

GOAL 3: Michigan Makes Targeted Investments that Leverage Distinct Assets in Urban and Metropolitan Areas to Transform Regional Economies

The prior policy recommendations in this report focused on ways the state could help Michigan's metropolitan areas (and other communities as well) build on their shared strengths in the next economy. Those recommendations focused on economic advantages that most of Michigan's metropolitan areas have in common.

But the state can also support its metropolitan areas by building on their unique strengths and distinctive assets, factors that contribute to their one-of-a-kind offerings as places to live, or their special niches in the next economy. Throughout the nation, and indeed throughout the world, governments and partners in the private and nonprofit sectors are undertaking catalytic, transformative projects that draw on place-specific strengths. Building on these assets, whether economic or physical, can in some instances have a truly transformative effect not only on a particular metropolitan area, but on the state as a whole.

This targeted approach does not come naturally in most states, where funds for infrastructure and economic development tend to be spread evenly and thinly across the state. For example, while Michigan has created several programs to attract private sector engagement in community revitalization, these programs have generally been available to communities throughout the state, rather than tailored and targeted to the economic or physical opportunities present in specific large urban areas. For example, the Core Communities program, which began in 2000 as a \$50 million fund intended to “spur private development in [Michigan’s] urban communities and traditional centers of commerce” (Michigan Economic Development Corporation 2010), initially was limited to 88 core communities identified by the Michigan legislature (Lane 2000). But by 2010, 136 cities, townships, and villages across the state had received the designation. The scope of the program was also expanded from its original goals to benefit film production. The Cool Cities program grants were small and thinly spread. By 2006, 45 cities across the state had received a total of \$3 million to fund diverse projects such as commercial building renovations, water parks, farmers’ markets, and neighborhood cleanups (Detroit Free Press 2006). Even the Renaissance Zone program, which focused on just 11 areas at its inception in 1996, now encompasses 139 zones in 37 counties (Lane and Mercer 1996).

Michigan has shown a willingness to break from this pattern of unfocused spending. Governor Snyder’s recent transportation plan calls for “target[ing] new investments on the roads and bridges that the data shows will have the most beneficial impact on our economy” (State of Michigan 2011). The policy recommendations below are natural applications of that same spirit to state support for local economic development and locally driven place-making efforts.

The state should align its resources and leadership with a small number of city- or metro-led priority efforts that are: (1) supported by local public, private, civic, and philanthropic actors; (2) potentially able to transform not just the metropolitan area but the state as a whole; (3) tightly limited in number to avoid dilution of resources and dispersal of focus; and (4) chosen through a competitive process and designated as Projects of Urban and Metropolitan Significance.

The revitalization of the city of Detroit is central to Michigan’s economic health, and the state should make every possible effort to include Detroit in its Projects of Urban and Metropolitan Significance. As Governor Rick Snyder said in his gubernatorial victory speech, “It is fundamental that we restore our central cities ... and Michigan will only be a great state when its cities are on that path and, in particular, when Detroit is on the path to being a great city again” (Snyder 2010). Detroit is by far the largest metropolitan area in the state; even after decades of

population loss, the city remains the 22nd largest in America, with more residents than the cities of Boston, Seattle, or Washington, D.C. Michigan is unlikely to flourish if people outside “the D” view the city as a synonym for urban decline.

Projects of Urban and Metropolitan Significance should focus on two related goals: supporting urban or regional industry and innovation clusters, and advancing new urban innovation districts. These projects would receive special, focused attention from state officials. For example, such projects would benefit from the tight alignment of a wide range of resources in the service of their needs. The state already engages with important metropolitan projects in countless ways. Some are readily apparent, such as funds from the state’s new Michigan Business Development program and Michigan Community Revitalization Program, infrastructure financing, and financial and technical assistance from the Michigan State Housing Development Authority (MSHDA). But there are also less visible forms of state support that contribute to metropolitan economic development efforts, ranging from funds for public K–12 and postsecondary education to state-funded workforce development programs to financing arrangements made possible by the Office for Public Private Partnerships. A stronger appreciation of the many ways that the state government can support metro-led economic development endeavors will help state leaders recognize and take advantage of opportunities for coordination across various state agencies.

These projects would also benefit from a multi-year state commitment. The alignment described above would not be a one-time, one-meeting undertaking, but a sustained investment of time and resources into the success of these particular projects. For this reason, the projects should be few in number; the state cannot support this kind of engagement in several projects at once. The state would position itself as a facilitator and problem-solver, actively identifying and offering resources that can advance the goals of these projects. Where appropriate, and to further the spirit of the state being in the service of the projects, elements of them would receive fast-track permitting; for example, for a new building in an innovation zone or new lab critical to an industry cluster. Also where appropriate, and arising from the close collaboration between state officials and local leaders executing the projects, recipients of state funds tied to a project could be granted flexibility in actions in exchange for accountability for meeting specific, jointly agreed-upon project metrics.

Clusters and innovation districts share several elements. They involve public-private collaborations; they seek to build on existing opportunities and strengths; and they are relentlessly market-oriented and innovation-driven, whether the innovation comes in new kinds of collaborations, new kinds of companies, or new approaches to connecting economic opportunity and physical space. Clusters and innovation districts have the potential to supercharge the economies of Michigan’s metropolitan areas while making them exciting and vibrant places to live and work.

Recommendations

Support a small number of urban or metropolitan industry clusters with grants tailored to the specific needs of emerging, existing, or advanced clusters.

Support for local industry or innovation clusters can reignite innovation, entrepreneurship, and job creation in states and their metropolitan regions (Muro and Fikri 2011). Clusters build on existing assets—including export strength, innovation, and manufacturing capacity—to promote growth in cities and regions by enhancing the interactions through which firms share ideas, start new enterprises, and create jobs. A now ample body of economic research shows that localized knowledge flows and the inter-firm spillovers of information associated with industry clustering are critical to innovation (Audretsch and Feldman 2004). Further research indicates that clusters

boost start-up rates in their industries, and have a strong effect on both the employment levels and survival rates of these new firms (Delgado, Porter, and Stern 2010). Moreover, clustering has been shown to confer important productivity advantages on firms and industries (Rosenthal and Strange 2004). Brookings' recent research found that between 2003 and 2010, clean economy firms in clusters grew at a higher rate than isolated firms (Muro, Rothwell, and Saha 2011).

The best cluster strategies are designed to foster organic growth ("economic gardening"). Well-informed and well-designed cluster strategies seek to bolster the establishment of existing and new firms in a region and a state, which are responsible for 95 percent of employment gains in any given year. Michigan has already announced its intention to move beyond the conventional economic development practices of tax incentives and industry attraction to catalyze entrepreneurship. A smart cluster strategy is closely aligned with these objectives and with the existing strengths of metropolitan areas.

Some of the competitive portions of Michigan's 21st Century Jobs Fund focus on four clusters found in the state: life sciences; alternative energy; advanced automotive, manufacturing, and materials; and homeland security and defense. The scope of 21st Century Jobs Fund was recently broadened to include information technology, agricultural processing, and other innovative technologies that the fund's board chooses to support.³⁸ The policy proposal below is different, in that it does not target any particular industries.³⁹ Rather, it encourages the state to align its resources to support clusters that city and metropolitan leaders have identified as important and that could benefit from catalytic state grants. These may happen to come under the broad 21st Century Jobs Fund categories or they may not. The important thing is that these clusters have traction in their region and can make a difference to the regional and the state economy. In addition, this policy aims to build the infrastructure to grow and support clusters, rather than investing in individual companies.

In recent years, many of Michigan's leaders have already focused on developing business clusters as a key element of economic development strategies in their cities or regions, including Grand Rapids, Saginaw/Bay City, Holland, and Detroit.⁴⁰ These efforts can be built upon to maximize local assets and investments. Michigan should support urban or metropolitan-identified clusters with grants to existing cluster intermediaries or consortia of public and private entities that have a credible plan to use state funds to close existing gaps in their services or offerings. These grants should hinge on data and analysis to identify high-value clusters, inform initiatives, and track performance. The data will help target the state's modest resources to address discrete gaps in cluster performance.

³⁸ See State of Michigan, Office of the Governor. April 26, 2011 (accessed 12/15/11).

³⁹ Muro and Katz's review of the literature finds strong evidence that clusters matter in and of themselves, separate from the particular industries that they represent. See Muro and Katz 2010.

⁴⁰ For example, the Initiative for a Competitive Inner City has identified several clusters for the city of Detroit that are likely to provide jobs for current residents, including food and beverage production; transportation, distribution and logistics; metal fabrication; and education and training. These clusters also take advantage of Detroit's land assets and have the potential for growth.

Characteristics of Strong Cluster Initiatives and How to Identify Them

(Sölvell, Lindqvist, and Ketels, 2003)

Strong cluster initiatives improve the competitiveness of a cluster, boost growth of a cluster, or fulfill the initiative's self-described goals. Such initiatives typically have chosen their objectives wisely and focus on getting the process right.

Common objectives of cluster initiatives include export promotion; regional branding; network building; technical training; talent attraction; firm (domestic or foreign) attraction; spin-off promotion; and government lobbying.

On the process front, cluster initiatives initiated by the public sector, private sector, and joint public-private perform equally well, and the source of financing typically does not affect performance. **Cluster initiatives that must compete to win government money tend to perform better, and cluster initiatives boasting strategic support from governments attract more outside firms.** Limiting membership has a negative effect on performance.

Cluster initiatives must have the right resources to carry out their responsibilities as well. Successful cluster initiatives have their own offices, sufficient budget to conduct significant projects, and access to peer networks of other cluster initiatives in the same industry.

Effective cluster initiative leaders must be knowledgeable, able to cultivate strong networks of contacts, and should be respected members of the industry community.

An effective cluster initiative is constructed around a cluster's unique strengths. It explicitly formulates a vision, sets quantified targets, and acts with consensus.

Cluster initiatives will often fall short of their goals if they fail to establish a common framework, if they lack consensus, or if resources are insufficient. Cluster initiatives that do not include regional branding as part of their goals are most likely to fail. Initiatives built around weak clusters face a higher chance of failure. Cluster initiatives do not exist in a vacuum; their performance depends in part on issues outside of their direct leverage, such as state economic policy promoting competition and science and technology.

Policymakers need to map these virtues into criteria for identifying and assessing actors' capacity and proposals.

Michigan leaders should establish a program through MEDC or another entity that provides modest grants on a competitive basis to support a small number of cluster initiatives in the state's cities and metro areas and across established and emerging industries.⁴¹

Coalitions of local or metropolitan leaders would submit proposals for state grants. Applicants would provide "sketches" that contain a synopsis of the cluster, its thematic orientations (industries, technologies, sub-specializations, aspirations), a description of the relevant cluster actors and institutional structures, any national and international partnerships, a benchmarking exercise with a description of the cluster's market position, a SWOT-style analysis—all quantifiable and rooted in metrics—and an articulation of feasible yet aspirational middle- and long-term goals as well as early-stage strategies for achieving them.

⁴¹ This proposal is modeled on Germany's "Leading Edge Cluster Competition." For more information, see German Federal Ministry of Education and Research 2010.

Specifically, winning applicants should provide:

- Objective market analysis to document the natural presence of clusters, their existing global market positioning and export intensity, and a realistic sense of their national and global growth potential and projected export demand.
- Fine-grained information about local clusters' institutional or resource deficiencies to target and bound proposed interventions. This information is imperative for targeting strategies and setting goals.
- Performance measurement to evaluate the efficacy of cluster investments and hold strategies accountable on key indicators such as jobs created, firms established or grown, exports increased (especially in SMEs), investment attracted, and market share expanded. Such transparency lends the program credibility and garners buy-in across the political spectrum and from the private sector.⁴²
- A plan for sustainability beyond the grant period.

The state could also give priority to cluster grant applications that demonstrate how a stronger cluster could, through expansion of existing firms or attraction of others, put underused land assets or infrastructure to productive use.

Three different types of awards could be offered according to the maturity of the cluster actors and the development stage of the cluster itself. Small planning grants of less than \$100,000 would fund initial feasibility studies to evaluate the viability of any cluster initiative aimed at strengthening particular regional industry concentrations and bolstering coordination mechanisms. Moderate start-up and technical assistance grants would be made to new and early-stage cluster initiatives to sharpen and energize management, facility, and program operations. Significantly larger competitive program grants of \$500,000 or more would support well-defined, collaborative activities to strengthen clusters in areas like training, R&D, technology transfer and adoption, and marketing, among others, to overcome identified cluster gaps and documented constraints—and in doing so boost growth. A refocused 21st Century Jobs Fund could fund this recommendation.

Additionally, cluster strategies should focus as much on aligning existing state resources to support local industry cluster growth as on a special, state-led cluster program. Cluster efforts that remain divorced from other state programs achieve only limited results: clusters are at their most powerful as an organizing paradigm for linking, leveraging, and aligning existing as well as potential new offerings for maximum impact and efficiency. A lack of coordination diffuses resources across too many disconnected activities and geographies, leaves a host of potential synergies untapped, and ultimately dilutes the total impact of state investments.

Therefore, the state should also use clusters as a policy paradigm for informing, drawing in, and organizing multiple activities that support the clusters that win the competitive grants described above. Aligning existing cluster-relevant programs and initiatives horizontally would maximize the impact of these state investments at no additional cost. Concrete actions that Michigan can take to link, leverage, and align its existing offerings include:

- Prioritizing collaborative applications across departments that tackle cross-cutting cluster-relevant issues like workforce training or infrastructure when awarding competitive grants

⁴² The Maine Technology Institute, an industry-led, publicly funded, nonprofit organization that supports cluster activities in the state of Maine, is exemplary in its use of data and analytics to demonstrate its value and show a robust return on taxpayer investment. For more, see Muro and Fikri 2011, p. 5.

- Aligning department and program objectives and offerings across the administration to cluster needs (any policy that affects skills, tech transfer, venture capital, or land use, among many other issues, impacts cluster dynamics directly)
- Organizing incoming federal resources to help coordinate local cluster-building efforts

These steps promise not only to bolster innovation, entrepreneurship, and job creation but also to focus and streamline state economic development policy for maximum efficiency at a time of scarce resources.

Designate one to three new “urban innovation districts” that connect innovation-generating anchor institutions with infrastructure, housing, and amenities, and support them with a 21st Century Places Fund.

In addition to supporting locally identified industry and innovation clusters, state leaders could also ally with urban leaders in the development of urban innovation districts. This promising 21st-century approach works to align and build on a particular locale’s economic, physical, and community assets in order to stimulate innovation in and across sectors of increasing relevance in a rapidly globalizing economy. Moving beyond the industrial districts of the 19th century and the science and research parks of the 20th century, innovation districts place a far greater emphasis on the physical realm (infrastructure, urban design, and architecture) as well as the community environment (affordable housing, social activity, cultural institutions, and events) to create an atmosphere of innovation, collaboration, and entrepreneurialism that permeates a specific place. This distinctive climate encourages the creation of new firms and the development of new connections among businesses, research institutions, regional intermediaries, and other organizations located within the district’s bounds.

The Link Between Cities, Innovation, and Talent Attraction

Metropolitan areas are the key units in the global economy, and are the primary focus of this strategy, but core cities have a critical and unique role within metros. Central cities are the physical, cultural, economic, and historical focal points of metropolitan areas – a critical part of the overall metro strength and attractiveness. They act as anchors for metropolitan areas. Cities’ vibrant and dense development pattern enables easier movement of people and ideas, clusters commerce and cultural opportunities, attracts young knowledge workers, and spurs creativity and entrepreneurialism. As Brookings scholars Bruce Katz and Julie Wagner have noted, “the very physical characteristics that distinguish cities from other forms of human settlement—density, diversity of uses and functions, and distinctive design” are those that make urban areas so essential to the next economy (Katz and Wagner, 2008).

In Michigan, they are also a connection to history. The state’s urban centers are the homes of some of the state’s most cherished historic architecture and infrastructure. They are the site of key historic and cultural events, and the place where many present-day residents’ ancestors originally settled when they moved to Michigan.

Cities’ power comes from proximity. Changes in transportation technology, ease of movement, and telecommunications have not erased the benefits of agglomeration and density. Indeed some studies suggest that individual interaction is even more important amidst the rise of so many electronic alternatives (Cortright 2007). This proximity is a powerful driver for innovation. Stuart Rosenthal and William Strange have found that the intellectual spillovers that drive innovation and employment drop off dramatically as firms and people move more than a mile apart. At a distance of just over a mile, the power of intellectual ferment to create another new

firm or even another new job drops to one-tenth or less of what it is closer in. These effects are staggering, and demonstrate the key role that dense urban areas play in innovation and economic prosperity.

Other research has suggested that cities' density and diversity create environments in which entrepreneurs and small manufacturers can flourish.⁴³ For example, according to a recent study on urban manufacturing, "Not only is manufacturing an essential component of many urban economies, but cities in turn provide numerous benefits to the manufacturing businesses that choose to locate within them. In fact, the advantages associated with urban agglomeration are more relevant than ever to [small urban manufacturers] competing in regional and global marketplaces" for reasons that include synergies between networks of similar small manufacturers, access to dense infrastructure and logistics networks, and a dynamic customer base (Mistry and Byron 2010).

Finally, cities' density and distinctive features seem to be particularly attractive to highly skilled people, at least for several key years in their careers. As one study from CEOs for Cities puts it, "In particular, it appears that talented people value being near other talented people, that social and physical connectivity are key urban assets, and that community distinctiveness can play a role in attracting and retaining people" (Cortright 2007). In the last decade, the number of college-educated people younger than 35 living in the downtown/midtown area of Detroit grew by 59 percent, even as the city lost population overall (Conlin, 2011).

When individuals decide to move to a specific city, their choice is shaped at least in part by the distinctive attributes of that city. Each city represents a unique constellation of physical features, economic assets, and social and cultural amenities. The streets, buildings, bridges, and parks are imbued with the history of that space, and inspire a sense of pride and place that helps set that city apart from all others. Though largely abstract, this place-based identity often produces the loyalty and commitment needed to help drive revitalization efforts. As the primary repositories of metropolitan identity, Michigan's cities can use their rich heritage to their advantage, building on their singular qualities to open up new possibilities for the future.

Though innovation districts are similar to traditional mixed-use projects, they go one step further by making intentional efforts to create specific physical, economic, and community places that will inspire innovation, collaboration, and connection. Within the physical realm, a healthy mix of housing, commercial space, research facilities, and offices can be combined with incentives for increased density in order to bring people and companies into closer proximity, increasing the likelihood of new partnerships and collaborative efforts in the process. Specific place-based attributes such as area walkability, transit accessibility, IT infrastructure, architecture, and green space further enhance livability and serve as strong inducement for businesses to locate within the district. Within the economic realm, the emergence of innovation-driven industry clusters can be encouraged through specific cluster initiatives and incentives. In addition, incubator services, start-up competitions, procurement strategies, and other efforts can be employed to bolster entrepreneurial activity in the district. At the community level, affordable and attractive housing

⁴³See for example, Cortright 2007, p. 30: "Entrepreneurship is often viewed as a purely supply side process, that entrepreneurs do it all themselves. But entrepreneurs interact with customers [in cities].... We need to think of cities as environments or ecologies that give rise to new ideas. They are the places where innovative entrepreneurs interact with curious, open-minded consumers and, together, generate new economic activity."

options for all incomes, retail and service-focused businesses, and social and cultural activity work together to create an inviting environment for people to live, work, and play.

Although innovation districts are a relatively new concept, there are examples from which Michigan can learn. Spain's 22@Barcelona district used a detailed cluster analysis approach to lure an important cross-section of cluster magnets, created a strong physical plan that emphasized density, and maintained deep commitment to quality of place. Boston's Innovation District offers a very distinct approach to clusters, taking an industry-neutral approach but focusing on fast-growing, innovation-driven industries. The city's strategic use of funds to make catalytic investments in the district and its creative approach to planning and zoning in the district are interesting approaches to advancing broader economic objectives despite fiscal constraints.

22@Barcelona: Supporting clusters, entrepreneurship, and quality of place

The success of 22@Barcelona comes from three distinct but mutually reinforcing efforts: dedication to advancing innovation-driven clusters; linkages to entrepreneurial development; and the redesign of 494 acres of former industrial land on the city's waterfront into a new, compact, quality neighborhood that can serve as a site for this innovative and entrepreneurial activity.⁴⁴

Using careful data analysis, Barcelona, Spain, targeted five economic clusters that it hoped to attract to the 22@Barcelona district: media, medical technologies, ICT, energy, and design. The city then identified the anchor institutions and organizations necessary to create the gravitational pull for true cluster formation. These "magnets" include universities, institutions, companies, spaces that specific industries need to meet or reside, a technology center (which would be the driver behind the entire cluster strategy), incubators, and residences for students and others. Intensive efforts to lure these anchor institutions and other magnets paid off. For example, for the media cluster, 22@Barcelona has:

- Universities—Universitat Pompeu Fabra, Universitat de Barcelona, and Universitat Oberta de Catalunya
- Institutions such as Barcelona TV and RNE radio
- Companies such as Media Pro and Yahoo R&D
- Spaces like the Audio Visual Production Center
- A technology center—Barcelona Media-Innovation Center
- Incubators such as the Media-TRC Building
- Amenity-filled student residences such as the Melon District
- Organizations such as Barcelona Activa, a local development agency wholly owned by the City of Barcelona, which has spent more than 20 years developing a cutting-edge entrepreneurial development program.

Activa's relationship to 22@Barcelona is particularly advantageous as new entrepreneurial activities continue to be encouraged to locate there, especially when new start-ups fall within one of the five clusters. Activa offers dozens of educational courses, which are subsequently tailored for each person to match their existing skills and assets. Some modules are designed for specific economic clusters—such as coaching services for the "bio-entrepreneur," the creative media industry, and even for artisans for their handmade products. Barcelona Activa's 2010 statistics best illustrate its level of impact: 83 percent of all businesses formed survived after the fourth year; 70 percent of coached projects ultimately transformed into a company; and 1,700 companies

⁴⁴ The "22@" name refers to the zoning category that applies to the innovation district. In planning the district, the city changed the zoning from 22a (industrial) to 22@ (services).

and 3,200 jobs were created. Barcelona Activa and the 22@Barcelona district leadership meet regularly to find synergies between their activities and efforts.

The city also used a strong physical plan, rezoning, and increased density to make sure that the 22@ district provided a high-quality, walkable space that would entice a range of industries and families to locate there. The intentional connections between innovative institutions like universities and incubators and housing and other amenities are a key element of innovation districts.⁴⁵ The city paid significant attention (and funds) to making the neighborhood physically attractive and engaging. More than €180 million was also invested in modernizing infrastructure (new energy networks, telecommunications) to lure innovation-oriented companies and firms to the area. Many industrial buildings in the district were restored, giving the area a strong imprint of its historical past—something similar to the efforts to repurpose many of the buildings in Detroit’s Midtown and New Center.⁴⁶ Spaces for public gatherings, networking, and cultural events were threaded throughout the urban plan. 22@Barcelona now has an auditorium for cultural events, a national theater, public gardens, and over 100,000 square meters of green spaces. Finally, in an effort to replicate the mix of working and living spaces found in other Barcelona neighborhoods, the project plans to build 4,000 new subsidized housing units and improve the quality of over 4,000 existing homes. District residents have access to 22@ programs such as multimedia classrooms and specific Internet services to create links between residents and innovation-driven industries.

In less than a decade, 69 percent of the area has been transformed and almost 1,500 firms have been established. An impressive 45 percent of firms situated in 22@Barcelona were recently created, and 74 percent of the firms in the district are linked to one of the five target clusters. When asked what strategy was the most catalytic in their cluster formation, city leaders maintained that their intensive efforts to lure specific clusters mattered more than the €180 million in infrastructure investment. Attracting specific firms, universities, and R&D centers created the real gravitational pull needed to stimulate cluster formation. Clusters are now linked to ten universities, 12 R&D and technology centers, and specially designated spaces for SMEs. This effort to locate or create innovative anchors and cluster magnets in walkable places close to other anchors and similar institutions also has echoes in Michigan cities, like Detroit and Flint.

Boston’s Innovation District: Creating a climate for innovation

Boston offers an American example of an innovation district intended to advance the innovation-driven sectors increasingly valued in urban and metropolitan economies. The city aims to concentrate its many assets—strong universities, human capital, and a growing strength in the life sciences and tech clusters—and create a geographic platform for entrepreneurship and fast-growing, innovation-driven companies.

Compared to 22@Barcelona, Boston applies a more organic approach to cluster formation. At 22@Barcelona, local officials dedicated considerable time in first analyzing, and then defining, the specific economic clusters to pursue. Boston, on the other hand, designed its effort to be “cluster neutral,” explained Mitch Weiss, the mayor’s chief of staff, arguing that it is wiser to create the right environment for fast-growing industries and let them aggregate naturally. Samantha Hammar of the Boston Redevelopment Authority explained that they are purposefully

⁴⁵ The incentives that Wayne State University, Detroit Medical Center, and Henry Ford Health Systems provide to employees to live in Midtown, supported also by MSHDA, have helped spark a huge surge in the rental market in that neighborhood. Efforts under way to create a master plan for vacant parcels owned by Henry Ford Health Systems and Wayne State will also connect innovative anchor institutions to creative land use and residential development strategies.

⁴⁶ For example, the former Chevy Creative Services Building now houses the TechOne accelerator.

using a flexible approach, as the innovation district is about “pioneering and re-evolving.” While some companies have overlapping, if not complementary, interests, the Redevelopment Authority is finding cases where one field is branching into new, innovative directions, given the companies’ relationships with firms in other sectors. For example, a clean energy company is working with a microbrewery on developing new energy technologies for the microbrewery.

In contrast with the Spanish example, where governments shouldered most of the financing for infrastructure, analytical planning studies, and time-intensive rezoning to support economic progress, Boston instead funneled what it considered to be a strategic use of resources to create the right conditions to lure innovative workers. The city’s role included:

- developing a vision and leading communication efforts;
- planning and zoning (although limited and more on a case-by-case basis compared to other models);
- creating social infrastructure through incubators and social networking sites;
- offering financial support and incentives for new development projects (when necessary).

For example, the city has sometimes offered space rent-free or below market value to draw firms and company accelerators to the area. The city secured a vacant, class A office space free of charge for a number of years to entice MassChallenge, an entrepreneurial accelerator program, to locate in the Innovation District. GreenTown Labs is another example of an innovation-driven enterprise that was offered a very reasonable rate for space along the waterfront.

It could be argued that the City of Boston needed less direct investment because Boston’s innovation district started from a relatively strong base of activities and enterprises. Prior to its innovation district designation, the area was already home to 33,000 jobs, generating \$10 billion toward the city’s gross product. Creative companies were already moving to the area, and more than 50 retail shops, restaurants, and boutiques offered a strong base of services for a live-work neighborhood. Furthermore, Boston’s innovation district benefited from strong transit accessibility with the Massachusetts Bay Transportation Authority’s Red Line and the recent Silver Line addition, so additional investments in this type of infrastructure were not necessary.

Since January 2010, the Innovation District has gained 55 new businesses and 2,000 new jobs. New companies fall within the clusters of life sciences and biotech, green/clean tech, architecture and digital design, communications and new media, financial, legal, and a broad category of technology development, which includes manufacturing.

Based on these models of innovation districts, Michigan should make targeted investments in one to three urban innovation districts, which it would identify through a competitive process (described below). The districts would be funded in the short term through alignment of existing resources and in the long term through a new 21st Century Places Fund. As the Barcelona and Boston examples show, to have a truly transformative effect both on the urban core and rippling out to the metro, region, and state as a whole, an innovation district needs significant alignment of resources and investments in businesses, housing, commercial and talent attraction, quality-of-place amenities, and business infrastructure. Much of the overall investment for innovation districts comes from the private sector, but the state and city leaders must also focus and prioritize resources to make targeted investments if an innovation district is to be successful. Foundations and nonprofits also play a critical role in investing resources and aligning programs in the service of innovation districts.

In the near term, the state could focus on identifying innovation districts through a competitive process. Districts should first and foremost have the physical attributes that support innovation,

specifically concentrations of anchor institutions or assets, accessibility by many forms of transportation, and easily defined boundaries. The places in Michigan that meet these criteria will almost inevitably be core cities. The following are the type of criteria that could be used when judging potential districts:

- Presence of anchor institutions or other assets that are unique in the state or the region: Innovation districts should engage and even be created around anchor institutions in order to foster the necessary cross-fertilization between learning, research, and economic innovation. Furthermore, colleges, universities, and research institutions should be integrated to help ensure that district firms have ready access to a highly skilled workforce. These institutions can also help cultivate stronger connections across between the worlds of research and business by hosting events that encourage networking and collaborative partnerships. Innovation districts could also be built around unique assets such as ports or transportation hubs that have the potential to be the places where 21st-century infrastructure solutions (e.g. low-carbon transportation, multi-modal transportation, new logistics and delivery systems) are created and tested.
- Physical space: To maximize effectiveness, it is crucial that the innovation district is a clearly demarcated and contiguous space. Sprawling districts are difficult and costly to transform, and will be significantly less appealing to businesses and residents seeking compact and connected communities. Innovation districts with the greatest potential for growth will avail themselves of the strengths found in the area building stock, streets, sidewalks, and open spaces, and will identify the most catalytic changes to specific corridors, corners, and adjacent areas that could produce even greater benefit. These elements will help create a sense of place that makes the district particularly attractive to potential residents and businesses alike.
- Transportation: For an innovation district to work, it must be easily accessible by multiple modes of transportation. As such, district leaders should have a plan to leverage existing and planned infrastructure to the greatest extent possible to create plentiful and well-connected transit options.
- Potential for economic growth: Innovation districts meriting state support will demonstrate potential for significant return on investment for both the region and the state. Investments in these districts will have spillover effects for the city and region. Clearly defined performance metrics will assist state leaders in determining project progress and could include economic impact measures such as tax revenue growth, job creation, critical infrastructure development, strengthening of the real estate market, or population growth. In addition, a successful district will build on the strengths of its existing industry clusters.
- Innovative financing and use of resources: Viable projects will have local public, private, and philanthropic resources already committed or invested. In addition, strong proposals will combine available resources with innovative financing strategies such as public-private partnerships.
- New forms of leadership: Because innovation district growth depends primarily on efforts undertaken at the local level, local leaders' support for the concept and development of the innovation district is crucial. These leaders include not only elected officials but also social and business networks such as business and neighborhood associations, business development and/or business accelerator organizations, and university and/or research organizations. Philanthropy will also likely play a critical role in an innovation district. Given the vast number of stakeholders in these projects—philanthropic organizations, nonprofits, private companies, state and local governments, universities—there will need to be coordination and management by new institutions or entities, or by existing organizations that incorporate stakeholders from the public and private sectors across the region.

- **Community growth potential:** Innovation districts should be good places to live and work alike. District proponents should explore how best to strengthen the quality of existing housing while also seeking out opportunities to build new, high-quality housing for a range of incomes. These efforts will help elevate the value of both housing and commercial markets. Districts should also look for ways to promote culture and leisure activities that draw a wide variety of people to the area and create the social mixing that underpins the innovation district atmosphere.

Once innovation districts are selected, the state should bundle and align its existing financial, technical, and regulatory resources that focus on site-specific development efforts and broader economic development and infrastructure needs. This will take a focused, intentional effort on the part of the executive branch, led by the governor and his team, and clearly identified as a priority for state agencies. The alignment called for requires that state departments be just as accountable as local actors for achieving the goals of the innovation district, reconciling and harmonizing the rules of individual programs within various departments of state government. The Departments of Transportation, Licensing and Regulatory Affairs, Treasury, Environmental Quality, Natural Resources, MEDC, and MSHDA are all likely to play a role, whether overt or subtle, in the different physical projects or economy-building activities in an innovation district. These agencies should also be part of the team supporting the district, and their investments, regulations, advice, and other contributions should be aligned with the broader project aims and deployed in its service.

The state already has a handful of programs that individually have overlapping goals and features of innovation districts but on either a smaller or more narrowly focused scale. Some particularly applicable programs include:

- Business Development Program
- Commercial Redevelopment and Rehabilitation Acts
- Community Revitalization Program
- Corridor Improvement Authority
- Downtown Development Authorities
- Michigan Land Bank Fast Track Authority
- Michigan Main Street
- Neighborhood Enterprise Zones
- Neighborhood Improvement Authorities
- Renaissance Zones
- Smart Zones
- State Infrastructure Bank
- Transportation Enhancement Program and Economic Development Fund

The Appendix provides additional details on these and other potentially applicable programs. These programs have had some success in the last five to ten years in creating quality places, industry clusters, and economic development zones, but as noted above, they have been spread thinly across the state, and have not focused on significant economic, cultural, and infrastructure investment in areas with distinct geographies.

In the immediate term, until more robust funding options are in place, these existing programs could be layered and applied to innovation districts. For example, SmartZones offer a jumping-off point for the establishment of innovation districts. They provide the tools to bring together

businesses' interests, state and local government investment and expertise, and research capabilities to drive some of the core business activity in a district. Furthermore, the program could be expanded to support the businesses, cultural amenities, infrastructure, and housing that are necessary for a vibrant innovation district. In the TechTown SmartZone, for example, the partners have developed a 12-block surrounding master plan that incorporates Wayne State University, incubators, research and laboratory facilities, office space, housing, retail, and cultural amenities. TechTown hosts networking events as well as social and cultural events in the hopes of fostering a cohesive SmartZone community. The Pinnacle Aeropark and Muskegon SmartZones, although not as far along as TechTown, are both based on specific geographies, and both follow mixed-use development plans with high-tech anchor institutions at their cores. MSHDA programs such as Michigan Main Street could be layered with SmartZones or other innovation district programs to further support those efforts. The Office for Public-Private Partnerships and State Infrastructure Bank (SIB) are also in optimal positions to provide technical assistance and help innovation districts implement creative financing solutions.

In addition, the state's new Michigan Community Revitalization Program could provide some of the critical resources and focused attention for innovation districts. The program was established within the 21st Century Jobs Fund and replaces several of the state's primary economic development and community rehabilitation programs such as the brownfields and historic tax credits, which were recently abolished.

The type of alignment described here is already happening in some ways in some of Michigan's metros. In Midtown Detroit, for example, the state has already been aligning resources to accelerate development of the area. The innovation district designation could help state leaders prioritize their efforts and set clear benchmarks for success.

In the longer term, the state will need to partner with metro and city leaders to actively target and pursue new resources to further accelerate and facilitate the build-out of the innovation districts, particularly for land assembly and critical business infrastructure. Land assembly, for example, to allow for buy-and-hold strategies, will be critical to making innovation districts work.⁴⁷ Until the real estate market in many Michigan cities is stronger, many land redevelopment deals will need some form of subsidy. Currently the market is limiting cities' and developers' ability to finance land assembly activities. The state could use some limited resources in the mid to long term to help bridge the gap for land assembly and development.

To help accelerate these efforts and meet some of the implementation needs over the longer term, the state should consider the development of a 21st Century Places Fund, perhaps through a state bond initiative.⁴⁸ Just as 21st Century Jobs Fund was developed to close market gaps in innovation, venture capital, and commercialization, a 21st Century Places Fund would allow cities to use the fund to close market gaps in real estate within or perhaps adjacent to their innovation districts, purchase key redevelopment parcels that may not be eligible for Land Bank Fast Track Authority activity, and facilitate necessary land consolidation for the district. The fund could also be used for pre-development costs or redevelopment costs that are not supported by current tools.

⁴⁷ Michigan's land banks lack the initial funds to maintain properties or ready them for disposition.

⁴⁸ Ohio's very successful Third Frontier program was initially funded in part through a \$500 million, 7-year bond initiative passed in 2005. Ohio voters renewed Third Frontier in March 2010, supporting another \$700 billion in bonds to be issued over the next four years.