The Minneapolis – Saint Paul Regional Business Plan

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1. Introduction

The Minneapolis-Saint Paul region made an early migration from the 'resources economy' of the mid-20th century to the rapidly expanding 'knowledge' economy. The region's economy out-performed many Midwestern and Northeastern industrial economies. Its current standing as one of the highest-performing regions in the nation rests on a core of top-tier talent and corporate and institutional assets. With the global economy now shifting more rapidly than ever, the region can lead by using its strong knowledge-based advantages to foster a dynamic, innovative and entrepreneurial environment. This metropolitan business plan describes a course for the region to make the shift into the "next economy."

Minneapolis-Saint Paul is home to a treasury of high-growth companies, talented people, high levels of innovative activity, a penchant for collaborative action, and an enviable quality of life. The region's tight-knit formal and informal business and civic networks have shown a remarkable willingness to invest in education and infrastructure. The high quality of local education institutions (with the University of Minnesota in the lead), combined with the strength of local Fortune 500 corporations (now twenty one in number[1]), helped to foster a cutting-edge research and development community, produced top-tier student performance and a well-educated workforce.[2] Early adoption of regional governance and tax-base sharing provided a vehicle for inter-jurisdictional cooperation on civic and governmental policies, revenue streams and operational systems, which supported efficient and effective approaches to region-wide growth.

While many U.S. regions struggled in the 1980s and 1990s, the Minneapolis-Saint Paul region continued to leverage its knowledge assets and thrived in the new knowledge environment. As high education and skill levels drove worker productivity upward, wages rose in tandem. Well-established firms expanded and consolidated, while new firms were created at a robust pace, and state workforce participation rates were among the highest in the nation.[3] Regional leadership responded to population and business growth by expanding infrastructure, especially transportation, to support movement of goods and people throughout the metro area and enhance global connectivity. The diverse, knowledge-based economy that developed during this time produced a compounding cycle as prosperity attracted more talent, capital and innovation, further stimulating growth.

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1 CNNMoney, 2010 analysis. Austin-based Hormel Foods is Minnesota's 21st Fortune 500 headquarters firm.

2 Brookings Institution analysis.

3 Bureau of Labor Statistics, Region, Division, and State Labor Force Participation Rates with Confidence Intervals, Their Relationships to the U.S. Rate, and Over-the-Month Rate Changes with Significance Indicators, July 2010, seasonally adjusted.

While Minneapolis Saint Paul's assets remain the envy of other regions, economic indicators lately reveal distinct signs of decline: modest wage growth, contracting innovation, weak sequencing of investment capital, slowing of proof of concept to commercialization, a widening achievement gap, and concerns regarding talent attraction. Missing, furthermore, has been a cohesive regional economic development strategy.

As a complex, evolving system, the regional economy relies on a mix of inputs for performance and combines strengths unique to its assets and culture to move forward. In engaging in Metropolitan Business Planning, the region's leadership has embraced a business planning framework for development of a metro-scale economic development strategy. This approach provides for clear analysis of market conditions and priority investments to support the region's future prosperity. This Metropolitan Business Plan articulates a framework for understanding the regional economy in a global context (chapter 2) and the economy's current status (chapter 3). Chapter 4 explores the region's primary challenges and key strategies to overcome them, organized by six interacting "leverage points" that determine regional economic performance:

- Build and strengthen "clusters": concentrations of industries, functions and occupations
- Develop and deploy human capital
- Drive commercialization of innovation through entrepreneurship
- Increase spatial efficiency
- Build effective public and civic culture and institutions
- Develop and deploy information resources.

Chapter 5 presents the plan's initial strategy: the formation of a research-based entrepreneurship accelerator to stimulate growth of innovative early-stage businesses and ideas into venture-ready companies. This accelerator will link entrepreneurship and innovation in the region through five areas of intervention:

- Connectivity among entrepreneurs and investors
- Provision of public- and private-sector funding across stages
- Entrepreneurial expertise
- Market development of high-potential ideas
- Support and mentorship for entrepreneurs

In combination, the interventions in the MBP are intended to release the region's growth potential via initiatives that foster a more entrepreneurial, innovative economy and culture. The recommended strategic actions include elevating partnerships between industry, academia, the civic sector and investors to enable a greater churn of private-sector growth. Existing and emerging clusters will generate growth and productivity through linkages to human capital development, acceleration of innovation and entrepreneurship, and more consistent contact among related firms and workers. The region's education and training systems will be retooled to capture human capital of both young and mature workers, matching education and training to the demands of professional and technical fields. Firms and households will benefit from a more balanced distribution of jobs and housing, linked via high-quality infrastructure. Businesses, workers, investors and other stakeholders will have more and better information on a timely basis, improving their ability to evaluate investments in the region's economic system.

Minneapolis Saint Paul is on the threshold of becoming a leading region in the "next economy." Robust assets arising from its legacy institutions and recent economic expansion remain embedded in the region, and the strategies outlined in this Metropolitan Business Plan will catalyze emerging economic opportunities.

2. A "next economy" framework for regional economic development

The world's labor, knowledge, networks, and other drivers of productivity are increasingly concentrating in its largest metropolitan areas.[4] In the U.S., the largest 100 metros in the U.S. occupy only 12 percent of the nation's land mass but contain roughly two thirds of the population, jobs, and research universities; at least three fourths of graduate degree holders, knowledge economy employment, patents, and port and air cargo; and nearly all venture capital funding.[5]

The concentration of economic assets in metropolitan regions creates an opportunity to advance national economic prosperity by implementing region-scale strategies developed and implemented locally. Matching the scope of such strategies to the basic unit of the next economy – the region – reflects the scale of industry clusters, labor pools, governance, and infrastructure that shape economic vitality and the extent to which it is shared.

FOUR AREAS OF OPPORTUNITY IN THE NEXT ECONOMY

[Transition (but put in English) – how these parts interact most productively, and where and how growth is possible as regions compete in a global economy, is shaped by the macroeconomic environment ..] In particular, leading economists and policy experts have identified four key areas of opportunity in the global economy.[6]

- *Expansion of exports* of services and goods to serve rapidly growing international markets, driving growth in jobs, productivity, wages, and skills.[7]

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4 United Nations, "2009 Revision of World Urbanization Prospects" at http://esa.un.org/unpd/wup/index.htm (March 2010).

5 Alan Berube, "MetroNation: How U.S. Metropolitan Areas Fuel American Prosperity" (Washington: Brookings, 2007). Metropolitan areas are where the nation's assets combine to create disproportionate economic value: the 13 counties of the region represent less than 10 percent of Minnesota's land area, 62 percent of its population, and generate nearly 75 percent of the state's total economic activity, according to the Bureau of Economic Analysis, Regional Economic Accounts; U.S. Census Bureau, Intercensal estimates; Donjek analysis.

6 Lawrence H. Summers, "Rescuing and Rebuilding the U.S. Economy: A Progress Report" at www.whitehouse.gov/administration/eop/nec/speeches/rescuing-and-rebuilding-the-us-economy-a-progress-report (March 2010); "Remarks by the President in the State of the Union Address" at www.whitehouse.gov/the-press-office/remarks-president-state-union-address (March 2010) and Bruce Katz, "The Next Economy: Transforming Energy and Infrastructure Investment" at www.brookings.edu/~/media/Files/rc/speeches/2010/0203_nextecon_katz/0203_nextecon_katz.pdf (March 2010).

7 Jennifer Bradley, Emilia Istrate and Jonathan Rothwell, "Exports in the Great Lakes: How Great Lakes Metros Can Build on Exports and Boost Competitiveness," Brookings Institution, July 2010; Howard Rosen, "Testimony prepared for the Senate Finance Committee Subcommittee on International Trade" at www.iie.com/publications/papers/rosen1209.pdf (March 2010); Alexandre Mas, "Hearing on Exports' Place on the

- *Low-carbon solutions* will create a new basis for competitive advantage and growth. Business strategies that incorporate low-carbon solutions will be positioned flexibly to respond to shifting consumer preferences, increasing world energy costs, and new regulatory policies.[8]
- *Innovation* will become even more critical to regional economic growth and competitiveness, intensifying pressure for U.S. regions to generate new technologies and products.[9]
- *Opportunity-rich economies*, with strong middle-class earnings and more income equality, will position regions for success in the next economy. Regional prosperity will be founded on greater mobility, and higher wages, education and skill levels across the population.[10]

THE "LEVERAGE POINTS"

Our Metro region is aligning with these trends to create, retain and attract talent, capital, and ideas that build sustainable economic vitality. Success will depend on the effectiveness of interdependent economic systems. Policy and investment in the regional economy must be guided by this interdependency, as we seek to maximize productive synergies and avoid uncoordinated one-dimensional programs that could prove ultimately counterproductive. The ways the parts of our economy fit together can be understood and influenced through the key "leverage points" that determine our overall efficiency and productivity. By assessing the region's standing on these leverage points, regional actors can learn how to intervene effectively to improve their economic performance. Accordingly, six leverage points have been identified that will form the structure of our business plan. They are summarized below and described in detail in chapter 4:

Path of Economic Recovery," at http://finance.senate.gov/hearings/testimony/2009test/120909amtest.pdf (March 2010).

8 For global opinions about climate change: Pew Global Attitudes Project, "2009 Global Attitudes Survey" (Washington, 2009); for growth in U.S. Energy Star purchases: "Energy Star Overview of 2009 Achievements," www.energystar.gov/ia/partners/annualreports/2009_achievements.pdf (March 2010); for national and international energy forecasts: U.S. Energy Information Administration, "Annual Energy Outlook Early Release Overview" (Washington, D.C.: U.S. Department of Energy, 2009), and U.S. Energy Information Administration, "International Energy Outlook 2009" (Washington, D.C.: U.S. Department of Energy, 2009). Global green economy growth forecast in U.K. Department of Business, Innovation, and Skill, "Low Carbon and Environmental Goods and Services: An Industry Analysis" (2009), available at www.berr.gov.uk/files/file50253.pdf. Growth in U.S. green jobs reported in Global Insight, "Current and Potential Green Jobs in the U.S. Economy" (Washington, D.C.: U.S. Conference of Mayors, 2008).

9 Paul M. Romer, Implementing A National Technology Strategy with Self-Organizing Industry Boards," in Martin Neil Baily, Peter C. Reiss, and Clifford Winston (eds.), *Brookings Papers on Economic Activity, Microeconomics 1993:2* (Washington, D.C.: Brookings Institution, 1993); Charles I. Jones, "Sources of U.S. Economic Growth in a World of Ideas," *American Economic Review* 92 (2002): 220-239; Executive Office of the President, "A Strategy For American Innovation: Driving Towards Sustainable Growth And Quality Jobs" (Washington, 2009).

10 "Strengthening the American Labor Force" in *The Economic Report of the President* (Washington, 2010).

- *Build and strengthen "clusters."* Concentrations of industries, functions, and occupations within a region enhance innovation, attract specialized labor, facilitate exchanges of ideas, while yielding additional "critical mass" benefits (e.g., reduced transportation costs).
- *Develop and deploy human capital*, the natural resource of regional economic competitiveness and growth. Our region needs people with high levels of educational attainment and effective ways to retain and match talent to employment opportunities.
- *Drive commercialization of innovation through entrepreneurship.* Entrepreneurship makes innovation happen, and critically drives productivity gains: wthin each stage of innovation, interventions can improve identification of markets, knowledge networks, university-industry partnerships, flows of investment capital for R&D and new ventures, and entrepreneurial environment and culture.
- *Increase spatial efficiency*. The location of businesses, suppliers, workers, and consumers within a region, and the infrastructure connecting them, determine transportation costs and influence benefits such as access to labor pools and knowledge spillovers.
- *Build effective public and civic culture and institutions* to support private-sector performance by shaping human capital development, regulatory efficiency, and infrastructure.
- *Develop and deploy information resources* to help boost productivity, reduce transaction costs and risks, influence consumer preferences, and help markets expand to underserved areas of the region.

Taken together with the four broad characteristics of the next economy outlined above, the leverage points provide a framework for analyzing regional economic performance and constructing a business plan to enhance it.

3. Market analysis and environmental scan

The Minneapolis-Saint Paul region has a history of economic success and a diverse economic base with multiple robust industry clusters. Growth in workforce productivity, high participation rates, and effective matching of worker skills to opportunities in traded industry clusters has produced high wages and wage growth. The region's performance ranks in the top quartile of U.S. regions in productivity (22nd) and wages (14th), and has outpaced Midwestern and national averages in each for decades.[11] Our Fortune 500 companies support the region's ability to compete on a global stage.

Between 2000 and 2008, however, growth in regional economic output (13.0 percent), productivity (10.0 percent), employment (3.6 percent) and wages (2.7 percent) reveals an erosion in the pace of economic activity when compared to other metro areas.[12] In a 15-year period, firm starts and closings have fallen from a level 25 percent higher than U.S. metro averages to nearly even.[13] Minnesota's rank in the number of entrepreneurs per 100,000 residents has fallen from 22nd in 2007 to 48th in 2009.[14] Because small employers create over 75 percent of new jobs,[15] flat entrepreneurial activity has direct negative consequences for job growth.

The falling indicators point to missing links in an economy that has in the past served as a model of or for what? Missing links and emerging challenges for the Minneapolis-St. Paul regional economy include:

- Measures of entrepreneurial vitality such as the number of business starts and closures[16] and originations of small- and mid-size business loans[17] reveal a need to deliver more innovative ideas to the marketplace through technical assistance, funding and spinoff from private and public centers of research commercialization.

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11 Bureau of Economic Analysis; Itasca Project analysis.

12 U.S. Bureau of Economic Analysis Local Area Personal Income and Employment

13 Small Business Administration Office of Advocacy; Donjek analysis.

14 Kauffman Index of Entrepreneurial Activity, 2007-2009.

15 U.S. Census Statistics of U.S. Businesses; Itasca Project analysis.

16 Firm establishment births and deaths as a percentage of total establishments (business churn) was 23.2 percent or 44th among U.S. metro areas (2006 data from U.S. SBA Office of Advocacy, Brookings analysis).

17 U.S. SBA, 2007 data, Itasca analysis in "Job Growth Taskforce: Innovation and Startup."

- Reduced investment in education. A tradition of educational excellence has produced one of the nation's most highly educated[18] and productive[19] pools of knowledge workers. However, investment in training and our educational systems is falling: For the 2011-12 school year, metropolitan school districts have projected a $187 million funding shortfall.[20] A persistent achievement gap and underutilization of older workers limit productivity. [21]
- Slowing labor force growth.. Annual workforce growth in the metro region was over 1.5 percent in the 1990s but is projected to slow to less than 0.5 percent in the coming 25 years.[22]
- Competing jurisdictional and private sector visions of economic development. Business retention and attraction efforts are challenged by lack of a shared regional economic development agenda. Private-sector boosters, local officials, and the State's Department of Employment and Economic Development (DEED) are responsible for regional economic development, but lack the resources, tools, and coordination required for high-impact action on a regional scale.

These challenges are common to times of economic transition. However, a cohesive, transformational and tactical business plan can take the region to the next level and secure prosperity in the next economy.

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18 The college degree attainment level is 37.6 percent (American Community Survey, 2008, Brookings analysis).

19 Bureau of Economic Analysis Local Area Personal Income and Employment; Brookings analysis.

20 District survey, Association of Metropolitan School Districts. Districts have experienced widespread budget deficits in recent years and the current year.

21 Itasca Project and Minnesota Business Partnership, "Minnesota's Future: World-Class Schools, World-Class Jobs," January, 2009.

22 Minnesota Department of Economic Development, Minnesota Demographic Center data; annual growth is projected to fall from an average of 0.75 percent per year in 2010-15 to a low of 0.10 percent in 2020-25, then rise again to 0.27 percent in 2030-35.

4. Strategies by leverage point

The process of building the metropolitan business plan has highlighted the importance of a collection of economic development initiatives. Aligned here into the multidimensional business plan, these strategies together capture the opportunity to address the region's challenges in an integrated, comprehensive fashion, fueling the region's transition to the next economy.

LEVERAGE POINT 1: BUILD AND STRENGTHEN "CLUSTERS"

Background

Dense networks of industries, functions, and occupations accelerate growth in employment, wages, number of firms, and innovation. These networks or clusters form specialized labor pools , foment ideas with commercial potential, and facilitate efficient use of physical infrastructure. Linkages between clusters strengthen the competitiveness of the regional economy and help new industries to thrive.[23]

Twenty-eight percent (465,000) of the region's workers are employed in traded clusters of firms – those that export products and services. Wages paid in these clusters exceed the regional average by 37 percent; this is significant because traded wages drive regional wages. Strong clusters also have markedly higher concentrations of workers than in other regions. In the Minneapolis-St. Paul region, these clusters employ 17.5 percent of the workforce, one of the 25 highest proportions in the nation. Ten particularly strong traded clusters were been identified in 2009, and three were selected for comprehensive analysis due to their unique characteristics:

- **Medical devices** (3.51 location quotient)[24]; 85 percent of the state's medical devices activity is concentrated in the three metro counties of Ramsey, Hennepin and Anoka.[25] Employment growth, wages, and export levels are high; core needs include proximity to top-tier researchers and infrastructure, and innovative firms, attractive for acquisition, that produce commercializable new technology advances.
- **Distribution services** (1.37) form a cluster that originated in agricultural productivity and efficient access to marketplaces. Knowledge workers in

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23 Delgado, Porter, Stern: "Clusters, Convergence and Economic Performance," August 2010, and "Clusters and Entrepreneurship," *Journal of Economic Geography* (May 2010), pp. 1-24.

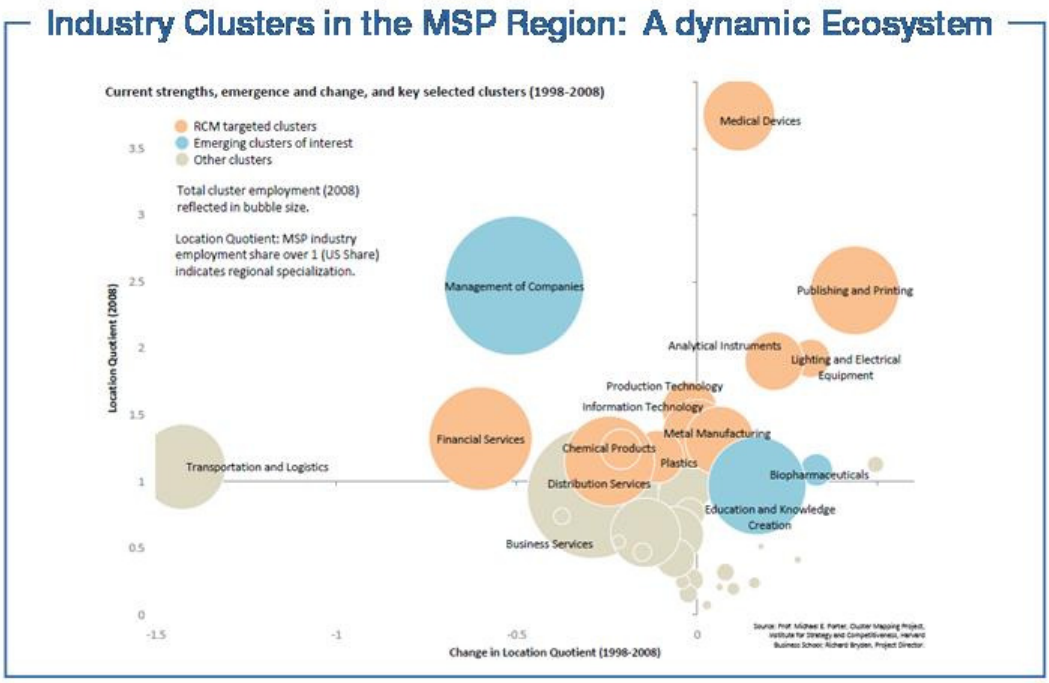
24 Location quotient, or the region's industry job share divided by the nation's industry job share for each industry group (MSP Regional Cluster Initiative, 2006 data). LQ>1.2 indicates local share in this industry is higher than the national share.

25 MSP Regional Cluster Initiative, report on Medical Devices Cluster, May, 2010.

research, finance, marketing, and logistics, as well as physical infrastructure and innovation, remain essential inputs for growth.

- **Financial services** (1.63) is led by the insurance industry (total employment, 50,900; location quotient, 1.74). Business and financial operations, key back-office functions of the cluster, employ the fourth-highest proportion of regional workforce in the metro, among the 100 largest metros nationally. Educated workers and access to concentrations of headquarters and their supplier firms are key ingredients of prosperity for the financial services cluster.

The other seven strong clusters are: analytical instruments (with location quotient of 2.04), publishing and printing (1.99), production technology (1.60), information technology (1.50), metal manufacturing (1.39), business services (1.26), and chemical products (1.15).



The clusters of analytical instruments, production technology, and metal manufacturing have primarily developed around manufacturing activity, presenting opportunities across wage levels with high potential for export. The Minneapolis Saint Paul region is among the top twenty metro areas in manufacturing employment (14 percent of the workforce), an important pathway to skilled, well-paying jobs for workers without four-year degrees.

In addition to these industry and occupational clusters, a concentration in headquarters functions reflects a unique competitive advantage in the region. The metro is home to 21 Fortune 500 headquarters – the most per capita nationally –

including "back office" and management functions. Almost 6 percent of the workforce is employed in management, the second-highest proportion in the country.[26]

Challenges and opportunities

Clustering, grounded in the region's skilled workforce and transportation and R&D resources, accelerated formation of new firms and attracted others from outside the region, even without an articulated strategy. Cluster strategies can optimally match specialized labor pools to corporate demand and increase connectivity among firms and researchers. Private- and public-sector leadership and support, provided regionally to reflect the scale of cluster networks, can advance the strategies[27] and connect clusters of neighboring regions. Cluster strategies can realign economic development efforts and focus leadership on sustaining the human and physical infrastructure that underpin the region's core industries. The strategies will have three objectives:

- **Expanding** the region's highest-performing traded clusters – through new firm starts, spinoffs and attracting existing companies. Specifically, industry and academic partnerships with the BioBusiness Alliance and the University of Minnesota (detailed below) aim to smooth pathways to commercialization for emerging medical devices firms and cultivate the industry's future workforce.
- **Concentrating** key industries and occupations within in the region to reinforce a cycle of higher exports and attraction of skilled, specialized workers from outside the region.
- **Linking** the activity of existing industry and occupational clusters to develop new clusters drawn to emerging opportunities in the region's innovation ecosystem and labor marketplace. Information technology and distribution services are prime examples of industry and occupational clusters that foster flexible and educated workforces. Identifying opportunities for collaboration and realignment is critical to support emerging clusters and long-term growth in the region.

Strategies

Leading from the three objectives noted above, four primary cluster strategies will provide benefits to new firms starting here, growing companies relocating or expanding, and mature corporations, in the form of access to talent and enhanced spillover effects.

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26 U.S. Census Bureau, County Business Patterns, 2007; Donjek analysis.

27 MSP Regional Cluster Initiative.

Expand gateway for bioscience commercialization: the Biomedical Discovery District, University Enterprise Labs, and the Minnesota Science Park

The University of Minnesota (U of M) is developing a Biomedical Discovery District consisting of over $292 million in facilities housing translational research on diabetes, Alzheimer's, cancer, and other diseases. Aligned with the university's academic mission and benefiting human health, the district, as a key goal, will also benefit the state's economy and advance the biomedical technology industry. While the U of M's efforts to commercialize technology and intellectual property have improved significantly in recent years, furthering the translation of research in the Discovery District into clinical and commercial applications that contribute to our region's biomedical industry cluster will require greater interaction between researchers, clinicians, entrepreneurs, and financiers.

Creating such facilities to foster interaction is a key ingredient to the Discovery District. To complement the new university buildings, private-sector facilities to house companies, service providers, and other amenities are also needed. The University Enterprise Labs (UEL), a nonprofit business incubator in Saint Paul, is one such facility, housing companies wanting to be located near the university. Developed with leadership from the U of M, the City of Saint Paul, and with significant funding from several corporations, UEL is near capacity and exploring a $23 million addition of 40,000 square feet of laboratory space. More private-sector facilities are planned for the area, the result of UEL spanning westward to the doorstep of the Biomedical Discovery District. Dubbed the Minnesota Science Park, it will comprise a series of buildings housing start-up and established companies attracted to the proximity to the university.

Facilities such as these strengthen networks in the region's competitively advantaged industries by establishing spaces for the exchange of ideas about potential commercial applications of innovative concepts. Further, these initiatives provide a gateway for investors to access early-stage companies and for entrepreneurs to build relationships with funders.

Form an industry-led medical devices cluster board and identify role of corporate headquarters as economic growth engines: The MSP Regional Cluster Initiative

The MSP Regional Cluster Initiative is a collaborative initiative of the Urban Land Institute Minnesota/Regional Council of Mayors, the University of Minnesota's Humphrey School of Public Affairs, and Minnesota DEED. Together with the BioBusiness Alliance of Minnesota, this project is stewarding a more formal network within the medical devices cluster. This private-public partnership will design and implement a cluster board. A cluster board serves as a conduit for collaboration on issues of particular importance to an individual industry cluster, including efficiency innovations, best practices, issues of capital access, workforce development needs, and technological advancement. Stakeholders in the Medical

Devices network are convening to address current barriers to industry competitiveness and identify strategies for increasing venture capital and start-up support..

The RCI is also coordinating a year of conversations between private-sector CEOs and public-sector CEOs, the mayors of cities throughout the metropolitan area. These conversations are identifying what makes the region a great place to do business and key points of intervention, as well as building relationships between private and public sector leaders in the region. Identifying needs and creating partnerships is critical because corporate headquarters are demanding customers in the region, driving sophistication of suppliers and competitors and leading to advancement in high-skill and high-wage employment. The results of RCI's conversations also enhance the work of the Business Bridge project described next.

Leverage headquarters concentration for entrepreneurship: Itasca Project Business Bridge

The Itasca Project is evaluating the creation of a "Business Bridge" to stimulate direct connections between Fortune 500 firms headquartered in the region, and small- and medium-sized vendors also located here. Regionally, an opportunity exists to create benefits both for buyers and sellers of products and services by enhancing their connections within the region. As buyers, large corporations and other businesses [and institutions?] in the region stand to benefit from aggressive pricing and a competitive advantage in awareness of companies suitable for potential acquisition. For sellers, contracts with larger corporate buyers strengthen predictability of cash flow, and enhance their hand in negotiations with lenders. The Business Bridge would take advantage of the region's concentration in headquarters to stimulate small-business formation and growth. At the same time, the process could promote contact and transparency between large corporations and high-growth firms.

Partner with statewide cluster efforts: BioBusiness Alliance of Minnesota

The BioBusiness Alliance of Minnesota (BBAM) has examined clustering statewide in the overlapping industries of medical devices, pharmaceuticals/biologics, animal health, food, renewable energy, and materials. BBAM's Destination 2025 initiative is an innovative cluster strategy to promote the exchange of ideas and advocacy among areas of competitive advantage across the state.

This year, BBAM released BIOMAP, a mapping tool allowing users to search the state's geography for firms by industry, knowledge cluster, supply chains, or educational programs. The tool is valuable for workers, entrepreneurs exploring location decisions, and investors. Integration of metro-scale efforts with statewide

cluster initiatives will reinforce the value of strategies to build dynamic industry and occupational clusters in the region. It will also expand further the metro area's potential pool for workers and connect entrepreneurs around the state with peers and funders based in the region.

LEVERAGE POINT 2: DEVELOP AND DEPLOY HUMAN CAPITAL FOR ECONOMIC GROWTH

Background

Strong, accessible public education is commonly credited for the region's economic success. Minnesota students consistently score among the highest U.S. states for math and reading skills. In 2009, students in Minnesota scored among the top five in math skills. Despite some decline since 2003, the state's students post reading scores among the top quartile of U.S. states.[28]

Highly skilled, specialized workers that pursue continued education after high school form a cornerstone of the metro's economic success. Two thirds of the region's workers have pursued some post-secondary training or education, outpacing the national average of 54 percent.[29] The region's adult population has the 9th highest rate (37.6 percent) among the nation's metro areas in attainment of college degrees (bachelor's and higher). The region's productivity ranks 22nd among metro areas, with wages ranking 14th among the 100 largest metros.[30]

The percentage of workers employed in the region's professional and related occupations, and the median wages in these roles, rank in the top quartile nationally. The economy's manufacturing sector employs 14.1 percent of the workforce (18th highest), with median wages 12 percent higher than for metro areas overall. The region posts the nation's second-highest labor force participation rate.[31]

The metro unemployment rate, currently at 6.8 percent, has been consistently lower than the U.S. level, now at 9.7 percent.[32] Unemployment has fallen more

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28 National Center for Education Statistics (NCES) data for 2000-2009. Minnesota ranked 3 in grade 4 math in 2009, compared to 2 in grade 4 math in 2000; 2 in grade 8 math in 2009 versus 1 in 2000; 21 in grade 4 reading in 2009 versus 4 in 2002; and 10 in grade 8 reading in 2009 compared to 11 in 2003. In 2009, Minnesota's ACT scores ranked highest of the states, according to the Minnesota Office of Higher Education.

29 U.S. Census Bureau, 2008 American Community Survey; Donjek analysis.

30 American Community Survey; Bureau of Economic Analysis Regional Economic Accounts Local Area Personal Income; Bureau of Economic Analysis Local Area Personal Income and Employment.

31 Minnesota's labor force participation rate is 71.9 percent: U.S. Department of Labor Bureau of Labor Statistics, Local Area Unemployment Statistics, August 20, 2010.

32 Bureau of Labor Statistics, Metropolitan Area Employment and Unemployment Summary, September 1, 2010.

rapidly in the Minneapolis-Saint Paul region since 2009 than in nearly any other, indicating the presence of a workforce with flexible, transferrable skills.[33]

These attributes indicate the region's powerful competitive advantage in human capital, attractive of strong clusters in high-knowledge industries and in headquarters functions. An economy led by these clusters, the University of Minnesota, and the region's high quality of life draw educated workers to the region from other states and countries: 47.5 percent of workers who move to the region from other states or abroad possess a bachelor's degree or higher, a greater proportion than among native Minnesotans (32.7 percent).[34]

The region's high productivity and wages are nonetheless growing at rates lower than in other U.S. metropolitan areas. Current average growth rates for wages and productivity in Minneapolis-Saint Paul rank 56th and 58th among the nation's metro regions.[35] With modest natural growth in the labor force projected, the leveraging of regional assets to attract highly educated workers, and a flexible system for linking them to occupational demand, is particularly important to the region.

Challenges and opportunities

Measures of workforce education and skill indicate falling competitive advantage; the region's human resources are not fully deployed. Minnesota has one of the nation's highest gaps between white and black students as measured by test data and graduation rates:[36] 79.5 percent of white students graduate versus only 47.3 percent of blacks.[37] Disparities by race or achievement at the high school level are costly in social and economic terms. Recent analysis indicates that the 10,000 Minnesotans who drop out of high school each year wind up costing the public $10.6 billion over their lifetimes.[38]

Improving educational performance and participation is an economic imperative for the region, including credentialing and training beyond high school. Post-secondary training across industries and occupations enables workers to pursue

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33 Bureau of Labor Statistics, Over-the-Year Change in Unemployment Rates for Metropolitan Areas, June 2009-10; Minneapolis-Saint Paul region's unemployment rate fell 1.7 percent during the year ending June, 2010; metro areas of Owensboro, KY (2.0 percent) and Toledo, OH (1.8 percent) experienced larger declines in unemployment.

34 U.S. Census Bureau, 2008 American Community Survey; Donjek analysis.

35 Bureau of Economic Analysis, Regional Economic Accounts, Local Area Personal Income and Employment (2002-08 data); Brookings analysis.

36 Itasca Project and Minnesota Business Partnership, "Minnesota's Future: World-Class Schools, World-Class Jobs," January, 2009.

37 Minnesota Department of Education data, 2008; Minnesota Compass analysis.

38 Growth and Justice, "Smart Investments in Minnesota's Students"; figure includes foregone earnings to individuals, as well as public costs associated with crime, health and welfare. Minnesota Compass reports that the region's high school graduation rate in 2008 was 68.1 percent, compared to 72.8 percent statewide.

career paths that match opportunities available in the region. Credentialing creates worker flexibility and transferability of skills, thus allowing workers to respond nimbly to changing market dynamics. Industry-recognized credentialing applied across occupations improves the matching of opportunities and skills for firms and workers, particularly in the region's traded clusters. Broader acquisition of post-secondary education and transferrable credentials is, however, impeded by budget shortfalls and declining public investment in our education and training institutions.[39]

By 2018, 70 percent of jobs in Minnesota are expected to demand post-secondary training and credentialing. The region's workforce, and its younger workers in particular, appear well-prepared for this shift. Among residents ages 25-44, 73.9 percent have pursued post-secondary education. The level is slightly lower (68.9 percent), for workers ages 45-64 and much lower (48.2 percent) for those over 65.[40] The impact of the Great Recession and gains in longevity will drive residents to work later in life, increasing the importance of credentialing and retraining for older workers. Strengthening the community and technical colleges in the Minnesota State College and University (MnSCU) system in partnership with Adult Basic Education and Workforce Development is key to sustaining credentialed career pathways for both younger and older workers.

Jobs in the region's key occupations are projected to multiply, according to recent analysis,[41] but overall "natural" regional workforce growth, which was 200,000 during 2001-10, is projected to go into deficit in the next 20 years.[42] Maintaining the metro's workforce as a magnet for building thriving industry and occupational clusters is critical; so is the attraction of workers from elsewhere through the creation of jobs in the region.

Aligning investments in education with workforce and economic development will be key in maintaining state and regional competitiveness.[43] metro-scale collaboration exists between the eleven one-stop workforce centers partnering with the Greater Metro Workforce Council and the Workforce Investment Boards,

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[39] Minnesota Office of Higher Education, "Average Annual Full-Time Undergraduate Resident Tuition and Fees"; in constant dollars, tuition increases since 2000 include 71 percent for the University of Minnesota, 57 percent for state universities in the Minnesota State Colleges and Universities system ("MnSCU"), 48 percent for MnSCU 2-year and technical schools, and 25 percent among private colleges.

[40] American Community Survey, 2006-08; individuals pursuing at least some college represent 73.2 percent of residents 25-34, 74.6 percent of those 35-44, 68.9 percent of those 45-64, and 48.2 percent of those 65 or older.

[41] Martin Prosperity Institute projects job growth of over 10 percent for the Minneapolis-Saint Paul region, 2008-18: http://www.theatlantic.com/business/archive/2010/08/where-the-jobs-will-be/61459/

[42] Minnesota State Economist Tom Stinson, "The Short- and Mid-Range Economic Outlook," presentation to the Regional Council of Mayors, November, 2009.

[43] Additional content on this subject is available in Governor's Workforce Development Council, "2011 Policy Advisory: All Hands on Deck," December, 2010."

and inclusive of community-based employment and training providers, Adult Basic Education, Community and Technical Colleges of MnSCU, and foundation partners such as United Way, McKnight, Wells Fargo and Phillips Foundation. Minnesota is one of a handful of states that has integrated most federal funding sources into a coordinated/integrated one stop system statewide. Sustaining this model is becoming increasingly difficult due to strained resources.

Strategies

Increase equity of access to education via coordinated local action: the Promise Neighborhood

Saint Paul developed the Promise Neighborhood initiative utilizing a U.S. Department of Education planning grant to develop a cradle-to-career approach to education and youth development. The initiative focuses on the Frogtown and Summit University neighborhoods, which have disproportionately young and low-income populations. It brings together the City of Saint Paul, the Saint Paul School District, Ramsey County, the Wilder Foundation, the YWCA of Saint Paul, the Summit University Planning Council, and the Frogtown Neighborhood Association, to align resources to support kids in school, at home, and in neighborhoods. By providing a continuum of supports to increase student achievement, more kids will graduate from high school and go on to post-secondary training to acquire the skills they need to compete in the 21st-century workforce.

Connect high school students to career pathways: AchieveMpls

High school students have inadequate access to information about careers in the trades, technical fields, and colleges and universities in the region, and how to pursue credentialing and job opportunities. AchieveMpls is a strategic nonprofit partner of Minneapolis Public Schools with support from the City of Minneapolis, the Minneapolis Regional Chamber of Commerce and others. It invests private funding to staff high schools with guidance counselors able to advise students about post-secondary options that include technical and vocation training opportunities. Also in Minneapolis, vocational magnet high schools focused on industries such as manufacturing and health care provide early-track choices for students to develop expertise and identify specific post-secondary choices for credentialing. Establishing early awareness of career pathways deepens the expertise developed and supports prospects for high school and post-secondary program graduation.

Link opportunities for human capital development to green jobs

A coordinated, regional initiative to grow and attract green jobs

Thinc.GreenMSP is a partnership between Minneapolis and Saint Paul to facilitate the growth of the region's green manufacturing economy. It seeks to create regional distinction, to drive demand for green products and services, and to generate momentum and support for continued innovation in green manufacturing. Thinc.GreenMSP will partner with private, public and academic sectors to:

- Improve Minneapolis-Saint Paul's green manufacturing base, including a local government green purchasing partnership, green building standards, matching existing industrial zones with manufacturers poised to thrive in a low-carbon economy, and financing tools for green manufacturers;
- Grow the market for green products and services;
- Brand Minneapolis-Saint Paul as a great place to develop green businesses and expand the green business-friendly environment; and
- Create access to opportunities for the region's residents across levels of credentialing.

Train and deploy underemployed workers to growth areas in green economy

Renewable Energy Networks Empowering Workers (RENEW) is a two-year collaborative project between the City of Minneapolis and Ramsey County Workforce Solutions designed to provide employment and training services and funded by $4 million invested by the federal government's Pathways Out of Poverty effort.

The RENEW program builds on economic development opportunities by partnering with metro community and technical colleges to train and place jobseekers in "green-collar" careers. Trainees are equipped with skills that business customers use to manage energy usage and create and improve sustainable business operations. Recruitment is aimed at neighborhoods with 15% concentration of poverty or greater in Minneapolis and Saint Paul, to strategically connect them to the opportunities of the emerging green economy. The project will serve participants over a 24-month period with job training in the areas of construction/deconstruction, manufacturing, building systems, and renewable energy with a focus on solar power. Training will be supplemented with adult basic education services and support services. Ninety percent of participants are expected to earn an industry-recognized degree or certificate.

Build internal capacity for organizations to leverage low-carbon advantage

The Minnesota BlueGreen Alliance is a broad-based initiative to put Minnesotans to work in sustainable industries, formed through partnership of the United Steelworkers, the Sierra Club, and others. The Alliance has launched GreenPOWER, an innovative new training program designed to give workers the skills required for Minnesota's clean energy economy, bringing together labor unions, manufacturers and job training providers to implement energy strategies in the workplace. With stand-alone modules, GreenPOWER can fit into trainee schedules and be customized to meet employer requirements.

GreenPOWER trains workers and jobseekers in energy efficiency, environmental awareness, waste reduction, and lean production techniques that can be applied to traditional manufacturing, materials production, and assembly, as well to clean energy and "green-oriented" producers. GreenPOWER anticipates serving 1,375 trainees through December 2011, including incumbent, unemployed, and dislocated workers across the region.

Retrain adult workers in the region: FastTRAC and ShiFT Midternships

Link adult basic education, community and technical education in a coordinated system for adult workers

The Minnesota FastTRAC (training, resources, and credentialing) initiative is a comprehensive skill training initiative which includes basic education, community, and technical education focused on post secondary credentials. Engaging adults in training that leads to "stackable" credentials with industry valued skills, FastTRAC is sponsored by MnSCU, Adult Basic Education, and the Minnesota Dept. of Employment and Economic Development (DEED) which leverages multiple technical and community colleges throughout the state. Objectives include helping newly trained or retrained, low-skill adults to match skill sets to employment opportunities in critical occupational clusters in regional economies.[44]

Facilitate redeployment of adult workers in midlife career transitions

ShiFT is an innovative offshoot of the Vital Aging Network (a national leader in changing the perception of seniors from a needs-based to a strengths-based population). It is charged with delivering a transformative and innovative approach to vital aging in the workforce. SHiFT facilitates the "Midternships" pilot program in conjunction with DEED. These are programs for highly motivated individuals of 50 years of age or older to try their skills in a new work

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[44] Lee Munnich, Jr. and L. Burke Murphy, "Minnesota's Workforce Investment and Competitiveness Strategy," presented to the European Commission Directorate-General for Employment, Social Affairs and Equal Opportunity, and University of Maryland School of Public Policy, November 7, 2009.

environment up to 32 hours a week for 3 to 6 months. Workers gain on-the-job, documented experience in a new career, while employers gain valuable temporary help from a qualified talent pool.

LEVERAGE POINT 3: DRIVE COMMERCIALIZATION OF INNOVATION THROUGH ENTREPRENEURSHIP

Background

By leveraging private and public research, corporations and entrepreneurs can convert new ideas into valuable products and services for export, and jobs and economic activity for the region. As a proportion of total gross domestic product, the value of research and development conducted in Minnesota ranks among the top fifteen states, according to the National Science Foundation.[45] The U of M Twin Cities campus ranks in the top ten institutions in a tally of scientific papers generated, and in aggregate dollar value of research.[46] The University of Minnesota is a major contributor. The University ranks in the 99th percentile for licensing income and 77th percentile for licenses executed for research generated in the institution.[47]

The private sector plays an even larger role in the region's innovation system. Industrial research and development per capita in the region is nearly ten times that in the academic environment, and exceeds the national average by 65 percent. Between 2003 and 2007, 3M filed 1,584 patents (while the University of Minnesota filed 141).[48] Large employers fund the majority of private research in Minnesota: 61.3 percent of industrial research and development dollars are invested by firms with more than 10,000 employees, versus 52.5 percent nationally.[49]

While Minnesota's public and private innovation infrastructure has many sound attributes, cause for concern arises in when we look at it from the standpoint of per-capita investment. The state's rank in per-capita research and development investment fell from 20th in 1972 to 40th in 2004. A falling state rank on this metric presents particular cause for concern given the critical nature of research to the regional economy.

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45 Research intensity is 3.1 (National Science Foundation, 2005); Itasca Project analysis. Also see Minnesota Department of Employment and Economic Development, Kyle Uphoff.

46 American Community Survey, US News and World Report; National Science Foundation; Itasca Project analysis.

47 The University's role in developing Ziagen, an anti-AIDS drug, has generated an estimated $300 million in royalties since 1999.

48 Michael E . Porter, Cluster Mapping Project, Institute for Strategy and Competitiveness , Harvard Business School; Richard Bryden, Project Director.

49 National Science Foundation data; Donjek analysis.

Challenges and opportunities

Despite well-developed sources of innovation in the private and public sectors, the region's entrepreneurship levels are modest and falling. Among the 100 largest metro areas, the region ranks 44th in business churn – the rate of starts and closings of firms in the region – and 64th in employment turnover resulting from business starts and closings.[50] Declines in the number of entrepreneurs per capita and the number of high-technology jobs, and flagging levels of venture capital,[51] signify that promising ideas are not leading to new firms and jobs. There are gaps between capabilities and output, from commercializable technologies to tech-based startups.

Two opportunities to address these trends are improved technology transfer from public and private research institutions, and more investment for young, growing firms. The University's pace of investing in firms to commercialize research has quickened in the last 18 months, but it spun off just eleven start-ups between 2005 and 2009.[52] Among the top eight universities in licensing income, U of M ranks sixth, but it is ranked at the bottom in start-up activity.[53] The University's Office of Technology Commercialization and its partners are engaged in reversing this trend, and policies that limit faculty investment in spin-offs are currently under examination.

Technology transfer from large corporations, which develop and retain a concentration of research and development with commercial potential, is limited by the proprietary and defensive nature of corporate patenting activity. Entrepreneurs and small firms are challenged to pluck and combine proprietary intellectual property generated by corporations headquartered regionally, presenting a barrier to growth. Improved access to intellectual property is a priority in many metro areas, and is particularly important in the Minneapolis-Saint Paul region due to the concentration of headquarters and knowledge functions.

The region's performance in formation of mid-size (20-500 employees) firms falls in the bottom half of U.S. metros, indicating that the region's strong stock of ideas is not well-linked to entrepreneurs.[54] The public and private institutions

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50 Small Business Administration Office of Advocacy; Brookings analysis.

51 Levin Center for Economic Development, "Minneapolis/Saint Paul Innovation and Entrepreneurship." August 2010.

52 Start-up figures from University of Minnesota, Office of Technology Commercialization. The University ranked 35th among 157 research institutions with annual research budgets over $1 million, according to the Association of University Technology Managers 2007 Licensing Survey; analysis by Itasca Project.

53 Association of University Technology Managers 2007 Licensing Survey, analysis by Itasca Project.

54 Small Business Administration Office of Advocacy.

conducting most R&D are not transferring the projects quickly to entrepreneurs, which can be a barrier to growth.

In addition to improved transfer of technology, entrepreneurship can be boosted through an improved sequencing of risk capital. In a shift since the 1990s, few venture investments in the region are now made in the "seed stage" or first round of capital raising. Many regional venture firms and angel groups today favor companies with relatively complete management teams and products, as well as a few actual customers. Thus the supply of risk capital available to leaders of young, high-growth firms in the region is restricted. Minneapolis-Saint Paul venture capital firms invested in 98 prospects between 2004-2007, considerably lagging leading regions like Boston (1,000+), Seattle (343), and Austin, Texas (200).[55]

Debt financing for more mature firms is also lagging, representing another gap in sequencing of business financing. The rate of loan origination to small and mid-size businesses in the region is less than 60 percent of leading regions.[56]

The region must link innovation to entrepreneurs, and entrepreneurs to risk capital, with more speed and effectiveness. The volume of intellectual property produced in the public and private sectors, and the presence of educated, skilled workers form the base for a more dynamic, flexible regional economy of the future. Connecting stakeholders to transfer technology and funding early-stage enterprises more quickly and effectively represents a critical next step to increase economic activity and shared prosperity.

Strategies

Create a regional entrepreneurship accelerator

The private-public collaboration of the Itasca Project, Urban Land Institute Minnesota / Regional Council of Mayors, Minnesota Department of Employment and Economic Development (DEED), Target Corporation, the City of Minneapolis and the City of Saint Paul recognize the need to catalyze innovation and entrepreneurship. To that end, the MSP Region has engaged with JumpStart Community Advisors to build a Regional Entrepreneurship Action Plan (REAP). Originally an initiative focused on Saint Paul and Ramsey County, the City of Saint Paul has worked with regional leaders, JumpStart, and funders to expand the REAP to include all thirteen counties in the metropolitan statistical area. The primary purpose of the REAP is to expand and catalyze the region's

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55 Capital IQ; Itasca Project analysis. Per capita, Minnesota's venture investment of $24 is double the average of the Great Lakes states, but well short of the $160 funded in Massachusetts, according to Frank E. Samuel, Jr., "Turning up the Heat: How Venture Capital Can Help Fuel the Economic Transformation of the Great Lakes Region," Brookings Institution, January 2010.

56 Federal Financial Institution Examination Council, MSA aggregate report, 2007; Itasca Project analysis.

entrepreneurial ecosystem. Thus, the proposal for an entrepreneurial accelerator is the lead strategy of the Detailed Development Initiative.

The objective of the REAP is to build on and enhance the region's entrepreneurial assets. The REAP will provide an independent analysis of entrepreneurial potential across the region based on stakeholder interviews and quantitative research. Specific programs and tools designed according to the metro's unique strengths can help create high-growth, technology-based start-ups across all industries, from food sciences to medical information. Tools include technical assistance, mentoring, and access to funding that prepares high-potential start-ups for support from angel investors and venture capitalists.

The plan for an entrepreneurship accelerator reflects the emphasis on improving the region's entrepreneurial ecosystem, by capitalizing on the Region's innovation assets, creating paths from entrepreneurs to investors, and increasing the amount of available investment funding, from grants to angel funds to venture capital.

Stimulate innovation through links to statewide initiatives: Minnesota Science and Technology Authority

The Minnesota Science and Technology Authority (MSTA), a state-supported economic development initiative, was created in July 2010 to stimulate innovation and encourage investment in new-technology products, companies, industries, and jobs. The Authority will connect science and technology businesses and nonprofit organizations with funding, resources, and counsel to enhance Minnesota's economic vitality with science- and technology-based business development.

Expand gateway for bioscience commercialization: University Enterprise Labs, Biomedical Discovery District, Minnesota Science Park

Expansion of the University Enterprise Labs (UEL) and planned development of the Biomedical Discovery District and Minnesota Science Park represent initiatives to promote collaboration between the University and the entrepreneurial community. By enhancing the ability of entrepreneurs to translate research and development into products will reinforce a positive regional reputation among venture capital investors. More detail about these initiatives is provided in the discussion of Leverage Point 1.

Expand informal advocacy for innovation and entrepreneurship

Many organizations have served the region by convening entrepreneurs and advocates, including the Collaborative, LifeScience Alley, the BioBusiness Alliance of Minnesota, and the Metropolitan Economic Development Association, In recent years, additional networks have formed to exchange ideas and raise the profile of entrepreneurship in the region, including Minne*, MOJO Minnesota, and the Cleantech Open and Minnesota Cup business competitions. These

networks seek to connect entrepreneurs with technical assistance, investors, and peers to enhance commercialization in the region. They can also support the need for strong and transparent regional civic culture and institutions, further discussed in Leverage Point 5 (p. 33) that elevate awareness of entrepreneurship. (*create effective public and civic culture and institutions*). Maybe just me but I don't understand what this connection means; does the fix above clarify?

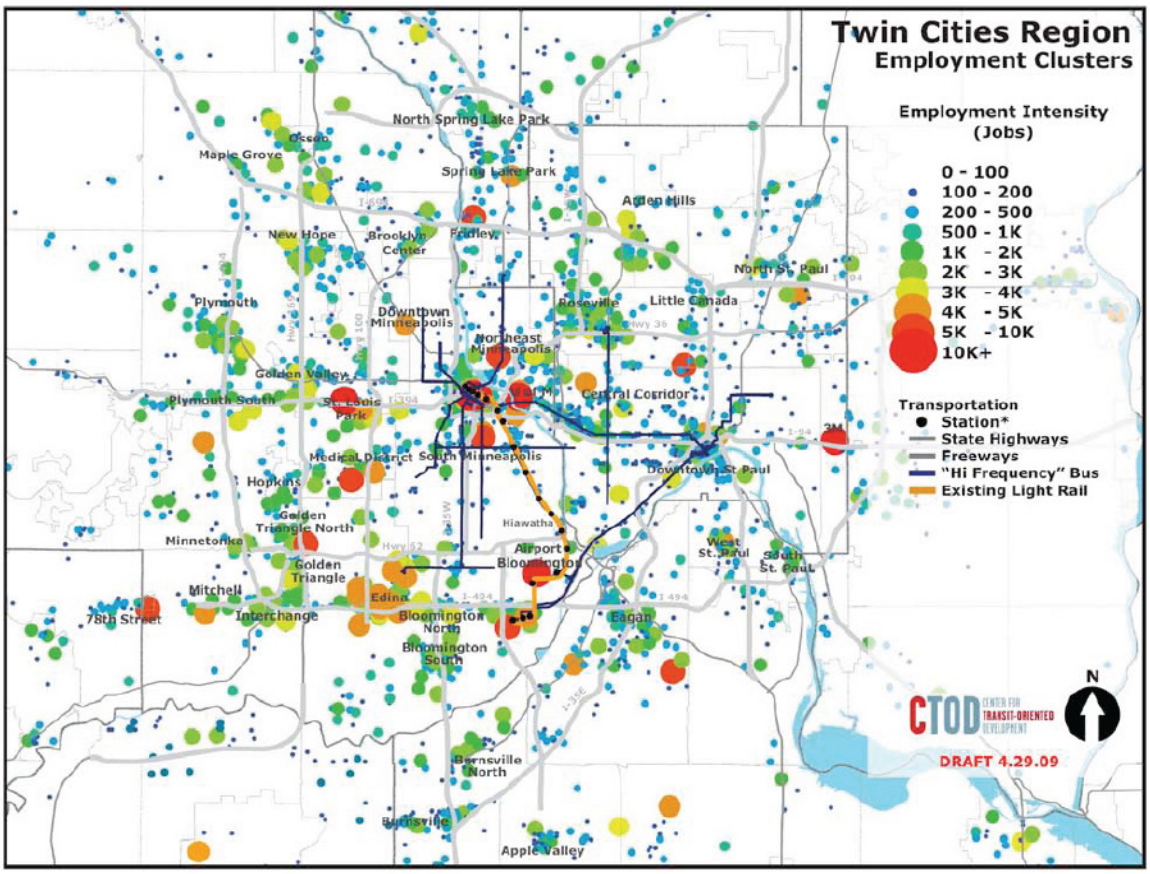
LEVERAGE POINT 4: INCREASE SPATIAL EFFICIENCY

Background

The Minneapolis-Saint Paul region's growth radiated from an urban concentration of jobs and housing to suburban and ex-urban development. This expansion was made possible by infrastructure investments (sewer, water and roads), affordable land, schools, and sustained consumer demand for low-density, single-asset development.

The region's development as a center of knowledge workers and innovation in the 1980s, 1990s, and 2000s triggered a population expansion. Jobs, accessible education and high quality of life stimulated immigration, and the rate of growth in workforce boosted demand for housing and services. The result was a 38 percent expansion in developed land area, and population growth of 25 percent between 1986 and 2002.[57]

[57] Myron Orfield and Thomas Luce, *Region* (Minneapolis: University of Minnesota Press, 2010), p. 22. Between 1970 and 2005, residential land use in the seven-county region increased 91 percent and commercial land use increased 150 percent (Metropolitan Council data).



Major corporate headquarters such as General Mills, Medtronic, 3M, Cargill, and C.H. Robinson concentrated thousands of employees at locations across the region. More than 30 percent of the region's workers – 700,000 in total – are employed within one of twenty major regional employment centers, with 230,000 in the two core downtown areas.[58]

Regional transit is providing an evolving level of connectivity between centers and the two core downtown areas, primarily on a hub and spoke model. Inadequate service among the centers themselves, other than the downtowns, hinder fluid access to jobs. Transit ridership is increasing: Between 2004 and 2008, the Metropolitan Council reported increases of 34 percent in bus ridership and 248 percent in rail ridership following introduction of light rail (and more recently, commuter rail) service.[59]

The metro is directly connected to global marketplaces via well-developed infrastructure for air, rail, and river transportation for freight and passengers. The region ranks 36th among U.S. metros for the total value of international

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58 Ibid.; Center for Transit-Oriented Development, 2004; U.S. Census Longitudinal Employer-Household Dynamics (data derived at the census block level).

59 Metropolitan Council data.

merchandise handled through its ports.[60] The region's international airport is ranked 16th in the nation for passenger volume.[61]

Digital infrastructure accelerates communication and enables firms to compete, particularly in the export of services, and our region boasts a high degree of residential broadband availability.[62] A recent report ranked residential broadband speeds in Saint Paul as the nation's best, with Minneapolis ranking seventh.[63]

Challenges and opportunities

Research indicates that over half the region's population can reach over 1 million jobs in 30 minutes or less by car.[64] However, this accessibility is not universal in the region: between 1990 and 2000, the area reachable from key employment centers in 20 minutes fell by 24-51 percent.[65]

Geographic growth has influenced how broadly the region's economic benefits are shared. While 45 percent of the region's poor residents live in Saint Paul and Minneapolis,[66] less than 30 percent of low-wage jobs in the seven-county metro are located within the two core cities.[67] The regions's mismatched housing and employment opportunities create travel needs for low-skill workers without cars that are not always met by our mass transit network.

Development of a surface rail system is building on a base of bus service to connect the region. The metro has completed the Hiawatha light rail line to link Minneapolis, Bloomington, and the international airport. Two additional lines are in development that will connect downtown Saint Paul, the Midway, the University of Minnesota, downtown Minneapolis, and concentrations of housing and employment in suburban cities southwest of Minneapolis.

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60 U.S. Department of Transportation. 2009. America's Freight Transportation Gateways. Washington, DC. Brookings analysis.

61 Tomer, Adie and Rob Puentes, "Expect Delays: An Analysis of Air Travel Trends in the United States," (Washington, D.C.: Brookings Institution. 2009).

62 Broadband is available to 97 percent of households in nine the eleven counties in the metro (ConnectMN study, cited in Ultra High-Speed Broadband Task Force, "Minnesota Ultra High-Speed Broadband Report," 29-31).

63 Net Index results, cited in Steve Alexander, "Saint Paul gets top ranking for speedy Internet," Star Tribune, September 3, 2010.

64 University of Minnesota, Center for Transportation Studies, "Measuring What Matters: Access to Destinations," 2010.

65 Orfield and Luce, op. cit., p. 205.

66 U.S. Census Bureau, Decennial Census (2000) and U.S. Census Bureau, American Community Survey (2006-2008). Twin Cities Compass analysis.

67 American Community Survey data, 2006-8. The core-city proportion of individuals living under the poverty line in the seven-county region has been falling since 2000, from 58% to 51%. The 45% reflects the core-city proportion of individuals living under the poverty line in the entire 13-county metro. Center for Transportation Studies. Also, Metropolitan Council, 2009 Twin Cities Transit System Performance Evaluation, March 2010.

There is growing support to expand the transit network, reflecting rising concerns about energy security and the desire to competitively position the region for economic growth. As a key regional priority, the attraction of younger, skilled workers will require a supply of housing connected to jobs and regional amenities via multiple transportation options.[68]

The economic recession presents an opportunity to realign the region's land use to accommodate current consumer preferences. A pause in geographic growth[69] provides an opening to implement strategies to meet consumer demand and more efficiently connect transportation and land use investments in the future. Reducing vehicle miles through intentional land use strategies is an effective approach to cutting energy use, greenhouse gas emissions,[70] and our carbon footprint, which ranks among the ten worst in the nation.[71]

Meeting the preferences of a market more focused on developed areas of the region and multiple modes of transport will require finance and policy tools to support reinvestment. The region expanded through easy access to green field development. Meanwhile a substantial inventory of urban and inner-ring suburban sites – many with some level of contamination – developed over time as previous uses declined or ceased. An important opportunity exists to implement strategies that will make redevelopment – typically, more complicated and expensive – simpler and more attractive across the region.

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68 Cathy Bennett and John Carpenter, "Twin Cities Demographic Change Report," presented to ULI Minnesota/Regional Council of Mayors, May 18, 2009.

69 David Peterson and Katie Humphrey, "Reverse Migration: Flight to the Exurbs Stops Cold," *Star Tribune*, April 12, 2010.

70 Urban Land Institute, "Land Use and Driving: The Role Compact Development Can Play in Reducing Greenhouse Gas Emissions," 2010, pp. 15-19.

71 Project Vulcan (analysis by Brookings Institution), "Next Economy: Low-carbon," Purdue University Department of Earth and Atmospheric Sciences, 2007, Web, Accessed 2011, < http://www.purdue.edu/eas/carbon/vulcan/research.php>.

The role of place

The quality of life in any region plays a significant role in its ability to attract and retain workers and business leaders. A regional system of parks and open space, a diverse and acclaimed arts scene, an engaged and active citizenry, distinct and cohesive neighborhoods, and lakes in and near the city are among the characteristics that make Minneapolis-Saint Paul an attractive destination for talented people.

Benefits associated with these regional assets span the leverage points of regional concentration, human capital deployment, innovation and entrepreneurship, spatial efficiency, and effective public and civic culture. Threats to these amenities can affect the regional economy in multiple ways. Parks and open space present one example. The seven-county region contains 181,000 acres of parkland, or 10 percent of total land area. While the cities of Minneapolis and Saint Paul include 14-17 percent parkland, the metro figure is only slightly above the average for comparable areas. Land preservation has not kept pace with growth of developed land area, threatening a key element of what makes the Minneapolis-Saint Paul region desirable to individuals and firms.

Cultural amenities and attractive neighborhoods are expected attributes of metro areas truly competing for talent. Preservation and maintenance of quality of life represent important functions for continued regional collaboration, supportive of a dynamic and productive metro economy.

Strategies

Focus investment on intensifying use of existing infrastructure: The Metropolitan Council's Livable Communities Program

Since its inception in 1995, the Livable Communities Program has invested nearly $200 million in economic revitalization, affordable housing, and other projects that link land use with transportation in the seven-county area governed by the Metropolitan Council. Investments from two funds (the tax-base revitalization account and the livable communities demonstration account) have enabled partnerships with over 50 metro municipalities to increase tax base by $80 million; created or retained 34,000 jobs in the region; and financed 3,700 housing units. The program provides gap financing and grants to support development projects that leverage existing infrastructure (including transit). Its success has enhanced regional connectivity of jobs and housing, and deserves further application on a metro-wide basis.

Link development patterns and transportation: ULI Minnesota/Regional Council of Mayors' Connecting Transportation and Land Use (CTLUS) Initiative

This initiative advances two outcomes. It seeks to (a) raise awareness of how land use and transportation can reduce green house gas emissions and (b) support economic sustainability and job growth in the region. It promotes reforms necessary to connect transportation and land use policy, planning, investment and development. These outcomes are being implemented through the following two strategies.

Corridors of Opportunity/The Southwest Corridor LRT Community Works Project. This comprehensive collaborative approach reaches across municipal boundaries of land use planning and transit engineering to maximize public benefits gained from transit investments. These include good housing and transportation, a healthy environment, and more jobs. Southwest LRT is the region's first light rail transit line to connect downtown Minneapolis to suburban communities with multiple land uses, financial hurdles, and complex redevelopment opportunities. The Southwest LRT line will foster further redevelopment, as it travels through job-rich employment centers with significant growth potential.

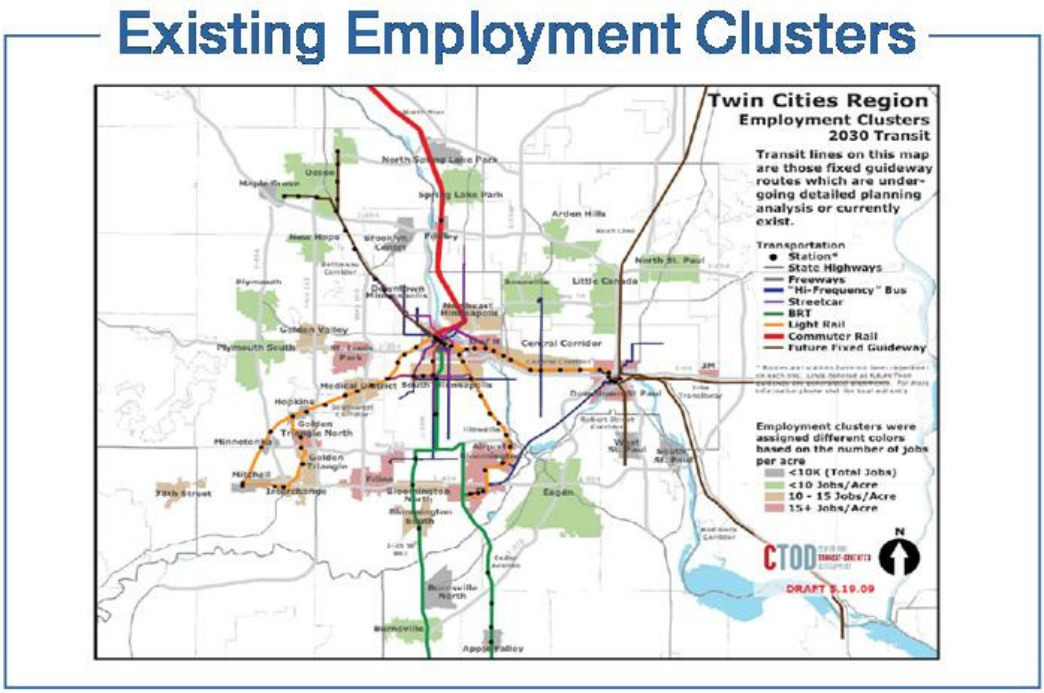
Reinvesting in Our Region. Redevelopment is much more complex than greenfield development. To realize the growth potential along rail corridors and meet changing rider preferences, the region's redevelopment toolbox must be strengthened. The "Great Recession" has left an oversupply of housing and cities are thinking strategically about how to support the kind of growth that will meet their community's needs. ULI Minnesota is leading a public/private effort to raise awareness of the economic reinvestment imperative, and work with our partners to revise and expand local and state strategies as needed.

Tie transportation to human capital and cluster initiatives: Sustainable Communities Regional Planning Program

Several interrelated, multi-sector efforts to enhance regional economic competitiveness and spur job growth comprise the region's Sustainable Communities Regional Planning Program. The goals are to ensure that growth efforts take full advantage of new transit investments and the benefits are equitably available throughout the region.

The Minneapolis-Saint Paul Area Sustainable Communities Consortium is part of the program. It was recently awarded a $5 million, 4-year regional planning grant from the U.S. Department of Housing and Urban Development (HUD). One of its pilot projects is the Central Corridor Economic/Workforce Development Project, which will focus on neighborhood-level economic and workforce development along the Central Corridor LRT line. The pilot's cluster approach to align investments between job training and local industry will be a template for other areas in the region. The goal is to implement an economic and workforce development strategy linking the many community employment and training providers and the Ramsey County Workforce Center located on the corridor with the private/public planning of the West Midway Industrial Area Task Force. The goal of the Task Force is to strengthen the region's industrial area as an employment center in the context of a mixed-use urban environment.

The Ramsey County/Workforce Solutions and the MN Department of Employment and Economic Development will work together to align job skills



assessment and training with industry and small business development. The Central Corridor Economic/Workforce Development Pilot Project will increase collaboration and reinforce regional occupational concentrations through its emphasis on leveraging physical infrastructure investments to improve worker mobility and access to employment information. These changes lead toward relevant job skills training in the corridor, credentialed career pathways, and business development for employers and job seekers.

Plan future regional transportation network to expand capacity: The MSP Regional Cluster Initiative's Jobs/Housing Initiative

This research into the potential for linking lower-income populations to jobs in competitive clusters through transit improvements is titled "Enterprising Twin Cities Transitways Regional Competitiveness and Social Equity in an Integrated Land Use and Transit Context." It was initiated by U of M faculty through the Transitway Impacts Research Program (TIRP) and seeks to explore the potential of the 2030 Transitway system in promoting regional competitiveness and equity using rigorous, future-oriented scenario analyses. The goals are: 1) to inform policy makers of the risks and rewards of various land use and transit scenarios; and 2) to develop best practices in regional land use and transit planning for promoting economic growth and social equity. Project sponsors include the Surdna, McKnight, and Phillips Family foundations. The MSP Regional Cluster

Initiative's broader agenda and cluster strategies are detailed under Leverage Point 3 (enhance concentration of industries, functions and occupations).

Leverage transportation and land use investments to enhance equity: Corridors of Opportunity Living Cities Initiative

Without access to affordable, dependable, regional transportation, economic opportunities for low-income residents are limited and associated with high financial and time costs. To address these inequities, the Twin Cities Corridors of Opportunity Living Cities Initiative focuses on two related issues:

- Improving access to regional opportunities by advancing the build-out of the transit system through enhanced regional decision-making structures and policy alignment, and
- Maximizing community benefits along transit corridors by creating new public-private models to serve those with the greatest need for transit development.

The initiative builds on the work of the Central Corridor Funders Collaborative (CCFC) and its partners. It will advance technical and marketing support to small businesses so that they can grow their customer base as the region's light rail transit system (LRT) develops. It will create new loan products to support affordable commercial building ownership and deploy tools developed by the Twin Cities Community Land Bank to transform transit-accessible vacant residential and commercial properties into affordable homes and community assets, while providing jobs for neighborhood residents. In collaboration with ULI Minnesota, the Center for Transit-Oriented Development (CTOD), and Hennepin County along the Southwest LRT corridor, the initiative will create a regional strategy for public investments to support sustainable, equitable development. The initiative seeks to establish cross-jurisdictional planning and investment processes to create a predictable environment for private investment, support multiple community goals, and catalyze neighborhood development.

The work will be led by the McKnight and Saint Paul Foundations. The mix of financial resources provided by Living Cities will offer a new incentive for using commercial capital creatively to further social good, leverage limited public sector and philanthropic funds, and accomplish more, faster.

The region will thus be pioneering a potential national model: for integrated planning, partnership and investment; for transit-oriented development; and for intergovernmental collaboration around public investment decision-making. Most importantly, the project will demonstrate that transit corridor development can benefit lower-income populations. It can reduce transportation costs, allow people to live in homes they can afford and in neighborhoods with a diversity of

amenities, and help them find work or open a business, while granting dependable access to education, training, and employment opportunities throughout the region.

Implement tools and strategies to boost regional housing choices: ULI Minnesota/Regional Council of Mayors Housing Initiative

The Housing Initiative was launched in 2007 and is funded by the Family Housing Fund. It builds on the collaborative relationships of the Regional Council of Mayors (RCM), ULI Minnesota, and multiple partners to implement tools and strategies to support a full range of housing types, sizes, and prices within the region, down to the neighborhood level where possible. This work is fully integrated with ULI Minnesota's transportation, jobs, and environment initiatives.

Three key strategies have emerged from a pilot run by the initiative's collaborative partnership network; in the next phase, the Housing Initiative will focus on these key strategies.

- Importance of the regeneration of cities to support sustainable, prosperous regional growth.
- Expansion of housing choices based upon changing demographics and diverse market and consumer preferences.
- Implementation of tools and strategies that help municipalities proactively plan for a changing regional economy.

LEVERAGE POINT 5: BUILD EFFECTIVE PUBLIC AND CIVIC CULTURE AND INSTITUTIONS

Background

The region has been known for its collaborative, progressive approaches to governance since the Metropolitan Council was established and introduced regional tax-base sharing in the 1960s. The Metropolitan Council has helped tie local government units into a regional framework for housing, transit, parks and open space, water quality, and management. The region's division into many local governments (25th highest per capita among U.S. metro areas[72]) underscores the value of this key regional institution.

Yet, the proportion of the region's residents who live in the counties covered by the council fell from 92.8 percent in 1990 to 85.8 percent in 2005.[73] The Mayo Clinic, for example, a world-renowned center of innovation, is located 80 miles

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72 U.S. Census Bureau, Census of Governments Integrated Governments Directory, 2007 edition.

73 Census Bureau data for metro population, 1990-2005; Metropolitan Council data for seven-county region, 1990-2005.

from Minneapolis and Saint Paul and remains outside the formal metro governance structure.

The region has invented additional forms of collaborative governance over time to address changing circumstances. The Itasca Project, a private-sector initiative, has effectively elevated issues related to education, transportation, and governance for the region since 2003. The Central Corridor Funders Collaborative, a venture of regional and national foundations started in 2007, coordinates investment in transit-oriented development and workforce initiatives around construction of the urban Central Corridor LRT line.

City and suburban leaders, with ULI Minnesota, founded the Regional Council of Mayors in 2005 to so that metro mayors can together identify and seize regional opportunities; its reach is documented in multiple strategies in this plan. The Counties Transit Improvement Board (CTIB) is a joint entity among five metro counties formed in 2008, to provide stable transit investment through a regional framework. Municipalities are now collaborating with private and philanthropic stakeholders within the Southwest LRT Community Works, which seeks to integrate land use into the design for the region's third LRT line, located in the southwest quadrant of the metro. These examples show the region's stakeholders convening around issues of regional importance.

Economic development represents a costly exception to the metro area's tradition of effective regional governance. Dozens of public agencies, chambers of commerce, and other entities engage in economic development activities without a common agenda, creating inefficiency and missed opportunities to leverage the portfolio of assets found across the region for local and metro-scale efforts.

Challenges and opportunities

Presence of over 180 municipalities in the region has produced wide variation in land use, zoning, and licensing regulations. Cities often lead efforts to retain and attract individual firms, having neither the scope nor resources to do so on a regional or cluster scale. Business site decisions are influenced locally in a haphazard way, and made independent of a regional strategy.

Other economic development initiatives are pursued on scales that do not match the regional nature of today's metro economy. State agencies pursue recruitment and retention efforts, including investments in the region's education and training, infrastructure, entrepreneurship, and its public-funded innovation. The region's private sector has engaged economic development primarily through the region's several chambers of commerce, but their separate initiatives, while valuable, remain insufficiently linked to a region-wide agenda.

The metro area has lacked civic institutions that elevate entrepreneurship. The region's cultural disposition to entrepreneurship and economic development is

perceived as lukewarm. Average rates of entrepreneurship, a high concentration of workers employed in large firms, and cultural traits of modesty and risk aversion have hindered an essential element of the region's economic development.

A unified, regional economic development strategy will leverage the metro's assets more effectively as:

- Municipalities develop structures for sharing of systems not provided by the Metropolitan Council, and coordinate key economic factors such as workforce development, zoning, and business regulation
- Economic development to assist new startups, and attract and retain firms advances on a regional basis, using each municipality as a key piece to a larger menu of assets, to reinforce and build upon strong regional concentrations
- Private-sector parties assume leadership in developing and implementing a unified strategy for economic development across the metro area
- Decisions about infrastructure investments are addressed regionally and strategically, to support key clusters, employer access to large employment pools, and the matching of jobs and housing
- The commitment to jurisdictional collaboration and private/public partnerships is retained and developed
- Dynamics that segregate the region by race and income are addressed to expand the degree to which metro prosperity is shared
- Civic institutions highlight the importance of entrepreneurship and business risk in the region's evolution to a more competitive, dynamic economy.

Establishing a single, private/public approach to regional economic development will leverage the region's deep tradition of collaboration and innovative governance.

Strategies

Launch an effective, unified regional economic development entity

The region is forming the private-sector-led Regional Economic Development Partnership (REDP), charged with recruiting and retaining large and small firms. It will integrate activities of over forty economic development organizations, represent the region via marketing channels to external audiences, and shift the focus of economic development from municipalities to the region as a whole. Regional economies do not respect political boundaries, and efforts to build concentrations in the region demand coordination.

The partnership will identify opportunities where transportation infrastructure and land use together present a compelling profile for certain firms or industry clusters. The partnership will tap local private-sector leaders to make the region's case to peers. Through marketing, the partnership will resent the region's favorable characteristics and mitigate the negative ones.

Commit to ongoing metropolitan business planning: The Brookings Metropolitan Business Plan Initiative

Private and public entities are currently engaged in development of this document – the region's first metropolitan business plan. In partnership, the Brookings Institution, ULI Minnesota/Regional Council of Mayors, DEED, City of Saint Paul, City of Minneapolis, the Itasca Project, and Target Corporation are developing a business plan to guide private, regional, state, and federal investment in the region and its firms. By conducting a rigorous market scan of its clusters, human capital, innovation, spatial efficiency and governance, the region is developing a new approach to developing key priorities and recommendations for the future.

Expand informal advocacy for innovation and entrepreneurship

Organizations convening entrepreneurs and advocates include LifeScience Alley and the BioBusiness Alliance of Minnesota, the Metropolitan Economic Development Association, and the Minnesota High Technology Association. Recently formed networks now speed the exchange of ideas and raise the profile of entrepreneurship in the region, including Minne*, MOJO Minnesota, and the Minnesota Cup business competition. Events publicizing entrepreneurial contributions to the regional economy are valuable for highlighting innovation success stories. For further discussion, please refer back to the strategies outlined under Leverage Point 3, "Drive Commercialization of Innovation through Entrepreneurship."

LEVERAGE POINT 6: DEVELOP AND DEPLOY INFORMATION RESOURCES

Background

Information is a fundamental currency of the modern economy – determining transaction costs to find assets and opportunities, and measure risk, with respect to labor force, retail markets, real estate investment and every other aspect of economic activity. Dynamic, rapidly adapting economic regions have access to rich, well-developed information tools to enable markets to be more efficient, and so inclusive, and firms to be more productive. Rich information resources and technologies also enable more efficient and engaging government, and more reliable planning. Information thus contributes to labor- and capital-market

efficiency, cluster productivity, accelerating innovation and improving governance.

The region's strong private/public partnerships and governance have produced regional statistical information resources available to inform policy and business decisions. MetroMSP and BusinessConnection offer online data and analysis on regional conditions, interactive forums for business and regulatory inquiries, and information relevant to site selection across the region and state. Minnesota Compass is a clearinghouse of data on transportation, education, and demographics. MetroGIS offers a robust exchange of data sets for mapping conditions in the seven-county metropolitan area. Community Change reports convey information concerning demography, real estate, and workforce trends.

Other information initiatives focus on transparency of the region's labor marketplace. State agencies in education, workforce development, and economic development operate ISEEK, an interactive system for disseminating occupational and training information to the region's workers. MinnesotaWorks.net, a utility sponsored by DEED, helps match employers and prospective workers. JobConnect in Ramsey County is a network of employment, community, and educational entities matching job seekers to opportunities via an online platform.

Collectively, these initiatives and others are using mapping and web technology to provide region-specific data that users can manipulate and analyze to improve policy and investment decisions.

Challenges and opportunities

Open access to regional data is a valuable regional asset. Opportunities remain to expand the breadth of information related to innovation, further to emphasize the metropolitan region as an economic system, and measure the impact of strategies.

While a comprehensive set of measures related to infrastructure planning and demographics are accumulated and summarized by the Metropolitan Council, implementation plans are as fragmented as the region's governments and agencies. Further, the identification and continued use of key longitudinal metrics related to the six leverage points in this business plan could be further improved.

The use of regional economic data to guide industry cluster strategies could be enhanced. Alignment of cluster strategies and the region's plans for investment in innovation and infrastructure would strengthen the region's human capital development and efforts for more collaborative, efficient local government.

Entrepreneurs, investors and policy makers rely on flexible information sources to evaluate the financial viability of market niches, match workers with applicable skills to jobs, and design effective business development strategies. The Worldwide Innovation Network, a General Mills enterprise, is an example of

private-sector use of "crowd-sourcing" to improve products and processes through an exchange with innovative firms. More effective sharing of this significant and underutilized resource will stimulate growth in the region's economic activity and employment base.

Strategies

Support and expand exchange of regional economic information

Establish a cluster board for the medical devices industry

The MSP Regional Cluster Initiative is a joint initiative of ULI Minnesota/Regional Council of Mayors, the University's Humphrey School of Public Affairs, and Minnesota DEED. (It is discussed in more detail in the section on leverage point 1, "Build and Strengthen Clusters"). Together with the BioBusiness Alliance of Minnesota the project is building a more formal network within the medical devices cluster, including an industry cluster board to provide firms and workers with a collective industry presence and advocacy. A cluster board fosters collaboration on issues of particular importance to an individual industry cluster, including efficiency innovations, best practices, issues of capital access, workforce development needs, technological advancement and other topics of shared value. The cluster board initiative and the broader strategy of the MSP Regional Cluster Initiative are detailed in the discussion of Leverage Point 1 (Cluster strategies).

Leverage cluster mapping tools

The BIOMAP mapping tool recently released by the BioBusiness Alliance of Minnesota allows users to search the state's geography for firms by industry, knowledge cluster, supply chains, or educational programs. For workers, entrepreneurs exploring location decisions, or investors, the tool provides valuable information. Integration of metro-scale efforts with statewide cluster initiatives will reinforce the value of strategies to build dynamic industry and occupational clusters in the region. Integration will also expand the metro area's potential pool for workers and connect entrepreneurs around the state with peers and funders. More detailed information about the BioBusiness Alliance of Minnesota is included in Leverage Point 1, on economic concentrations.

Coordinate measurement of regional economic performance

Several initiatives described above now collect and publish regional economic data. The Metropolitan Council's Regional Benchmarks and Minnesota Compass produce longitudinal analysis that provides a base for decision making. However, the body of metrics raised in this Business Plan, which emphasizes a skilled, nimble workforce and innovation infrastructure, does not have a current steward in the region. The formation of a Regional Economic Development Partnership is an

opportunity to house the tracking of measures specific to regional economic development. Data should be updated twice each year and released on a schedule to inform the economic development agenda in legislative sessions.

5. The Detailed Development Initiative (DDI): An "Entrepreneurship Accelerator"

OVERVIEW

Introduction

After considering a number of high value targets for the region's Detailed Development Initiative (DDI), the region chose to focus the DDI on Leverage Point 3 - develop an infrastructure of innovation and entrepreneurship. Specifically, the region will create an entrepreneurship accelerator, a non-profit organization that will provide a continuum of resources (services and capital) to accelerate the development of innovative, early-stage and pre-market opportunities. The Entrepreneurship Accelerator's (EA) mission will be to transform these opportunities into companies that are ready to attract the angel and venture capital necessary to fuel market entry and growth.

The region boasts a strong history of entrepreneurship that, over the last 30 years, created many of the 21 Fortune 500 companies located in the region. The region has a highly educated work force and, as a producer of intellectual property (measured as patent filings), ranks among the leaders. Conducting research in connection with the Brookings MSP project and the JumpStart REAP project, the region identified a relatively large number of innovative, pre-revenue opportunities championed by smart and motivated entrepreneurs. Yet, during the last 8-10 years, the region continues to experience a sharp per capita decline in the number of startups, entrepreneurs, high-tech jobs and other measures of entrepreneurship and innovation.

Exploring the logical inconsistency between the region's rich pool of opportunities and talent, and the sharp decline in the measures of entrepreneurship, the regional leaders reached the following conclusion – the region faces a classic "valley of death" challenge. In general, the term "valley of death" refers to the lack of financial and other resources available to opportunities in the earliest phases of commercialization (well before the opportunity has generated a market-ready product or secured a customer). The "valley of death" begins when the entrepreneur has exhausted personal and family resources, which often occurs soon after the entrepreneur has the "big idea," and ends when the opportunity is mature enough for serious consideration by a professional angel investor or a venture capital fund. Few professional investors will assume the product, technology, management and market risks associated with a pre-revenue opportunity.

To confirm the wealth of regional opportunities, JumpStart and a team of regional leaders (entrepreneurs, investors, and economic development professionals) met with hundreds of entrepreneurs, investors, economic development professionals, technologists, faculty members, and others. These meetings helped the team confirm that the region generates several hundred pre-venture business opportunities annually across a range of markets and technologies. A partial list of the markets and technologies include: (i) IT/software, including informatics, mobile apps, and web/Internet apps; (ii) medical devices; (iii) advanced materials; (iv) biotech; (v) med-tech, including diagnostics and testing; (vi) green/alternative/renewable energy; (vii) retail, including logistics; (viii) agricultural tech; (ix) healthy foods; (x) media and communications; and(xi) electronics.

To confirm the existence of the "valley of death" and its negative impact on regional entrepreneurship, the team relied on two pieces of information. First, the team relied on a clear and consistent message delivered by the region's entrepreneurs, investors, and related public and private sources of entrepreneurial assistance during the course of interviews and group meetings. An entrepreneur with an idea, concept, prototype, or plan, but no customers, has little chance of securing an investment. When asked -- "Who would you talk to or where would you go if seeking capital, services, or expertise to help you bring your idea to market?" – the entrepreneurs responded one of two ways: (1) "We don't know," or (2) "Out-of-state." Second, the team focused on the published reports of venture capital investments in the region during the last several years. The region contains over 20 investment firms and angel investor groups, yet published reports indicate that only a handful of the 50-100 venture investments made annually in the region are "first round" investments. 74 Most of these investments are second, third, and forth round investments that fund growth rather than the higher risk milestones characteristic of the pre-revenue phases of commercialization (e.g. developing a market-ready product, a business and go-to-market plan, and securing the first few customers). Unquestionably, the "valley of death" is real in the Minneapolis-Saint Paul region. Addressing this gap has therefore emerged as a critical regional objective and the focus of the DDI.

Because of the enormous regional value that could result from helping only a few high-value opportunities cross the "valley of death," attract investment capital, and achieve market success, the team decided to focus the DDI on the development, funding, and implementation of the Entrepreneurship Accelerator (the "EA"). Even a few modest successes have the potential to generate enormous direct and

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[74] Data published by the Minnesota Venture Capital Association (www.mnva.org) and obtained through VentureSource (www.venturesource.com).

indirect value and reignite the region's spirit of entrepreneurship and innovation that gave rise to the current thriving economy.

The EA will serve the 13-county Minneapolis-Saint Paul metro area. As a non-profit venture development organization, the EA's mission *is to accelerate the development of innovative early-stage businesses into venture-ready companies by providing a continuum of resources to entrepreneurs and the innovation community*. The EA will connect viable business concepts and growth-oriented entrepreneurs to investment capital. As a "risk-oriented" organization focused on pre-venture opportunities and companies, the EA will embrace and manage risk through its investment criteria, the technical expertise it provides, and its regional marketing campaign. The EA's near-term objective is to create venture-ready companies that attract investment and increase regional economic activity. The EA's long-term objective is to establish quality, high-growth companies that create wealth and high paying jobs.

Although the EA will provide investment capital (up to $700,000) to as many as six companies per year (see Section titled "Metrics, Economic Impact" below), the EA will provide expert entrepreneurial services to many entrepreneurs. To provide the services, the EA will employ or retain experienced entrepreneurs who will serve in the roles of venture partner or entrepreneur-in-residence (EIR). EIRs will provide hundreds of hours of services during the course of a 6- to 18-month period. EIRs will advise and assist entrepreneurs with business planning and development, finance, sales and marketing. Most important, however, the EIR will help the entrepreneur acquire necessary financial resources.

Experience and Culture

The EA will recruit and build a management team of highly skilled professionals with experience in the following areas: investing in and managing rapidly growing companies, financing and raising capital for early-stage businesses, advising new companies, marketing (including market analysis, product development, branding, product launch, sales support, events, and other commercialization activities), operations, accounting, and IT. The EA team members must have a passion for and experience with innovation-oriented entrepreneurship. They must be enthusiastic for performance measurement and continuous improvement. Accountability, measurement, inclusion, and integrity will be central to the EA's culture and operation. The EA model is built on the basic premise of experienced entrepreneurs helping new entrepreneurs.

Development and Fundraising

The EA will model its fundraising on the approach of proven venture development organizations such as JumpStart, the region's partner in developing the EA business plan, securing required funding, and transforming the plan into a productive operation. As a venture development organization, the EA expects to

generate significant returns for the region. As a venture development organization, the EA's primary measure for tracking economic returns will be follow-on investments attracted by companies that EA supports. The EA does not, however, expect to generate a traditional return on investment in the same way as an angel or venture capital fund. The EA fully expects that a number of the companies it supports will achieve commercial success and generate traditional returns for later-stage investors such as angels and venture capitalists. As a venture development firm, however, when faced with a choice between protecting its investment position in an existing portfolio company and helping a new company cross the "valley of death," the EA will choose to help the new company.

To help portfolio companies generate the results necessary to cross the "valley of death," the EA will provide portfolio companies with up to $700,000 in total funding - an initial investment of $350,000 and a second investment of $350,000. In preparing the financial projections (see Section titled "Metrics, Economic Impact"), the team assumed the EA will make two investments about 50% of the time. In most cases, the disbursement of the $350,000 will be contingent on the company meeting pre-determined milestones. The EA will assign an EIR to manage the investment and work intensively with the portfolio company in its efforts to achieve milestones and secure additional capital.

When a portfolio company attracts angel or venture capital, the EA will generally direct its resources to a new portfolio company. As noted, if the EA continued to invest side-by-side with the angels or venture capitalists, the EA could increase its return on investment. This approach could, however, dramatically reduce the long-term return to the region since it would reduce the number of companies the EA could help cross the "valley of death." With so many opportunities in the region, the Regional Leaders believe the EA should attempt to help as many pre-seed opportunities as possible.

As a result of this strategy, the EA will must raise a substantial portion of its funding from government and philanthropic sources (national and regional). To do this, the EA will employ a dedicated staff who will engage in fundraising efforts with the help of EA's Marketing Team.

The team has already begun to engage in fundraising. The EA's regional sponsors raised $200,000 to ensure the entire 13-county region will be included in the REAP project. These monies supplement funding provided in June 2010 by the federal Economic Development Administration (EDA), the Knight Foundation, and the Surdna Foundation. In partnership with JumpStart, the EDA, Knight and Surdna selected Saint Paul as one of six regions to target for the development, funding, and implementation of a business plan similar to the DDI (aka the "REAP"). In addition to helping create the plan, which will be an extension and refinement of this DDI, JumpStart will help the region secure the funding required

to launch and sustain the EA. JumpStart will advise the EA during initial implementation to make the EA become productive as soon as possible.

Metrics

The EA will be committed to measuring its performance against a well-defined set of process and performance metrics. As examples of process metrics, the EA Marketing Team will measure traffic to the EA website as one indicator of the success of certain outreach efforts; the EA Investment Team will track the number of companies advised and the time required to move from the advisory phase to a closed investment; the EA Acceleration Team will measure portfolio companies against pre-set milestones; the EA Development Team will track "contacts made per week;" and the Finance Team will look at cash flow vs. plan, which in many cases will simply involve monitoring expenditures. As examples of performance metrics, the EA will track the amount of follow-on investments secured by portfolio companies, the amount of revenue generated by portfolio companies, and the amount of funding raised by the EA to support its operations, services, and investing functions. During the first years of operation, the EA will target a leverage ratio of 1-2X ($1-2 of follow-on funding for every dollar invested). During the first three years of operation, the EA will target a leverage ratio of 2-3X, a number that will increase dramatically in subsequent years. The EA will also track the effectiveness of its marketing and outreach efforts in securing the participation of women and minority entrepreneurs. The EA will publish its targets and its results against the targets. The EA will retain an independent expert to prepare an audited Annual Economic Impact Report. The EA metrics system and process is explained in greater detail below (see Section title "Business Plan, Metrics").

Financial Plan

To ensure the EA achieves its direct financial objectives (follow-on funding and leverage) and its more ambitious objectives – have a catalytic and transformative impact on the region's entrepreneurial ecosystem – the EA and regional leaders must secure funds to maintain the operation for 10 or more years. To do this, the EA must establish long term funding relationships with a variety of sources. The EA must be able to build a productive development group and sustain the group throughout the organization's life.

Initially, the region, with JumpStart's assistance, must raise a total of $15-16 million to fund the first three years of operation. As noted, the federal government and national foundations are the likely sources of 50% of this funding. JumpStart and regional leadership will raise the remainder from regional sources (e.g. government, foundations, corporations, individuals, etc.). Both JumpStart and regional leadership are confident they can raise these funds. During the three year period, the initial funding will enable the EA to provide entrepreneurial assistance

to hundreds of companies. The funding will also enable the EA to make initial $350,000 investments in 15 companies and follow-on investments of $350,000 in five companies.

The EA's use of funds breaks down into three general categories: direct investments, services, and general business expenses including marketing, salaries and benefits. The EA will spend approximately 15% of its funding for overhead. Of the remainder, 50% will support service delivery and 50% will be available for direct investment in companies. The EA will continue to refine this model and work with regional leaders to develop the REAP. The EA's detailed financial projections are included below (see Section titled "Business Plan, Financial Plan").

Economic Inclusion

Minority- and female-owned businesses must play an increasingly integral role if global competitiveness, employment growth, income equality, and wealth creation are to be realized. The EA will develop and implement an inclusion strategy that specifically targets the creation and support of high growth female- and minority-owned businesses. To ensure both short-term and long-term success, the EA will identify the current talent pool while simultaneously establishing a pipeline for growth and sustainability. As the foundation for the entire strategy rests upon building solid relationships, the key to success will be a well-executed outreach plan. The Economic Inclusion plan is described in more detail below (see Section titled "Business Plan, Economic Inclusion").

Marketing Plan

The EA will position itself as a comprehensive venture development organization. Since this term is not always understood, the EA will begin with an explanatory branding campaign, engaging entrepreneurs, investors and entrepreneurial supporters throughout the region. Over time, the EA will extend the campaign to venture capitalists and entrepreneurs around the country. The EA will incorporate an outreach and educational campaign that targets foundations, philanthropists, entrepreneurship sponsors and the general public. The EA is firmly committed to these campaigns as critical to long-term success. Marketing will enable the EA to attract the deal flow, partners, investors, and supporters necessary to sustain the effort and catalyze real change in the regional entrepreneurial ecosystem. The Marketing Plan is described in more detail below (see Section titled "Business Plan, Marketing Plan").

Competition/Collaboration

Few organizations or investors in the region consistently provide capital to pre-revenue opportunities. Even fewer have the resources to provide intensive

entrepreneurial assistance to more than a few companies. Yet with the number and diversity of opportunities in the region, effective collaboration will be critical to bringing the necessary expertise and resources to the regional opportunities. Many of the region's existing assistance organizations will play a vital role in the development of the region's ecosystem, and it is therefore important they form strong working alliances with EA. Through its marketing, service, and investment functions, the EA will establish and develop these strong working alliances. Competition/Collaboration is described in more detail below (see Section titled "Business Plan, Competition/Collaboration).

BUSINESS PLAN

Market Analysis – the Challenges

The Minneapolis-Saint Paul region has a powerful economic engine fueled by 21 major Fortune 500 companies, an educated and experienced workforce, sound infrastructure and transportation systems, and a high quality of life. The region is, however, facing an uncertain economic future. In addition to globalization and lower domestic economic growth, large multinational firms are becoming increasingly productive, employing fewer people, and investing more in R&D outside their home regions. That combination presents a serious challenge to the Minneapolis-Saint Paul economy. The following overview of the market highlights some of the challenges and opportunities.

Regional entrepreneurship is flagging

Minnesota's state ranking in entrepreneurship, most of which relates to activity in the Minneapolis-Saint Paul region, dropped from 22nd to 48th between 2007 and 2009.75 While the University of Minnesota, other research institutions, and local Fortune 500 companies have made the region a leader in technology patents and licensing, the region's low startup rate76 shows the region is not converting these inventions into high-value new companies. Since 2002, the number of high-tech jobs and entrepreneurs declined on a per capita basis. Again on a per capital basis, Minnesota startup investments averaged $62 in seed-stage and $199 in early-stage (total $261) vs. California's investment of $1,230 in seed and early-stage startups.

Qualitative research77 indicates the region lacks a strong entrepreneurial infrastructure. The entrepreneurial community is not well connected, and entrepreneurs cannot easily find mentors.

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75 Kauffman Foundation Index of Entrepreneurial Activity, 2010; reflects university and industry R&D, SBIR and STTR awards, and patents issued.

76 Levin Center for Economic Development, "Minneapolis/St. Paul Innovation and Entrepreneurship," August 2010.

77 Itasca Project, "Current Innovation and Entrepreneurship Environment," January 2010.

Venture capital investment is stagnating, indicating a lack of deal flow and a more risk-averse climate

The Minneapolis-Saint Paul region receives less venture capital investment than comparable regions, with the number of companies receiving venture capital in 2008-2009 sharply declining, reflecting the recession.78 Even more telling, most of the venture capital investments are for growth-stage companies. An extremely small percentage of the venture capital investments are seed or early-stage. Entrepreneurs and investors agree that few regional investors are willing to invest in a company in the earliest stages of commercialization, when the investors cannot validate the opportunity with revenues and customers.

The region lacks the resources to provide expert technical services and startup financing for high-potential pre-revenue companies

Although the region is home to a large number of organizations that provide some form of assistance and guidance to pre-revenue companies, most of the organizations do not have the resources to provide intensive assistance services to more than a handful of entrepreneurs annually.

Market Analysis – The Opportunity

The news, however, is not all bad. Based on their discussions with regional venture capitalists, angel investors, support organizations, and entrepreneurs, JumpStart and the regional stakeholders group estimates the region currently generates several hundred opportunities per year that at first glance appear to meet the requirements listed below (see Section titled "Business Plan, The EA Lines of Business, EA Investment, Target Customer and Investing Thesis"). JumpStart and the regional team will continue to refine and improve their knowledge of potential deal flow. It is important to note, however, the region continues to increase its estimates of potential deal flow as the project proceeds. JumpStart and the rest of the regional team continue to believe the region will present the EA with more than enough quality opportunities to reach 4-6 projected investments during each of the next three years.

The region also benefits from a number of high-value, complementary assets. Minnesota ranked 12th among U.S. states in R&D conducted in 2007. The U of M is a leader in technology transfer, ranking 8th among all U.S. universities in licensing income and 16th of 679 institutions in R&D investment (2009); 72% of that is in the health sciences.79

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78 Levin Center for Economic Development, 2010.

79 National Science Foundation.

Minnesota is making strides toward enhancing its entrepreneurial environment. The State recently passed legislation forming the Science and Technology Initiative, and creating the State Angel Tax Credit. The Minneapolis-Saint Paul region has clusters of industries with bright futures in technology, including healthcare and medical devices; bioscience; measurement, analysis, and control instruments; chemicals and allied products, and information technology. The Angel Tax Credit legislation has also re-energized a number of angel groups in the region.

Overall, the region is a fertile environment for the type of assistance and investment the EA proposes to deliver.

The EA Lines of Business

The EA will have three principal lines of business: The EA Exchange, the EA Investments, and the EA Acceleration Services.

The EA Exchange

The EA Exchange will plan, execute and support regular events to connect entrepreneurs with investors and build a greater awareness and cultural appreciation for entrepreneurship. At these networking events, entrepreneurs and investors share stories and challenges, celebrate success, and communicate values.

In recent years, successful regional economies like San Francisco, Austin, and San Jose have reduced reliance on traditional approaches to economic development (e.g. business incentives and tax breaks) and instead turned to cultural themes such as building critical skills and boosting the morale of the workforce. They have aggressively supported a culture of technological and cultural creativity. The EA Exchange is based on these approaches.

Some EA Exchange events will be open, highly visible, and will attract media coverage and publicity. Others will be small, peer-mentoring and educational events attended only by CEOs of high-growth startup companies. Others, such as the speaker series, will target topics of specific interest, such as Intellectual Property. These events will be held in all 13 counties in the region to facilitate connections among entrepreneurs, financiers, resource providers, scientists, and others who can help generate, develop, and commercialize “big ideas.” These connections will also nourish the “little idea:” the introduction of a product, identification of a new distributor, resolution of a technical problem, etc. The EA intends to hold dozens of such events by the end of 2013, reaching and satisfying the needs of thousands of attendees.

The EA Exchange will operate as a cost-neutral center, charging reasonable fees for some events and raising sponsorship revenues to cover the balance of the costs. The EA will develop a detailed menu of sponsorship options and dollar amounts to

address the needs and limitations of a wide range of funders and employ a dedicated staff to organize and fund Exchange events.

Successful entrepreneurial networks are best led and managed by entrepreneurs, and for this reason the EA's Exchange Team[80] will include entrepreneurs. The EA's leadership team, including its CEO, will be present at many of these events.

Entrepreneurs' Online Community

The EA Exchange will also deploy an Online Community for entrepreneurs. The Online Community will supplement the EA Exchange events in terms of establishing and strengthening connections among entrepreneurs, investors, mentors, and service providers. The Online Community will be a source of information for all who play an important role in building a culture of entrepreneurship. The Online Community is not designed to replace face-to-face interaction. Rather, it will include information and tools to strengthen and expand the interactions. Entrepreneurs will have a secure, online space to store important documents, share information with their personal networks, and collaborate with mentors and service providers. The Community will also connect persons and entities interested in joining an entrepreneur's network. Area entrepreneurs can, for example, post their ideas and connect with other entrepreneurs interested in working with them. Service providers can become exposed to entrepreneurs who will benefit from their expertise. All interactions are permissions-based; no one will receive solicitations without their consent. The Online Community will provide metrics and other valuable information to help EA and regional economic development organizations improve the impact of scarce marketing and assistance resources. The Online Community is another important tool to help the EA accelerate the development of the regional entrepreneurial ecosystem and increase the number of connections beyond those that EA can achieve through its intensive assistance process.

The EA Exchange will:

- Build a higher regional awareness of entrepreneurship and innovation;
- Increase the willingness of investors, entrepreneurs, and others to confront the risks associated with entrepreneurship; and
- Accelerate the development of an entrepreneurial network that facilitates high-value connections among people interested in forming and growing new businesses.

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[80] The Marketing Team will run the Exchange line of business.

Entrepreneurs' Confidence Index

In support of EA's marketing and communications efforts, and in partnership with colleges and universities in the region, the EA will produce an "Entrepreneurs' Confidence Index." The Confidence Index will identify prevailing opinions in the region relating to the activities of the EA and its collaborators. The Confidence Index will be an annual report that enables the region to observe changes in opinions and confidence from year to year.

EA Investment

Target Customer and Investing Thesis

During the first three years of operation, the EA anticipates investing a total of $6.85 million in approximately 15 pre-revenue companies located in the Minneapolis-Saint Paul region.[81] In general, the EA will invest opportunities that meet the following criteria:

- **High-potential.** Ventures capable of reaching significant levels of revenue ($30+ million) and employment in five to seven years.
- **Protectable idea.** Ideally, the company will be based on a proprietary technology the company can protect using patent or other similar claims. If the company is a service firm, it must have a well-defined and sustainable competitive advantage.
- **Large ($1+ billion) potential market.** Venture ideas must address a market opportunity that is large enough to provide significant room for meaningful growth within five to seven years.
- **Solid, committed, and experienced team.** At least one member of the senior management team must be experienced in the industry or in entrepreneurship, committed (with skin in the game), and possess high-growth ambitions.

The primary objective of the EA Investment Team is to help these companies attract follow-on capital, typically in the form of angel and venture capital, and occasionally in the form of government and grant funding.

The EA Investment Team will ensure a balanced portfolio. Factors used to balance it include:

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[81] 15 investments of $350,000; half will need a follow-on investment of $350,000 within 12 months, which results in about 5 follow on investments during the first 3 years.

- **Commercialization Phase.** The Investment Team will strive to achieve a portfolio divided equally among the imagining, incubating, and demonstrating phases of commercialization.82
- **Capital stage and funding need.** The EA will typically be the "first money in," but will many times seek and secure co-investment. The EA prefers that its funding last the company for at least 12 months (preferably 18) so the company has enough runway to achieve significant, value-creating milestone(s).
- **Industry.** To start, the EA will invest in multiple industries. Over time, the EA is likely to identify concentrations of deal flow in certain industries. If additional concentrations develop, the EA will add staff with relevant experience in those industries.
- **Need.** A company should want and need assistance from the EA, although the level of need can vary. For instance, the EA may invest in a company whose founder is inexperienced in both business and entrepreneurship, in which case the amount of assistance required would be high. In other cases, the EA may invest in a company and founder that require less assistance because the founder is experienced in both business and entrepreneurship.83
- **Capital structure and deal complexity.** Many early-stage companies have jerry-rigged financing with complex capital structures that make it difficult for the EA to invest. The Investments Team refers to these as "Adjust" companies (see "Investing Process" below).

In putting together its portfolio, the EA will track additional factors that may drive the investment decision, including:

- **Geography.** The EA will invest in companies located throughout the 13-county Minneapolis-Saint Paul region. County location is not a driver of the investment, but the EA is committed to investing in all counties to the extent possible.

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82 The imagining phase is the earliest phase of commercialization. It begins with a "techno-market insight" conceptually linking a technology to a market opportunity. The activities focus on generation of a "proof of concept" often in a laboratory setting. In the next stage, "incubating," determinations are made concerning targeted performance specifications (often using a prototype) and commercial viability (using a conceptual business plan). In the demonstrating phase, product performance is evaluated in a commercial context (in the hands of customers); a version of the product is usually introduced into limited commercial use and a comprehensive business plan is employed.

83 EA will not invest in companies that only desire an investment of capital. The EA believes that a key point of differentiation and credibility for the organization is the combination of expert services and funding. It does not plan to separate them for any investment opportunity.

- **Inclusion.** Minorities represent over 15 percent of the metro population. Women of all backgrounds are starting companies at a rapidly increasing rate when compared to men. The EA aims to represent these growth segments in all aspects of its business, and will employ a chief economic inclusion officer to turn this goal into a reality. Further discussion can be found below under the heading, "Economic Inclusion and Diversity."

Investing Process

The EA will invest $350,000 in each of 4-6 new companies per year, and anticipates providing a follow-on investment of another $350,000 to half of these companies. Because the EA will make approximately five investments and several follow-on investments per year, the Investments Team will use a high-velocity, risk-oriented approach, with investment decisions made regularly via a thorough selection process. The process consists of four primary stages.

- **Advise.** Each month, EA expects to receive dozens of inquiries about investment possibilities. Investment Associates and other EA staff will advise a company as to whether it appears to be well positioned to receive an EA investment. Investment Associates spend up to four hours with a company, considering the team, capital structure, intellectual property, market size, growth potential, and desire for assistance, etc. The EA expects to engage in as many as 500 advising sessions during its first three years of operation.

- **Apply.** From the advising sessions, the EA will likely invite 30-40 companies annually apply online to enter the assist process. In the course of the application process, the company will provide material components of an executive summary and a business plan.

- **Assist.** The EA staff will choose to assist about half the applicants. In the assistance process, the EA entrepreneurial experts work intensely with a company for 4-8 weeks to build a strong business plan and presentation. The company will then present to a panel that consists of the EA Investment and Acceleration Teams, as well as subject matter experts and, sometimes, angel investors and/or venture capitalists.

- **Accelerate.** From the pool of assisted companies, the EA will invest in 4-6 companies per year. The EA will also make secondary investments in 2-3 existing portfolio companies starting in years 2 and 3. For "Accelerate" companies, the EA will take 16 weeks to conduct due diligence, set budgets and milestones, and write an investment memo requesting approval from the EA Investment and Executive committees. If approval is given, an investment will be made and released in tranches: if a $300,000 investment is approved, the EA might release $100,000 initially, and then twice more at 4-month intervals. The tranches are released based on the company's ability to hit

milestones, spend within the burn rate established in its budget, and communicate regularly and well with the EA. If required, the Investment Team may decide to accelerate a limited number of companies with highly complex capital structures. For these startups, known as "Adjust" companies, the Investment Team must consider the additional work and time required to transform the capital structure into one acceptable to potential follow-on investors.

The investment process described above enables the EA to identify "high-potential" companies. If a candidate company is not a good fit for the EA, it will be referred elsewhere. If the candidate company appears to be a good fit, the EA will continue to work with the company through the investment process. Once a company has received the EA investment, the Investment Team will be involved in making regular decisions to release or not release further tranches of funding.

Core to the EA's active, engaged business model is the concept of "going passive" in some investments. If a company is hitting milestones, the EA will continue to release funding installments as scheduled. The EA may even approve additional funding. This is the expected trajectory for accelerated companies. Many companies will struggle to hit milestones, or fail to hit them rapidly enough, in EA's opinion, to attract follow-on investors. If a company is progressing more slowly than projected, the EA may reallocate its entrepreneurial experts to another company in the EA portfolio, one that is progressing more rapidly. The EA will cease to release scheduled installments of money, but continue to monitor the company's progress. While this is often a difficult decision, it is fundamental to EA's "high-velocity" business model. It is important for the EA to have the flexibility to channel scarce resources to the most promising opportunities.

Returns and Evergreen Fund

The EA is a non-profit venture development organization. Its role and objectives are more ambitious and complex than those of a traditional for-profit fund. A for-profit fund has a single objective – earn a high return on investment (ROI). It must therefore commit the majority of its resources to opportunities that are venture-ready or near venture-ready. The EA, however, has a more ambitious set of objectives. First, the EA seeks to fill a gap by working with projects that are earlier in their development than those generally serviced by for-profit funds. Second, while filling this gap, the EA seeks to solidify, celebrate, and continually grow the Minneapolis-Saint Paul region's entrepreneurial and innovation ecosystem. To meet these larger, more complex goals, the EA must focus as much or more on the return to the regional ecosystem as it does to generating a traditional ROI. This is the basis for the third objective, attracting follow-on investment to help the EA's portfolio companies successfully reach market with their products and services while simultaneously fueling the regional economy.

As explained in more detail below under the Section titled "Business Plan, Metrics," the EA will measure progress by the amount of follow-on funding raised by its portfolio companies – monies that would not have been attracted by the companies or the region in the absence of the EA's services and investments. During the first 10 years, given the complex mission and the early phases of commercialization of the EA's portfolio, the EA does not expect to generate a traditional ROI.

Venture Development versus Venture Capital

Some observers of EA and its activities may confuse its goals, objectives, and operations with a venture capital firm. It is important to understand that an investor that invests primarily in pre-revenue opportunities with half-finished products and incomplete management teams is not positioned to generate an ROI within the timeframes generally associated with a venture fund. If funders of the venture development organization impose traditional ROI goals on a venture development organization, the venture development organization has only one option available to it – the organization must invest in later-stage opportunities. If it does this, the venture development organization moves from the "valley of death" and into competition with traditional venture firms. Entrepreneurs with pre-revenue opportunities will no longer be able to secure the resources necessary to cross the "valley of death." If the EA's mission is to help create companies that provide valuable economic development opportunities, including jobs for the residents of the Minneapolis-Saint Paul region, it must continue to assist companies in the earliest phases of commercialization. It only takes a handful of modestly successful companies who employ a few hundred people to produce a positive return for the region, even if those companies don't produce a positive ROI for the EA.

The table below identifies the key differences between the EA's venture development activities and a venture capital firm.

	The EA (Venture Development)	**Venture Capital**
Entity type	Non-profit	For-profit
Priorities (first 3 years)	▪ Promote entrepreneurship in general ▪ Provide significant technical assistance *[6,000-8,000 hours]* per year during the first 3 years	IRR or ROI

	The EA (Venture Development)	Venture Capital
	▪ Fund/create *[15]* companies in the first 3 years ▪ Help portfolio companies raise significant follow-on capital - *[$6-12] million during the first 3 years]*[84] ▪ Help Minneapolis-Saint Paul region become an innovation hotspot ▪ Re-invest 100% of returns in additional companies	
Funding partners	All forms of government grants, foundation grants, charitable contributions and grants from corporations, individuals, etc.	Limited partners
Operating resources	*[$3 million] per year during the first 3 years of operations]*	Management fee equal to 2.5% of total fund

EA Acceleration Services

The EA's Acceleration Services are delivered by the Accelerator's venture development team, which builds partnerships with the EA's portfolio companies to help them hit milestones, build competence, and attract funding. The team consists of experienced entrepreneurs- and executives-in-residence (collectively, EIRs) who work closely with the EA portfolio companies to offer honest, resourceful, and insightful guidance. In addition, the EIRs' will have and continue to develop an extensive national network of industry experts, investors, suppliers and advisors who serve as resources to portfolio companies on an as-needed basis. Through its people, its network of resources, and its intensive partnership approach, the Acceleration Team catalyzes portfolio company growth, which leads to follow-on capital and accelerated wealth and job creation in the region.

EIRs

EIRs are the primary contact between an accelerating company and the EA. They are experienced successful professionals who have started companies, built strong management teams and attracted follow-on funding. The EIRs know first-hand the needs of a growing business and possess the desire, resources, creativity, and work ethic to help an accelerating company overcome obstacles and acquire the resources necessary to succeed. EIR talent may have different backgrounds and motivations, but they will be entrepreneurs who started and exited one or more companies. Typically, they are between opportunities; or they may be executives

[84] $6 – 12 million in first 3 years; $30+ million over first 5 years (4-5X investment) assuming continuing operation and adequate ongoing funding and related support.

seeking to transition into entrepreneurship. In either case, the EA serves as their pivot point.

EIRs are expected to remain with the EA for 1-3 years, in a position similar to a fellowship. They often will learn as much as they contribute, in the areas of entrepreneurship, finance, deal structures, marketing, IT, or other disciplines. Ideally, they will transition to a regional startup company, possibly one that the EA has accelerated.

While the Acceleration Team expects to find most of its EIRs within the region, it may seek to recruit EIRs from other regions. Cross-regional entrepreneur fertilization is vital to importing best practices into the region.

Accelerate Partnership

This is a partnership that begins with the award of accelerate funding and lasts from 12 to 18 months. The details of the partnership depend on the individual needs of the company and the capabilities of the EIR. In general, the EIR will help the company hit milestones, advance commercialization stages, and attract follow-on funding. EIRs abide by the EA's core values and support the best interests of the accelerating company. The EIRs will make strategic and operating decisions with entrepreneurs and not for entrepreneurs. EIRs (and the EA staff in general) will be:

- *Challenging:* great things are expected of entrepreneurs receiving this intensive support. They will be challenged to exceed expectations.
- *Honest:* EIRs will speak the truth, plain and simple; entrepreneurs will be expected to do the same.
- *Engaged:* EIRs will respond rapidly to entrepreneurs' inquiries, and become involved and active in their business, while not running it for them.
- *Resourceful:* EIRs will be creative in helping entrepreneurs develop relationships, contacts, and other resources that will help their business succeed.
- *Insightful:* EIRs will be current on entrepreneurs' industries and offer informed, constructive guidance.
- *Fun:* A sense of humor is crucial to healthy balance as entrepreneurs travel with EIRs through entrepreneurship's challenging hills and valleys.

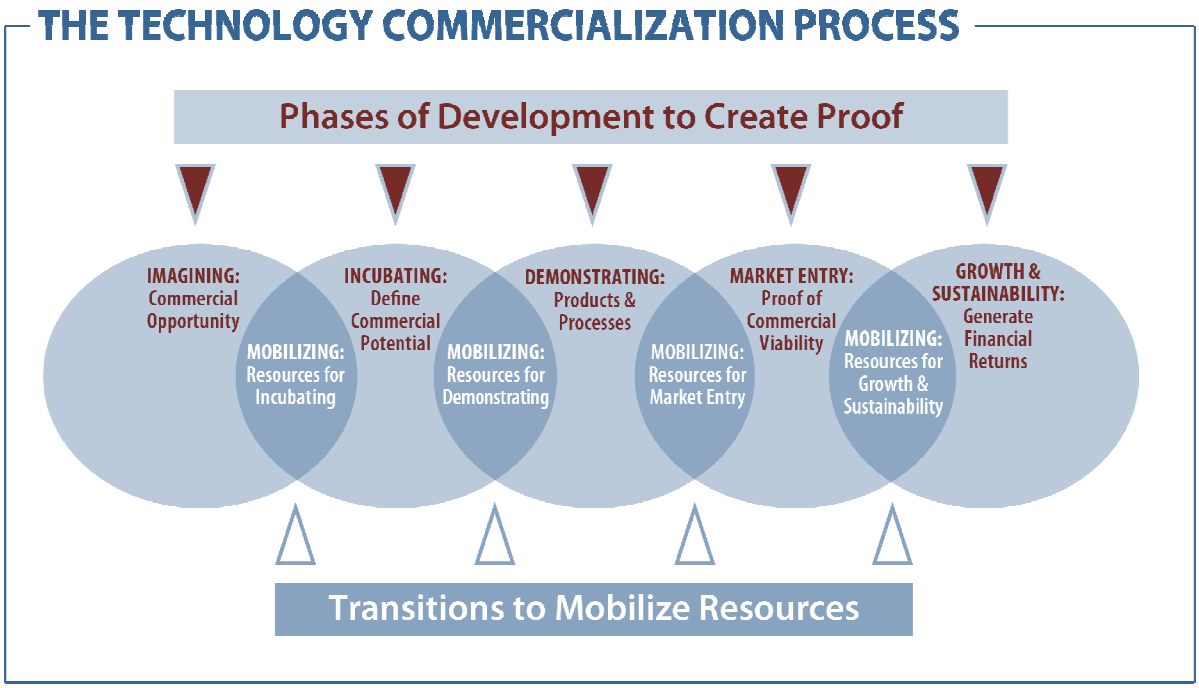
EIRs have an obligation to add value, and accelerated companies are obliged to support EIR efforts. Specifically, companies must make every effort to meet milestones, and work in a way that is consistent with the EA's core values.

Acceleration Services Team Network

The Acceleration Team will establish an Acceleration Team Network (ATN) to support its portfolio companies. The network will include individuals and organizations divided into categories by the roles they play in accelerating companies. Examples of critical resources the EA will help provide to accelerated companies include executives (e.g., CEO, VP Sales, VP Marketing, CFO, etc.); experts in branding and marketing strategies; and board members with extensive backgrounds and networks in applicable industries. The EA will establish a database of resumes, contact information, and past interactions. The EA will characterize organizations by specialty and level of engagement and agreement with the EA. Those who have worked with the EA and provided the EA portfolio companies with high-quality services at a substantial discount will be EA Service Partners. Organizations that provide high-quality services, but not material discounts, will be Service Providers.

With these three assets – EIRs, Accelerate Partnerships, and the ATN – as well as through the use of many day-to-day management tools,85 the EA Acceleration Team will increase the likelihood that accelerated companies will hit milestones and move through commercialization stages faster than they would if they simply received an EA investment. The Acceleration Team will measure success primarily through its ability to help companies acquire necessary resources and move through commercialization stages faster and with a greater likelihood of attaining follow-on funding. The following illustration highlights the phases of commercialization.

[85] Tools include budgets, milestone maps, monthly dashboards and financials, and valuation tools.



Angel capital usually becomes accessible once a company gets to the tail end of the incubating phase. Seed or early-stage venture capital ("Series A") is feasible once a company is ready to extend and grow into a large market (the market-entry phase). The Acceleration Services Team works diligently with accelerating companies to first acquire the resources and generate the results necessary to move into the demonstrating phase and acquire angel funding, and to then move to the market-entry phase to acquire venture capital funding. The EA is aware that profitable and successful exits most often occur in the form of strategic sales, so it incorporates the possibility of a strategic sale into the planning and assistance it provides to companies. About six months before a company reaches its "goal" stage, the Acceleration Team will interact closely with the Investments Team to help the company raise the required capital.

Economic Inclusion

In the Minneapolis-Saint Paul region, African Americans make up 6.4 percent of the population, and Asians 5.0 percent in a population that is 15 percent minority overall (2008 census data). Part of the EA's mission is to tap into the creativity, entrepreneurship, and innovation of minority and women entrepreneurs. This is critical to regional success now and especially in the future. No region can expect to succeed long-term without leveraging all of its assets.

Creating a Level Playing Field Through Inclusion

In its purest form, the EA's Inclusion function and philosophy helps create a level playing field for all entrepreneurial stakeholders whereby every participant is

granted equal access, consideration, and resources. This level playing field fosters healthy competition, which in turn "raises the level of play" for all involved. The goal is to ensure that the region benefits from the best, most talented entrepreneurs. This goal can only be achieved through the application of intensive inclusion efforts.

The EA will develop and implement an Inclusion Strategy that specifically targets the creation and support of high-growth female- and minority-owned businesses. While maintaining consistency with the overarching strategic objectives of the organization, the EA's Inclusion initiatives focus on increasing participation of all minority entrepreneurship stakeholders. Specifically, the strategy aims to enhance minority and female representation as entrepreneurs, executives, managers, angel and venture funds, subject matter experts, directors and advisors, service providers, and customers.

To ensure both short- and long-term success, the EA will identify the current talent pool in each stakeholder category, while establishing a pipeline for growth and sustainability. The foundation for the entire strategy rests upon building solid relationships, and will be a well-executed outreach plan.

Reaching out to minorities and women with very specific objectives is critical. To ensure a timely and significant outreach effort, the EA will deepen relationships with ethnic minority and women leaders in the business, political, academic, and faith-based communities on a regional and national level. Short-term goals for this effort include:

- Enlightening leaders and constituent groups on the profile of ideas and companies that could become venture-ready businesses
- Shifting mindsets toward building larger minority- and women-owned businesses that are well capitalized, target growth opportunities and industries, and leverage the benefits of strategic alliances to maximize capacity and infrastructure
- Highlighting current successes and profiles of venture-backed minority and women-owned businesses to enhance awareness of these segments
- Encouraging partnering among individuals and organizations to bring together entrepreneurial and technical expertise
- Connecting with minority and women stakeholders within the medical, engineering, technical, and science industries, to ensure a thorough understanding of the EA's mission and the regional resources available for product commercialization.

- Encouraging the participation and ongoing development of minority and women angel investors and niche venture funds that target these segments such as those represented by the National Association of Investment Companies (NAIC).

Chief Economic Inclusion Officer

To accomplish these objectives, the EA will hire a chief economic inclusion officer (CEIO) who understands the unique issues faced by minority and women entrepreneurs. The CEIO will engage in a variety of activities to connect with minority and women leaders, including:

- Engaging in direct one-on-one meetings
- Developing alliances with organizations such as the Kaufmann Foundation and the National Association of Investment Companies
- Speaking at group and organizational meetings and functions
- Establishing strategic alliances with networking organizations and executive-level personnel recruiters
- Participating in and hosting joint seminars, panel discussions, and workshops
- Building relationships with minority- and women-specific media channels.

The EA will also look into the feasibility of establishing an Inclusion Council consisting of influential regional and national leaders. The Council's initial role will be to provide the EA with a wide range of perspectives and experience relevant to the issues and challenges the EA must address.

Inclusion Metrics

The EA will establish and implement a system to measure the effectiveness of its inclusion-related efforts, tracking the number of minority- and women-owned businesses that attend events, respond to marketing or other specific engagement efforts, apply for assistance and receive service assistance and funding. Another important metric will be the follow-on funding attracted by minority- or women-owned businesses that receive EA assistance or funding.

These activity-based metrics will be analyzed in the context of the region's population and demographics. When tracked over time, they can provide insights into specific areas for improvement to ensure that both quantity and quality of deal flow is sustained.

Competition/Collaboration

For the reasons described throughout the DDI, competition is not a serious issue for the EA. As described the region faces a critical shortage of investors willing to assume the risk of a pre-revenue, pre-product, pre-customer opportunity. The EA does not anticipate that it will have to compete with others to provide the investment and expert services it intends to offer. Rather, there will be a tremendous opportunity to collaborate. The following is a list of organizations staffed by knowledgeable and interested individuals with valuable networks, deep expertise in technologies or markets, and a desire to make a difference. Few if any have the financial resources to make a material investment of time or capital. Rather than compete, the EA will fill a gap in the ecosystem and open the door to a host of high-value collaborations. The following is a short list of some of the organizations that EA will collaborate with across the 13-county MSP region:

- *Bio-Business Alliance:* an effort to build the bioscience industry and position Minnesota as a biosciences leader
- *The Collaborative:* a membership organization serving companies, entrepreneurs, investors, and executives with networking, content, programs, and publications
- *The Cleantech Open:* a national business plan competition focused on green innovations, which this year created a North Central competition based in Minneapolis
- *LifeScience Alley:* a trade association lobbyist for education, networking, and research about emerging technologies
- *Metropolitan Economic Development Association:* for entrepreneurs of color; provides consulting, management and technical services, training, business planning, networking, and funding
- *Metropolitan Consortium of Community Developers:* a consortium of non-profits helping new and early-stage businesses with training, technical assistance, and loans of between $2,000 and $25,000
- *MINNESTAR:* a community of designers, developers, investors, and business people focused on making Minnesota a great place to start and grow tech-based businesses. It has a website, quarterly events, and four divisions: minnebar networking for the tech design community; minnedemo, for tech demonstrations; minne$park for $1,000 grants to teams with an idea/plan; and minne$tart, an annual cash-and-services prize to help launch an early-stage tech startup.
- *Minnesota Cup:* an annual statewide competition awarding cash prizes to aspiring entrepreneurs ("high tech and no tech")

- *Minnesota Biomedical Discovery District:* a U of M center for medical research scientists
- *U of MN Venture Center for commercializing university technology:* prepares intellectual property; supports university researchers in evaluating commercialization paths, and licenses technology to outside entrepreneurs and companies
- *Minnesota Science and Technology Authority:* a newly established state resource to support the development of new technologies and businesses
- *MOJO MN:* a group of business leaders "agitating for innovation policy and community in Minnesota"; supports innovation and entrepreneurship via events, advocacy, dialogue, and networking
- *Score:* the local chapter of D.C.-based non-profit for entrepreneurial education and consulting
- *Twin Cities Small Business Development Centers located at multiple institutions in the metropolitan system of community and technical colleges, and at the University of St. Thomas:* a center offering free consulting to help business owners develop strategies, attract customers, increase sales, and improve profitability
- *University of Saint Thomas William C. Norris Institute:* a nonprofit revolving fund providing up to $75,000 in pre-seed capital for innovation of IT, manufacturing, and environmental technology companies
- *University Enterprise Laboratories:* a Saint Paul incubator providing lab and office space to create an entrepreneurial community for early-stage bioscience companies; supported by 3M, Boston Scientific, Ecolab, and others
- *WomenVenture:* a nonprofit providing tools and support to assist clients in starting and growing businesses, finding jobs, or developing a new career path

Each of these organizations plays a vital role in developing the Minneapolis-Saint Paul region's entrepreneurial ecosystem but none has the unique combination of resources, including sufficient funding for risky early-stage companies, needed to engage in the acceleration activities to which the EA is dedicated. The EA expects to collaborate, partner with, co-invest and/or develop working alliances with these organizations to advance promising opportunities to market.

MARKETING PLAN

Positioning and Branding

The EA will be a comprehensive "venture development organization". Since that term is often not well understood, the EA will begin with a branding campaign that explains this role and engages entrepreneurs and entrepreneurial supporters throughout the region. Over time, the EA will extend its branding campaign to include venture capitalists and entrepreneurs around the country. Following is an overview of audiences, messages, metrics behind the message, and tools for communicating these messages.

The EA Audience and messaging over time

	Years 1-2	Years 3-5
Target customer	▪ The regional innovation-oriented entrepreneur	▪ The regional innovation-oriented entrepreneur ▪ "Super regional" resource providers (e.g., Midwest) and national venture capital firms
Key target audience	▪ Regional – Entrepreneurs – Angel Investors – Venture investors	▪ Regional and Super Regional – Entrepreneurs – Angel Investors – Venture investors
Other audiences	▪ Regional – Foundations – Corporations – Philanthropists – Business people – General populace	▪ Regional & Super Regional – Foundations – Corporations – Philanthropists – Business people – General populace
Message	▪ Minneapolis-Saint Paul region is a leader in entrepreneurship and innovation ▪ EA is the catalyst for this ecosystem because of its expertise, capital and extensive networks.	▪ Minneapolis-Saint Paul region is a hotspot for entrepreneurship and innovation with strengths in many technologies) ▪ EA plays a key role in this emergence
Proof of this message (metrics)	▪ EA deals seen and done ▪ Follow on funding from angels, VCs, and strategic investors	▪ EA deals seen and done, plus follow-on capital raised (leverage ratio of 3-5X amount invested) ▪ Increased investment by national and super-regional investors
Tools to convey message	▪ EA website ▪ Regional media: newspapers, radio, TV, facilitated or conducted mostly by EA ▪ Regional speaking engagements, EA exchange, facilitated or conducted mostly by the EA ▪ Annual EA Public Meeting	▪ EA website and other online media ▪ Super-regional or national media, newspapers, radio, TV, facilitated or conducted mostly by EA ▪ Super regional or national speaking engagements, facilitated or conducted mostly by EA

As the table illustrates, in the early years, the target customer is the innovation-oriented entrepreneur. They tend to be skeptical by nature, especially when the current landscape is crowded with well-intended but uncoordinated organizations providing assistance to entrepreneurs. Marketing to this customer requires a careful balance of practical, realistic advice, optimism and funding. Entrepreneurs often teeter between hope and despair. They hope their business will grow within a capital- and risk-friendly environment versus a region with little capital and low tolerance for risk. The key is to acknowledge the despair while offering fact-based hope relative to the prospects of the opportunity in the region. The EA must also deal with the reality that many entrepreneurs do not believe they need assistance. They want money. Again, the EA must help them understand the realities facing an opportunity at the early stages of development. The EA's primary tool for conveying the realities and engaging in a productive assistance-oriented relationship is with the EIR. Having direct personal experience in entrepreneurship and innovation, the EIR can credibly address this challenge.

Over the next year, the EA will activate its education, communications, and marketing plans within the region. The activation will include the launch of an EA web site to provide high-value information to entrepreneurs seeking assistance or funding. The EA will employ a variety of online marketing tools, including e-magazines, paid advertising including pay-for-performance spots on search engines, editorials, TV, radio, blogs, and social networking tools. To measure the effectiveness of its education and marketing, the EA will track media mentions, response rates, attendees at events, and related metrics.

In years three through five, EA will add an additional target customer: the growth-oriented venture capitalist. The objective is to build a trusting relationship with this customer who receives hundreds, maybe even thousands, of requests for investment annually. The EA's goal is to establish enough trust and value so the venture capitalist will return the EA's call and engage in meaningful discussions. This is easier said than done, since this customer will tend to vacillate between greed and fear. Their greed drives them to look for great but undervalued deals, but they fear the deals are undervalued for good reason.

By assigning experienced EIRs to each opportunity and then following a disciplined approach to conducting research, providing assistance, structuring investments, and finding talent, the EA will be able to establish these trusted relationships. It is anticipated that the EA will hire at least one full-time person with the experience and relationship-building skills necessary to create and maintain investment relationships. Through its communications and engagements, the EA will clearly and factually demonstrate that the region is a good place to invest in, and that there are good companies with solid opportunities for rapid growth.

For this complex and ambitious marketing plan to succeed, excellent execution and EA leadership are needed. Additional factors required for regional success are the subject of many studies. But a broad, high-level look at cities, regions, and countries that have succeeded with such a plan reveal that real economic success is achievable. The many success stories, from Singapore to Boston, and Seattle to Shanghai, reveal the key role branding and marketing play in attracting investors and creating prosperity. These examples all suggest that the unique advantages of the Minneapolis-Saint Paul region can be transmitted through branding and marketing to make the region an internationally recognized destination economy.

Development, Economic Inclusion, Angel Support

The EA's Marketing Team will provide substantial internal support to development and economic inclusion activities. The Development Team will employ dedicated professionals with expertise in identifying, meeting, and following up with donors. The Marketing Team will assist the Development Team in gaining leadership-level and general gifts, responding rapidly to donors and showing unique appreciation, as well as establishing general brand awareness within the philanthropic community. The groundwork for this will be laid by the EA's branding, positioning, messaging, and communications activities. Building on this preparation, the Development Team will arrange donors' meetings, send special communications to the donor community, and refine the branding, positioning, and messaging to target donors in the philanthropic community more precisely.

Economic inclusion and angel investor relationship activities will require similar strategic and tactical support as these programs take shape and are executed over time.

The Organization

Culture and Management

The EA will recruit and build a management team consisting of highly skilled professionals with experience in investing in and rapidly growing companies, financing and raising capital for companies, advising startup companies, regional economic development, all aspects of marketing (branding, product launch, market analysis, sales support, events), operations, accounting, and IT. Team members must have a passion for innovation-oriented entrepreneurship. Ideally, many of them will have lived and worked outside the region, and some will possess international experience. All management team members must have extensive experience in the for-profit sector. They must be able to relate to and actively support entrepreneurs trying to grow their for-profit companies.

In addition, EA team members must be committed to certain core values, which the EA believes are critical to long-term success.

- **Accountability** for outcomes including simple metrics to measure the progress of activities.
- **Inclusion.** Demonstrate a commitment to diversity in portfolio companies, employees, board members, partnerships, suppliers, and stakeholders.
- **Committed Focus** on activities and programs that have the greatest impact on realizing the mission to create high-growth, venture-ready opportunities.
- **Integrity** as a critical foundation of all that the EA does.
- **Quality.** Associate with the highest-quality product and service offerings to build credibility with entrepreneurs, investors and funders.
- **Risk orientation,** encouraging and taking calculated operating risks.
- **Teamwork.** Work collaboratively and openly, welcoming differences of opinion, to achieve common goals.

The EA will be as committed to living up to its core values as it is to achieving financial metrics. It must be a good investor but also forthright in its actions and interactions: resourceful rather than critical, creative as well as analytical, and refreshingly honest rather than condescendingly evasive. Overall, EA will provide entrepreneurs with the respect they deserve, even when the message is not what the entrepreneur wants to hear.

Structure

The EA will build its organization around seven critical functions and lines of business: Finance, Marketing, Investing, Inclusion, Development (fundraising), IT/Technology, and Operations. The EA will not compromise on the quality of any of these critical functions, as each is a critical component of its long-term success.

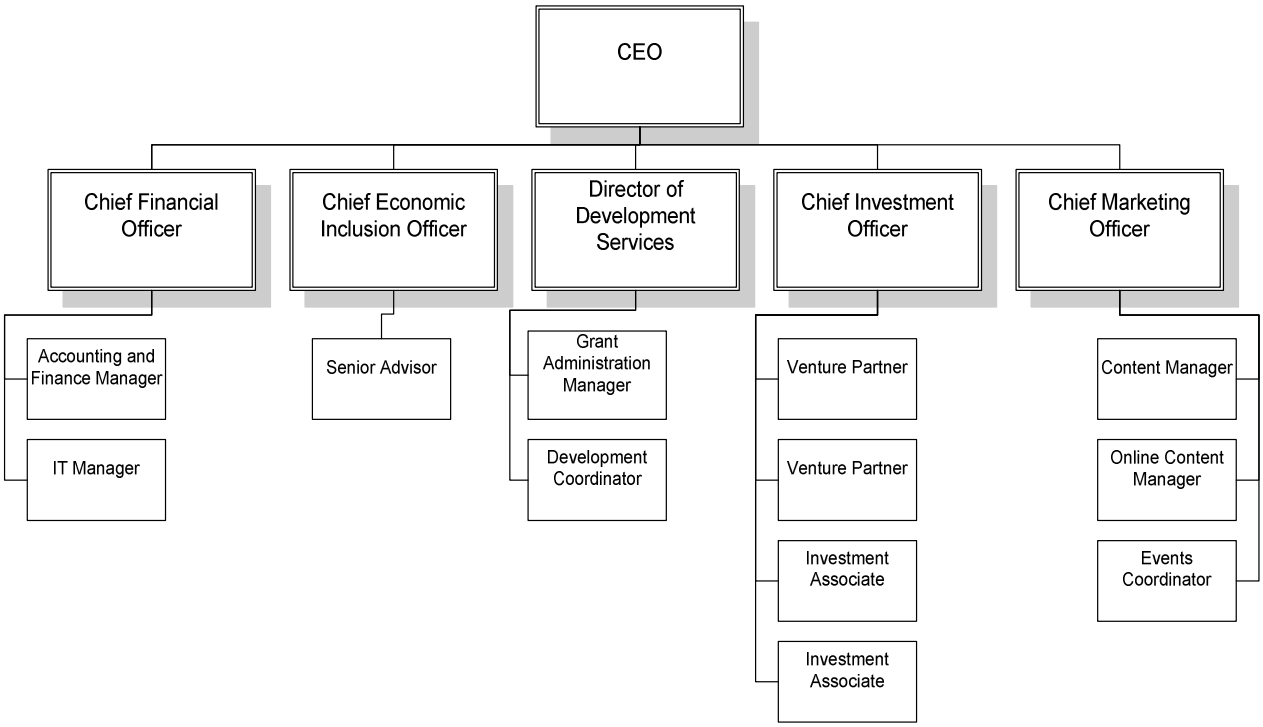
Oversight

The EA will commit substantial time and energy to building a board of directors that can help drive organizational success and bring new and compelling insights to its operation. The EA will seek board members who cumulatively represent many years of experience in entrepreneurship, investing, and advising entrepreneurs. A majority of the board members will reside in the region, but the EA will also seek members who bring a national perspective and insights to the operation. The board will include an Executive Committee, with investing and entrepreneurial experience, that will be ultimately responsible for approving investments on behalf of the entire board. The Executive Committee also approves compensation for the EA executives and senior managers.

The EA will also assemble an informal, ad-hoc Investment Committee that consists of experienced angel, seed, and venture capital investors with national reputations. This committee's role is to review investment memos that EA writes and then offer feedback on whether EA should make the investment in question.

Staffing

The following chart lists the roles for the 18 persons who will staff the EA:



Development and Fundraising

Funding Environment

As a non-profit organization, the EA's funding will come in the form of grants and philanthropic donations. There is immense competition for philanthropic dollars within the region and throughout the nation. Economic development initiatives constitute a small portion of charitable contributions nationally, regionally, and locally, typically 5 percent.86 Furthermore, it is estimated that the individual giving sector nationwide will not be strong over the next few years as the U.S. economy continues to struggle.

Although individuals and corporations in Minnesota have a relatively strong history of giving, and unemployment is relatively low, Minnesota foundations are expected to face challenges in securing contributions.

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86 This is the category into which Economic Development, and therefore the EA, falls.

Overall, then, the environment for raising money through charitable contributions is challenging on several fronts, and the EA needs an organized, aggressive fundraising campaign in order to overcome these challenges.

Fundraising Approach

The EA will model its fundraising approach on the model used by JumpStart Inc. during its early years of operation. As part of the REAP development project, the EDA, the John S. and James L. Knight Foundation and the Surdna Foundation secured the services of JumpStart Inc. to assist in the development and execution of a fundraising campaign. The fundraising campaign will be tailored to the specifics of the final REAP, but will target both national and regional foundations. The EA will also seek funds from state and federal sources, including the EDA. The EA will hire an experienced senior executive to manage the fundraising function. With its venture development model, and the likelihood that exits from investments may not occur for a substantial period of time (5-10 years), the EA must continuously pursue all available funding sources to ensure the sustainability and ultimate success of the model.

Metrics

Direct

The EA will be committed to measuring its performance against a well-defined set of metrics. The marketing team will measure traffic to the EA website as an indicator of the success of certain of its outreach efforts; the Investments Team will track metrics such as the number of companies Advised, and the time required to move from the Advise phase to a closed investment; the Acceleration Team will measure portfolio companies against pre-set milestones and will also track the companies' ability to attract follow-on investments; the Development Team will track "contacts made per week" as well as total dollars raised; and the Finance team will look at cash flow vs. plan as well as the performance of the overall organization in generating follow-on investments.

These are only a small sampling of the EA's commitment to metrics. The following is a list of the EA's primary strategic metrics for each operating function:

1. EA Exchange
    a. Unique connections
    b. Media mentions
    c. National rankings on entrepreneurship
    d. Quarterly reports on progress toward annual and overall goals
2. Investing Team

   a. Total hours spent on due diligence during the initial "Advise" process
   b. Number of Advise sessions
   c. Number of new investments
   d. Number of add-on investments
3. Acceleration Team
   a. Total hours spent on with companies during the Assist and Accelerate processes
   b. Number of clients assisted
   c. Number of clients accelerated (received investments)
   d. Milestones hit (those identified when structuring staged investment)
4. Acceleration and Investing Team
   a. Amount of follow-on funding per year raised for "Assist" and "Accelerate" companies
5. Economic Inclusion and Diversity
   a. Total number of hours advising, assisting, and accelerating companies
   b. Number of advised companies
   c. Number of assisted companies
   d. Number of accelerated companies
6. Development
   a. New resources secured

Economic Impact

The EA will initially focus one primary metric to measure progress: follow-on funding. The vast majority of the EA's investments will be in the incubating phase of commercialization. As incubating phase companies, most will not have a market ready product, customers, or revenues. On average, the companies that the EA invests in will take two to three years to begin generating meaningful revenues. During this period, the EA believes that the follow-on funding metric services two roles. First, follow-on funding validates the opportunity, especially when the funder is a new investor who understands the company's business and makes a meaningful investment (comparable in size to its other investments). Second, follow on funding is a concrete measure of economic activity that, in most cases, would not have occurred without the EA's services and investment. The vast majority of pre-revenue companies that lack customers or a market-ready product cannot find even a fraction of the financial or expert resources they need to advance to market and attract capital. But for the EA's assistance, most opportunities would fail to attract funding and would ultimately fold.

Follow on funding is not, however, the ultimate goal. As with any investment in an early stage opportunity, the ultimate goal is a competitive, profitable, and growing company that creates jobs as well as wealth for owners, investors, and some employees. The EA will track job creation, but recognizes that jobs are a trailing indicator. During the first few years following investment, the EA will monitor the jobs created by its investment as well as the follow-on funding. Eventually, many of these jobs will be supported by revenues and profits generated by successful, self-sustaining companies.

The EA will initially measure return as a ratio of follow-on funding to dollars invested. After reviewing the results of other successful venture development organizations, including JumpStart, the EA will use the following assumptions in projecting follow-on funding during the first three years and the first ten years of operation. For simplicity, the EA will assume that every investment will generate leverage, revenue, and jobs. Actual data, however, from JumpStart and others, indicates that a subset of the investments will drive the overall leverage ratios, revenues, and returns. The EA adjusted the averages used below for each investment to match the aggregated performance of the portfolio.

1. At the time of its initial or follow-on investment, EA will secure a dollar of co-investment for every dollar that the EA invests.
2. One year from the date of investment, the EA will secure follow-on funding in an amount equal to 2X the EA's initial or follow-on investment.
3. Two years from the date of investment, the EA will secure follow-on funding in an amount equal to 3X the EA's initial or follow-on investment.
4. Three years from the date of investment, the EA will secure follow-on funding in an amount equal to 5X the EA's initial or follow-on investment.

The following table contains: (i) the number and amount of the EA's investments; (ii) the amount of co-investment and follow-on funding; and (iii) the corresponding leverage ratios for the first three years of operation.

Follow-On Capital - Leverage Ratios (Years 1-3)

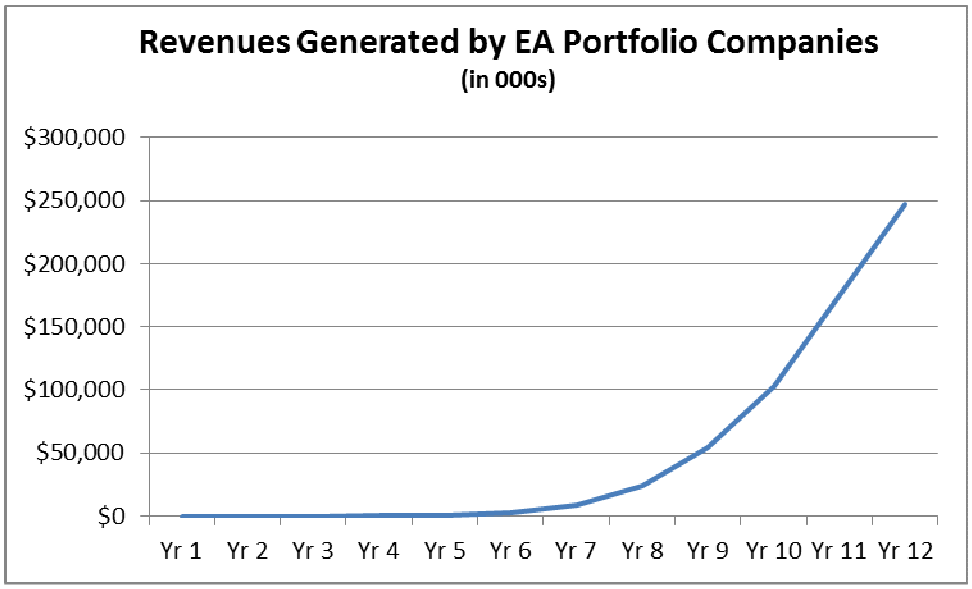
	Year 1	Year 2	Year 3
# of Investments	3	6	6
# of Follow-On Investment		2	3
Total Invested Capital	$ 1,050,000	$ 2,625,000	$ 3,150,000
Third Party Co-Investment	$ 1,050,000	$ 2,625,000	$ 3,150,000
Third Party Follow-On Funding	$ -	$ 2,100,000	$ 8,400,000
Leverage Ratio (1)	1.0	1.6	2.5

(1) Ratio of the sum of Co-Investment and Follow-On Funding to Total Invested Capital

Although jobs are not a primary metric during the first few years of operation, the EA's funding, when combined with the co-investment and follow-on funding, will fund over 100 jobs. Assuming average compensation of $65,000 (consistent with employees of high-growth, tech-based startups), and further assuming that the recipients of the funding will use at least 50% to hire employees, the EA will create 16 jobs in Year 1, 56 jobs in Year 2, and 113 jobs in Year 3.

Similar to other venture development organizations, the EA projects a 10-year leverage ratio in excess of 10X. Assuming a relatively constant rate of investment, this leverage ratio translates into over $300 million in follow-on funding and 2300 direct jobs.

As noted, however, follow-on funding is not the EA's ultimate goal. The EA must create companies that generate revenues, profits, and sustained growth. Most of the EA's portfolio companies will take two to three years before they begin to generate any significant revenues. After that, however, the EA expects revenues to be a substantial component of the economic impact of its' activities. Again, based on the results of JumpStart and other similar venture development organizations, the EA projects substantial revenues starting in Year 4. The following chart illustrates the revenues the EA projects from the companies the EA will fund assuming a relatively constant rate of investment over the next ten years (50-60 companies funded with investment by the EA of $25-30 million):



For a number of the portfolio companies, these revenues will translate into profits and sustainability, which in turn translates into stable, high-paying jobs. Although difficult to calculate precisely, the $200+ million of revenue will add or sustain thousands of jobs in the region. The combination of approximately $300 million of follow-on capital and $200+ million of revenue generated by $20-30 million of direct investment, plus a comparable investment of services, will unquestionably generate a substantial return for the region (measured in jobs, taxes, wealth creation, etc.) as well as for the philanthropic, governmental, and private contributors to the EA.

Financial Plan

Sources of Funds

As a first step in securing the required funding, the region has aligned itself with the Brookings Metropolitan Business Plan project as well as Regional Entrepreneurship Action Plan project sponsored by the Economic Development Administration (EDA), the John S. and James L. Knight Foundation, and the Surdna Foundation. To run the project, the EDA, Knight and Surdna partnered with JumpStart Inc. In addition to its work in the Minneapolis-Saint Paul region, JumpStart is working on REAP projects in 7 other regions located throughout the Midwest.

One of the advantages of partnering with JumpStart is its experience and success raising the funds necessary to operate and grow a venture development organization while contributing to the development of a regional entrepreneurial ecosystem. Since forming in 2004, JumpStart has raised over $70 million and invested in 53 startups (almost one third minority- or women-owned at the time of

investment). JumpStart has strong relationships with three potential funders (the EDA, Knight and Surdna) and is rapidly building new relationships. In January, the White House identified JumpStart as one of the founding partners of Startup America, a national initiative focused on supporting entrepreneurship and innovation. Leveraging its relationships with the EDA, Knight, and Surdna as well as the Startup America partnership, JumpStart is actively engaging with national foundations with the specific goal of securing a material portion of the funds necessary to transform the Regional Entrepreneurship Action Plans into operating entrepreneurial support organizations.

The region will have to match the funds provided by these sources. Regional leaders have already begun discussions with regional and community foundations, large corporations and others in anticipation of the need for these matching funds. With the growing momentum generated by the Brookings and REAP projects, support for the EA and related initiatives is growing daily. The region is therefore confident that it can secure the matching funds necessary to start and sustain the EA. As evidence of their ability to acquire resources, regional leaders secured $200,000 of additional funding from the State of Minnesota through the Department of Employment and Economic Development, as well as other local and regional sources. to expand the REAP project from Saint Paul to the entire 13-county region that includes Minneapolis.

The REAP project is in process and the research stage is nearly complete. Over the next 6 months, JumpStart, with help from a regional stakeholder group that includes experienced entrepreneurs and investors, will continue to refine and develop this business plan. Once the REAP is complete, fundraising activities will begin. This additional work will enable the EA to launch with the appropriate scale, reducing the time and effort to secure long-term funding partners, and reducing the time required to generate tangible results.

Uses of Funds

The EA's use of funds will be in line with the activities, processes and personnel described in this plan. The uses of funds break down into three categories: investment, entrepreneurial services, and overhead. The goal is to limit overhead to 15% and split the remainder between service delivery (by employees and contractors) and investing.

EA's staffing plan is contained in the organizational chart in the Section titled "The Organization, Staffing". The chart lists 18 employees organized under the headings of finance, inclusion, development, investment and marketing. Although it is difficult to anticipate the volume of quality deal flow prior to opening for business, JumpStart has talked to hundreds of regional entrepreneurs and investors. Based on these conversations, JumpStart is convinced that the region

will produce more, high-quality deal flow than the EA can handle (a good problem for the region to have).

In sizing the EA, regional leaders and JumpStart will attempt to strike a balance between two competing mandates. The first is the value to be gained by taking a few careful steps rather than plunging in. When they first opened their doors, most new venture development organizations, including JumpStart, were overwhelmed by the contrast between what they thought they knew about the opportunities in their region and what they saw coming through their doors. They saw tremendous value in taking time to align theory and research with reality. The second is the likelihood that the EA will be overwhelmed with quality deal flow. Balancing these conflicting mandates, and recognizing the time necessary to hire the right people and modify processes and systems to fit the market, JumpStart and the regional leaders think it best to err on the side of a more conservative plan.

As summarized in the chart in the Section titled "Metrics, Economic Impact", the plan projects the EA will invest in 15 companies during the first 3 years of operation (three in the first year, and six in each of years two and three). The average initial investment will be $350,000, although EA will most likely withhold a portion of the funds until the company hits certain milestones. The plan then assumes that within 1 year of its initial investment, the EA will invest an additional $350,000 in 50% of the portfolio companies. These assumptions result in a three-year investment budget of approximately $7 million.

The plan also assumes that the EA will provide the personnel required to move opportunities through the investment process, as described in more detail above under the Section titled "Business Plan, The EA Lines of Business, EA Investment, Investing Process".

The following chart highlights the EA's use of funds:

EA Pro Forma Invesments and Expenses

	Year 1	Year 2	Year 3	Total
Investment				
# of Initial Investments	3	6	6	15
# of Follow-On Investments		2	3	5
Total Investments	**$ 1,050,000**	**$ 2,625,000**	**$ 3,150,000**	**$ 6,825,000**
Operating Expenses and Services				
Salaries and Benefits	$ 1,929,688	$ 2,375,000	$ 2,375,000	$ 6,679,688
Facilities	$ 52,500	$ 52,500	$ 52,500	$ 157,500
Furniture and Equipment	$ 138,825	$ 29,700	$ 29,700	$ 198,225
Professional Fees	$ 43,500	$ 30,750	$ 34,500	$ 108,750
Communications and Telephone	$ 32,400	$ 32,400	$ 32,400	$ 97,200
Consultants	$ 120,000	$ 120,000	$ 120,000	$ 360,000
Marketing and Outreach	$ 227,000	$ 118,000	$ 118,000	$ 463,000
IT (consultants, licenses, etc.)	$ 21,000	$ 21,000	$ 21,000	$ 63,000
Travel	$ 44,400	$ 44,400	$ 44,400	$ 133,200
Insurance	$ 12,000	$ 12,000	$ 12,000	$ 36,000
Dues and Subs	$ 30,000	$ 30,000	$ 30,000	$ 90,000
Professional Development	$ 12,000	$ 12,000	$ 12,000	$ 36,000
Supplies	$ 21,600	$ 21,600	$ 21,600	$ 64,800
Other	$ 60,000	$ 60,000	$ 60,000	$ 180,000
Total Expenses and Services	**$ 2,744,913**	**$ 2,959,350**	**$ 2,963,100**	**$ 8,667,363**
Total Investments and Expenses	**$ 3,794,913**	**$ 5,584,350**	**$ 6,113,100**	**$ 15,492,363**

6. Conclusion

The business plan approach to the next generation of regional economic development seeks to coordinate the substantial assets on which the economy of the Minneapolis-Saint Paul metro region relies. A basic step in this approach has been to take an inventory of these assets, in particular our skilled human capital, our innovation base, and the concentrations of industries and corporate headquarters for which our region is known. By key measures, diminishing performance has been revealed across these critical economic inputs. Our region has a diverse economic base and a proud history of policy innovation. The quantity and scope of strategies outlined in this plan, designed to reverse the downward trend, builds on gathering creative momentum for collaborative regional action.

Flagging performance across the economic leverage points can be most effectively converted to growth and prosperity through a focused, strategic intervention in the commercialization of high-value ideas generated regionally. Intensive analysis to identify gaps in the entrepreneurial ecosystem will shape the key components to be included in an Entrepreneurship Accelerator in the region. An EA will play a critical role in expanding economic vitality and job growth through realigning our region's assets, including our public and private research infrastructure, corporate headquarters, and skilled workers. The case for action has been made in multiple ways here: indicators such as stalled productivity and wage growth, persistence of the achievement gap, and falling rates of entrepreneurship each illustrate the need for change.

Through the development of this metropolitan business plan, regional leaders have broken new ground. The metro-wide scale of the plan, and its use of a business plan framework for an economic development strategy, have allowed leaders to better understand the economic opportunities and challenges that must inform local, regional, state and federal policy in the future. The plan and the collaborative, private-public strategies articulated here represent vehicles to elevate the metro in the global marketplace, positioning the Minneapolis Saint Paul region for a new chapter of sustained prosperity.

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