

Midwest and Great Lakes Economic Development Summit
MICHIGAN STATE REPORT

Economic Development Strategy

In 2007, as an outgrowth of the Governor's economic plan for Michigan, the Michigan Economic Development Corporation (MEDC) created and published a three-year strategic plan that employs a research-driven model to diversify our economy, help companies prosper, and create new job opportunities for Michigan families. The plan advocates for a regional approach to economic development that recognizes and utilizes Michigan's strengths and characteristics, both geographically and economically. The strategic plan is broken down into six parts:

- 1) leveraging Michigan's economic development capacity by bringing together our partners and resources;
- 2) attracting, retaining, and supporting Michigan businesses;
- 3) leading the diversification of Michigan's economy;
- 4) promoting Michigan globally while sharing our successes locally;
- 5) advocating for a favorable climate for small businesses and entrepreneurs; and
- 6) measuring the performance of our economic development strategy to assure and document success.

MEDC works with a statewide network of economic development practitioners and strategic business service partners to achieve the overall objectives of the plan. In addition, the Governor's plan streamlines the focus and direction of all state agencies. This provides a platform for all teams to work collaboratively toward a common goal.

The MEDC, in partnership with the Governor and the legislature, has recently re-invented all of our economic development tools to directly support the diversification and growth of Michigan's economy.

Manufacturing

Advanced manufacturing is one of Michigan's targeted industries, with resources strategically deployed to help the industry grow and create jobs in the state. State tax credits are available for manufacturers that make capital investments leading to job creation and retention, and who demonstrate that they are committed to improving their long-term viability through lean manufacturing practices and market diversification. The state is executing a specific

automotive strategy to strengthen Michigan's leadership in automotive manufacturing and R&D.

In 2008, the MEDC's 20+ business development managers offer personalized assistance and resources to more than 3,400 medium- to large-sized companies throughout the state, the vast majority of which are manufacturers.

The \$2 billion 21st Century Jobs Fund initiative includes advanced automotive, manufacturing and materials among four sectors eligible for its competitive, peer-review funding process. To date, more than \$49 million has been awarded to fund innovative proposals in this sector.

To help Michigan's small and midsize manufacturing companies become more competitive, the MEDC financially supports and collaborates with the Michigan Manufacturing Technology Center (MMTC). With six regional offices in Michigan, the MMTC is part of a nationwide network of 59 Manufacturing Extension Partnership centers providing affordable, hands-on consulting and training to SMEs.

Many manufacturers have located within Michigan's Renaissance Zones—geographic locations throughout the state within which companies operate free of virtually all state and local taxes. The Tool and Die Recovery Zone initiative was designed to help companies in that manufacturing sector reduce costs and become more competitive in the global economy. To date, the MEDC has designated 24 tool and die recovery zones, with 218 tool and die companies operating free of nearly all state and local taxes.

Workforce

Governor Granholm has charged the Michigan Department of Labor & Economic Growth (DLEG) with promoting economic growth, stimulating job creation, and enhancing the quality of life for Michigan citizens by making Michigan a cost-effective, high-quality magnet state. The Governor articulated our workforce strategy in four words: No Worker Left Behind (NWLB).

Launched on August 1 2007, NWLB helps Michigan employers who need workers with new skills *now*; helps Michigan workers upgrade their skills and get good new jobs; and drives Michigan's economic transformation by attracting diverse new employers interested in a skilled workforce and a state ready to meet their recruitment and training needs in real time. NWLB offers up to 2 years of free tuition (\$10,000 cap per individual) to train for high-demand occupations (<http://michigan.gov/nwlb>). The goal of NWLB is to train 100,000 workers over three years. To date, 31,335 individuals have enrolled in NWLB-funded training.

NWLB represents a reorganization and augmentation of Michigan's workforce programs, and includes all public monies used for training. DLEG is aggressively seeking additional money to fund worker training and meet employer demands for a highly skilled Michigan workforce. In recent weeks, DLEG has been awarded:

- More than \$16 million in supplemental Trade Adjustment Assistance funding;
- A \$6.6 million National Emergency Grant from the US Department of Labor (USDOL);

- \$2 million from the USDOL to train displaced workers for careers in the health care industry;
- \$5 million for the Michigan Nursing Corps, to train 500 new nursing faculty who will in turn educate up to 3,000 new nurses;
- \$15 million in general funds for FY 2009.

In addition, DLEG Deputy Director Andy Levin recently hired an External Relations / Grants Specialist charged with looking for additional sources of funding to provide training and re-training for Michigan workers.

In an effort to meet the Governor's charge, reflect, and achieve the goals of NWLB, DLEG created the Bureau of Workforce Transformation. BWT emphasizes meaningful training to promote employment opportunities in high demand and emerging industries. BWT is structured by customers and mission, rather than by federal funding stream and program. There are two sides to BWT: worker focused, which includes Accelerated Employment, Lifelong Learning, Migrant, Immigrant & Seasonal Worker Services and Veteran Services; and employer focused, which includes Regional & Sectoral Strategies and Meeting Employer Needs.

Many BWT programs are aimed at developing Michigan's workforce to be competitive:

- The Adult Learning Work Group (ALWG) works to tie educational attainment to job opportunities, and requires partnerships between adult education providers and the state's universities and community colleges.
- Sectoral Strategies work to meet employers' workforce development needs in many industry sectors, including health care, agriculture, construction, tourism and hospitality. These Sectoral Strategies include three WIRED grants and 37 Michigan Regional Skills Alliances that cover many segments of Michigan's diversified economy.
- Veterans programs and services staff are specially trained to assist veterans transition from military life to civilian employment, and to address their unique characteristics and barriers.
- The Council for Labor & Economic Growth (CLEG) has recommended that Michigan develop a career readiness certificate, based on ACT's WorkKeys, to be implemented statewide.

Transportation & Logistics

Each \$1 billion in federal transportation spending supports 47,500 jobs. Additional investments in Michigan's transportation infrastructure would support jobs in the planning, engineering, and construction fields, along with many more indirect jobs in other areas of the economy.

Transportation investments pay other dividends, enhancing the long-term productivity and competitiveness of the economy by reducing travel times, improving safety, and reducing energy costs. Decreasing revenues resulted in a FY 2008 Highway Program investment of

\$1.33 billion, a decrease of more than \$200 million from the FY 2007 level. Directing additional funds to transportation infrastructure will help create jobs at a time of elevated unemployment, and provide a productivity boost to the remaining economic sectors: a double advantage.

Governor Granholm has worked with MDOT to advance \$150 million in road and bridge preservation projects from 2009 to 2008 as a state transportation economic stimulus initiative to fund about 25 road and bridge preservation projects to create as many as 7,000 new jobs.

Our priorities in Michigan are to preserve our existing system first and improving safety for system users. We use Asset Management techniques with our current goals of having 90% (95 freeway and 85 non freeway) of our pavement and bridges in good conditions.

Michigan Public Act 51 prescribes the distributions of state funds between the state, counties and cities and villages as well as highways, transit, and intercity passenger transportation. However, there is no distinction in road funding (federal or state funding for state roads) between local/regional and intercity. Interstates are intended for long-distance travel, but in urban areas they are used for local and regional trips. Absent a tolling mechanism or severe congestion, there is no disincentive for using freeways for any length of trip.

Last year Michigan completed "MI Transportation Plan," our long-term statewide transportation plan. One of the ways we examined the system was by identifying our "corridors of highest significance." Although they roughly follow highways, they are meant to be taken broadly to encompass all modes. As transportation needs are addressed within those corridors, the needs of other modes are also examined and addressed when possible. Outside of the corridors, MDOT is focusing on bicycle and pedestrian transportation (which tends to be local) in conjunction with road projects. Act 51 requires all road agencies receiving distributions from Act 51 spend 1% of it on non-motorized transportation; bicycle and pedestrian transportation are qualifying expenditures in nearly all federal funding categories.

Clean Tech & Energy Efficiency

Governor Granholm is leading an aggressive campaign to diversify Michigan's economy by building a new green technology industry in the state. Her efforts are coordinated by a Special Advisor for Renewable Energy and Environment in the Executive Office, and he leads an action-oriented task force that meets at least weekly, which represents various state agencies – The Michigan Economic Development Corporation, the Department of Labor and Economic Growth, the State Energy Office, The Michigan Public Service Commission, a statutorily created non-profit agency called Next Energy, the Department of Environmental Quality, the Department of Natural Resources, etc. The state is aggressively looking to spur new jobs in both the energy efficiency and renewable energy sectors.

Governor Granholm is the state's leading proponent of an aggressive mandatory renewable portfolio standard and an energy efficiency standard for utilities, which have been passed with broad bipartisan support in the Michigan House. We are hopeful that the legislation will be passed into law shortly.

The state's workforce employment agency is about to launch one of the nation's most aggressive "Green Jobs" worker retraining programs, a \$6 million annual commitment using state discretionary federal workforce retraining funds, which will work closely with employers to retrain Michigan workers for actual job needs.

In 2002, the State created a quasi-public non-profit entity called Next Energy to spur economic diversification in the renewable space. One of Next Energy's many tasks is to match local firms with outside clean tech companies and investors. In addition, the Michigan Economic Development Corporation has formed a number of "cluster teams" in a number of strategic industry sectors which Michigan is well suited to grow – cellulosic ethanol, wind turbine manufacturing, advanced battery design and manufacture, sustainable water technologies, etc. These cluster teams combine private sector, public sector, and academic experts and work to proactively seek out and attract new business models that have significant growth potential in Michigan. The first cluster team, in cellulosic biofuels, has already successfully attracted one of the world's first commercial scale cellulosic ethanol plants (using wood products) and a unique partnership with a Swedish company that turns wastewater sludge into biogas.

The MEDC also coordinates Michigan's Centers of Energy Excellence, which partner university researchers on-site at innovative clean tech businesses to speed commercialization. The state will be able to provide matching grants to Centers of Excellence. The MEDC uses its aggressive tax incentive toolbox to focus on attracting clean technology companies.

The Michigan legislature recently passed a sizable tax credit targeted to attract the next multi-billion dollar investment of Hemlock Semiconductor, the world's leading producer of polycrystalline silicon – the essential ingredient of photovoltaic solar panels. Michigan has also passed an "anchor company" tax incentives, which promote public-private partnerships in business attraction by giving certain designated "anchor companies" additional tax credits if other businesses in their value chain (suppliers or customers) invest in facilities in Michigan.

Technology Commercialization and More General Use of Universities

The State of Michigan believes technology commercialization and specifically the creation and growth of new technology businesses is integral to the successful diversification of Michigan's economy and the ability to train and retain a young college educated workforce. To this end, the 21st Century Jobs Fund (21CJF) initiative will invest over 10 years \$2 billion in technology commercialization efforts. 21CJF is a peer reviewed competition providing seed funding to companies in the areas of life science, advanced automotive, alternative energy, and homeland security, as well as providing investment funds to a fund manager to invest in venture capital companies focused on investments in Michigan. This program also funds technology commercialization projects at the universities and serves to incentivize researchers to pursue not only patenting and licensing their technologies, but also to create spin-out companies from the universities. To date, the 21CJF has awarded over \$126 million in funding to companies, research institutions, and technology commercialization support organizations that has created nearly 400 direct jobs and generated \$142 million in matching funds, for a 1.1 to 1 leverage ratio. Additionally, \$109 million is available to invest in private equity, mezzanine, and venture capital funds.

The 15 public universities, as well as private research institutions, are actively engaged in economic development, from presidents sitting on the board governing the direct technology commercialization investments to researchers receiving funds for technology commercialization efforts to university technology transfer personnel engaged in designing new programs. Over the last 7 years, with MEDC's emphasis on technology commercialization and university and private sector collaborations, the universities are now actively involved in economic development efforts of their own to move more of the university technology into the market place. A precursor program of the 21CJF program provided funding to university researchers for technology commercialization and has assisted them in creating 29 companies, see www.muci.org.

In 2001, the State of Michigan amended a traditional local tax capture program to allow tax capture for high technology activities such as incubators and assisting entrepreneurs and start-up companies. This has resulted in 12 SmartZones across the state, all associated with universities, contributing to the creation of over 16,000 jobs and \$1 billion in public and private investment.

More information can be found at www.themedc.org.

Productive Metros

Michigan is a national leader in the field of brownfield redevelopment. Over the years, the state's brownfield programs have evolved to advantage not only troubled contaminated sites but also sites in core communities that are blighted, functionally obsolete or owned by a public land bank authority.

The brownfield program provides Michigan's core cities a tool to redevelop properties and areas that market forces have allowed to deteriorate. Urban pioneer developers receive up to a 12.5% refundable tax credit of their investment on approved parcels of property. In downtowns or traditional commerce districts, a credit of up to 20% is available. Further, communities may capture tax increment financing (including the state's 24 K-12 grade mills) to pay for cleanup costs and demolition statewide, as well as site prep and infrastructure improvements. Land Bank Authorities can be reimbursed for land assembly costs to ready troubled urban sites.

The state legislature is considering measures to enhance Michigan's Downtown Development Authority Act and other incentives allowing cities to target retail development in their downtowns.

Revenues and Subsidies

Michigan has just passed legislation strengthening the repayment provisions of its Michigan Economic Growth Authority (MEGA) program for firms that negotiate and receive MEGA benefits (a portion of its payroll refunded to them through the state business tax for new or retained jobs.) The repayment provision targets firms that accept the benefits and then subsequently move substantially all of the incented jobs out of state, requiring them to repay up to a 100% of the incentive. When offering retention credits, Michigan negotiates an individual repayment provision, which requires full or partial repayment if job levels drop

significantly below negotiated thresholds. In the MEDC cash programs like the 21st Century competition awards, there are repayment provisions if the firm moves out of state after accepting a loan or a grant. Companies typically are required to repay 100% of the award plus penalties.

The 21st Century Jobs Fund is a bold \$2 billion, ten-year initiative begun in 2006 to jump start Michigan's economy now and diversify and grow it for the future in the competitive-edge technologies sectors of life sciences; alternative energy; advanced automotive, manufacturing and materials, and homeland security and defense. 21CJF focuses resources in three areas:

- 1) encourages the development and commercialization of competitive-edge technologies through an annual competition that invests \$30 million each year into promising companies and research opportunities;
- 2) increases capital investment activity by investing in venture capital, private equity and mezzanine funds; and
- 3) increases commercial lending activity through the creation of loan enhancement programs.