

2005 INNOVATIONS AWARDS PROGRAM

APPLICATION

Deadline: April 4, 2005

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- 1. Program Name:** Michigan SmartZones – Clusters of Innovation
- 2. Administering Agency:** Michigan Economic Development Corporation (MEDC)
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9. Please provide a two-sentence description of the program.

The Michigan SmartZones are 10 regionally based, high tech clusters designated by the MEDC to stimulate the growth of technology-based businesses. Each SmartZone is a collaborative effort between the local university, industry, research organizations, government, and other community institutions with the goal of stimulating entrepreneurship and economic growth of Michigan's technology sectors.

10. How long has this program been operational (month and year)? Note: the program must be between 9 months and 5 years old on May 1, 2005 to be considered.

On April 11, 2001, the Michigan Economic Development designated 10 geographic areas of the State of Michigan as Michigan SmartZones.

11. Why was the program created? What problem[s] or issue[s] was it designed to address? Indicate how the program applies to the "change driver" that you listed above.

The State of Michigan as it entered the 21st Century saw a significant loss of traditional manufacturing jobs to overseas locations. While Michigan has long been a leader in high wage, high skilled jobs in the automotive and manufacturing sectors, we recognize a need

to continue to diversify our economy to meet the demands of the 21st Century. Michigan is not only the home of 15 public universities including 4 highly renowned research institutions but also serves as the center of corporate research and development expertise. Additionally, the state has a wealth of highly skilled scientists and engineers. These strengths lead to the development of a new high technology initiative called the Michigan SmartZone program.

SmartZones are designed to foster partnerships between local governments, their economic development partners, and key providers of intellectual property and research and development, typically a university or private research institute. Through this partnership, and with a focus on new business formation, technology transfer, and either business park or downtown development, the program is designed to create and foster the creation and growth of technology oriented businesses, industry clusters, and recognizable brand or image. These zones were created to help Michigan obtain national and international recognition as a center for technological advancement and give communities unique real estate to attract technology companies and workers.

In summary, Michigan's goal to diversify its economy in combination with its world class universities and research institutions led to the development of the Michigan SmartZone program. The SmartZone program capitalizes on the scientific innovation, education, and workforce of the universities and research institutions to encourage entrepreneurialism and grow and build new high tech industries in Michigan.

12. Describe the specific activities and operations of the program in chronological order.

In the spring of 2000, Governor John Engler signed into law an amended Local Development Financing Authority Act providing for the creation of the SmartZone program and the use of tax capture to benefit public facilities and infrastructure related to technology development. These zones are comprised of districts that are governed by Local Development Finance Authorities (LDFA).

Within a SmartZone, or a certified park, the legislation allowed for the LDFA to collect the growth of property taxes (tax increment financing) from all property within the boundaries of the SmartZone to fund the cost of "public facilities" designed to aid in the development of "eligible businesses" (i.e. primarily manufacturing and technology-related businesses). The definition of public facilities within the LDFA Act for SmartZones was significantly expanded and included, in addition to traditional forms of public infrastructure, business incubators, publicly owned laboratory facilities, research and development facilities, teleconferencing facilities, marketing and administration of the SmartZone and the acquisition and disposal of land. The LDFA may collect all local operating property taxes within the SmartZone and up to 50% of the K-12, state, and intermediate school district operating levies for up to 15 years. In order for an LDFA to capture the K-12, state, and intermediate school district levies, the State Treasurer had to determine that the capture was necessary to reduce unemployment, promote economic growth, and increase capital investment in the municipality.

In the summer of 2000, MEDC released a request for proposals calling for applications from municipalities interested in receiving SmartZone designation. At a minimum, the proposal had to include: a defined vision and industry focus that took advantage of local resources, a fully developed business plan, well defined plans to attract major anchor tenants, support for new and small businesses in high-tech fields, clear community support, documented market feasibility, and a defined site for near-term development. Highest priority would be given to proposals that met one or more of the following criteria: committed major anchor tenants, active support and involvement by a local higher education or private research-based institution, an incubator facility, a limited need for state funding beyond tax increment financing, other government support, and clustering of two or more municipalities located within the same county under one local LDFA.

The MEDC received 18 proposals and after a great deal of analysis and negotiation in the Spring of 2001 announced 10 areas to receive designation. Each SmartZone focuses on specific technology industries. Identified below are the SmartZones as they exist today including their affiliation with universities, colleges, and research institutions and technology focus:

- Battle Creek Aviation SmartZone – Western Michigan University and Kellogg Community College (aviation and distance learning)
- Houghton/Hancock - Michigan Tech Enterprise SmartZone – Michigan Technological University (advanced engineering)
- Lansing Regional SmartZone – Michigan State University (life sciences, information technology, and advanced manufacturing)
- Mount Pleasant SmartZone – Central Michigan University (nano technologies and business intelligence)
- Kalamazoo SmartZone – Western Michigan University (life sciences drug discovery)
- Grand Rapids SmartZone – Grand Valley State University, Van Andel Research Institute, Spectrum Health System, St. Mary's Mercy Medical Center, Mary Free Bed Hospital, and Grand Rapids Community College (life sciences medical devices)
- Muskegon Lakeshore SmartZone – Grand Valley State University (alternative energy)
- Oakland County - Automation Alley SmartZone and Rochester Hills SmartZone – Oakland University and Lawrence Technological University (advanced automotive technologies)
- Ann Arbor/Ypsilanti SmartZone – University of Michigan and Eastern Michigan University (life sciences, information technology, and advanced automotive technologies)

- Wayne County – Pinnacle Aeropark SmartZone – Detroit Metropolitan Airport and Detroit - Woodward Technology Corridor SmartZone – Wayne State University (life sciences and advanced automotive technologies)

After designation, the SmartZone partners began to build their SmartZones. This translated in most cases to building incubators and technology centers and providing the infrastructure for these new facilities. Besides community funds and tax increment financing, the MEDC committed approximately \$20 million in state General Fund revenues to assist with incubator construction and marketing activities. But, the SmartZones are more than just a physical location. The SmartZones also serve to coordinate all of the community assets and services necessary to support technology development in the knowledge based economy. Services provided by the SmartZones' include but are not limited to the following: technology mining, technology commercial assessments, business feasibility studies, business planning, entrepreneurial training, venture capital preparation and introductions, market analysis, federal and state grant writing assistance including assistance with Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) grants, product development, management recruitment, business development mentoring, incubator space, and coordination of research and development with universities and industry.

In 2002, MEDC recognized that the SmartZones needed additional financial support to adequately provide services outlined in the paragraph above. Therefore, in the Fall of 2002, MEDC awarded Business Accelerator grants totaling \$4.5 million to 7 of the 10 SmartZones. Those grants were paid from non-state appropriated revenues. The Business Accelerators used these proceeds to provide services such as technology mining, technology commercial assessments, etc. with the ultimate goal of helping entrepreneurs and researchers start new technology-based businesses, accelerate the growth and development of existing high tech businesses, and commercialize technology.

13. Why is the program a new and creative approach or method?

The ability to use tax increment financing (TIF), not just for traditional public infrastructure, but to support business incubators and the operations of these incubators was a novel approach. This gave the communities a financial incentive to begin the discussions and also gave them a tool and leverage to attract other funds from local public and private institutions. Also significant was the ability to use these funds not only to “jump start” these facilities but to maintain them for 15 years. It is well known that these type of high technology incubators require a number of years to become self sufficient because of the long life cycle of their incubating clients. These clients may take a number of years before they can pay market rates and take a number of years before they graduate and go elsewhere in the SmartZones. As they presumably move elsewhere into the SmartZone, these originally incubated companies become taxpayers and add to the TIF that then is reinvested into the SmartZone.

Another creative approach was allowing each of the SmartZones to develop its SmartZone around the major assets of the particular region. Each SmartZone is a

partnership amongst the local stakeholders taking advantage of the local assets. MEDC did not dictate but allowed the local stakeholders to lead the effort and this also meant the local stakeholders were accountable for the SmartZone's success.

14. What were the program's start-up costs? (Provide details about specific purchases for this program, staffing needs and other financial expenditures, as well as existing materials, technology and staff already in place.)

The MEDC designated a full-time person to administer the SmartZone program, \$150,000 annually.

As indicated earlier, the MEDC committed to start-up costs of approximately \$20 million in General Fund revenue to assist with incubator construction and marketing activities. These funds were granted to the individual SmartZones using State-appropriated General Fund dollars.

The MEDC then committed another \$4.5 million in start-up costs in non-state appropriated revenue for the Business Accelerator program. This funding across 7 Business Accelerators supported the Executive Director of the Business Accelerator for two years and also covered marketing expenses and some support to hire consultants to provide required business services to the Accelerator clients.

The SmartZones themselves also provided commitments for matching funds from their respective communities totaling \$300 million. Most of this funding was used for incubator construction and infrastructure support for the SmartZone.

15. What are the program's annual operational costs?

In FY 04/05 the MEDC has committed \$150,000 for a full-time person to administer the SmartZone program. An additional \$200,000 has been budgeted to continued support of the Business Accelerators.

Each of the SmartZones are locally owned/operated efforts that are maintained with a combination of local revenue streams such as tax increment financing, university support, incubator fees, and public and private sector support. The operational expenses in general include salaries and support of the Business Accelerators and incubator facilities. On average the annual operating costs for the Business Accelerator portion of the SmartZones is approximately \$300,000. The average operational costs of the incubator facilities vary depending on the size and type of incubator ranging from \$100,000 annual to over \$1 million.

16. How is the program funded?

The program is funded by non-state appropriated revenues of the MEDC to support the SmartZone administrator.

See answers to #14 and #15 above for start up funding.

17. Did this program require the passage of legislation, executive order or regulations? If YES, please indicate the citation number.

Yes, the Local Development Financing Act 281 of 1986 was amended in 2000, Act 248.

18. What equipment, technology and software are used to operate and administer this program?

Standard software programs such as Word and Excel are used by the SmartZone administrator to track the program.

Similar programs are used by the SmartZones to track their clients, although some of the incubators are experimenting with software specifically for business incubator tracking.

19. To the best of your knowledge, did this program originate in your state? If YES, please indicate the innovator's name, present address, telephone number and e-mail address.

The SmartZone program was conceived by the staff of the Michigan Economic Development Corporation. It is overseen by the Technology Development business unit, headed by Senior Vice President Jeff Mason

20. Are you aware of similar programs in other states? If YES, which ones and how does this program differ?

No. The MEDC recently attended an US Small Business Administration event entitled "Putting It Together: The Role of Entrepreneurship in Economic Development" and did not hear about any similar programs as the Michigan SmartZones program. At the same event the Michigan SmartZones program was recognized with a Best Practices award for regional economic incentives.

21. Has the program been fully implemented? If NO, what actions remain to be taken?

The program has been fully implemented in 8 of the 10 designated areas of the state. Two additional areas are under development.

22. Briefly evaluate (pro and con) the program's effectiveness in addressing the defined problem[s] or issue[s]. Provide tangible examples.

The SmartZone program has been very successful in spurring entrepreneurship and economic growth in Michigan's technology sectors as can be seen by the following economic impact data. Since the creation of SmartZones, the following has occurred in the SmartZones:

- Number of incubators and technology centers: 10
- Number of business accelerators: 7
- Number of businesses locating or expanding: 110
- Number of businesses serviced: 301
- Number of jobs created: 3379
- Number of jobs retained: 3194
- Number of research and commercialization projects: 130
- Public Investments: \$231 million
- Private Investments: \$171 million
- Total Investments: \$402 million
- Amount of Tax Increment Financing (TIF) capture collected: \$1.673 million

In 2002, pharmaceutical giant Pfizer acquired Pharmacia and downsized its Kalamazoo-based scientific workforce by approximately 800 scientists. The Kalamazoo area was expected to lose many high tech jobs, either by lay-offs or relocation. The Kalamazoo SmartZone and its Business Accelerator gave the Pharmacia scientists an alternative option to leaving the area. It gave them space and resources to start their own companies allowing for them to stay in Kalamazoo and spark the beginning of a life science entrepreneurial culture in Kalamazoo. Today, the Kalamazoo SmartZone is approaching 30 technology companies employing almost 500 people. In traditional manufacturing terms 500 employees would be a nice size manufacturing facility. In Kalamazoo we see evidence of Michigan's new economy. One that is made up of smaller sized technology companies employing high wage, high skill people.

One challenge we are facing is that these young technology companies are growing so quickly that we are running out of incubation space. We struggle with the need to "graduate" them from the facility because of space concerns and still maintaining a close proximity to peer learning relationships and management assistance provided by the Business Accelerator directors.

23. How has the program grown and/or changed since its inception?

At the inception of the SmartZone program, the SmartZones were envisioned to be the "Gatekeepers" for all entrepreneurs or anyone interested in starting a technology-based business. The SmartZones were also envisioned to offer all services required by entrepreneurs from education, to coaching, mentoring, and introduction to funding opportunities. Rather than all these services being performed by the SmartZones, the SmartZones have partnered and collaborated with other entities in their regions to have the appropriate partner provide the required services. For example, entrepreneurial education is handled by the partner university, the basic business plan consulting is handled by the regional Small Business & Technology Development Centers, leaving the SmartZones to provide the more sophisticated and advanced business development, market development, and technology assessment services.

24. What limitations or obstacles might other states expect to encounter if they attempt to adopt this program?

The SmartZones owe their success to a combination of factors that include: 1) collaborative effort between stakeholders, 2) experienced management, 3) physical proximity to resources, 4) providing appropriate services, 5) access to financial resources, and 6) reporting requirements ensuring accountability.

Through the SmartZone program experience, the following best practices have been identified and may be useful to others who choose to develop similar programs to promote entrepreneurship and economic development:

- 1) Identify an experienced, entrepreneurial-focused champion at the program level to manage the program, have access to experienced legislative and contractual staff, establish reporting requirements, and ensure accountability. One of the most important criteria to ensure success is to identify a dedicated person to oversee the program. This person must be involved in all aspects of the program including the legislation, RFPs, contracts, incubators, Business Accelerators, partnerships, relationships, and reporting. Technology transfer and commercialization is the goal of the program but it has been found with this program as well others that successful tech transfer and commercialization can not be automated and left to search engines and software tools. People communicating with other people are the driving force behind successful tech commercialization initiatives. This communication must occur throughout the SmartZone program but it starts with having the correct person running the program.
- 2) Start with ample amount of funding. One of the other most important criteria for success is having sufficient funds to start the program but also maintain the program. Partners who financially support the project are much more likely to stay focused and ensure accountability and success.
- 3) Identify champions as well at each site. People are the crux of the program and that translates to having the appropriate people in all aspects of the program and most importantly as indicated above at the program head and at the incubators and Business Accelerators.
- 4) Build collaborative relationships/partnerships with the local partners; importantly include the research institutions and universities. Involving the research institutions and universities is important to access technology transfer opportunities but also to access the faculty and student talent.
- 5) Develop a plan with milestones, deliverables, and reporting requirements to ensure accountability. A plan should be detailed enough to measure accountability and value added. For example, a plan for a Business Accelerator (BA) should identify ways the BA will help start-ups, besides providing consulting services, a value added proposition would be that the BA provides students to actually do the work needed to support the start-up.
- 6) Identify or build an incubator. Although a costly practice, the incubator has the advantage of providing a place for start-ups, as well as a symbol of pride for the

- community for their investment dollars. It provides a place for networking, meeting place, and a sign and reminder of high tech activity.
- 7) Promote clusters of development where stakeholders are physically located close to each other. Develop research parks located close to universities where an idea can be nurtured from the university to the start-up phase locating in an incubator to the growth phase spinning out of the incubator to a building in the park. Physical closeness encourages working together resulting in collaborations and synergistic results.
 - 8) Stay focused on a unified message regarding the market driven, technological strength of the community. The program is to promote entrepreneurship and economic development so it should go beyond traditional tech transfer and more towards tech commercialization. This means that the technology the SmartZone is involved in should have market potential. It should also play on the strength of community and fit well with the existing companies in the region.
 - 9) Communicate with each other to learn from each other and identify concerns and opportunities. The SmartZone program manager is in constant communication with the SmartZone representatives and has scheduled meetings to identify concerns but also to share entrepreneurship and technology commercialization opportunities. Reporting is crucial to the success of the program but it does not replace the need for physical meetings between the parties.
 - 10) Continuously communicate to all stakeholders and the community the status of the project and successes to keep people engaged and fully aware of the short term and long term goals.

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