Wayne State University UP6550 Presents

Innovation Mosaic L3C

An incubator strategy for economic development that fosters existing small businesses and new start-up ventures in depressed areas throughout Michigan.	By: Charles Biggers Robert Kling Martha Schlesinger David Silver

May 1, 2012

""This project is supported in part pursuant to the receipt of financial assistance from the United States Economic Development Administration. The statements, findings, conclusions, and recommendations are solely those of the authors and publishers and do not necessarily reflect the views of any federal agency or of Wayne State University."

EXECUTIVE SUMMARY

Researching and then recommending steps to stimulate business development and innovation in Detroit (and other economically distressed urban centers in Michigan) was the significant challenge given to our group as our class project and presentation topic. In designing our response to this challenge, we incorporated many key principles of local Economic Development: the substantial role of small/new businesses; the proven success of using clusters and cluster analysis to identify important potential growth sectors; the significant current and potential impact of immigration/immigrants and the global economy; and the importance of place and the role of place-making in stimulating local economic development.

Our end result; We developed a corporate incubator model to serve innovative, technologically-based, start-up and small business activities based in Corktown, which can be replicated in other economically distressed urban areas around the State. The key aspects of our recommendation and this replicable model are the following:

- entrepreneurially themed
- technologically supportive
- internationally connected
- philosophically supportive of the "Triple Bottom Line" (business, environment and community) and
- active in place-making and building of community

Topics we explore in-depth are the following key elements for stimulating economic growth in Detroit (and other economically distressed areas):

- Clusters
- Start-ups
- Entrepreneurial activities and mind-set
- International programs, incentives and networks

All of these (and other elements of economic growth) are currently under discussion/examination and being weighed and prioritized by officials in our city, county and state governments – as well as at the national level. The resulting decisions will have a significant impact on the robustness of economic growth and recovery.

TABLE OF CONTENTS

I. INTRODUCTION

Starting a new business is at the foundation of capitalism, free enterprise, and The American Dream. Stimulating awareness of and participation in entrepreneurial activities will be an important piece to rebuilding the Detroit and Michigan economies. Creating an environment that allows people to become self-sufficient will be vital to our comeback given the realities of decreasing jobs and outsourcing in the new economy. With that in mind, we have developed an incubator model to serve innovative, technologically-based, start-up and small business activities to be based in the Corktown area of Detroit, which can be replicated in other economically distressed urban areas around the State. The key aspects of our recommendation and this replicable model are the following:

- Entrepreneurially themed: The focus will be to serve start-up and small business activities through business advisory services, business development support and by offering connections to resources needed for success.
- Technologically supportive: Innovation Mosaic L3C will offer WIFI and server farm capacity to participant businesses.
- Internationally connected: A key component of our recommendation is the inclusion of an EB5 Regional Center within the incubator to attract and cluster large outside investments, and investors.
- Business Philosophy:
    - Supportive of the "Triple Bottom Line" philosophy with focus on the social and environmental effects of a firm's policies not just financial profit.
    - Collaborative and cooperative with all segments of the local/ regional/ national/ international corporate, business and entrepreneurial communities.
- Place Specific: Extensive research shows that today's skilled workers are highly mobile and will relocate NOT just for JOBS, but to PLACE. In other words, economic growth activities – in Detroit and anywhere else - must happen in attractive, energetic, live/work/play 'places'… neighborhoods that provide and contain mixed-use facilities, a multicultural population, dynamic work opportunities, and social and economic connectedness. Therefore, these incubators should be strategically located in areas active in place-making and building communities with the following attributes:
    - Mixed use - live/work/play - areas with both permanent and temporary lodging, that is close by, available, and affordable

- Quality of life and entertainment elements – stores, restaurants, parks, etc
- Easily accessible to public and private modes of transportation with 'walk-able streets'
- Proximity/access to educational and cultural institutions
- Established community-support entities (neighborhood and local business associations, new neighbor networks and services, etc.)
- Outside the boundaries of overly the endowed DDAs;
- Physical structures that would allow for the growth/expansion of local start-ups – and proximity to other entrepreneurial clusters and markets

- Sector Focus: We looked for sectors of the economy that would best stimulate growth, utilize the present (and expand a potential) talent pool in the area (from low to highly skilled workers), promote 21st century thinking, and stimulate innovative businesses for long-term growth. Based on these guidelines and through an analysis of existing clusters, we decided to focus our Incubator Model in Corktown on the following two Industries:
    - Technology Based Businesses: Our cluster analysis revealed promoting centrality and growth in entrepreneurial, technology-based sectors is fundamental to Detroit's future growth.
    - Green: The potential growth in Green Jobs is significant in that it could be the fastest growing segment of the United States economy over the next several decades. The Detroit Metropolitan area is uniquely positioned to become a leading area for Green-business based on the regions advanced manufacturing expertise, the strong depth of engineering talent, and cluster of local OEMs and suppliers.

The rest of the body of this paper will:

- Discuss the elements in stimulating economic growth in Detroit (and other economically distressed areas), particularly:
    - Clusters
    - Start-ups
    - General entrepreneurial activities
    - International programs, incentives and networks
    - "Place-making"

- Make general recommendations for moving forward, and outline specific steps that we feel can and should be taken by business and government entities to stimulate innovative and sustainable economic growth in the business sector in Detroit, and other distressed urban areas around the State of Michigan.
- Propose a structure and modus operandi for our corporate incubator Innovation Mosaic L3C.

II. DEFINITION OF KEY TERMS AND CONCEPTS:

This paper discusses local and regional economic development and the elements that may impact it. In the course of the discussion, the reader should be aware of the following technical and 'jargon' terms, and their definitions.

1. Incubator: "A program designed to support the successful development of entrepreneurial companies through an array of business support resources and services, developed and orchestrated by incubator management and offered both in the incubator and through its network of contacts. Incubators vary in the way they deliver their services, in their organizational structure, and in the types of clients they serve. Successful completion of a business incubation program increases the likelihood that a startup company will stay in business for the long term: older studies found 87% of incubator graduates stayed in business in contrast to 44% of all firms"[1]

2. Cluster: "A geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities" –Michael Porter[2]

3. Triple Bottom Line: A broad term used to describe a three-fold focus on the financial, social, and environmental effects of a firm's policies and actions that determine its viability as a sustainable organization. It is contrasted with the singular, traditional "bottom line" – which is all about financial profit.

[1] *Business Incubation Works.* Athens, Ohio: National Business Incubation Association, 1997
[2] [1] Merriman-Webster Dictionary, Pocket, 1974, p. 145

4. EB-5: A shortened reference to the Federal Government's EB-5 Investor Visa Program. This program allows foreign investors to put between $500,000 and $1 million in to an American business that creates and sustains10 jobs over two years, and to receive permanent legal residency for themselves and their immediate family when these requirements are successfully completed.

5. OEMs: Original Equipment Manufacturer

6. STEM fields: Refers to educational training in the Science, Technology, Engineering, and Math disciplines

7. SWOT: A system for analyzing Strengths, Weaknesses, Opportunities and Threats in a business model and concept

8. L3C: A low-profit limited liability company (L3C) is a legal form of business entity in the United States that was created to bridge the gap between non-profit and for-profit investing by providing a structure that facilitates investments in socially beneficial, for-profit ventures while simplifying compliance with Internal Revenue Service rules for "Program Related Investments"[3]

III. KEY ELEMENTS FOR ECONOMIC GROWTH

We have identified five key elements for Economic Growth: Clusters Analysis and Cluster Theory; Start-ups; Entrepreneurial activities; International people, programs, incentives, and networks; and Place / Place-making.

#1: Clusters Analysis and Cluster Theory

By the advent of the Great Recession significant consensus had been reached that cluster theory and analysis could be important analytic tools. There was also basic agreement on:

- the terminology normatively used in policy discussions
- what elements/dimensions comprised – and did NOT comprise - a 'cluster' as relates to economic analysis and development activity, and
- the importance of key words and concepts central to policy discussions.

[3] "The L3C: A More Creative Capitalism". *The Triple Pundit*. Retrieved 25 July 2011.

There has been only one noticeable change in nomenclature: the formerly called "industrial cluster" was renamed "innovative cluster" by the Obama Administration…but the central working definition has remained the same: "a group of firms, and related economic actors and institutions, that are located near one another and that draw productive advantage from their mutual proximity and connections".[4]

The most central of all cluster elements is that of **geographic proximity**. Clusters most often exist and develop at the local/metropolitan level or a regional (usually state) level. In the globalized economy of the 21st Century, regions can also sometimes be equated to countries, but for the purposes of this paper the focus will be local/regional. The dependence and degree of geographic proximity is also often an important factor when deciding whether a 'top-down' or 'bottom-up' approach would be most effective in stimulating economic growth. [5]

In addition to the geographical component, cluster factors that can impact economic planning and policy include some measurement of **technological distance**; **skill and occupation distance**; **market distance**; and **social distance** among and between cluster participants; and

- Industrial (buyer-supplier) relationships and value chain
- Relations between firms
- Cluster life-cycle (including product and industry life cycles)

The use of cluster analysis and the ideas in cluster theory are particularly important to those who are searching for effective directions for economic development from a policy development perspective. To understand why this is, one needs to go no farther than the (often replicated) research that shows that from 1992 - 2006:

- Only 1.9% of job gains and 2.0% of job losses in a year in the average state were attributable to business relocation BUT
- 41.8% of job gains came from the expansion of existing businesses, and
- 56.3% came from the birth of new establishments[6]

The disparity in the statistic - 98% (or, in other research, 95%) v. 2% - is so stunning that it simply cannot be disregarded, and must not be ignored by anyone engaged in economic development at any level, anywhere in the country. If ever there was a reason that showed why we should direct research, energies, and activities inward (and not towards 'the greener grass on

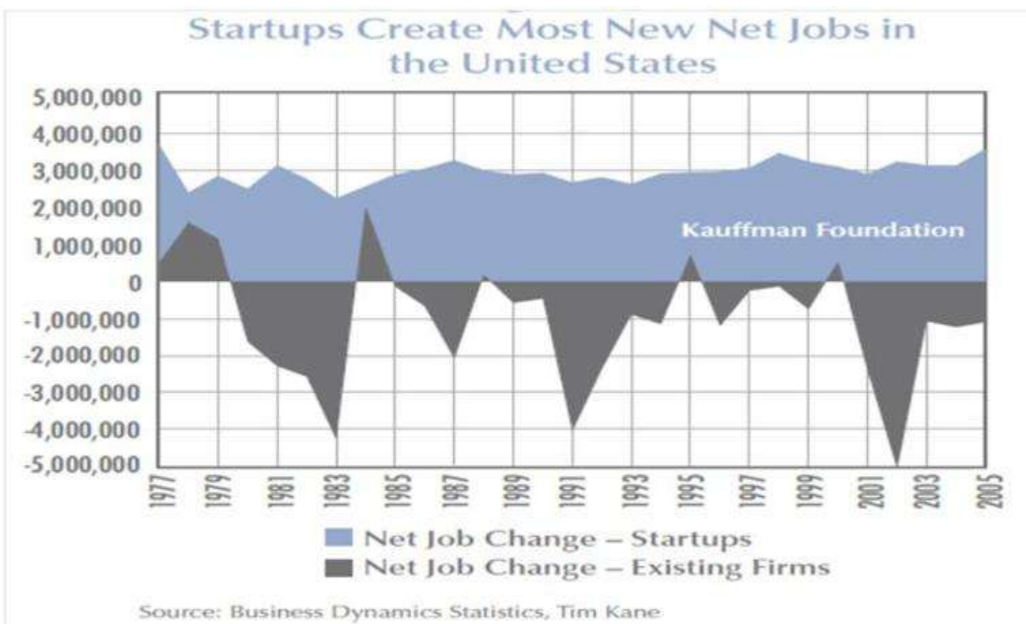
---

[4]Op cit. Cortright, p. iv
[5]Ibid, p.31
[6]J. Kelko "Business Relocation and Homegrown Jobs" CA PPI 2010 – NOTE: Muro & Fikri cite a 95% rate

the other side of the fence'), this is it. Elected officials, policy makers, and planning professionals need to pay attention!

Even the federal government's Economic Development Administration (EDA) investment policy and mission statement acknowledges "the foundation for sustainable job growth and the building of durable regional economies throughout the United States… builds upon two key economic drivers - *innovation and regional collaboration..*. Regional collaboration is essential for economic recovery because regions are the centers of competition in the new global economy and those that work together to leverage resources and use their strengths to overcome weaknesses will fare better than those that do not."[7]

But where in this vast economic landscape should we begin? Where should we look for the energy, activity, and prospective partners to provide growth, and therefore jobs? For the last 100 years - especially in the manufacturing hubs of the Upper Midwest - the answer was the established, BIG, companies (auto, steel, etc.). Today's research provides a very different answer and, as seen in the chart below, that answer is start-ups:



#2: Start-ups

[8]Based on the results of a 2010 study conducted by the Kauffman Foundation, *The Importance of Startups in Job Creation and Job Destruction*, it can be said that when it comes to U.S. job growth, startup companies aren't everything; they are the only thing. It's well

[7]EDA website, www.eda.gov, Mission and Investment Opportunities
[8] Cane, Tim Ewing Marion Kauffman Foundation. The Importance of Startups in Job Creation and Job Destruction, (2010).

understood that existing companies of all sizes constantly create and destroy jobs. Conventional wisdom would then suggest that annual net job gain is positive at these companies. The Kauffman Foundation study showed that this rarely is the case. The study revealed that on average, existing firms produce a net decrease in jobs, losing a combined 1 million net jobs per year in the United States. By comparison, new firms (firms younger than one year old) annually add an average of 3 million jobs in their first year. Another encouraging fact from the study shows, job growth patterns at startups has much less cyclical variance. This indicates that during recessionary years, the number of net jobs at existing firms is highly sensitive to the business cycle while job creation at startups remains stable during these periods of economic contraction.

#3: Entrepreneurial activities

Although Detroit is still in its early stages of its revival as a tech center and start-up hub, Entrepreneurial energy is continuing to emerge. The city and its entrepreneurs know there is a long way to go before transforming Detroit into a "brain economy" rooted in innovation and entrepreneurship. To assist in this transformation, Detroit has numerous varied entrepreneurial clusters, business assistance organizations, research data and plans, and incubators to develop the entrepreneurial culture. Even more encouraging is the numbers are continuing to grow – reflecting the fertile entrepreneurial soil that can be developed. If there is concern as to the economic impact of technology driven entrepreneurship and its value, or the difficulties of being in a hard hit community, the following case studies will emphasize Detroit's ability and need to capture a huge market:

> **Start-up Village:** "The government of India has launched its first public-private partnership telecom incubator, aiming to nurture 1,000 startups over the next decade. The 15,000-square-foot space will serve mainly as a hub for telecom innovation. The incubator will focus on student initiatives from college campuses, and is modeled on tech incubators in Silicon Valley. It has the backing of a number of government and corporate organizations, including The National Science and Technology Entrepreneurship Development Board, Department of Science and Technology, Government of India, Technopark, MobME Wireless and Infosys Technologies, whose co-founder will serve as its chief mentor.
>
> The Times of India says that every company in the program will receive $10,000 in seed capital. It says that a $10-million angel investment fund is also being set up under

the guidance of KPMG to invest between $50,000 and $500,000 in high-growth startups. Start-up Village aims to create a vibrant startup atmosphere, offering participating ventures perks ranging from tax exemptions to full 4G networks, advanced telecom labs and a variety of supportive services. The first two startups have already moved in." [9]

Idea Village: In the United States, after the destruction caused by Hurricane Katrina to New Orleans, a surprising entrepreneurial spirit struck New Orleans. Idea Village, a nonprofit that nurtures start-up's is almost a full service parent. What's important here? Its founder, Tim Williamson says "It's meant to be a place for you to trust your crazy ideas" [10]Allison Plyer, deputy director of the Greater New Orleans community Data Center says "…entrepreneurial spirit was never part of the climate here before. New Orleans historically has been very much a third-world economy – the exploitation of raw materials… [and] cheap labor. So there wasn't a lot of drive to innovate" (NPR) The decades old brain drain stopped, with a flock of young people coming *back home*.

Idea Village provides a toolkit with free business resources including consulting and access to capital. Since 2000 over "1,798 entrepreneurs were assisted, with over 56,949 consulting hours and $3.1 million in seed money. Collectively, the portfolio generates over $100 million in annual revenue and has created over 2,000 jobs for [the] community."[11] **That is a multiplier factor of 381!** (3.1 million/12years =258,000 (per year). $100 million output (annual)/258k(year)= 381!) One such success is SOLARCHITECT STUDIO, which uses "web-based tool that enables users to assess the feasibility of installing solar panels on their homes." [12] Its ideas like this that create the potential for an explosive business.

The following describes Detroit's established entrepreneurial clusters, business assistance organizations, and incubators in place to develop the entrepreneurial culture:

Webward: Dan Gilbert envisions transforming downtown Detroit to an entrepreneurial hotbed and has proposed renaming Woodward Avenue from Jefferson to Grand Circus Park, as "Webward Avenue" to reflect this transformation. The idea behind Webward is to recruit and retain as many creative businesses as possible to rebrand that area of

[9] Globe and Mail Update, Monday, April 16, 2012
[10] http://www.npr.org/2011/12/29/144074234/in-katrina-s-wake-new-orleans-enjoys-start-up-boom
[11] Ideavillage.org
[12] http://ideavillage.org/entity/solarchitect_studio_alex_landau

Woodward to ultimately become the place where graduates from college want to work because it has cool technology and creative jobs.

Gilbert started using the Webward term to refer to the growing collection of tech-oriented companies in the Campus Martius area of Detroit. It began with the move of Compuware and continued with the openings of Marketing Associates, Galax-E Solutions and Quicken Loans Inc. and its group of affiliated companies. There certainly is a growing roster of tech companies in the area.

Further steps that Gilbert has taken include turning the Madison Building into an entrepreneurial tech hub. All of the space in the Madison building is spoken for by start-ups and creative firms. The Madison building is the catalyst for Webward. It has a "co-working" space where you can walk off the street and work in the Madison for the day. This will give young entrepreneurs an outlet for working here. "It's about connectivity. It's about having the right environment, the right culture for these companies to work together to create wealth in the new economy." [13]

Detroit Venture Partners is a Detroit-based Venture Capital firm that seeks to back seed and early-stage technology companies. Their purpose is to help rebuild the Detroit area through entrepreneurial efforts and have stated moving to downtown Detroit is a condition of investing venture capital in a business. The VC fund invests in early-stage companies specializing in Internet, digital media, marketing technology, direct-to-consumer, sports & entertainment, social media, e-commerce, software which are the areas of expertise of the firm's founders. Detroit Venture Partners was launched in 2010 by entrepreneurs Dan Gilbert, Founder & Chairman of Quicken Loans and Majority Owner of the NBA's Cleveland Cavaliers; Josh Linkner, Founder & Chairman of ePrize; and Brian Hermelin, Founder & Chairman of the private equity firm Rockbridge Growth Equity. Earvin "Magic" Johnson, Hall of Fame NBA star, philanthropist and entrepreneur, announced in June 2011 that he will join Detroit Venture Partners (DVP) as a general partner and will also be investing millions of dollars into the fund itself.[14]

Tech Town: TechTown is a business incubator, research park and entrepreneur training program located just north of Wayne State University in Detroit that currently supports 250 companies through its 100,000 square-foot facility. Tech Town is described as a

[13] http://www.ahealthiermichigan.org/2012/01/31/dan-gilbert-unveils-first-of-his-planned-%E2%80%98webward-avenue%E2%80%99-entrepreneurial-tech-hubs-video/
[14] http://detroitventurepartners.com/startup-zone/

community of passionate, diverse people and businesses driven by an entrepreneurial spirit to pursue extraordinary opportunities. Entrepreneurs join TechTown to gain guidance and get connected with resources needed for success. TechTown offers entrepreneurs unique access to Wayne State University's research, academic and technology assets. Additionally, Tech Town maintains the International Soft Landings (ISL) which is a National Business Incubator Association-accredited program designed to assist foreign companies seeking business expansion opportunities in Michigan. TechTown is a 501(c)(3) non-profit organization and is in the Woodward Technology Corridor SmartZone.

A report released in March 2012 highlighted the impact Tech Town has had on entrepreneurship and economic activity in the City of Detroit. Since 2007, Tech Town has provided support to 647 companies, which have created 1,085 jobs. TechTown president and CEO Leslie Smith says the jobs figure represents "actual noses we could count." The official tally doesn't include part-timers or contract employees, and doesn't rely on any multiplier calculations commonly used to assess economic impact. Active startups at TechTown and its graduate companies generated a combined total of $52 million in revenue during 2011 and $41 million in 2010. [15]

The New Economy Initiative discussed on the next page has agreed to make a grant, in an amount yet to be determined, that will create what is called the High Tech Accelerator inside TechTown, a move designed to get TechTown back to its original mission of incubating emerging tech companies. Just 15 percent of TechTown's 250 tenants are high tech companies. The need to fill the building and increase revenue drove the shift in focus, as well as a previous NEI grant in conjunction with the Missouri-based Kauffman Foundation to boost retail and lifestyle business in Detroit.[16]

NextEnergy: NextEnergy's mission is to accelerate energy security, economic competitiveness, and environmental responsibility through the growth of advanced-energy technologies, businesses, and industries. NextEnergy provides business advisory, technology/product development support, funding support, and business development support (i.e industry working groups, cluster networks, introduction to clusters) and NextEnergy promotes industry and venture development through the following:

[15] http://www.xconomy.com/detroit/2012/04/05/techtown-report-sheds-light-on-its-economic-impact/
[16] http://www.crainsdetroit.com/article/20120304/SUB01/303049968/nei-crafts-program-to-boost-tech#

Value-Chain Mapping - Analyses opportunities and gaps in the development, manufacturing, and marketing of products to recommend ways of creating efficiencies in these processes.

Increasing Michigan Opportunities- Use market intelligence to assist energy ventures with commercializing technology, support industry transition of existing businesses, and attract advanced-energy companies to Michigan in partnership with the state's economic development infrastructure.

Venture Development - NextEnergy invested in nine seed-stage companies, which have gone on to raise an additional $40M+ in private investment. They have also reviewed and advised more than 300 start-up companies for venture-capital partners, accelerating commercialization of more than ten products and 50 patents in the advanced-energy industry.

Green Garage: The Green Garage, opened in fall of 2011, is actually three things: a building located in the Midtown area of Detroit, a business enterprise, and a community of people dedicated to Detroit's sustainable future. The building dating back to 1920 is on the National Registry of Historic Places was originally a showroom for Model T-based automobiles. It was purchased in 2008 by Tom and Peggy Brennan, who along with a community of over 200 individuals, have completed a green historic renovation. The principal business focus is helping triple bottom line businesses grow naturally. Businesses have begun to locate in the building and a wonderful sustainable community is growing.[17]

Creative Corridor Center: The Detroit Creative Corridor Center (DC3) is designed to support the growth of Detroit's creative economy through delivering business acceleration and attraction services and developing signature programming tailored specifically to creative professionals' needs. The physical home of the Detroit Creative Corridor Center is a flexible, technology rich, design forward workspace for creative sector businesses seeking a soft launch in a professional, inspiring, and innovative environment. It is also home to the DC3's Creative Ventures Program, where such firms are supported through access to collaborative work space, shared tooling and resources, and strategic, collaborative exchanges with other DC3 members and creative professionals from the region, nation and abroad.

[17] http://greengaragedetroit.com/index.php?title=Main_Page

DC3 in partnership with TechTown, and with support from The New Economy Initiative and the Michigan Economic Development Corporation, launched the Creative Ventures program that delivers resources, services, strategic counsel and development support to those seeking to open or grow a creative business in Detroit. In a conventional sense, this program is business acceleration for the creative sector with DC3′s industry-specific insight and TechTown's broad-based entrepreneurial programming. In an unconventional sense, this program will be a global model representing the convergence of an on-site business development consultancy; strategic counsel from respected subject matter experts; an innovative work setting; access to tools, equipment and resources; and access to new markets and opportunities.

New Economy Initiative: [18]The New Economy Initiative for Southeast Michigan (NEI) was launched in 2008 as a unique philanthropic initiative aimed at accelerating the transition of southeast Michigan into a diversified, innovation-based economy. Ten national and local foundations have committed $100 million to this initiative. In its next round of investments, NEI is implementing a focused strategy designed to accelerate innovation and business creation.

The New Economy Initiative has embarked on an ambitious 10-year program called the Regional Innovation Network to boost high-tech development and job creation in Southeast Michigan, with a particular emphasis on Detroit's Midtown in hopes of creating one of the most innovative, creative hubs in the country. NEI will make at least $30 million in grants to an array of organizations. Three key pillars of this Regional Innovation Network investment strategy are as follows:

1- "Increase business creation through the support of high technology transfer and the formation of a new high-tech accelerator. Add tech transfer capacity to strengthen the ability to commercialize intellectual property coming out of key institutions located in the region, including Midtown Detroit anchors (Wayne State University, the Henry Ford Medical Center, Detroit Medical Center and Next Energy). Bring new research and technology into the marketplace and accelerate new business creation throughout the region.
2- Increase support for entrepreneurs through existing and new programs throughout the region. Support existing high-performing entrepreneurship

[18] http://www.crainsdetroit.com/article/20120304/SUB01/303049968/nei-crafts-program-to-boost-tech#

programs and foster new approaches, including community-based business acceleration and support for minority and immigrant entrepreneurs in underserved areas.

3- Support the formation of an Innovation District in Midtown and Downtown Detroit that is fully engaged with the region. Capitalize on the momentum of existing place-based investments by corporate, public and philanthropic sectors through strategic investments that result in a thriving and vibrant innovation and creative district."

Michigan SmartZone Network - In 2000, the Michigan Economic Development Corporation launched the Michigan SmartZone Network — an innovative, statewide, technology business acceleration strategy to build entrepreneurial talent and infrastructure. Today, Michigan is home to 15 SmartZones in distinct geographical locations, each anchored by an academic institution and supported by the local communities. Technology-based firms, entrepreneurs and researchers are clustered and connected to the collective assets of the region and benefit from the collaborative relationships among universities, industry, and government to commercialize novel technologies. Michigan's 15 SmartZones, each unique to their regional needs, include technology business accelerators and incubators that provide the critical entrepreneurial and commercialization support services essential to growing start-up ventures. The Michigan SmartZone network is the framework around which the state's entrepreneurial and innovation ecosystem has blossomed.

#4: International people, programs, incentives, and networks

Foreign born residents have made enormous contributions to metro Detroit's economy and have been key drivers in the region's economic transition efforts. Metro Detroit's immigrant population is the third most productive of the nation's 25 largest metropolitan areas, producing 1.3 times their proportion of the region's wage and salary earnings, as well as proprietors' income. A 2011 report, written and issued by the organization Global Detroit, looks at the role and impact of Michigan's foreign born residents. They are:

- One-and-a-half times more likely to possess a four-year college degree than Michigan U.S.-born residents;
- Three times as likely to be majoring in science, technology, mathematics, or engineering (the so-called "STEM" fields) while attending a Michigan college or university;
- Three times as likely to start a Michigan business (1996 – 2007);

- More than six times as likely to start a high-tech business in Michigan (1995 – 2005);
- Three times as likely to start a business backed by venture capital that succeeded and made a public stock offering (1990 - 2005); and
- Nearly seven times as likely to file an international patent from Michigan in 2006.

In addition to their energy, education, and entrepreneurial spirit, immigrants also have personal and financial ties to individuals and financial resources around the globe. They are an important (but currently greatly under-appreciated and utilized) link to new money, new people (both as investors and workers), new corporate alliances, and new job-creation.

The Federal Government created a program to help stimulate this underutilized potential – by linking it to the acquisition of a much valued "Green Card" the permanent working/living permission granted by the U.S. Immigration and Naturalization Service (INS). The EB-5 investor visa program allows foreign investors who invest $1 million (or $500,000 in economically distressed areas/sectors) in an American business that creates 10 jobs to receive permanent legal residency for themselves and their immediate family. An more in-depth examination of this program is found later in this paper.

#5: Place / Place-making

Today's workforce will relocate NOT just for JOBS, but to PLACE. In other words, economic growth activities – in Detroit and anywhere else - must happen in attractive, energetic, living-and-working 'places'… neighborhoods that provide and contain mixed-use facilities, a multicultural population, dynamic work opportunities, social and economic connectedness. The elements of such desirable places include:

1. Easy access to transportation (public and private) and walk-able streets
2. Access and proximity to educational institutions and cultural institutions
3. Lodging – both permanent and temporary, close by and available, as well as affordable
4. Quality of life and entertainment elements – stores, restaurants, parks, etc.
5. Community-support entities (neighborhood and local business associations, new neighbor networks and services, etc.)
6. Physical structures that would allow for the growth/expansion of businesses – and proximity to other entrepreneurial clusters and markets

<u>IV. METHODOLOGY FOR PRIORITIZING OUR EFFORTS</u>

The ultimate purpose of all of our research, indeed of the entire class syllabus, is to discuss and discover ways stimulate the economy, with the ultimate aim of creating JOBS. But with the topic so broad, and the field so fragmented, we needed to utilize a methodology (or methodologies) that would help focus our efforts. We felt that utilizing cluster theory and cluster analysis would provide the most useful for Detroit, and most easily duplicated in other distressed urban areas throughout the State.

In 2006, Joseph Cortright wrote *"Cluster analysis is a useful way of provoking and structuring public policy discussions about the future of a regional economy y*[19]*…"* It was the year before the wheels came off the American economy and The Great Recession officially began. Attitudes and actions have dramatically changed in the six years between then and now. The necessity of growing regional economies and the concomitant growing awareness of the important role clusters (and cluster analysis) can and should play in economic development, should no longer provoke rigorous debate.

Today, in the America of 2012, business and political leaders don't need to be "provoked" into discussing <u>any</u> topic that has to do with economic growth. But these leaders have been in a 'reactive mode' for a long time now and their previous modus operandi needs a significant paradigm shift. Most of their former policies and positions have been undisputedly shown to not work. What is needed today are more robust analytic tools, and a new perspective based on a broadened (and/or restructured) pool of economic-growth discussants/participants. Together, these elements – new tools and new perspectives - can create policies and procedures for an economic future that will not revisit (or hopefully repeat) the mistakes of the recent past. They can develop an American economy for the 21st Century that is neither restricted nor constricted by the structures, relationships, geographic or theoretical boundaries of the past 100 years.

The reasons for considering cluster analysis in the first place are: data availability, functional results, and limitless applications.[20]

From a theoretical perspective, when analyzing these cluster factors, there are two underlying, divergent schools of thought about what stimulates economic performance:

1- **Specialization/concentration/ localization**. This school of thought is associated with Marshall, Arrow, and Romer, and believes that places with a "greater concentration of industries will be more successful."[21]

---

[19]3 Joseph Cortright, Impresa Inc. Making Sense of Clusters: Regional Competitiveness and Economic Development, the Brookings Institution Metropolitan Policy Program, 2006, p. 36

[20] Rachel Smith, <u>Industry Cluster Analysis: inspiring a Common Strategy for Community Development</u>, Central Pennsylvania Workforce Development Corporation, 2002, p.15

[21]Ibid, p.39

2- **Diversification/urbanization** is the perspective of those who, along with Jane Jacobs, believe that "more industrially diverse places will be more successful".[22]

Both schools address the fundamental question of what drives (particularly urban) economic development and intersects with cluster theory. Policymakers at all operational levels need to recognize that these two perspectives should be another element to be considered in their economic policy/planning discussions. However, empirical evidence provides no consensus on which of these is more a more effective model to pursue).[23] In fact, research shows that each position has some important inherent weaknesses. Specialization, like a single stock portfolio, can be overly risky - and it can insulate an industry cluster from exposure to broad-based technology and thinking. (Detroit and the auto industry would be the poster-child here.)

Research on diversification models shows strong effects of same-industry concentration on productivity, but there is little evidence of any positive effects that diversity has on productivity. Further, there are several serious limitations when applying any industry sector research to industry clusters that policy makers should acknowledge, especially at the state/regional level:

- Industry sectors do not necessarily correspond to cluster definitions
- (Economic) Diversity itself is correlated with urban size
- Findings may have limited policy relevance, because regions don't have simple way to alter their industrial portfolios[24]

Research has also indicated seven elements known as **"micro-foundations**" – some quantitative, some qualitative - that help drive the establishment and success of clusters. Planners and policy makers should look at them and for them when identifying and assessing existing (or potential) cluster development. The first three are reasons for clustering, and help sustain them:

1- **Labor market pooling** (a principle advantage of clusters)

2- **Supplier specialization** (promoted by clusters)

3- **Knowledge spillovers** (which can be 'infinitely shared and reused without reducing its usefulness to any individual actor'[25] and locally can create a 'buzz'[26]

[22]Ibid p. 40
[23]Ibid p. 40
[24]Ibid p.41
[25] Ibid p. 21
[26]Ibid p. 22

But exactly what causes clusters to form in the first place? And are they path or place dependent? Research has identified two cluster elements that address these questions:

4- **Entrepreneurship** (and new products leading to more new businesses)

5- **Path dependence and lock-in** (based on past developments that may have initially happened by chance and had many possible outcomes, but at some point become place-specific)

All of the above factors are largely independent of the relationships between people and firms. But social relationships are often 'one of the most concomitants of clustering'.[27] Economic systems are embedded in social systems, not independent of them, and often can't be described separately. Therefore research includes these last two factors in the list of micro-drivers, even though they often come from qualitative not quantitative analysis:

6- **Culture** (especially as it pertains to a community's widespread accepted attitudinal and social norms)

7- **Local "home market"/consumer demand** (that is, local to the geographic range of the cluster – which could be municipal, regional or national). This is the only 'demand side' element in the formation and establishment of clusters.[28]

There are significant qualitative advantages when cluster analysis elements are used, in both the economic development process and in its results. One of the most robust examples is the 2002 Central Pennsylvania Workforce Development Corporation's paper that that when properly understood and implemented, cluster theory stimulates cooperation and practically forces 'out of the box' thinking, choices, and directions. That is because while it focuses on existing knowledge and expertise, it also stimulates a sense of 'ownership' of a cluster's success and growth in the entities (companies and people) already engaged in that cluster (both geographic and sector-based).

Second, because informed consensus posits that "it's nearly impossible for policy to create clusters"[29], adhering to "cluster-think" helps lessen the human tendency of planners, policy people and elected officials to impart (impose?) their 'wisdom' (personal visions and priorities) as the driving force of economic activity. This impulse is controlled and balanced by the obvious difficulty of convincing any broad based, engaged cluster population to march to the beat of a drum that isn't theirs. That doesn't mean political leaders and their appointees don't try

[27] Ibid p. 25
[28] Ibid p. 26
[29] Op cit. p. 48

– but their dominance can be blunted. When properly done, the cluster analysis process mandates doing the research first, looking at the (non-political) data it produces second, and then establishing that information as the primary determinant of directions and priorities of economic development activities.

Given all the caveats of what public sector officials should not do to artificially stimulate cluster development, it was heartening to read the Central Pennsylvania's Regional Workforce Investment Board's (WIB) effort "approached industry cluster analysis as an ongoing initiative as opposed to a report or study". That wisdom was further enhanced by and reflected in the first three phases of the WIB's planning process:

- Research and analysis
- Consensus building
- Validation [30]
- Application was their fourth phase. It was cited in the report as "a significant departure from the first three" because it provided "demonstrated value to the stakeholders and the region as to why industry cluster analysis is important". [31]

From a practical point of view for policy and planning professionals, industry cluster analysis has potential application in at least four spheres, as was demonstrated in the Pennsylvania WIB paper…[32]

- Workforce development
- Education
- Economic development, and
- Industry – which was further broken out into 4 subgroups
    - key industries
    - potential growth industries
    - dormant industries, and
    - declining industries

The four main spheres have to be interconnected for application to become result-oriented rather than solely data-driven.[33] For example, as the WIB report's Appendices

[30] Op cit. p.6
[31] Ibid p. 8
[32] Ibid, p. 8
[33] Ibid p. 8

document, in PA those engaged in the process had to understand which specific occupations were in each sector AND know the skill sets that were contained inside each occupation, so that the needs of employers could be met. Based on this extensive necessary drilldown, specific employers' needs were met through specialized and on-site training, and through education. Without specific skill sets identified, appropriate training and education would not have been possible – time, money, and effort wasted.

The consensus building stage – Stage 2 - was a 'priority component' of the WIB process. Again, there is an important lesson here for all those engaged in this kind of exercise. The WIB commitment to taking the necessary time to let intra-group negotiations arrive at a TRUE consensus proved important especially in determining regional industry clusters…they initially numbered 11, but eventually became four. The required negotiation process stimulated a positive debate and produced outcomes that were slightly different from the initial analysis of the WIB. It also created a strong sense of "ownership" of the identified clusters by all participants, and generated buy-in from local economic development agencies because outcomes were shown to have local relevance.

One of the best and most positive possible outcomes of effective regional exercises (such as the WIB's) is, as Pennsylvania's WIB report says, "to stir readers to consider the applications and implications that a similar process could have on other regions attempting to develop a unified industry-driven community development strategy."[34] The research for this paper, and a great deal of other research, clearly shows that the more inclusive and multi-dimensional the analysis and planning process is, the greater the buy-in by participants and the more robust the outcomes. Even when the initial main interest of a region or municipality is targeting limited resources to individual industries,[35] and even with the acknowledged limitations of cluster analysis of providing no quick fixes or magic bullets, and not being a unilateral or final undertaking[36], the process itself is dynamic and far-reaching.

Human and operational limitations should not be ignored – because if they are they can prove to be disruptive and destructive. But using only quantitative analytic tools will produce a flat picture of what has been, is, and should be an industry cluster. It takes qualitative tools to provide the nuance, team spirit, and community strengthening results that are added by human interaction and interpersonal trust.

[34]Ibid p. 14
[35]Ibid, p. 14
[36]Ibid p. 16

V. STEPS TOWARDS ECONOMIC GROWTH IN DETROIT

Stimulating economic growth – which means developing entities that create JOBS – is the end-game of cluster analysis and development. But it is a seemingly chicken-and-egg cycle of identifying and supporting clusters: recognizing existing clusters, researching local/regional economic data and letting the data inform policy and programmatic activities and answers. So it would be fair for policy people to ask: "which step comes first?" The clear recommendation from the research is: first gather existing data; second, research the missing spots; and then third, see what the total picture looks like before setting off on a course of action and involvement – and investment. The quality, nature and use of research data is crucial to successful outcomes…bad data will beget weak results no matter how much economic change is needed and wanted. It is very important to acknowledge that cluster research is a combination of art and science, and research tools should be used creatively … but people want and need fundamental information to make decisions, not academic or political hairsplitting**!**

Once the necessary research is completed, Cortright offers the following two specific and pointed pieces of advice for proceeding with cluster development: [37]

1- Focus first on **establishing the key conditions for clusters to emerge**. Those conditions come from creating:

- Institutions that support knowledge creation
- A business culture that supports entrepreneurship
- Lack of barriers for the creation of new firms
- Relatively easy availability of capital

2 - **Recognize and foster emerging clusters**, since new clusters will most likely emerge from the extension of existing knowledge and expertise. That means:

- Learn how businesses interact and clusters work
- Improve technical support systems
- Invest in social capital and social infrastructure
- Empower and listen to cluster leaders
- Encourage cross fertilization
- Recruit companies to fill gaps in cluster development
- Develop and organize supply chain associations
- Support employee/entrepreneurs

[37] Ibid, p. 46

This successful two-step model for 'bottom-up' economic development work is neither quick nor easy – there are no easy fixes, there are no silver bullets, and it is enormously people-and-labor-intensive. But when and if public officials and policy professionals, as well as community residents, workers, and business owners get serious about fomenting economic growth they will have to work together, and over a long period of time. It is crucial that they all acknowledge – up front - that the best chance of positive results will come if they base their work on research data and hard facts, not personal agendas or unsupported preferences.

Muro & Fikri, in their 2011 paper, offer three specific recommendations to governments – which for many reasons need to be engaged in (if not spearheading) these processes.

1- Develop and use data and rigorous analysis to:
   - Identify industry clusters
   - Target policy
   - Track performance
2- Reorient – or link, leverage, or align -existing economic development programs, policies, and initiatives to support clusters[38]
3- Establish a modest grants program to address gaps in cluster performance. They suggest providing three types of grants:
   - Non-competitive planning grants – for studies and evaluations (envisioned as $40,000-$100,000 state-given grants)
   - Non-competitive start-up and technical assistance grants - for new and early stage initiatives (envisioned as $100,000-$500,000 state-given grants)
   - Competitive program grants – for well-defined, collaborative, cluster-specific activities ($500,000 - $2.5 million state-given grants)

These recommendations could apply to all levels of government. (Their paper was directed at the state government level.) The main difference in the application of the recommendations would probably be in the size of the dollar amounts of the proposed grants programs at different government levels.

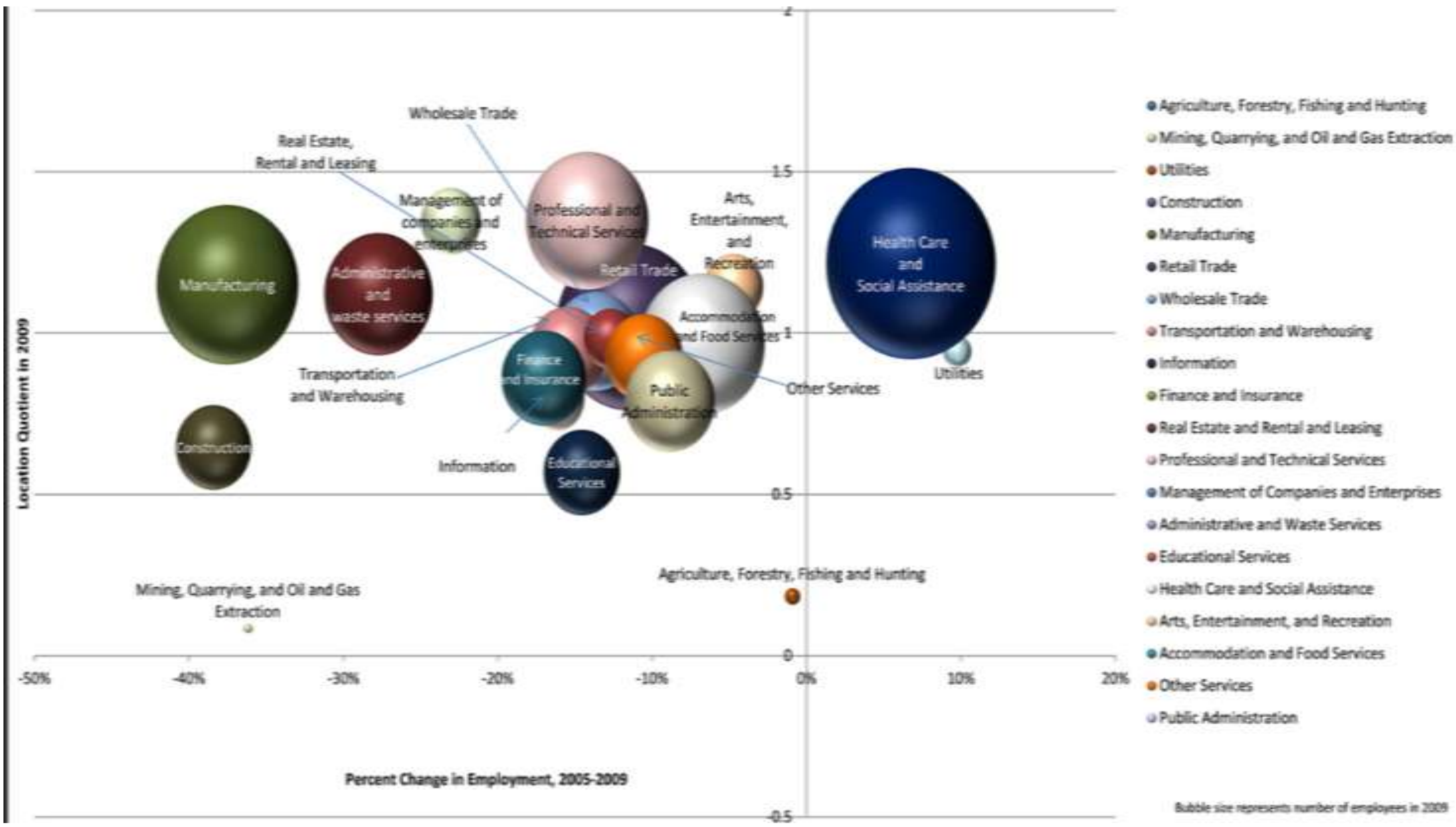
One D Scorecard

When using the steps and guidelines above and applying them to stimulating Detroit's economic growth, one must first take a look at the existing cluster data available for the City and the greater Metropolitan area. The chart below, prepared by OneDScorecard, looks at 2005-2009

[38]Muro & Fikri, Job Creation on A Budget, Brookings Rockefeller/Project on State and Metropolitan Innovation, 2011, p.1

and immediately gives the reader important information on the local centers of activity. Based on the research and data represented in this graph, our group chose to base our economic development work on the foundation of the technology sector. Analysis is required to identify the major players and firms, institutions and historical strengths that will be the backbone of the technology cluster.

Research shows that in Detroit there are major gaps between current business needs and the availability of workers who have the skills to fill those positions. These gaps can (and should) be viewed as growth opportunities, and every effort should be made to stimulate awareness and interest in these job openings, outside of Detroit and outside of the state. General management, engineering and technical, production of low and high skilled trades, and sales and



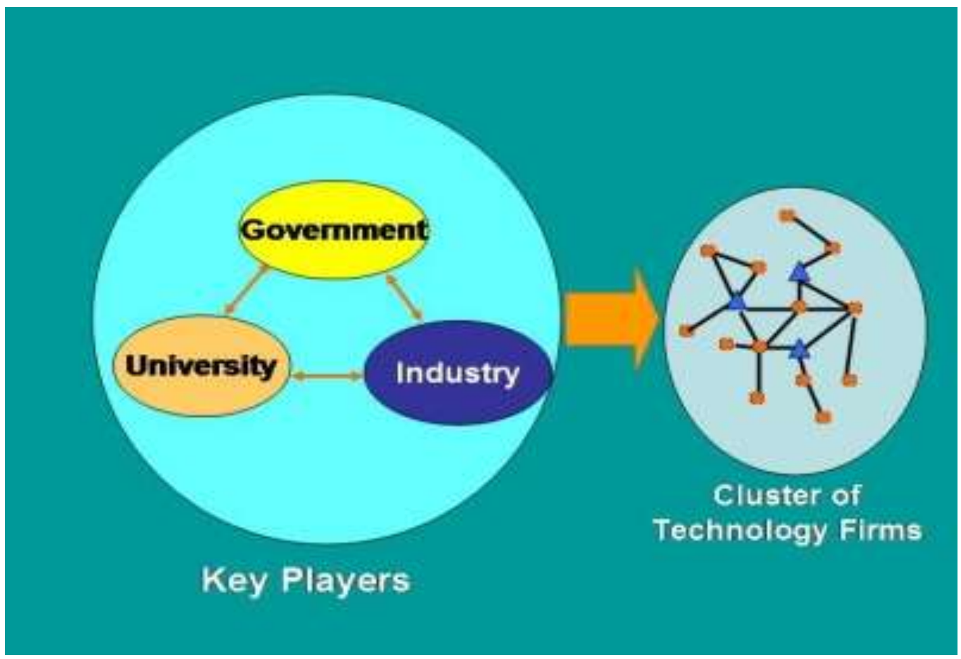
marketing are all areas that currently have jobs to fill and not enough local applicants qualified to fill them. Expanding technological, innovative and entrepreneurial activities in Detroit must include attracting out-of-region and out-of-state workers to the Detroit area to fill these jobs. [39]

Technology

[39] http://www.onedscorecard.org/charts/Location QDET

Our cluster analysis revealed promoting centrality and growth in entrepreneurial, technology-based sectors is fundamental for the Detroit area's future growth for several reasons:

1. Applications of the technology sector are limitless.
2. It provides a foundation for attracting a wide array of businesses to the area - and startups need every conceivable category of employee.
3. It will focus and train individuals preparing to enter the workforce, as well as re-train unemployed/older workers with necessary and needed skills. The wide range of potential jobs would run from low skilled manufacturing to administrative and clerical positions to highly skilled software engineers.
4. While the heyday of traditional manufacturing is behind us, we have seen the emergence of a new manufacturing economy that is rooted in the continuing advancement of highly automated technology on a global scale. Detroit must build on its past resource pools (and create new ones) to become a hub for this expertise.



When starting a new cluster community, especially in technology driven firms, the key industry stakeholders are "people with a balance of skills who can work as a team. The 'facilitator' has a key role in networking and in bringing this group together. A key issue is whether to bring in a temporary facilitator, hire a locally recognized

The National Research Council Canada has come up with 10 ideas for creating and growing technology driven clusters.

- Innovation as a team sport
- Good information puts innovation on the regional agenda
- Inform connect and promote (over and over and over)
- Think Regionally, Act Regionally,

- Tear down physical silos
- Old ideas, cold ideas may become hot ideas (Ex. *Instagram*)
- Learn from others but create own work
- Unleash network power (easy to do if they are just a few cubicles away)
- Job is never done
- Anything/anyone could be the next big thing (Ex. Angry Birds)[40]

Green

An equally broad sector with business development opportunities that would and should apply to Detroit and Michigan generally is the Green Industry Sector. It is anticipated that this sector will be on the rise for the next 20-30 years. Experts agree the biggest part of growth to focus on in the Green Sector is energy efficiency. This is particularly important to Detroit and other urban areas with a poorly trained workforce, because jobs in this part of the industry do not require highly skilled workers, and retraining can reasonably be accomplished.

Global, national, State, and local economies will all be substantially impacted by the growth of the Green Economy. The response and prioritization of Green sustainability initiatives by key stakeholders at each of these levels will have a significant impact on job and economic growth over the next few decades. Michigan, and specifically the Detroit Metropolitan area, is uniquely positioned to become a leading area for Green-business because of the region's advanced manufacturing expertise, the strong depth of engineering talent, and cluster of local Original Equipment Manufacturers (OEMs) and suppliers. Based on national forecasts, renewable energy could become a $5 billion-a-year industry in Michigan by 2015.[41]

The opportunity to transform Michigan into a leading Green state and Detroit as the center of this activity has the potential to substantially diversify the economy and create tens of thousands of high quality, good-paying jobs – at all levels of training, from low to high - in the growing renewable energy sector.

It should be noted that recently there has been significant negative press surrounding green technology companies and in particular subsidies for these companies. While transforming into a green economy is challenging new territory, a lack of focus on sustainability and a Green economy could have severe negative consequences. The United States is a mature economy; as such it must rely on innovation to drive economic growth. "Sustainability is inexorably linked to

[40] http://www.e-innovation.org/stratinc/files/library/16.pdf
[41] Turner, Mike Crain's Detroit Business. Study trumpets $5 billion-a-year potential for renewable-energy industry in Michigan. (February 26, 2012).

innovation and without an increasing concentration of innovation and sustainable companies our economy will not reach its full potential. Our support of increased sustainability and innovation capacity…not only strengthens those firms but furthers our economic growth and advances our region as a premier location for similar high-performance companies"[42]

A report published by Global Insight in October 2008 calculated the total number of current and potential Green Jobs in the U.S. across several broad industries by location. The analyses indicated approximately 85% of Green jobs are located in metropolitan areas with only 15% in non-metropolitan areas. Like most high innovation technology products, the resulting jobs tend to cluster around urban cores. This research seems to imply that the Detroit Metropolitan area should be considered key to Michigan's success in attracting Green jobs. [43]

Focusing on innovation in the Green sector will result in needed new technology research and development investments. These, in turn, will eventually create improved productivity - reducing long-term costs of operations and long-term environmental costs. An example of this can be seen in the substantial level of investment (exceeding $100 million) in the state of Michigan to comply with the state's requirement that 10 percent of utilities' electricity come from renewable sources by 2015 which has resulted in renewable energy now being produced cheaper than energy from coal. This analysis is from a Michigan Public Service Commission

report released in February 2012, indicating energy from renewable sources costs an average of $91.19 per megawatt-hour versus $133 at a new coal plant.[44]

The Michigan Department of Energy, Labor & Economic Growth ("DELEG"), along with the Bureau of Labor Market Information and Strategic Initiatives published a scientific study on Michigan's role in the emerging Green economy titled "*Michigan Green Jobs Report 2009".* The report was the first study in Michigan and second of its kind in the nation that involved a direct survey of thousands of businesses to measure the number of Green jobs by industry and occupation. The report found Michigan is uniquely positioned to become a leading Green State, which will result in the diversification of the economy and creation of jobs in the renewable energy sector.

The report revealed that Michigan boasted approximately 116,000 total Green jobs among private sector employers - 104,000 classified as direct Green jobs and 12,000 classified as indirect Green jobs. The 104,000 direct Green jobs equates to 3.3% of the total private jobs in

---

[42] Richard Jelier and Gary Sands, eds. Sustaining Michigan: Metropolitan Policies and Strategies. East Lansing MI: Michigan State University. (2009), p. 391

[43] Global Insight US Metro Economies – Green Jobs in US Metro Areas. Current and Potential Green Jobs in the US Economy. (October 2008), p. 5

[44] Crain's Detroit Business Report: Green Energy Industry has price advantage over coal. (February 12, 2012), p. 17.

the State of Michigan.[45] While the 3.3% share of total private jobs can be viewed as relatively low, it should be noted the Green economy is an emerging sector. Based on the natural life-cycle of businesses the share of Green jobs can be expected to continue to grow as a percentage of total employment. This expectation is supported by further analysis in the Michigan Green Jobs Report 2009. When tax data was utilized on more than 350 Green-related Michigan firms, it was shown that 20% of the firms appeared to be newly created since 2005. And this momentum for increased Green-jobs was in place even before Michigan adopted its "10% renewable sources by 2015" statute.

An important component of the Michigan Green jobs analysis is that Green jobs exist across a wide range of occupational categories, and job opportunities for Green-related occupations span workers with widely diverse skill sets and varying levels of education. Although engineering occupations reported the greatest share of Green-related jobs in Michigan (with approximately 24 percent of Michigan Green employment), Green-jobs can be found across the full range of educational attainment. In addition to providing a growing number of job opportunities to job candidates, this also means Green-related jobs offer workers in entry level positions the potential to advance from low to intermediate to high skill level jobs. Many of the existing Green jobs are in skilled trades such as manufacturing, construction, and installation. These would be classified as "middle-skill" jobs, which do not require a four-year degree, but do require more education than a high school diploma.[46]

A further analysis of the 358 companies surveyed suggests Green-related firms could be a significant source of entrepreneurial activity. Based on tax records of the 358 sample firms, 70 had been newly created since 2005 resulting in 600 new jobs. This represents a much higher rate of startups than what is seen in the overall Michigan economy. (DELEG 2009) [47]This reflects the national trend that shows that job growth in the United States comes mostly as the result of startup companies, not established ones, bodes very well for future growth in Green jobs.

The wide diversity of green sector impact and job growth potential in older industrial urban areas like Detroit, offers the hope that similar cities can remake themselves as areas for innovation in Green development. This holds promise in establishing new and diverse employment opportunities, in establishing a more diverse industry mix and better positioning

---

[45] Michigan Department of Energy, Labor & Economic Growth - Bureau of Labor Market Information & Strategic Initiatives Michigan Green Jobs Report: Occupations and Employment in the New Green Economy. (May 2009), p. 3.

[46] Michigan Department of Energy, Labor & Economic Growth - Bureau of Labor Market Information & Strategic Initiatives Michigan Green Jobs Report: Occupations and Employment in the New Green Economy. (May 2009), p. 37

[47] Michigan Department of Energy, Labor & Economic Growth - Bureau of Labor Market Information & Strategic Initiatives Michigan Green Jobs Report: Occupations and Employment in the New Green Economy. (May 2009), p. 46

itself to capitalize on future high growth sectors while reducing the cyclical impact of future economic downturns.

Immigrants and immigration

A report written by Global Detroit in 2011 recognized a number of competitive advantages that exist for the Metropolitan Detroit area and SE Michigan regional economies because of its immigrant populations:

- The region has the second largest foreign born population in the Great Lakes region, trailing only Chicago and has the third highest percent foreign born, trailing only Chicago and Minneapolis/St. Paul.
- Michigan has over 23,000 international students studying at its colleges and universities who contribute nearly $600 million annually to the state's economy.
- Finally, as Canada's largest trading partner, Michigan's business community, particularly in Metro Detroit, has developed a bi-national business acumen and culture stronger than almost any other region in the country.

The Global Detroit report recognized that the strengths and contributions that the region's foreign born bring to the table address many of the economic challenges faced by the region. While the region has struggled to transition into the New Economy, its immigrant communities have been key drivers in speeding that transition (possessing the STEM skills, starting high-tech businesses, inventing new technologies, and adding to the region's international diversity). Immigrants offer great promise to help revitalize Detroit. They traditionally have played critical roles in revitalizing urban neighborhoods and communities, moving into dilapidated areas, investing in fixing up homes and developing thriving commercial retail strips. Detroit's regional economy suffers from a weak central city that has created an international reputation for the region as a dying region.

Forty-five potential programs were developed during the study process to capitalize on the contributions of foreign born residents to the SE Michigan region. The final report narrowed these strategic interventions to 11 final recommendations and included traditional economic development activities surrounding securing foreign direct investment to programs, encourage international students to remain in the region, and bringing the Welcoming American campaign to Michigan.

The Welcome Mat (a network of social services for immigrants) and the Cultural Ambassadors program (a Welcome Mat-like program for international students, business leaders, and diplomatic class originated by Governor Rick Snyder as a board member of Ann Arbor Spark) seek to create a more welcoming environment, and will hopefully curtail anti-immigrant legislative and policy efforts.

The Global Detroit report also recommended a number of strategies designed to channel efforts to create and strengthen immigrant and ethnic clusters in Detroit neighborhoods. These strategies intersect with a variety of urban policy initiatives, including the Detroit Works Project, and various planning and development initiatives. The recommendations also included creating a Mayor's Office of Global Affairs, in part, to insure that those with limited English proficiency skills can access city and municipal services.

E-B 5 Investor Visa program

The EB-5 Investor Visa program allows foreign investors who invest $1 million in an American business that creates 10 jobs for at least a two year period, to receive permanent legal residency for themselves and their immediate family. The criteria for defining, creating, and accepting what jobs are counted in this program is quite complex. Despite this however, the EB-5 Investor Visa program has witnessed explosive growth over the last few years as applications have grown more than 400 percent from 2007 to 2009. The EB-5 visa attracts foreign direct investment to American communities and businesses the produce jobs for local residents. Pre-approved regional centers can help pool EB-5 investments, lower the investment threshold to $500,000 per investor, and identify key investment opportunities and industry sectors for growth.

The funds for the required minimum investments cannot be borrowed. The program has two levels of investment:

- General: The minimum qualifying investment in the United States is $1 million.
- Targeted Employment Area (High Unemployment or Rural Area): The minimum qualifying investment either within a high-unemployment area or rural area in the United States is $500,000.
    - A **targeted employment** area is an area that, at the time of investment, is a rural area or an area experiencing unemployment of at least 150 percent of the national average rate.

- A **rural area** is any area outside a metropolitan statistical area (as designated by the Office of Management and Budget) or outside the boundary of any city or town having a population of 20,000 or more according to the decennial census).

The Immigrant Investor Pilot Program ("Pilot Program") was created by Section 610 of Public Law 102-395 (Oct. 6, 1992), and has been extended through Sept. 30, 2012. EB-5 requirements for an investor under the Pilot Program are essentially the same as in the standard EB-5 investor program, except the Pilot Program provides for investments that are affiliated with an economic unit known as a "Regional Center." Investments made through regional centers can take advantage of a more expansive concept of job creation including both "**indirect**" and "**direct**" jobs.

A Regional Center is defined as any economic entity, public or private, which is involved with the promotion of economic growth, improved regional productivity, job creation and increased domestic capital investment. The organizers of a regional center seeking the "Regional Center" designation from USCIS must submit a proposal, supported by economically or statistically valid forecasting tools, showing:

- How the regional center plans to focus on a geographical region within the United States. The proposal must explain how the regional center will promote economic growth in that region.
- How, in verifiable detail (using economic models in some instances), jobs will be created directly or indirectly through capital investments made in accordance with the regional center's business plan.
- The amount and source of capital committed to the regional center and the promotional efforts made and planned for the business project.
- How the regional center will have a positive impact on the regional or national economy.

Multiple regional centers have been approved to facilitate these job-creating investments. A Regional Center was recently approved and is located in the Corktown neighborhood in Detroit. The regional EB5 center should utilize skilled intermediaries and partners who can help secure international investors, a new regional center's biggest challenge. Efforts should be made to capitalize on existing global trading relations enjoyed by southeast Michigan, including its unique relationships with businesses and investors stemming from the auto industry's global presence, as well as the region's large Middle Eastern population.

An EB-5 investor visa regional center in southeast Michigan should be combined with other business attraction efforts, such as recruiting global firms in need of skilled international workers who face growth barriers by restrictive U.S. immigration laws to the Windsor-Detroit region (so-called "nearshoring").

The regional center for southeast Michigan has great potential to assist in the region's economic growth, internationalization, and ability to attract foreign investment. Yet, any regional center will need to be innovative and strategic both in identifying potential investments within the region, and in locating investors abroad. As such, the regional center must cover the entire region (at least Macomb, Oakland, Washtenaw, and Wayne Counties) and should work closely with regional economic development agencies. Partnerships with these agencies will help insure that attractive investments can be found. It also will give a southeast Michigan regional center a competitive advantage over other regional centers that do not have public-private partners and the support of quasi-public economic development agencies.

Place and Place Making

[48]Where economic activity is planned and happens is an important factor in attracting workers and those who would want to live and work in the same place. We chose as our site the Corktown neighborhood of Detroit, located between the Downtown and SW Detroit neighborhoods because it has all of the recognized components that help to create a mixed use (live-work-play) community. It is the city's oldest neighborhood, founded in 1834 by Irish immigrants, has had its challenges, yet through it all Corktown has remained one of Detroit's most stable neighborhoods.

In the 1980s and 1990s, some called Corktown "the SoHo of Detroit." when it was a

[48] Maps.ModelD

hotbed for underground art and music. Today it is becoming a trendier, high-end neighborhood.[49] There are a lot of good reasons why:

- Not only does Corktown have some of the city's best restaurants, bars, clubs and art galleries — inspiring descriptions like "hip" and "cool" — but it also has streets of gorgeously restored historic homes — inspiring descriptions like "quaint" and "charming."[50] It's the kind of place where you can go to a home and garden tour by day and an art gallery opening and dance club by night. It has a walk score of 77[51], making it one of the country's most walk-able areas.
- There is a mix of light industrial space, commercial space, and residential, all in one community, all close to the central downtown of Detroit, and the beloved Detroit River.
- Wayne County Community College is walking proximity to Corktown, providing a great area for students to live while attending school. Also, there is a highly rated K-5 school, Most Holy Trinity, centrally located in the neighborhood, and Cass Technical High School is just over one mile away.
- The Greyhound bus terminal (national) and the Rosa Parks bus terminal (local/regional) are located within and near the district. Historic landmarks such as Tiger Stadium, the Central Train Station and many others are incorporated into the district.
- Corktown has an active community group that meets monthly and plays a vital role in saving historic structure, community activism and shedding light on the area.
- All of Corktown is a registered historic district as of July 1978. It has a rare Federally historic registered building, eleven miles of bike lanes, a Hostel, and is home to the Greening of Detroit.
- According to the Corktown Society, it has a stable population. Its bordering community, Mexican Town, has a strong minority community, which is a growing part of the American population.
- The average home price in Corktown is around $80,000 while the rest of southwest Detroit values near $29,000.[52]

[49] http://www.modeldmedia.com/features/corkinvest.aspx
[50] Corktown Historical Society
[51] Walkscore.com
[52] Zillow.com

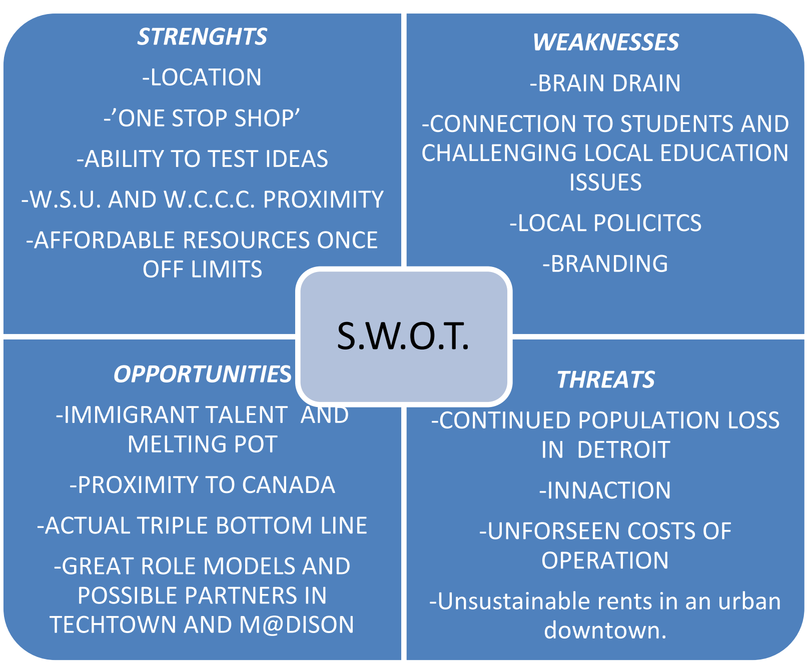
- Corktown's location (walking distance to downtown, the riverfront, W.C.C.C. and much more) and its proximity to both the Ambassador Bridge and Windsor Tunnel, provide unique and untapped opportunities to connect with Canadian and other internationally-based business ventures and entrepreneurs.
- Its positioning outside of Detroit's DDA, would allow tax revenues generated by businesses there to be applied to the entirety of the City and the City's 'bottom line'.

These elements in Corktown will provide an effective way to continue to revitalize this community, and they provide a guide to identifying and reviving other communities and neighborhoods around the Detroit Metro area and across the State.

VI. Recommendations

General recommendations

This paper outlines an incubator model to serve innovative, technologically-based, start-up and small business activities. The creation of this incubator – and all its recommended elements - was the result of our group's research done to fulfill our assignment to develop economically innovative ideas and strategies to create and foster business expansion and job growth. It is designed for Detroit, but can be replicated in other economically distressed urban areas around the State.



A SWOT analysis of the Detroit incubator effort will serve as a summary of our reasoning and choices.

Specific Recommendation regarding Detroit

Quite unexpectedly, our group's research led us to a specific building in Corktown – at 1200 6th Street - that could house our incubator company and meets the needs of starting our incubator.

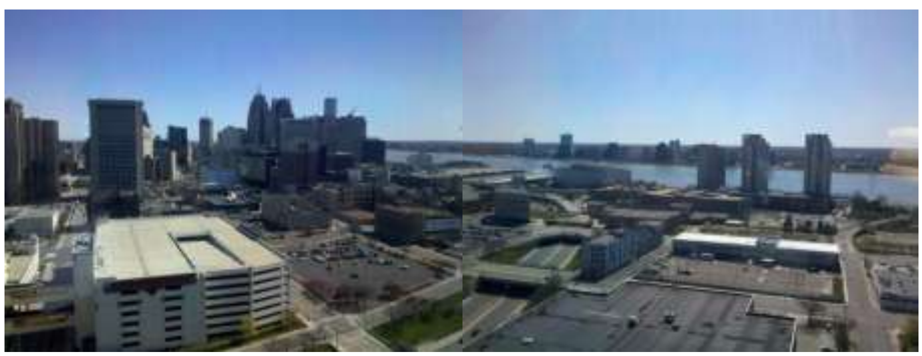
Congruent with the previous report on the qualities of Corktown as the catalyst neighborhood for the project, we feel 1200 6th street is an ideal choice for this project's headquarters. There are numerous other locations within Corktown that could house an incubator consistent with our replicable model. This building, however, has unique characteristics that fit extremely well with our model:

- This Mid-high rise, two-building office complex is commercially zoned and has extensive, available space. It contains two substations, making it an ideal building for heavy electricity consumption.
- The shorter, 11 story concrete structure was built in 1966. It contains a mezzanine level that can be a functional public space and house small local business. This structure alone is 291,000sq ft. The basement houses a large turn-key cafeteria which is accessible by both towers. It also houses a sophisticated telecommunications room with the capacity and infrastructure to implement the building as a 21st century communications powerhouse. The second structure, built in 1971, is a 21 story steel frame with 321,000sq. ft. It was previously owned by the State of Michigan.

- Owner's flexibility and its location.
- This location is outside of Detroit's Downtown Development Authority (DDA). Therefore, the City of Detroit would benefit from this building's

utilization, as it would generate tax revenues. Buildings in downtown are part of the DDA, so those tax dollars are not captured by the City of Detroit, but go directly to the DDA.

- This building also lies outside of the Central Business District (CBD). Like the Fischer Building, it can be easily seen because it stands alone. It can act as a beacon both for business and neighborhood development.
- There is easy vehicular access to the building at 1200 6th street from the Lodge, which is connected to I-75, I-94, I-96 and Michigan Avenue. The campus has almost 8 additional acres of paved parking surface to house vehicles.
- The open floor plan allows for unlimited flexibility for companies to expand and contract, bring in equipment and personnel as needed, with little or no cost to the owner or company.
- Location, Location, Location: The building is close to every important community element. It is adjacent to the Greyhound Bus Station, which is a nation-wide, affordable transportation system for people to enter Detroit and walk right into their new work and living space. Three blocks away is the Rosa Parks Bus Terminal and Detroit's People Mover, with the same effect. Across the street is the Wayne County Community College, where young talent is learning the skills of the future, and who may want to venture into business and don't know where to start. All they have to do is walk three blocks. Also this is the FIRST major office building you encounter after crossing the Ambassador Bridge from Canada.
- There is an elevator core that houses freight and passenger cars at adequate rates.
- The building is integrated into a traditional community. Many residents are aware of its potential, and



would be happy to see the building come into use again. The building's owner, Sam Danou, enjoys helping the community, including allowing the local church to utilize its parking lots for free. He would strongly encourage employees who work in the building to live in Corktown, too.
- FCC broadcasting still takes place through modern radio antennas, which would allow radio shows, TV shows and other broadcast media to easily travel across international borders, attracting large businesses in that industry.

- The entire 10 acre property can be turned into a live/work/play 'mixed-use' campus that would be wholly integrated as a useable feature for the neighborhood.
- The owner would like to convert the shorter tower into a Hotel and residence. This would simultaneously reduce the amount of vacant office space in the city, while creating living space that is in high demand. The Views are spectacular, almost unobstructed, and valuable.

- The ability for local businesses to fill the Mezzanine level is feasible. There is an existing vault for a bank, barber shop, several small offices and restaurants, as well as a large patio for smoking, outside dining or events.

2nd Detroit Recommendation

Not all start up's are digitally based. Many small businesses need workshop space and an environment to manufacture goods. Like Green Garage, which has a well utilized workshop, and like Pony Ride, Phil Cooley's 30,000sq ft project Ponyride ,(photo left, ponyride.org) which is almost fully leased out just months after renovation[53], according to a live/work employee there, we suggest the Mosaic Annex. This annex would be one of the many available light industrial buildings in Corktown. Rents in Ponyride start at $.10 per sq ft. (ponyride.org), and extremely affordable cost we hope to replicate. Green garage only has one workspace, where one firm can use the shop at a time. Pony Ride has several floors and workshops where talent lives, works and rents space to manufacture goods or hold dance classes.

[53] Live/work Employee Z.M.

Here, numerous businesses can utilize space for replicating those successes, with the same access and resources in our main center. The wireless connectivity provided by the 1200 6th street would allow businesses to keep their data offsite but accessible in the annex. It would reduce costs and save space. [54]

VII. CONCLUSION

The precipitous disintegration of the 100+ year manufacturing foundation of the American economy has undermined the credibility and leadership role that was ceded to corporate and business heads for most of the past century. It also sent political leaders at all levels scrambling for answers – and cover – as they attempted to slow/end the economic slide in their constituents' areas, and reverse the trends inside this economic collapse that affected every sector and geographic region in the country.

Over the past decade, nowhere in the U.S. have there been more frantic (and ineffective and uncooperative/uncoordinated) activity than in Michigan, and nowhere more in Michigan than in Detroit. Laying aside the many historical, political and interpersonal reasons for this resounding lack of success for now, (hard to ignore this 400 pound gorilla – but that's another entire paper), it could be argued that one of the causes of the weakness (and subsequent failure) of these many efforts has been an almost uniform unwillingness to seek, find, and use hard data as the basis for discussion and decisions. This has been compounded by the almost uniform habit of leader-entities spending more time talking and carving up target areas to "own" than listening to and coordinating what already exists. There has been an enormous disconnect and overlap of economic development efforts in Detroit.

And yet today, at the very grassroots level in the city - the level often below government awareness, public consciousness, and foundation funding - there beats a steady series of neighborhood-based, often church backed, micro- individual-business development efforts of residents of all ages and backgrounds, who often have global personal contacts, and an "American Dream" energy, that will not be denied. They are beginning to connect to each other – and may be creating a new species of 'cluster' that is multi-focused and linked by neighborhood proximity and global vision.

When assessing the most productive role and path for future growth, all one has to remember is that one stunning factoid: that job gains come from the expansion of existing businesses or the establishment of new ones. At the conclusion of our research on the topic of

[54] Ponyride.com

stimulating economic growth in Detroit and around the state, group members concluded that they wanted to be an active part of this process. So the group has begun the process of establishing a new, business entity. We call it:

INNOVATION MOSAIC L3C will identify, harness, and collaborate with those who share the vision of an internationally linked hub of technologically based economic development activity – first in Corktown and then across the state and around the globe**.** This company will be, and do, exactly what is proscribed in this paper. It is anticipated that there will be a 2 stage, 2-5 year rollout

As defined at the beginning of this report, an 'L3C' is a Low-profit Limited Liability Company – and in Michigan it is established within the LLC statutory framework, giving it great financial and operational flexibility. According to Section 102(2)(m) of the Michigan LLC Act, a low-profit limited liability company (L3C) must meet the following requirements:

1- The L3C must significantly further the accomplishment of 1 or more charitable or educational purposes as described in Code Section 170(c)(2)(B).
For INNOVATION MOSAIC L3C(IM) that would mean: job creation, training and community development.

2- The production of income or appreciation of property must not be a significant purpose of the L3C. However, in the absence of other factors, the fact that an LLC produces significant income or capital appreciation is not conclusive evidence of a significant purpose involving the production of income or the appreciation of property. *For IM**:** 50% of all profits will be retained for investment in new projects. Profit is not a significant purpose of IM.*

3- The purposes of the L3C must not include accomplishing 1 or more political or legislative purposes described in Code Section 170(c)(2)(D). *In IM: Individuals associated with the IM may be involved in political action in their role as private citizens; however IM will not be involved in such political activities.*

The details for moving forward - from initially researching theory to writing this report, to now establishing an incubator - are still in the talking stage. It is anticipated that once the business plan outline is completed, immediate initial next steps will include identifying and contacting potential players, for all segments of the L3C:

- Other Corktown and Detroit community entities, economic development activities/companies

- Local tenants/ start-ups
- International entrepreneurs/innovators
- The WCTO, EB-5 and other programs and associations

Initial funding sources explored will include: the Small Business Association; the Federal Government's EDA; MEDC; local, regional, national and international 'social investors'; and last, but certainly not least, individuals who will be the initial L3C members. (See Appendix ___ for detailed information.) Ongoing sources of revenue for are anticipated to include our entrepreneurial and incubator tenants, and users of our technology system located all over the world.

Like the concept of a mosaic and the ancient art of mosaic creation (that is part of our company's name, and was so chosen), **Innovation Mosaic L3C** will engage in the art of creating economic growth, in Detroit and elsewhere, through the assemblage of small (entrepreneurial) pieces….Mosaics are often regarded as works of great cultural and spiritual significance, and they are found throughout the world and across millennia. Mosaics both reflect and help retain the best and most important elements from cultures and countries across the globe. And their beauty is timeless.

That is our hope – for our company, our city, our state, our country, and our world. And we plan to be an active part of making it happen.

Bibliography

-Cane, Tim Ewing Marion Kauffman Foundation. The Importance of Startups in Job Creation and Job Destruction, (2010).

-Crain's Detroit Business. Turner, Mike Study trumpets $5 billion-a-year potential for renewable-energy industry in Michigan. (February 26, 2012).

-Crain's Detroit Business Report: Green Energy Industry has price advantage over coal. (February 12, 2012).

-Joseph Cortright of Impresa, Inc. for the Brookings Institution Metropolitan Policy Program, *Making Sense of Clusters: Regional Competitiveness and Economic Development",* 2006.

-Global Insight US Metro Economies – Green Jobs in US Metro Areas. Current and Potential Green Jobs in the US Economy. (October 2008).

-Mark Muro and Kenan Fikri - produced by the Brookings-Rockefeller Project on State and Metropolitan Innovation, *"Job Creation on a Budget: How Regional Industry Clusters Can Add Jobs, Bolster Entrepreneurship, and Spark Innovation",* 2011.

-Merriman-Webster Dictionary, Pocket, 1974, page 14

-Michigan Department of Energy, Labor & Economic Growth - Bureau of Labor Market Information & Strategic Initiatives Michigan Green Jobs Report: Occupations and Employment in the New Green Economy. (May 2009).

-Michigan Department of Energy, Labor & Economic Growth - Bureau of Labor Market Information & Strategic Initiatives Michigan Green Jobs Report: A Regional Analysis - Occupations and Employment in the New Green Economy. (July 2010).

-Rachel V. Smith, The Central Pennsylvania Workforce Development Corporation, *"Industry - Cluster Analysis: Inspiring a Common Strategy for Community Development",* 2002

-Richard Jelier and Gary Sands, eds. Sustaining Michigan: Metropolitan Policies and Strategies. East Lansing MI: Michigan State University. (2009)

Other Sources

1) http://www.ahealthiermichigan.org/2012/01/31/dan-gilbert-unveils-first-of-his-planned-%E2%80%98webward-avenue%E2%80%99-entrepreneurial-tech-hubs-video/
2) http://detroitventurepartners.com/press-release-earvin-magic-johnson-joins-detroit-venture-partners/
3) One Detroit Scorecard http://www.onedscorecard.org/charts/LocationQDET
4) http://detroitventurepartners.com/startup-zone/
5) http://www.crainsdetroit.com/article/20120304/SUB01/303049968/nei-crafts-program-to-boost-tech#
6) http://greengaragedetroit.com/index.php?title=Main_Page
7) Economic Development Administration (EDA) website: www.eda.gov

APPENDIX A

<u>L3C Member categories</u>

Class A Interest: Founders

Founders are individuals who own an Interest in IM. Alternatively, “Founders” could get paid for their services on an arms-length basis, as determined by a qualified independent advisor.

Class B Interest: Cash Investors

Need to make sure the organizational structure of IM meets the conditions of any government stimulus funds. This needs further analysis.

Class C Interest: Social Investors or Lenders (Foundations, etc.)

The L3C format may make it easier for a foundation to invest in or lend to IM as a program related investment. However, the L3C format may not eliminate the need of a foundation to obtain a private letter ruling from the Internal Revenue Service for such an investment.

Class D Interest: (ESOP)

Eventually, broad-based equity participation by employees of IM could be facilitated through the use of an ESOP. Consideration should be given to forming an S corp. owned by an ESOP to hold the employees’ Interest in IM. Further analysis is necessary to determine whether it would be feasible to have an ESOP own an Interest in IM directly. Given the complexity of an ESOP structure, an ESOP should not pursued until much later, if at all.

APPENDIX B

Cost Structure

Item Description	Expenses	Function
Server RM A/C Unit for Rack mounts (new) x1	$20,000.00	Keeps racks cool
Precision Rack Workstations 50 racks	$100,000.00	Computing Powerhouse
Off site storage (cheaper rate) $.09 per G	$10,800	Storage of Data for worldwide access, uploads and downloads
On Site Storage (exclusive space)	$18,000.00	For complex, large files that or secure documents and services
Computer Monitors and Keyboards x 50	$7,450.00	To see and work on businesses and part of the all in one program
Wireless routers for building+ Community x 4	$100,000.00	Benefits the building and the neighborhood, connect from home
Cost of initial functions	$249,450.00	First year costs.

As-needed Support

Client utilizes our I.T. support on an as needed basis, and is billed for time and materials.

Break/fix (Time & Materials)	Price
Trip Fee	$ 2 / mile ($20 min)
PC/Laptop/Server Pick-up/Drop-Off Fee	$ 50
On-site or remote service[1]	$ 100 / hour
Telephone conference/consultation, on-site meetings	$ 100 / hour
In-office[2] computer service	$ 175 flat rate
After business hours[3] or emergency[4] support	$ 150 / hour

Bulk Purchase of Support

Client pre-pays for support in bulk, with discounted rate based on amount of hours purchased.

Pre-payment of support time	Price
20 Hours @ $ 95 / hr	$ 1900
40 Hours @ $ 90 / hr	$ 3600
60 Hours @ $ 85 / hr	$ 5100
80 Hours @ $ 80 / hr	$ 6400
100 Hours @ $ 75 / hr	$ 7500

[55]

[55] DirectComputing, Bloomfield Hills

APPENDIX C

General Operating Agreement Structure for a Michigan L3C

INNOVATION MOSAIC L3C

Article I: Organization

a. **Members and Classes of members – determines voting rights**

i. **Class A: Founders**

ii. **Class B: Cash Investors**

iii. **Class C: Social Investors/Lenders (Foundations, etc.)**

b. **Name : Innovation Mosaic L3C**

c. **Purpose :**

i. **The purpose for which an L3C is organized is to create jobs and sustainable business enterprises in communities with high levels of unemployment. To carry out this purpose the L3C will:**

a. **establish, support and engage in business ventures in communities with high unemployment**

b. **train and employ workers in sustainable and locally-rooted business ventures**

ii. **The production of income or appreciation is not a significant purpose of the L3C**

iii. **In no event will the L3C participate in any political or legislative purposes described in the IRS Revenue Code.**

d. **Definition of terms**

Article II: Books, Records and Accounting

Article III: Capital Contributions

Article IV: Allocations of Profits and Losses

Article V: Distributions

Article VI: Withdrawal and Transfers of Membership Interests

Article VII: Management

a. **Board of Managers : majority vote decisions**

Article VIII: Dissolution and Winding Up

Article IX: Securities Laws

Article X: Miscellaneous Provisions

A. **Indemnification**
B. **Amendments**
C. **Notices**
D. **Binding Effect**
E. **Governing Law**