




# AAACF WASHTENAW COUNTY CAPITAL RESEARCH REPORT

2020 ANALYSIS OF LOCAL CAPITAL FLOW & OPPORTUNITIES



**Ann Arbor Area**  
Community Foundation



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.



## **THE AAACF WASHTENAW COUNTY CAPITAL RESEARCH REPORT: 2020 ANALYSIS OF LOCAL CAPITAL FLOW & OPPORTUNITIES**



### **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.**

**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.**



### **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.

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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.

## 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

### Local businesses and local investing:

- keep as much as 48% of capital in the local economy (for chain businesses, the figure is only about 14%);
- help support job creation, as more than half of all U.S. jobs today are with small businesses;
- support the kinds of businesses that are the foundation of a community and that contribute to unique, vibrant local cultures; and
- support local nonprofits and community causes, as small businesses donate 250% more to these than large businesses.

## 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.**





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

**The Urban Institute:** [urban.org](http://urban.org)

**EntryPoint:** [EntryPointMI.com](http://EntryPointMI.com)

**Revalue:** [RevalueInvesting.com](http://RevalueInvesting.com)



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