

Metropolitan Business Planning Initiative Minneapolis Saint Paul Update

MBDO Overview

May 13, 2010

ITASCA *project*

 **Urban Land
Institute**
Minnesota



positively Department of Employment
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Minnesota



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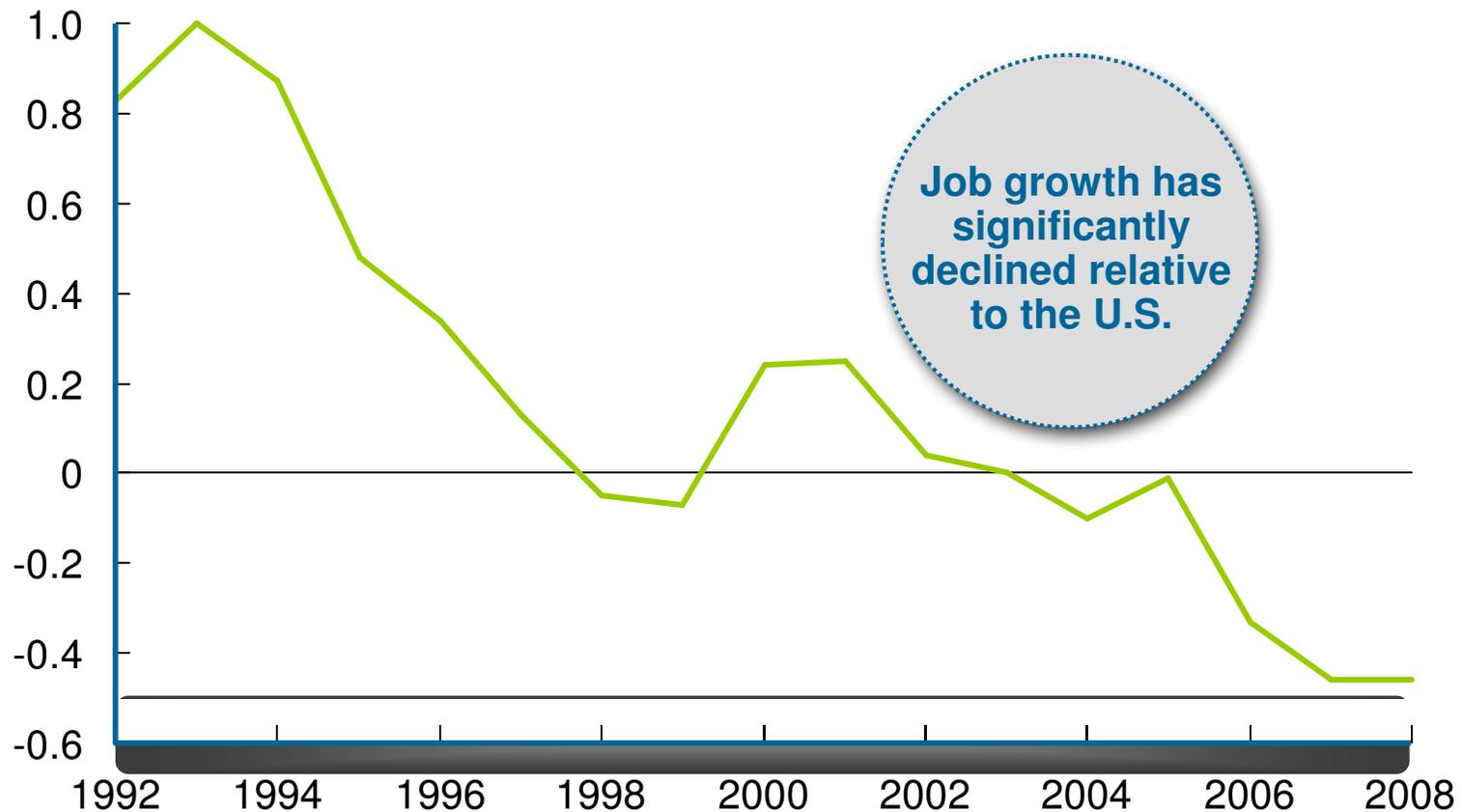
SAINTPAULMINNESOTA



- **The Itasca Project** is a business-led coalition comprised of regional CEO's and key civic leaders working to address the region's economic competitiveness.
- **The Regional Council of Mayors** includes Minneapolis, St. Paul and 34 municipalities to build action strategies to raise the region's overall economic competitiveness, innovation and quality of life.
- **ULI Minnesota** engages public and private sector leaders to foster collaboration, share knowledge and join in meaningful strategic action to create thriving, sustainable communities.
- **The Minnesota Department of Employment and Economic Development** is the state agency responsible for workforce and economic development investments.
- **The Humphrey Institute of Public Affairs** is a graduate school and public policy research institute at the University of Minnesota.
- **Cities of Minneapolis, St. Paul, and Bloomington** are the leading cities in the metro area.
- **Target Corporation** is one of the region's leading corporate citizens and a dedicated partner on this effort.

Despite a history of strong economic growth, our community's prosperity is declining

Difference between Twin Cities employment growth and U.S. employment growth¹



¹ 3-year moving average difference between Twin Cities and the U.S. using the given year and the previous two years

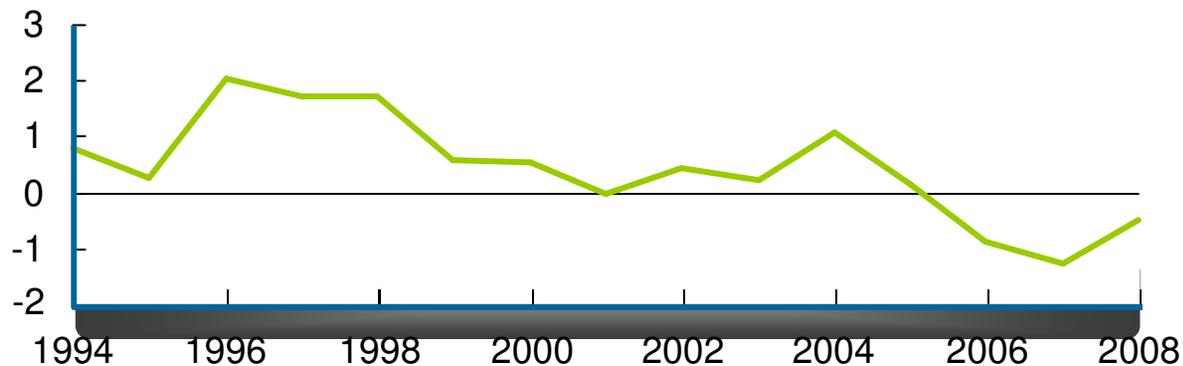
SOURCE: Bureau of Labor Statistics

This decline has manifested itself across multiple economic health metrics

Percent difference between Twin Cities growth and US growth

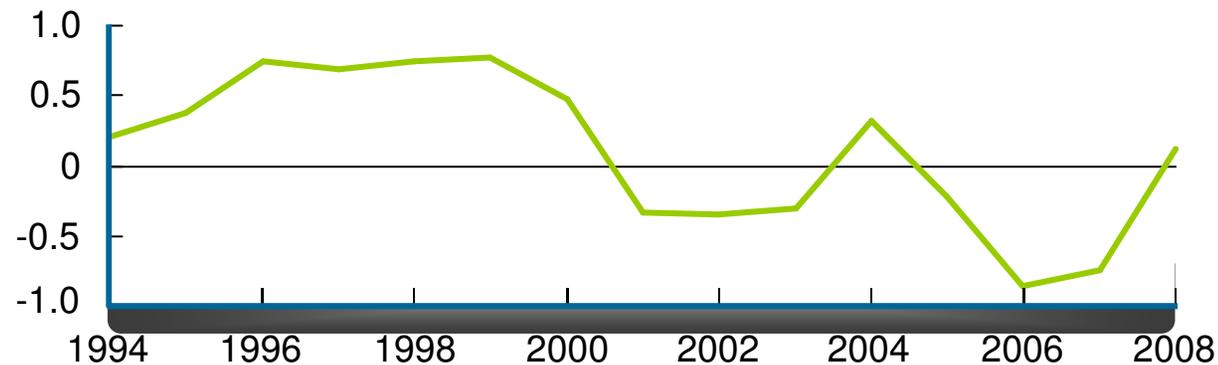
GDP per capita¹

Percent difference



Real income per capita²

Percent difference



MSP economic health has declined relative to the US

¹ Three year moving average difference between Twin Cities and the US using the given year and the previous two years, GDP chained to 2005

² Three year moving average difference between Twin Cities and the US using the given year and the previous two years, income per capita chained to 2005

SOURCE: Bureau of Labor Statistics,

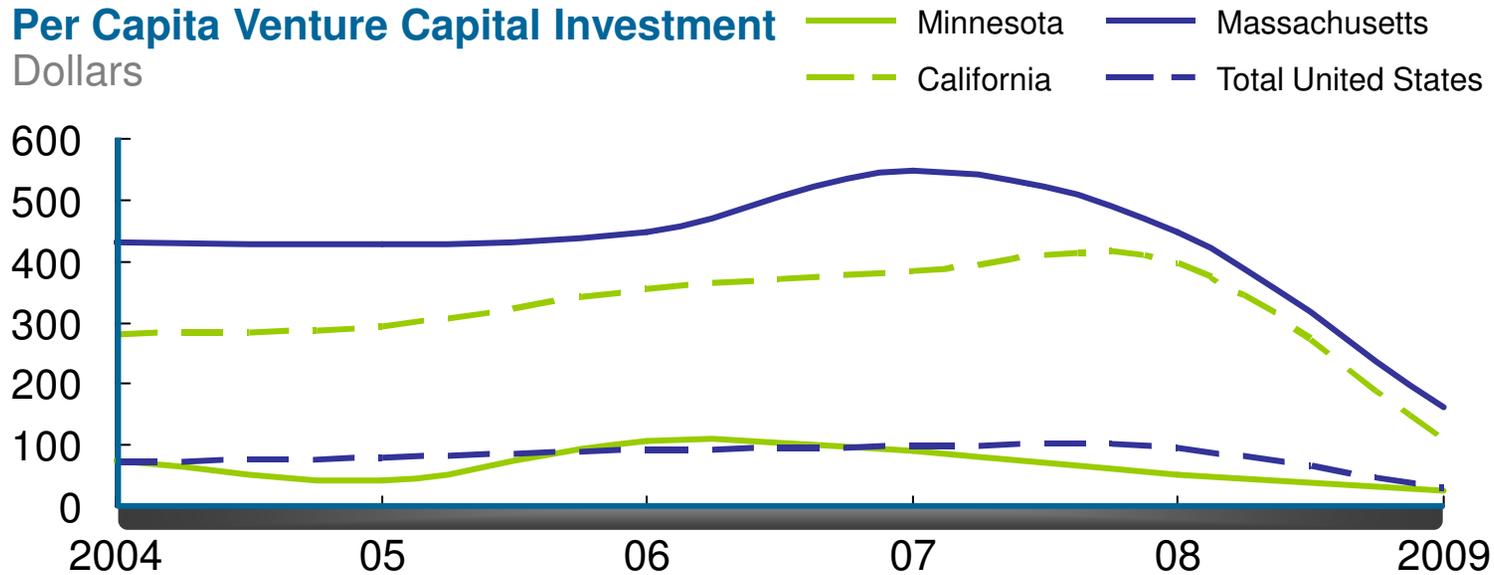
Findings of Metropolitan baseline overview



Leverage Point	Findings	Evaluation
Regional concentrations	<ul style="list-style-type: none"> ▪ Diverse economy ▪ Flagging business churn ▪ Emerging understanding of regional key clusters 	●
Deploy human capital	<ul style="list-style-type: none"> ▪ Job growth rate, productivity, per capita income stagnating ▪ Competitive advantage for knowledge workers ▪ Temporary in-migration slowing; labor supply expected to fall ▪ Concerns acute about restoring quality of PK-16 education 	●
Innovation-enabling infrastructure	<ul style="list-style-type: none"> ▪ Strong backbone of idea generation and applied research ▪ Shift in funding environment most painful for early stage firms ▪ Multiple factors have hindered commercialization 	●
Spatial efficiency	<ul style="list-style-type: none"> ▪ Dispersion of jobs and housing significant in last 25 years ▪ Regional land use and transportation decisions not strategic ▪ Regional gov't not matching physical to economic development 	●
Effective public and civic culture	<ul style="list-style-type: none"> ▪ Civic culture, citizen engagement, philanthropy are notable assets ▪ Lack of unified economic development entity ▪ Decentralized local, and acrimonious state government a challenge 	●
Information resources	<ul style="list-style-type: none"> ▪ Decentralized local government a challenge for business users ▪ Multiple data tools available for location and market decisions 	●

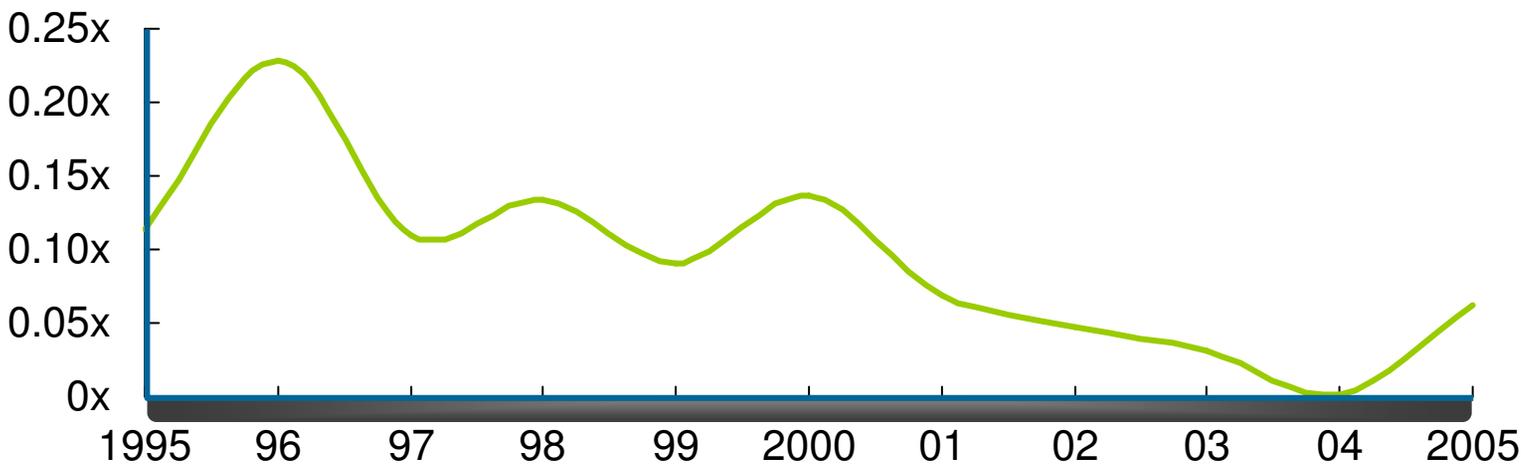
Findings of Metropolitan baseline overview

Per Capita Venture Capital Investment Dollars



Business Churn

Ratio of firm births to deaths: Differential of Minnesota MSAs over US



What can we do about it?

Leverage point	Strategies considered
Regional concentrations	<ul style="list-style-type: none">▪ Strengthen current regional action▪ Regional cluster strategy▪ Business bridge
Deploy human capital	<ul style="list-style-type: none">▪ Strengthen PK-16 quality; connect high schoolers to career pathways▪ Support integrated FastTRAC model for ABE, community and tech ed
Innovation-enabling infrastructure	<ul style="list-style-type: none">▪ Innovation and entrepreneurship accelerator (JumpStart)▪ Fill an evolving gap in early stage funding: Merchant bank, lever funds▪ Reduce formal and informal barriers to research/business transfer
Spatial efficiency	<ul style="list-style-type: none">▪ Retool policy to join land use and transportation (TOD and FOD)▪ Increase utilization of developed land area through pricing and value capture▪ Use economic development as key criterion for regional planning decisions
Effective public and civic culture	<ul style="list-style-type: none">▪ Establish a unified economic development entity
Information resources	<ul style="list-style-type: none">▪ Refine and expand online decision tools (MetroMSP, LiveMSP)▪ Raise awareness of existing workforce information resources (ISseek)

Appendix

The business plan starts with a vision and principles ...

Vision

- The Minneapolis Saint Paul region will be a world class international center of commerce with an unsurpassed quality of life

Metropolitan business plan guiding principles

The Minneapolis Saint Paul region embraces sustainable, long-term **economic vitality**, growth and development that:

- Fuels a culture of innovation that drives and supports an economy of diverse industries and entrepreneurs
- Offers a competitive business climate ensuring growth and expansion of new and existing businesses
- Collaborates with public, private, and non-profit sectors investing in our common economic vision
- Promotes interaction and leverages our world-class research institutions to support innovation, commercialization and development

Guiding principles *(continued)*

Recognizing that productivity and human capital are the cornerstones for regional competitiveness and the jewel for business growth and success, the region:

- Continually reinvests in the availability and expertise of our workforce – giving companies choices of highly qualified employee candidates.
- Deploys the highest speed broadband infrastructure available, transforming the pace of business development
- Operates a state of the art transportation system to move people and goods efficiently, stimulating economic development
- Invests in efficient river and rail connections, the superhighways for inbound and outbound bulk commodities, providing significant market and transit options for heartland producers and products

The region is committed to creating an environment that retains and attracts smart, motivated talent and businesses, capable of growing big ideas and quality jobs, resulting in the long-term employment of thousands of our citizens

- Provides a balance of professional success and personal aspirations for our workforce, allowing for business retention, high productivity and better business results
- Showcases a lifestyle where citizens enjoy living where they work and play, creating a high value at the right price
- Involves individuals and families in public decision making that is transparent and inclusive
- Builds unparalleled vibrant neighborhood and business communities with a diversity of housing options, transportation choices, outdoor and cultural amenities, and thriving commercial enterprises with seamless access to jobs.

Metropolitan Business Planning Initiative Minneapolis Saint Paul Update

DDI Overview

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REVIEW: Findings of Metropolitan baseline overview



Leverage Point	Findings	Evaluation
Regional concentrations	<ul style="list-style-type: none"> ▪ Diverse economy ▪ Flagging business churn ▪ Lack of unified approach to economic development 	●
Deploy human capital	<ul style="list-style-type: none"> ▪ Job growth rate, productivity, per capita income stagnating ▪ Competitive advantage for knowledge workers ▪ Temporary in-migration slowing; labor supply expected to fall ▪ Concerns acute about restoring quality of PK-16 education 	●
Innovation-enabling infrastructure	<ul style="list-style-type: none"> ▪ Strong backbone of idea generation and applied research ▪ Shift in funding environment most painful for early stage firms ▪ Multiple factors have hindered commercialization 	●
Spatial efficiency	<ul style="list-style-type: none"> ▪ Dispersion of jobs and housing significant in last 25 years ▪ Regional land use and transportation decisions not strategic ▪ Role of regional government does not extend to economic development 	●
Effective public and civic culture	<ul style="list-style-type: none"> ▪ Civic culture and citizen engagement are notable assets ▪ Corporate and individual philanthropy a strong tradition ▪ Decentralized local, and acrimonious state government's a challenge 	●
Information resources	<ul style="list-style-type: none"> ▪ Decentralized local government a challenge for business users ▪ Multiple data tools available for location and market decisions 	●

The MSP region lags peer regions in some key drivers of innovation and entrepreneurship

MSP situation
 ● Above peers
 ● Around peers
 ● Below peers

		MSP Assessment	Recent trend
Entrepreneurial Ecosystem	1 Entrepreneurial culture 1.1 Foster an installed base of innovative companies and encourage small business starts 1.2 Nurture networking within the entrepreneurial community and market entrepreneurship as an important value through visible events (e.g., business plan competition, innovation awards)	●	↓
	2 Capital availability 2.1 Improve early stage funding 2.2 Encourage venture capital investment by attracting venture capital or angel investments with innovative business ideas 2.3 Spur traditional funding channels to facilitate the business starting process	●	→
	3 Regulation and incentives 3.1 Build a supportive regulatory system making small business creation easier 3.2 Build a stimulating incentives system (e.g., angel tax credit, R&D tax credit, federal guaranteed loan program)	●	→
	4 Human Capital 4.1 Prioritize science and mathematics studies at a high-school level 4.2 Redefine higher education priorities according to human capital demand (e.g., strengthen life science focus in universities)	●	↓
	5 Innovative ideas 5.1 Stimulate business innovation 5.2 Encourage technology transfers from research entities to businesses	●	↓

The MSP region is middle of road in entrepreneurial activity but has seen a decline in recent years

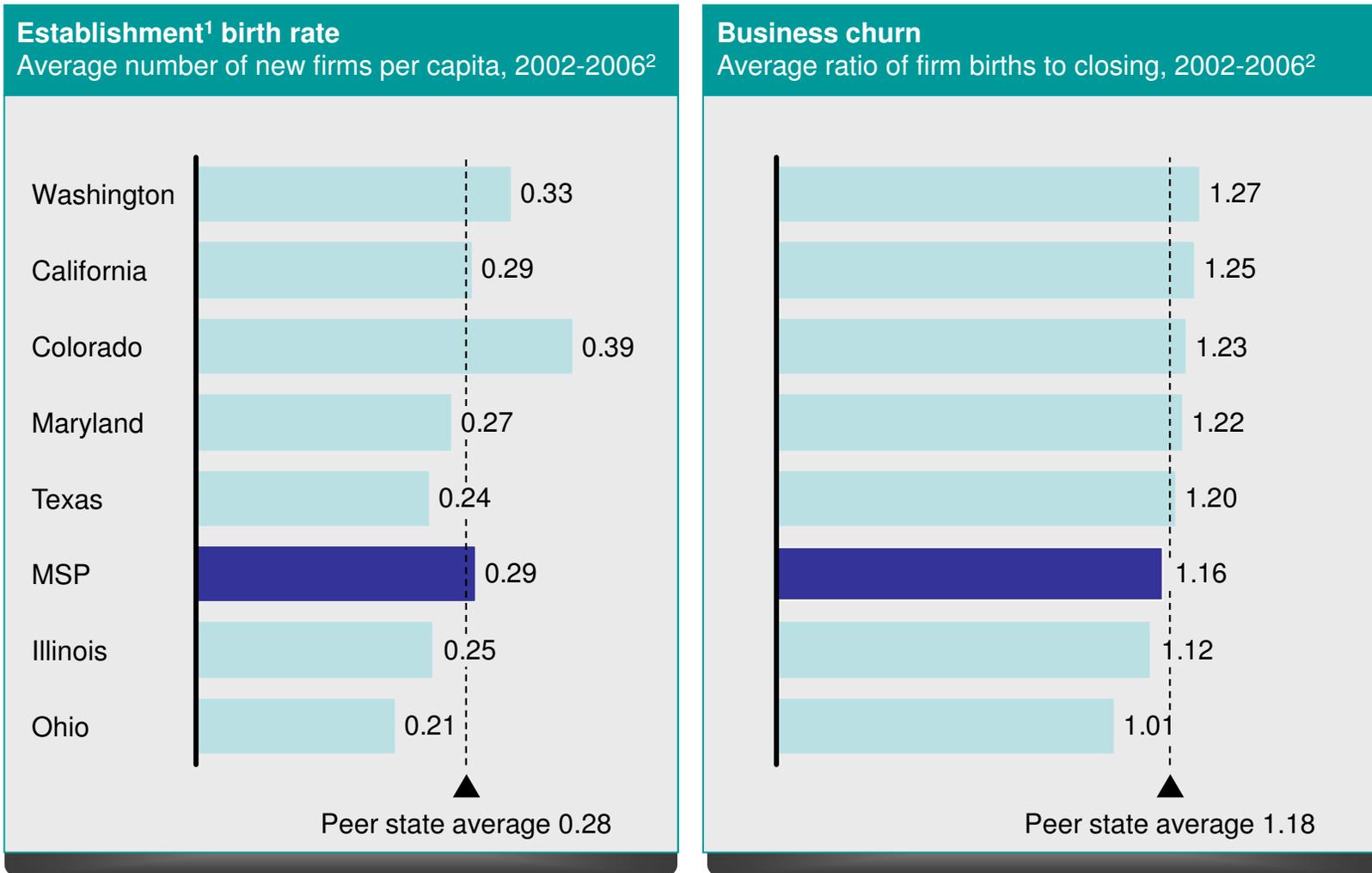


¹ Using Census Current Population Survey data, the study tracks the change in the number of non-business owners who become business owners month-to-month

² First time entrepreneurs

³ Peer cities chosen based on regions with similar population, GDP per capita, education levels, business climate, industry diversity, and labor laws

Minnesota generates new establishments at a comparable rate to peer states, but has less firm births per firm closing



¹ Establishments include any non-retail store location opened by a business, including new firms

² US Census data through 2006

The MSP region lacks a strong entrepreneurial community

Local entrepreneurs say . . .

“We like to do business with those we know and trust. The best way to get to know someone, other than working with them directly, is through networking”

“Networking is the surest way to long-term stability in business today. If you nurture your network the right way, you’ll build alliances with other businesses that will gladly promote your product or service to their customers”

Local Business Leaders say . . .

“We need to be challenged to become entrepreneurial”

“Great entrepreneurs are waiting to be mentored”

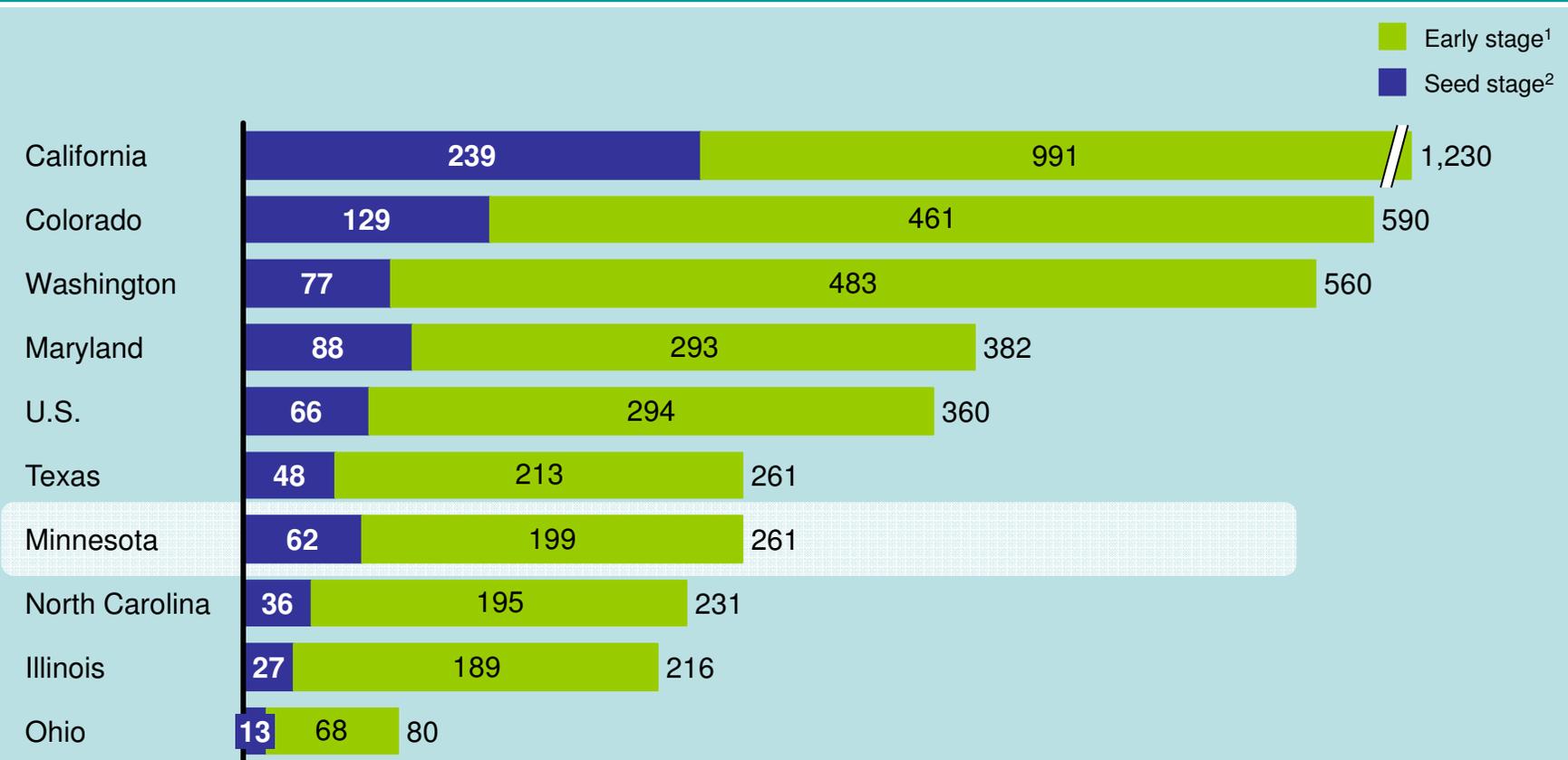
“We have gone from an entrepreneurial culture to a corporate culture”

“We need more *been there, done that* type of people for our entrepreneurs to reach out to”

Minnesota has insufficient levels of seed and early stage funding

Minnesota lags peer states in early-stage funding

Early-stage investments (\$ per capita), 1995-2009



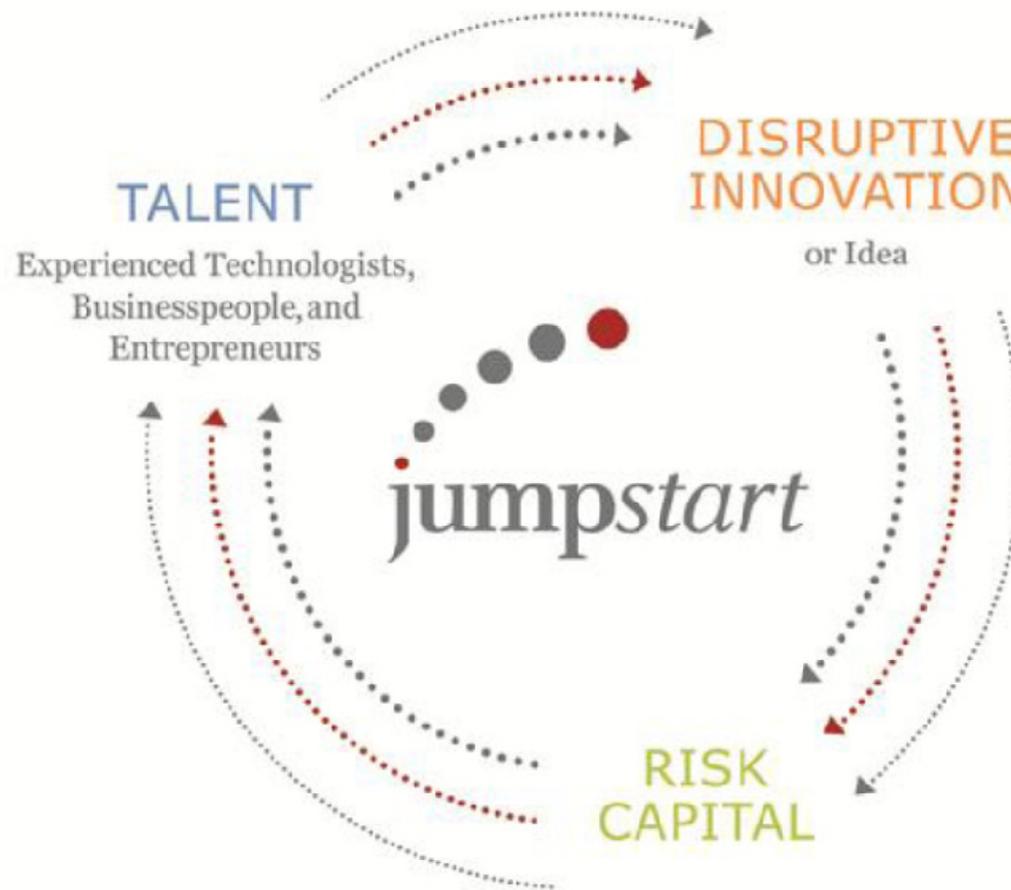
¹ Seed stage is the initial stage of funding; the company has a concept or product under development but is not fully operational and usually has been in existence less than 18 months.

² Early stage is the next stage of funding, when the company has a product or service in testing or pilot production. In some cases, the product may be commercially available and may or may not be generating revenues. Companies at this stage are usually in business less than three years.

	MSP Assessment	Strategy to address:
Entrepreneurial Ecosystem	1 Entrepreneurial culture	● Around peers <ul style="list-style-type: none">Introduce an “Idea Crossing” exchange to facilitate connections and networkingIntroduce more systematic and broader reaching mentoring program, leveraging the JumpStart model
	2 Capital availability	● Below peers <ul style="list-style-type: none">Build an early-stage capital fund, leveraging JumpStart model
	3 Regulation and incentives	● Below peers <ul style="list-style-type: none">Recently passed Angel Tax Credit and R&D Tax Credit
	4 Human Capital	● Above peers <ul style="list-style-type: none">Connect talent to opportunities
	5 Innovative ideas	● Around peers <ul style="list-style-type: none">Identify opportunities to enhance idea generation and commercialization

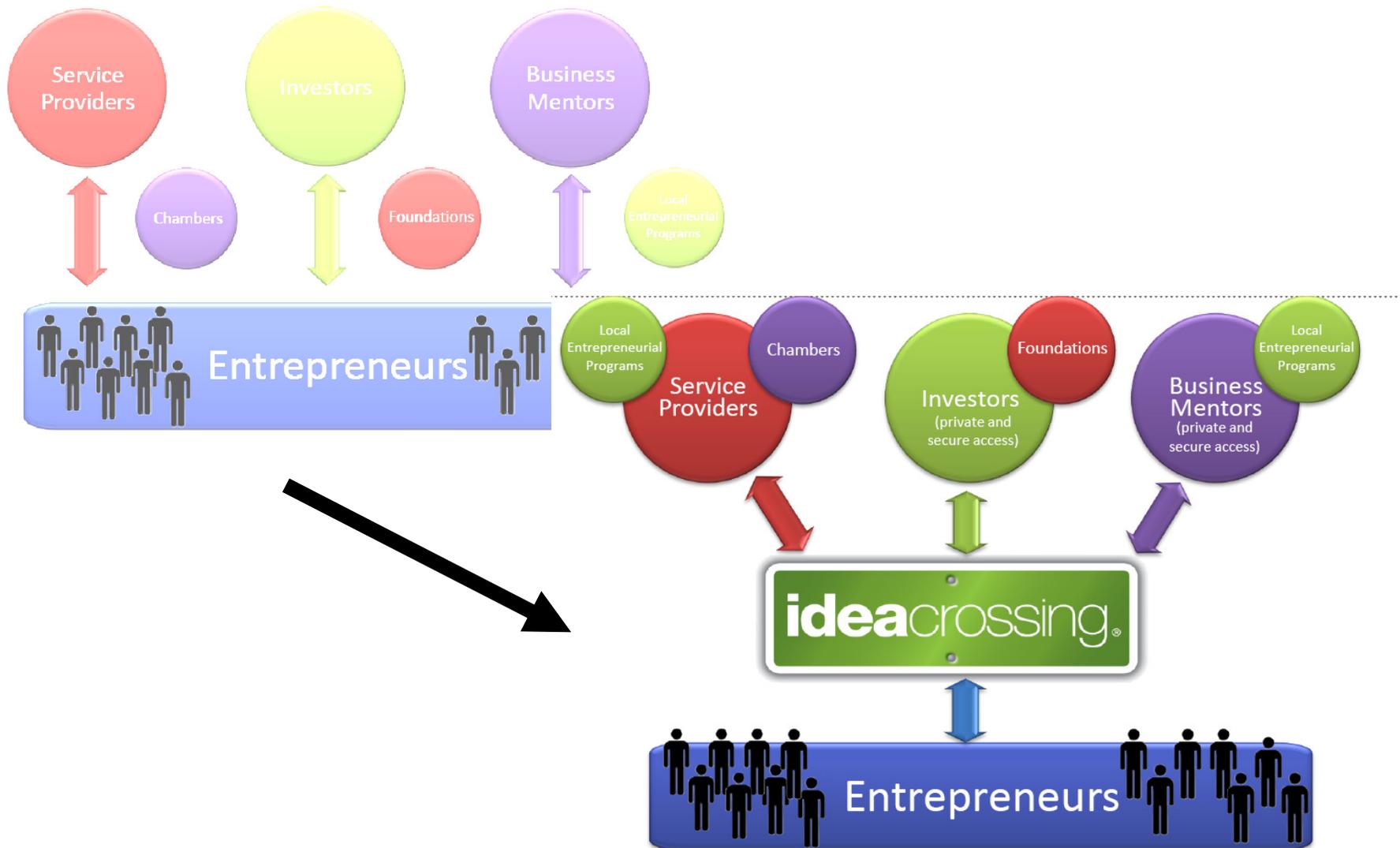
Introduction to Entrepreneurship Accelerator

The DDI for the Minneapolis Saint Paul region is to build a tactical, concrete plan for an entrepreneurship accelerator in conjunction with JumpStart, Inc., on an MSA-wide scale.



An important component of the entrepreneurship accelerator is “ideacrossing” to connect entrepreneurs to resources

Strategy: Build and Realign Infrastructure for Entrepreneurs



DDI Implementation Plan

Entrepreneurial Ecosystem Steps:

1. Analyze: Mix existing research about innovation landscape with additional analysis and fieldwork, to understand the assets the MSA has in place that mirror JumpStart best practices and what is missing. Produce a gap analysis and work with community leaders on a plan forward (“Regional Entrepreneurship Action Plan,” or REAP).
2. Create outcomes: Use this expertise and knowledge of resources and strategies to help communities “juice the entrepreneurial ecosystem” and move towards initiation of programs that could significantly assist entrepreneurs, and in both the short-and long-term help improve economic conditions (GDP), employment opportunities, and wealth creation for the MSA.
3. Ensure sustainability: REAP implementation will include assistance with connections to local, regional, state and federal funding resources for both immediate needs and ongoing sustainability of the action plan.

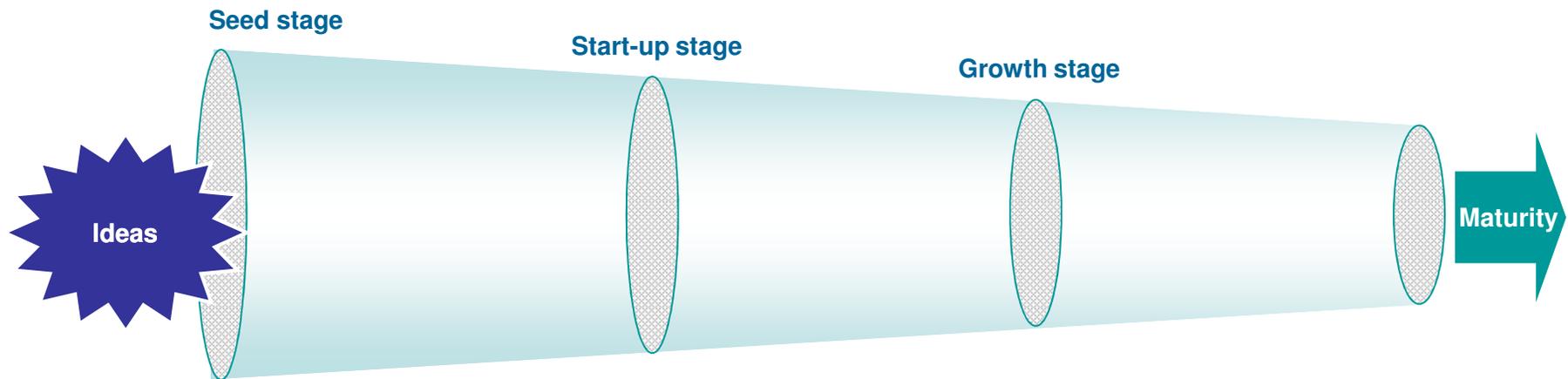
Social Networking Steps:

1. Implementation of IdeaCrossing: Develop, integrate, and drive the visibility of IdeaCrossing, a proven online resource that enables the greatest possible connectivity between area entrepreneurs, investors and mentors.
2. Direct expert technical and marketing support to initiate IdeaCrossing to immediately “match” and connect entrepreneurs , investors and business mentors, both inside and outside the MSA. This solution includes assistance in local technical monitoring and the implementation of a comprehensive.

Appendix

Different sources of capital are needed in each stage of starting and growing a business

2 Capital availability



Funding sources

- Family and friends
- Founder's savings
- Angel investors (individual or groups)

- Angel investors
- Early-stage funds

- Business loans
- Venture Capital
- Grants

Activities

- Assess idea's technical and economical feasibility (e.g. conduct market research)
- Apply for patent (if applicable)
- Build financial projections
- Develop business plan

- Create prototype and establish manufacturing feasibility (if applicable)
- Build full management team
- Develop and execute sales and marketing plan
- Acquire customers
- Refine business model

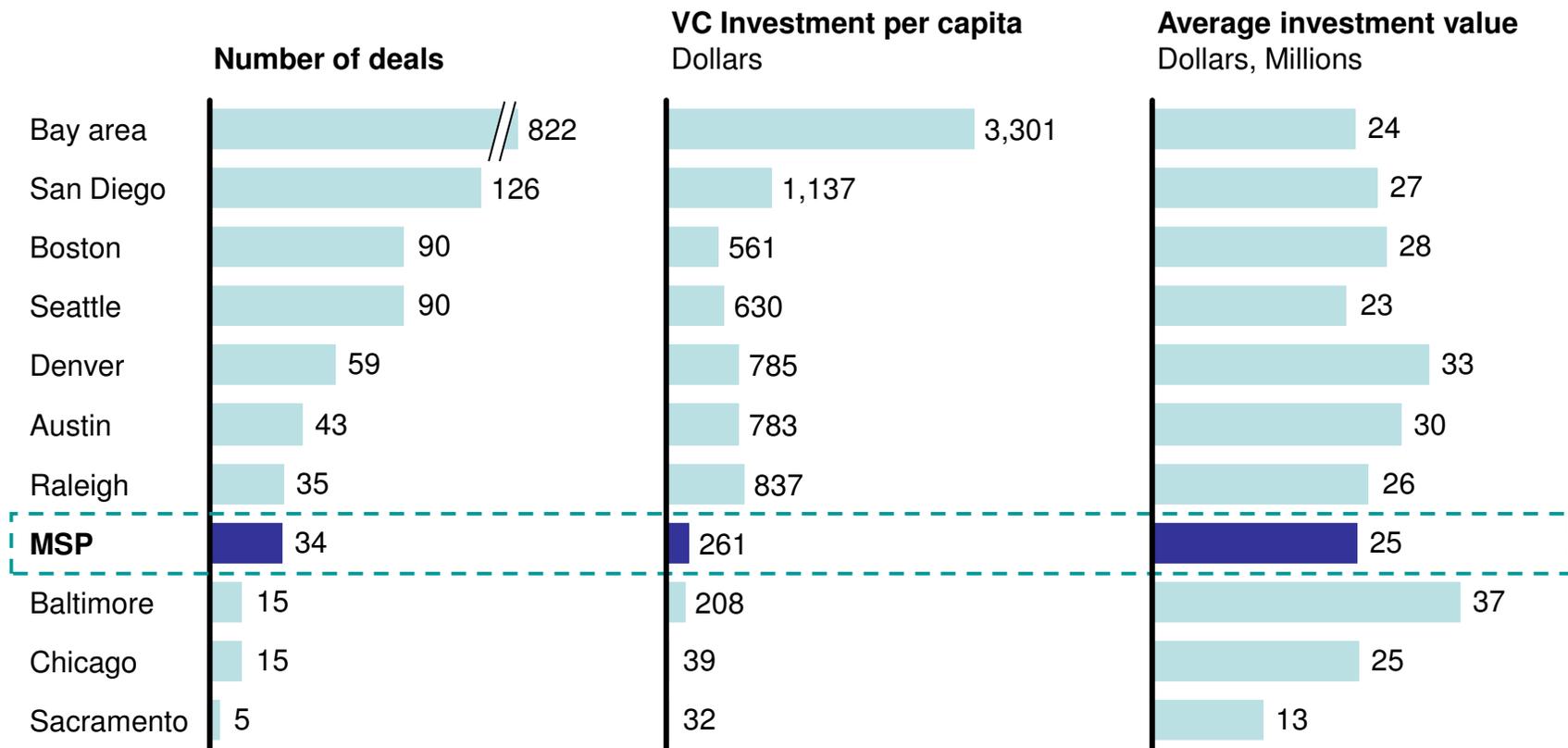
- Continue to acquire customers
- Establish competitive position in market
- Reduce delivery costs and optimize processes
- Achieve breakeven

The MSP region lags in number and value of VC deals

2.2 Encourage venture capital investment



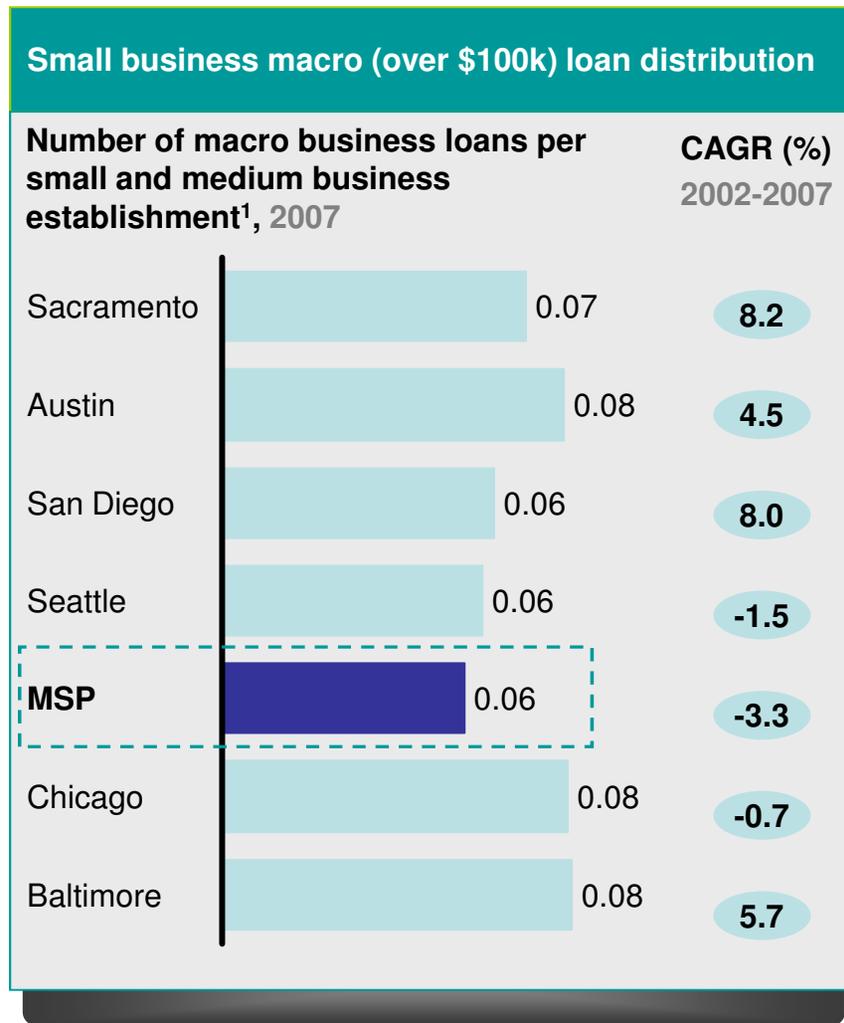
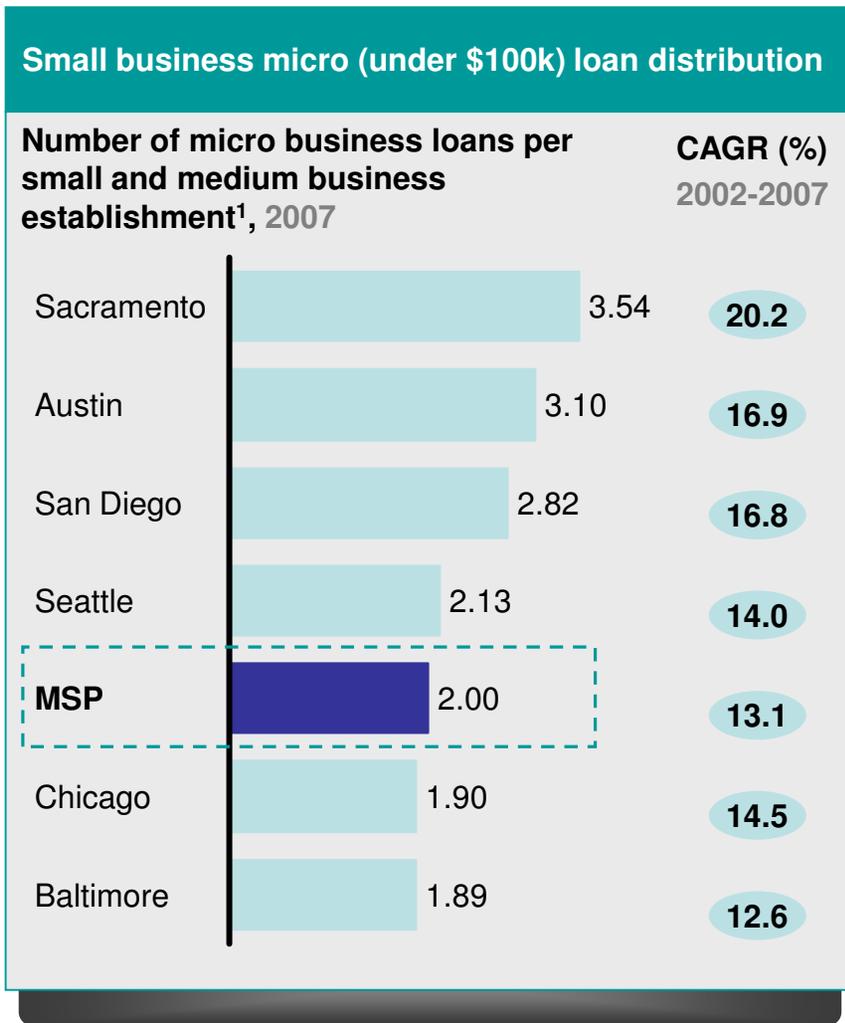
Venture capital investment by MSA, 2006-2009¹



¹ The location of a deal is specified by the location of the receiving company; rounds are counted as separate deals; includes deals \$10M and greater
SOURCE: Economy.com, Capital IQ

MSP small businesses obtain fewer loans than in peer cities and the gap is growing

2.3 Spur traditional funding channels



¹ Small and medium businesses defined as businesses having 499 employees or less

SOURCE: Federal Financial Institution Examination Council FFIEC MSA aggregate report 2007

Minnesota is one of the least attractive places for small businesses

3.1 Build a supportive regulatory system

Minnesota is lagging peer cities for small business attractiveness

SBE small business environment index¹

	2005 rank	2008 rank	
Washington	4	5	→
Texas	11	6	↑
Colorado	10	10	→
Ohio	40	18	↑
Illinois	23	24	→
North Carolina	39	39	→
Minnesota	47	46	→
California	50	49	→

Tax environment largely drives low ranking

Sample of criteria taken into account

	MN 2005 rank	MN 2008 rank	
Personal income tax rate	42	44	→
Capital gains tax rate	44	46	→
Corporate income tax rate	48	48	→
Help for small businesses by gov. employees	20	20	→
Electric utility cost	14	18	↓

¹ Rankings based on top personal income tax rate, top individual capital gains tax rate, top corporate income tax rates, top corporate capital gains tax rates, state and local property tax rates, state and local sales rate, adjusted unemployment taxes, rank for number of health insurance mandate, electric utility costs, workers compensation benefits per \$100 of covered wages, crime rate, number of government employees, state gas taxes, state and local government expenditures, highway cost effectiveness, state minimum wage, right to work, regulatory flexibility status, state legal liability costs

Best practice regions offer incentives and funding to innovators

3.2 Build a stimulating incentives system



Stakeholder	Actions	Impact
Austin (Opportunity Austin) 	<ul style="list-style-type: none"> ▪ Funds growth of new “green” technology companies through the Emerging Technology Fund ▪ Government offers tax credits for innovators ▪ Created Central Texas Regional Center of Innovation and Commercialization <ul style="list-style-type: none"> – Targeted 39 regional start-ups representing 500 jobs and \$45.5 million in payroll – Created a consistent technology transfer process between research centers and start-ups 	<ul style="list-style-type: none"> ▪ Number of small business¹ establishments rose by 10% in 2002-2006 ▪ Number of small business jobs rose by 70,000 in 2002-2006
Singapore government (Spring program) 	<ul style="list-style-type: none"> ▪ Complements Venture Capital investing (<i>Business Angel Scheme</i>) <ul style="list-style-type: none"> – Matched \$2 for every dollar invested by selected Angel investors ▪ Offers incentives for investors (<i>Enterprise Investment Incentive Scheme</i>) <ul style="list-style-type: none"> – Allowed start-up investors to deduct up to \$3 million of losses against their taxable income ▪ Established incubation programs helping entrepreneurs commercialize their ideas ▪ Launched governmental Intellectual Property Management program to help small businesses create, exploit and protect their IP 	<ul style="list-style-type: none"> ▪ Extended \$720 million in loans to 3,500 SMEs ▪ Start-ups accounted for 15% of the total number of companies, growing at 17% per year

¹ Small businesses are defined as having 20 employees or less

Minnesota's incentive system for innovation and investors is not competitive compared to peers and neighboring states

3.2 Build a stimulating incentives system

Angel investment tax credits in Minnesota and neighboring states

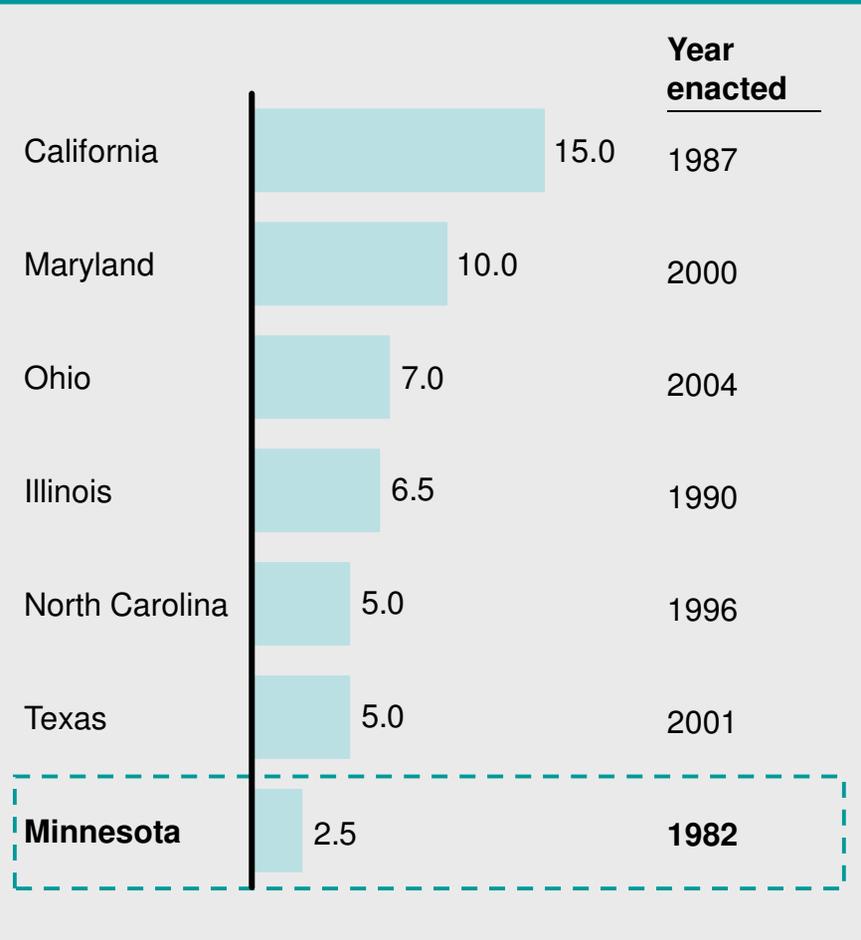
2009

	Minnesota	Wisconsin	Iowa	North Dakota
Angel program	No	Yes	Yes	Yes
Tax credit Percent	N/A	25	20	45
Maximum credit per investor \$ Thousands	N/A	125	250	112.5
Maximum aggregate per year \$ Millions	N/A	18.25	3-10	3.5

Peer cities' states do not have angel investment tax credits but Minnesota's neighbors states do

R&D investment tax credits in Minnesota and peer cities' states

Top-tier statutory credit rate 2009, percent



MSP currently relies on a talented workforce but is facing declines in sectors where innovation is key

4.1 Prioritize science and mathematics

Minnesota is losing ground to international competitors

TIMSS¹ 8th grade sciences scores

	1995 Rank	2007 Rank
Singapore	1	1
Czech Republic	2	7
Japan	3	3
Korea	4	4
Bulgaria	5	25
Minnesota	6	8
England	11	5
United States	21	12

Minnesota is decreasing in high-tech jobs

High-tech employment growth (% change, 2002-07)

	Percent change
Washington	11.1
North Carolina	2.9
Texas	-1.0
Minnesota	-3.8
California	-4.1
Ohio	-5.2
Illinois	-7.0
Colorado	-9.8

¹ Trends in International Mathematics and Science Study
SOURCE: Sci Math MN TIMSS report: December 2008

Minnesota is ranked well on innovation but needs to assess declining trends

4.2 Redefine higher education priorities

State knowledge based economy index

	<u>2002 rank</u>	<u>2008 rank</u>	
Massachusetts	1	1	→
Washington	4	2	→
Maryland	5	3	→
Minnesota	13	14	→
Illinois	19	16	↑
Texas	10	18	↓
North Carolina	24	24	→
Ohio	27	30	↓

State Technology and Science index

	<u>2002 rank</u>	<u>2008 rank</u>	
Massachusetts	1	1	→
Washington	6	5	→
Maryland	4	2	→
Minnesota	10	11	→
Illinois	19	16	↑
Texas	14	20	↓

Sample of criteria taken into account

	<u>MN 2002 rank</u>	<u>MN 2008 rank</u>	
Technology in schools	7	28	↓
Broadband telecom	2	7	↓
Patents	8	13	↓
Managerial, professional and tech jobs	13	7	↑
Gazelle jobs ¹	16	5	↑

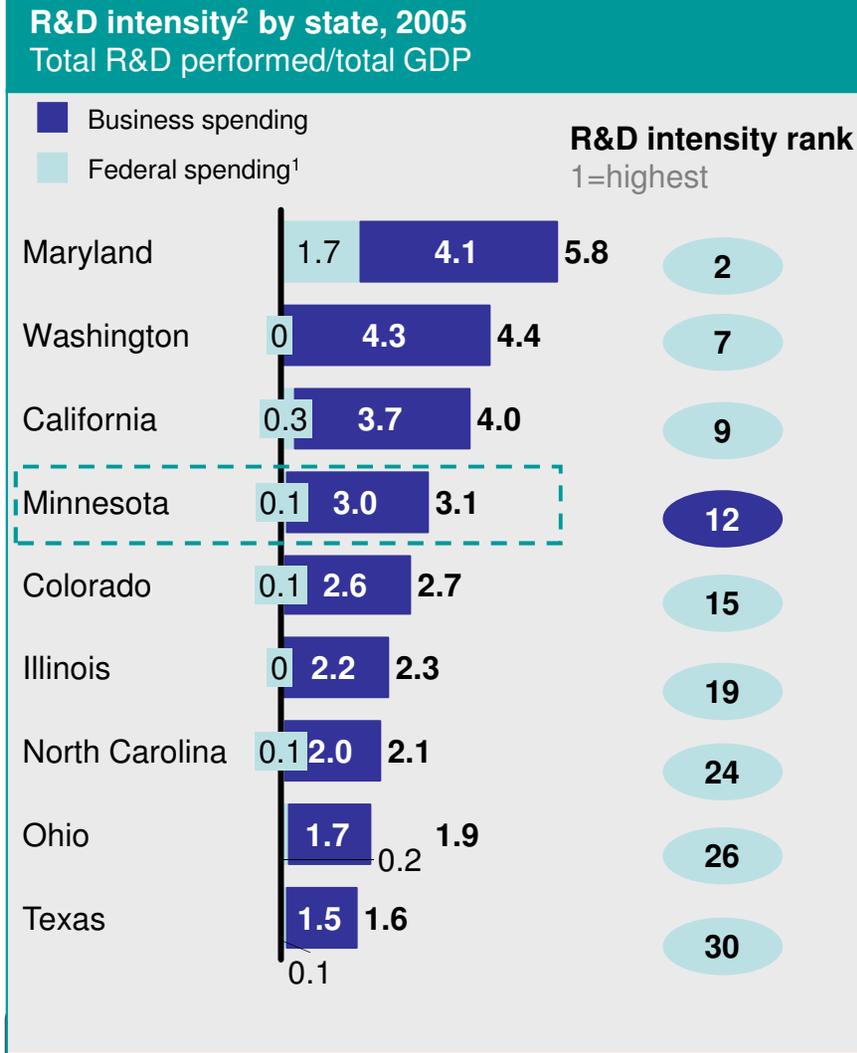
Sample of criteria taken into account

	<u>MN 2002 rank</u>	<u>MN 2008 rank</u>	
Percent of establishments in High-Tech NAICS codes	9	22	↓
Net formation of High-tech establishments	6	49	↓
Payroll in High-Tech NAICS codes	33	23	↑

¹ Jobs within a company growing at 20% per year or more

Minnesota has a relatively high level of R&D spend and R&D output despite a recent decline

5.1 Stimulate business innovation



¹ Includes federal funding, federally funded research and development centers, and nonprofit research

² Total R&D performed in state/total GDP

Minnesota is a leader in technology transfers overall, but may be able to improve start-up rate

5.2 Technology transfer

University technology transfer licensing statistics ranks¹, 2007

	<u>Licensing income</u>	<u>Patents issued</u>	<u>Start-ups</u>	<u>Licenses executed</u>
New York University	1	11	20	35
Columbia University	2	8	4	27
University of California System	3	1	1	1
Northwestern University	4	44	7	38
Wake Forest University	5	94	28	87
University of Minnesota	6	13	35	15
University of Washington	7	14	5	2
MIT	8	2	2	4

Among the top 8 universities in licensing income, Minnesota is **ranked the lowest in terms of start-ups**

¹ Rankings out of the 157 universities with over \$1 million in annual research spending
SOURCE: Association of University Technology Managers 2007 Licensing Survey

Best practice regions have focused on facilitating technology transfers

5.2 Encourage technology transfers



Stakeholder	Actions	Impact
<p>Raleigh Durham <i>Raleigh Triangle Research partnership (RTRP)</i></p> 	<ul style="list-style-type: none"> ▪ Council of Entrepreneurship Development launched cluster networks based on business and university interaction <ul style="list-style-type: none"> – Prioritized 8 sectors based on preexisting advantages and job-growth potential – Allocated resources to research centers and universities – Organized annual sector focused conferences to facilitate small businesses networking with research entities ▪ Successfully supported funding for regional universities <ul style="list-style-type: none"> – Lobbied the Golden Leaf foundation and obtained a \$33 million investment in the NCSU's biomanufacturing Training and Education Center (BTEC) 	<ul style="list-style-type: none"> ▪ Initial-year small business¹ establishments grew by 2,500 in 2002-2006 ▪ Number of small business jobs grew by 60,000 from 2002-2006
<p>Indian Institute of Management Ahmedabad <i>Center for Innovation, Incubation and Entrepreneurship in India (CIIE)</i></p> 	<ul style="list-style-type: none"> ▪ Organized business plan competitions to bring innovators, venture capitalists and entrepreneurs together ▪ Provided research on innovation, technology management, entrepreneurship and competency building ▪ Searched for exceptional technology innovations, through series of competitions and programs ▪ Offered Start up companies a 4-stage incubation program 	<ul style="list-style-type: none"> ▪ Incubated 15 high-tech start-ups per year from 2001-2007 ▪ Handled 36,000 innovations since 2001

¹ Small businesses are defined as having 20 employees or less