with paying for college, finding work, and entering new career fields.

*Procure locally, especially Investment Management services.*

Revalue realizes that this recommendation presents a point of self-interest. However, it is essential to note that AAACF can infuse more capital into the local economy *and* develop the
infrastructure through the deployment of that capital, by merely aligning its purchasing decisions with its vision for a Resilient and Equitable Economy. While Revalue is likely to respond to an RFP for Investment Management services, there are also many qualified competitors (or potential partners, if multiple managers were chosen) that would allow AAACF to repatriate those spending dollars back to our community.

According to information on AAACF’s website, between investment management fees, performance-based fees, and fund manager fees, the organization is likely sending about $1 million out of the community in net costs. Many studies show that when we spend a dollar locally, it recirculates by a factor of ten. Therefore, a shift in just this one category of spending could result in a $10 million impact on the local economy, without any net additional cost to the organization. Institutions can apply that calculation across all spending categories to determine the possible implications. Once AAACF makes a public commitment to local spending, the decision can fold into its storysharing and social capital initiatives to influence other institutions to follow their lead.

Fold local impact investments into the Investment Policy Statement (IPS).

Revalue’s engagement with AAACF was not intended to provide investment management guidance; therefore, this recommendation is an uninformed suggestion and does not constitute investment advice or an exercise of our fiduciary duty.

We recommend that AAACF evaluate its IPS for mission-alignment, including specifying social and financial impact metrics that will determine if the impact investing strategy has been successful. Revalue recognizes this thought work is likely to have already been done; however, the importance of build the ideal investment profile that meets AAACF’s risk management requirements cannot be understated. Furthermore, it will be helpful for AAACF to communicate that ideal profile to the community so organizations can self-select as they determine whether this is an appropriate source of capital for them. Lastly, the IPS should incorporate an integrated view of money, in that it addresses how philanthropic, investment, spending, and social capital speak to one another and are aligned to meet the organization's overall mission.

Help increase access to legal services for small businesses.

One of the biggest concerns state regulators have about the evolutions in the community investing scene is the propensity for businesses not to register their investment offering, thereby putting both them and investors at risk. Many companies have expressed their inability to afford
legal services that may run up to $10,000 for just a $50,000 capital raise. This market dynamic mirrors what we see with other professional services, like financial advising, whereby people below a wealth or income threshold must DIY their own legal and finance work. In capital raising, it is often businesses seeking less than $100k that are struggling to pull together the proper documentation to operate 'above the table.'

A variety of approaches could help solve this issue. One option might be to provide grants to existing legal aid clinics, like UM’s Entrepreneurship Law Clinic, Michigan Advocacy Program, or Michigan Community Resources. While these entities may already offer legal services to entrepreneurs, AAACF could ensure they are familiar with community-based impact investment options. A second option might be to provide grants directly to business owners for this stated purpose. A third option could be to recruit a cohort of attorneys in AAACF’s Professional Advisors network to provide pro bono services. Lastly, AAACF could hire a law firm to create template documents that can be open-sourced to the business community to bring efficiency to their legal work and thereby drive down the cost. Standardizing and templatizing can also be extended to the areas of impact reporting for businesses as well.

**Accelerate that flow**

*Deploy a pipeline developer into the community to uncover opportunities.*

Designate a staff member to partner with groups like NEW’s Champions for Change, Friends In Deed, My Brother’s Keeper, United Way’s Financial Stability Coalition, and others who are deeply rooted in community to continuously listen and learn about neighborhood-based businesses and affordable housing real estate developers that can be supported with the tools institutions have. Continue to participate or organize deal sourcing calls with other institutions as well. These partnerships should be grounded in a framework that includes leadership development, resource mobilization, and narrative intervention led by those left out of the current capital circulation system.

**Invest in creating examples for other investors to see.**

Seeing an example in real life can sometimes make all the difference in the world when it comes to folks understanding and being inspired about what is possible. AAACF could provide seed capital for a showcase pilot deal in communities that are struggling to obtain investment capital. It is crucial that the project is chosen or requested by the community, not by AAACF, and that
the organization empowers community-based investors and developers to guide the project, so there is a sense of local ownership. Examples of what communities have asked for:

- Ypsilanti – a shared space for pop-up retail sales and storage, like Growing Hope’s MarketPlace and commercial kitchen, but for mom and pop retail operations; a butcher/deli; activity spaces for families and children; Water Street redevelopment
- Milan – larger office and warehouse spaces to retain growing businesses
- Manchester – a grocery store; broadband access
- Everywhere – affordable housing that helps build wealth for tenants is backed by community investment, or developed by a nonprofit (basically, any alternative to public housing or profit-maximizing market-rate housing)

Provide or help organize substantial funding to key support organizations.

There are a variety of organizations that Revalue has identified as bringing valuable expertise to our local community, who, with more support, could help further the development of an equitable economy. Examples of bright spots in our community include the following:

- Taste the Local Difference – a key player in the food sector, often serving as a pipeline developer for food-based businesses seeking capital and other resources
- Paul Hickman/Urban Ashes – launching support services for companies who hire citizens returning from incarceration
- Detroit Community Wealth Fund and Center for Community Based Enterprise (C2BE) - technical assistance and funding for cooperative- and democratic-based business models
- Michigan Community Capital and CEDAM – nonprofit real estate development training
- WCC Entrepreneurship Center - community-based business acceleration and programming
- Cooperative Capital - local investment club organizing and capacity-building
- National Coalition for Community Capital (NC3) – knowledge exchange with communities in other regions
Continue to invest in ecosystem R&D.

Over the past decade, we have seen incremental progress with local economy initiatives due to incremental investments made by Washtenaw County OCED, AAACF, Michigan State University, and MEDC. This research project constitutes the most substantial equitable economic-focused investment outside of the traditional structures that we have seen made solely for the benefit of our County footprint. The investment has allowed us to take a substantial leap forward in our understanding of how the local capital markets are operating.

While this work is essential and unprecedented, as AAACF can see from our suggested solutions, we are just beginning to scratch the surface of the real structural challenges to achieving the vision laid out in this project. Given that AAACF is on a long-term journey for change, we encourage the organization to continue to invest in the ongoing study, learning, and iterative testing process that is required to continue to accelerate the flow of capital into historically divested communities.
Retrospective

As we wrap up this project, we find ourselves asking new questions that emerged as we evaluated the shared research experiences, the data collected, and the resulting analysis. While this research produced beneficial results, our we recommend considering the following questions for future research.

New questions

- Why has SBA funding remained unchanged during a prosperous post-2008 decade? How does our SBA funding levels compare to other similar regions?

- Why has CRA funding reduced by half during this same period? What goes into the decision-making of CRA departments at banks? What do banks view as the purpose of CRA funds?

- What do state regulators see as pain points that need addressing at the community level? What role do they want to play in investor education?

- What does the capital stack look like for the other 31,000 businesses in Washtenaw County? What are the demographics and sectors of those businesses?

- Can MVCA start providing County-level reporting so we can dis-aggregate from the statewide figures?

- Now that we have reasonable proof that there is enough deal flow to justify a local investment fund, what institutions would come together to seed the $50 million required to make it viable for community investors also to participate?

- What is the capacity to invest in our County? How much wealth is sitting on the balance sheets of individuals, private institutions, and public institutions?

- How much wealth are extractive entities, structures, and practices taking out of the community that could otherwise be available for local circulation and wealth-building?

- What can we learn from business owners about how they obtained the funding they were able to from other individuals in the community?

- How does obtaining peer-to-peer capital look different in different cultural communities?
Applicability in other markets

One of the questions posed in the background of this project was Ralph C. Wilson Jr. Foundation’s inquiry about whether a framework for assessing and developing an equitable local capital market could result from this experiment. After having gone through this work iteratively over the last eight years in our backyard, in addition to seeing what other communities are doing across the U.S., we believe several critical elements must exist for the field to be developed in a town or region.

First, three key industries need to come together, as they each have a valuable perspective on the local economy: philanthropy, community economic development, and wealth management. Indeed, other essential organizations will make this work successful, including community-based organizations, incubators, and university partnerships; however, if one of the three primary champion industries are missing, we believe it will be difficult to advance this work.

Once champions come together, a baseline assessment must be launched to determine where the community currently sits relative to its local capital market and entrepreneurial ecosystem. Take the learnings about what went well and what did not go well above as heeded advice for other communities to incorporate. It will also be helpful for the champions to settle on a multi-year longitudinal partnership that ensures the population will be surveyed periodically to gauge the effectiveness of implemented solutions.

Lastly, while having data to back up the assertion that our economic conditions are tangibly not serving all residents, what we do with that information is arguably more important. Partnered champions in the community must commit to open sourcing their findings, tracking the progress of market-tested solutions, continuously identifying those friction points, learning from them, actively listening to the community, and communicating with stakeholders regularly.
Conclusion

This body of work has occurred during the most impactful era of our lives. Today, all Americans are experiencing the massive effects of COVID-19, and a stark recognition of the systemic oppression, violence, and theft deeply rooted throughout our culture. Washtenaw County residents, organizations, and institutions are reshaping the economy in response to a call for a better way of living and doing. The 2020 Washtenaw County Capital Flow project has undoubtedly added value to the vision of a Resilience and Equitable Economy – something all residents can support right now.

All residents and institutions will now have this new knowledge about our economic situation, the social dynamics that drive capital access and opportunities, potential solutions, and what we still do not fully understand. It is now up to all of us to continue to do the work to lift all boats.

Revalue would like to thank Ann Arbor Area Community Foundation and Ralph C. Wilson Jr. Foundation for supporting this work. Organizations like Revalue and those noted in this report are on the ground providing direct services to those who have neither financial capital nor social capital with people who have financial capital. We can only do this work by partnering with those who have had the opportunity to obtain and grow wealth to underwrite the work. Our partnerships matter and continuing to have these conversations with those that can impact those without wealth is incredibly important to Revalue and our clients.

We look forward to being co-creators with institutions like yours and the community at large as we all advance the mission of an accessible, equitable, resilient, and vibrant economy.

Thank you for the opportunity to serve,

Angela Barbash, CSRIC
(Chartered Sustainable Responsible Impact Counselor)
CEO, Revalue
Support for this research was provided by the Ralph C. Wilson, Jr. Foundation.

We are grateful for our research partners in this community-based endeavor:

The Urban Institute: urban.org
EntryPoint: EntryPointMI.com
Revalue: RevalueInvesting.com
AAACF looks forward to conversations around this research—and, more importantly, action.

Historical inequities in Washtenaw County continue to impact economic access and mobility. Our research demonstrates that sufficient capital flow is present to promote a more equitable local investing ecosystem and a healthier, vibrant economy. Together, starting now, we can all invest in creating a new history in our community.