

To: Allison Sharkey of the Lake Street Council
From: Giovanna Arizpe, E.P., M.S.
Re: Securing Capital for LSC partners and LSC interests
Date: November 22, 2023

Background

Lake Street is a historic throughfare in southern Minneapolis which reflects the community's diversity through its significant share of immigrant and minority-owned firms (MOF). During the protests of George Floyd's murder in 2020, the corridor sustained millions in damages. Despite community demand for MOFs to lead post-protest Lake Street renewal, these businesses endure barriers (including structural and explicit racism) to equitably participate in development. Current development markets leave small MOFs competing with large single-service purchasers. Securing contracts in this market environment incentivizes smaller-scale MOFs to price themselves out of business. This creates the perception that small MOFs are unviable and deters private financial institutions from providing MOFs needed capital. The nonprofit Lake Street Council (LSC) is tasked with coordinating Lake Street redevelopment and aspires to reflect Lake Street's diversity through MOFs involvement and ownership along its storefronts.

Problem Statement

Due to financial and capital limitations, MOFs will be outcompeted by larger firms and excluded from the Lake Street redevelopment process, continuing the cycle of systemic racism.

Recommended Strategy

Identifying and providing financial intervention solutions to MOFs facilitates MOF Lake Street redevelopment participation, disrupting viability perceptions and structural racism consequences.

Short-Term: LSC should identify MOFs and create a power versus interest stakeholder analysis and focus on financial means and systemic racism barriers to target affected MOFs. LSC should seek feedback and participation from identified stakeholders who want to contribute to Lake Street but lack the power and resources to do so.

Long-Term: To ensure stakeholders success in current Lake Street redevelopment and other future projects, LSC should partner with a nonprofit financier (NPF) specialized in investing in affordable housing and commercial development in targeted neighborhoods. ***The NPF would utilize the created stakeholder analysis*** and act as an intermediary to bring together identified MOF stakeholders, financial institutions, and public agencies to establish a community asset fund. LSC and the NPF should also negotiate with construction companies for reduced rates, split service contracts, or joint contracts with targeted stakeholders to disrupt large single-service purchaser systemic barriers.

Risks

These strategies promote equity and LSC's vision but can carry inefficiency risks.

- Conducting stakeholder analysis, building partnerships, and distributing resources adds time to the development processes. Furthermore, the smaller scale and capacity of selected MOF partnerships means longer than usual project timelines.
- Stakeholder analysis with insufficient MOF input could create a situation where LSC's decisions fail to track both stakeholder interests and its own vision for an equitable business environment. This could consequently erode engagement and trust from target populations in Lake Street.
- The long-term health of Lake Street might be imperiled if LSC chooses MOFs poorly. Stakeholder failure endangers the vision of a thriving, diverse business community, opening the door for opportunistic outside forces to (re)enter the market.

Benefits

The Lake Street community benefits from seeking community and subject matter expert input:

- Successful intervention would create a ‘virtuous cycle’ in which MOFs gain the financial traction to scale up and compete with large firms, promoting equity in future development
- Using comprehensive stakeholder analysis to connect aspiring partners to outside financial resources efficiently leverages the position and expertise of LSC, minimizing expenditure while ensuring existing resources are distributed equitably.
- NPFs are accustomed to working with communities that reflect their values. They eschew the pitfalls of market-rate development – namely the dominance of large-scale, non-MOFs.
- MOFs’ connection to communities around Lake Street ensures the equitable implementation and rebuild of its corridor.

Remedying Lake Street’s financial barriers to entry outweighs the risks of project inefficiency and MOF nonachievement. These optimal strategies dismantle financial systemic racism and encourage MOF participation, preventing racial stratification that contributed to the 2020 protests.

Implementation Considerations

Stakeholder Mapping: The redevelopment project will fail in its vision of a thriving and diverse Lake Street without the support of key stakeholders. It is imperative that stakeholder mapping be done intentionally to reflect the community's needs. Stakeholder analysis should be conducted in the following manner:

- LSC selects members to create a power versus interest stakeholder grid.
 - The stakeholder analysis should show preference to the following criterion to ensure equitable representation of MOFs:
 - Active community participants in Lake Street.
 - Prefer minority ownership.
 - MOFs greatly affected by redevelopment plan.
 - MOFs’ primary barrier to investing in Lake Street is securing capital.
- LSC should gather data by surveying community MOFs, identifying their interest, financial needs, and current position.
 - Utilize various mediums for engagement (social media, canvassing, in-person) to ensure that potential good-fit stakeholders are not excluded.
 - To mitigate the risk of LSC inaccurately interpreting the needs of its stakeholders, LSC should invite potential MOF partners to give feedback at critical points during the process.
 - Consideration should be given to potential language and translation needs for multilingual MOFs.

MOF and NPF Partnership Through LSC: After finalizing stakeholder mapping, LSC should internally identify members for a committee to locate an NPF.

- LSC should identify potential NPFs to then network to MOFs
- LSC committee should meet and discuss with the NPF their qualifications, compensation, project responsibilities and milestones, and reporting requirements.
- After discussing expectations, LSC should provide the NPF with the stakeholder analysis and connect them with identified stakeholders to discuss potential financing options.
- LSC should discuss NPF encouraging MOFs to apply for Minnesota's Department of Employment and Economic Development grants, assisting where feasible.

References:

1. *What To Do When Stakeholders Matter* (Bryson): This article provides guidance for our short-term recommended strategy and implementation considerations. Bryson explains how to analyze stakeholders using a power versus interest grid. Stakeholders with lower power have less influence and have increased difficulty obtaining capital. Integrating this analysis into our recommendations provides LSC with a view of stakeholders who are likely to need the most assistance and are likely to participate based on their high interest in Lake Street development. Additionally, Bryson's discussion of the importance stakeholders have is emphasized in implementation considerations. Stakeholders help organizations better fulfill their purpose. When stakeholders are not included, they have the power to kill a process by not participating or influencing the destruction of the process. This emphasis to understand who the Lake Street stakeholders ensures the success of its renovation.
2. *Managing Public Service Contracts: Aligning Values, Institutions, and Markets* (Brown, Potoski, Van Slyke): This article discusses when and why public managers should consider contracting outside of their agency. The article highlights that public managers lack the skills to navigate project management and outsourcing can benefit a project. Although we are advising LSC, the article concepts are transferable. LSC would benefit from the specialized expertise of an NPF and discussing project parameters ensures clear communication as part of the long-term strategy recommendation. The article also discusses transactions costs and how asset specific transaction costs can create less competition and methods to break up monopolistic behavior incorporated in the long-term solutions.
3. *Confronting Power Asymmetries in Partnership to Address Grand Challenges* (Gray, Purdy, Ansari): This article influenced the reasoning behind prioritizing working with nonprofits and construction companies with connections to the community instead of larger corporations that are profit driven. Historically, companies with immense capital and large social influence dominated the contract input and decisions around projects which favor their profits. This has caused other actors to accept the terms and be silenced. We have outlined a plan that would avoid these power differences and create an equitable interaction between all entities involved in the reconstruction that emphasizes the community's needs and vision.
4. *The Limits of Social Media for Public Administration* (Feeney, Porumbescu): This article influenced the implementation considerations of informational sessions to include social media and other avenues as an input platform for MOFs. Social media platforms, as discussed in the article, are primarily used by people under the age of 29, skewing reconstruction input to reflect the views of the younger community members. Additionally, bots and the influence and control that large corporations have over what is acceptable to be published online hinders the amount of people reached and demonstrates inequity in social media. Consequently, we additionally recommended various methods to advertise the stakeholder informational session(s) and identify interested MOFs to obtain input on the financial and capital barriers they face.