



State  
Entrepreneurial  
Ecosystems:  
How Public  
Policy Can Drive  
Innovation

# State Entrepreneurial Ecosystems: How Public Policy Can Drive Innovation

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Citizens Research Council of Michigan

CRC Lunch and Learn Program  
Newlab at Michigan Central  
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# Newlab



# Major Questions Addressed in Report

- Why should we care about innovation? Can public policy actually help induce greater innovation and economic growth?
- What are Michigan's strengths and weaknesses in terms of cultivating economic innovation and how does public support for relevant programs compare to other states?
- What funding options and strategies are available to Michigan if policymakers want to increase support of innovation and entrepreneurship programming?

# Why Should We Care About Economic Innovation?

# Why Care About Innovation?

- Economic theory tells us that long-run economic growth and rising living standards are tied to economic innovation – new products and processes that make workers more productive
- But economists also suggest that innovation may be constrained without help from public policy
  - New technologies can be adapted/copied/learned from by competitor firms (“knowledge spillovers”), so less profit for innovative firm
  - Small, young startup firms bringing a new technology to market face higher capital costs because of information constraints
- Report reviews research showing positive impact of many different public policy interventions in boosting innovation



# Does Public Policy Actually Help?

Empirical studies show various policy interventions have yielded positive outcomes in terms of encouraging R&D, improving the prospects of young innovative firms, and achieving long-run impacts on productivity and patenting.

- R&D tax credits
- Direct federal R&D appropriations
- Small Business Innovation Research (SBIR) program
- Accelerators and incubators
- Publicly-funded venture capital programs (key: when they are a moderate source of support relative to other private sources)

# Where Does Michigan Stand in Terms of Innovation?

# Is Michigan an Innovation State?

## 2022 Milken Institute

#17

10	R&D Inputs
13	Tech/Science Workforce
19	Human Capital Investment
26	Tech Concentration & Dynamism
36	Risk Capital/Entrepreneurial Infrastr








## 2020 State New Economy

#17

5	Innovation Capacity
17	Globalization
21	Digital Economy
25	Knowledge Jobs
38	Economic Dynamism

- Michigan ranks above average in two recognized state-level Innovation indexes
- Michigan's strengths relate to R&D capacity and workforce skills
- But key relative weaknesses relate to innovation ecosystem

# Is Michigan an Innovation State?

	 Michigan	 Indiana	 Virginia	 Illinois	 Minnesota	 Ohio	 Wisconsin	
Selection Justification:	Baseline	Maturity	Similar GDP	Regional Competitor	Regional Competitor	Regional Competitor	Regional Competitor	
University-based Innovation	Higher Education R&D Expenditures <sup>1</sup>	\$13.6B	\$7.7B	\$8.4B	\$12.9B	\$5.0B	\$11.8B	\$7.9B
	Higher Education R&D Expenditures, Public Institutions <sup>1</sup>	\$13.3B	\$6.6B	\$8.3B	\$5.7B	\$5.0B	\$9.0B	\$6.5B
	Higher Education R&D Expenditures in Science and Engineering Fields <sup>1</sup>	\$12.8B	\$6.9B	\$7.7B	\$12.2B	\$4.8B	\$11.2B	\$7.3B
	Amount (in \$M's) of Research Expenditures per University Invention Disclosure <sup>2</sup>	\$3.2M U. Michigan, Ann Arbor	\$1.8M Purdue U., West Lafayette	\$2.4M U. Virginia, Charlottesville	\$2.7M U. Illinois, Urbana-Champaign	\$2.5M U. Minnesota, Tw in Cities	\$2.3M Ohio State U.	\$3.2M U. Wisconsin-Madison
	Amount (in \$M's) of Research Expenditures per Start-Up Formation <sup>2</sup>	\$78.9M U. Michigan, Ann Arbor	\$29.4M Purdue U., West Lafayette	\$89.6M U. Virginia, Charlottesville	\$101.5M U. Illinois, Urbana-Champaign	\$57.9M U. Minnesota, Tw in Cities	\$72.4M Ohio State U.	\$131.4M U. Wisconsin-Madison

**Michigan's E&I programs** receive a significant investment from its **public universities**, whereas **Illinois** depends more heavily on its **private institutions**, as do several other of Michigan's peers.

Though Michigan's universities make significant investments in the E&I space in partnership with MSF, **the ROI on these investments seems to be lower** than that of peer states. The University of Michigan seems to be **spending more** to bring products to market than some of its peers.

**KEY:**

Lagging 25% Quartile	On path 50% Quartile	Emerging leader 75% Quartile	Best in class 100% Quartile
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Sources: [1] National Center for Science and Engineering Statistics, Higher Education R&D Survey; FY2016-2020 [2] AUTM Licensing Activity Survey, AUTM Statistics Access for Tech Transfer (STATT); Values are reflective of largest public university per state. Public university size is based on scale of cumulative research expenditures from 2016 to 2020.

72

- An independent program evaluation of Michigan's I&E programs conducted for the MEDC had similar findings related to Michigan's position among competitor states.

# Innovation and Entrepreneurship (I&E) Programs

- **Access to Capital Support** – early-stage financing to start-up companies in the process of bringing innovative new products and services to market
- **Business Support Programs** – technical support (e.g. legal and management consultations), networking and mentorship opportunities, product evaluation and validation, publicly-funded business incubators/accelerators.
- **University Research Commercialization** – assist potential start-up companies validate the market potential of new product ideas arising from university research

# Financing Michigan's I&E Programs

## *21<sup>st</sup> Century Jobs Fund*

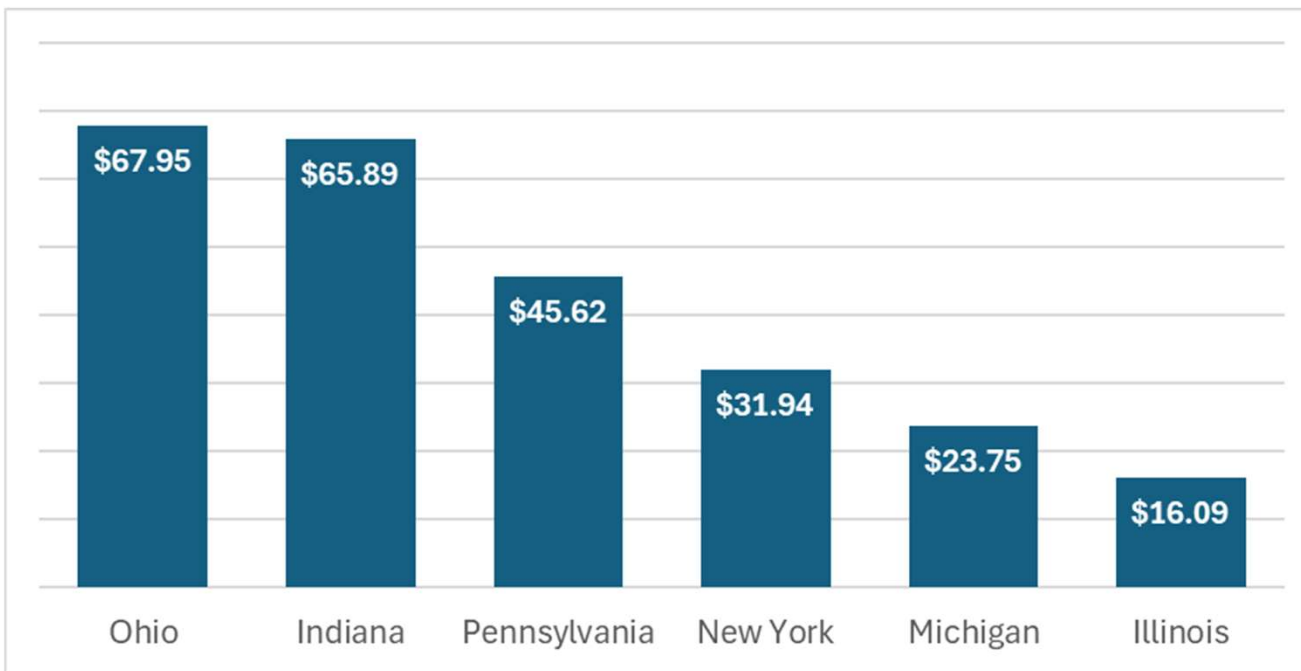
- Created in 2005, the 21<sup>st</sup> Century Jobs Fund is the primary funding source for the MEDC's I&E programming (and for much of its other business attraction programs)
- Current \$15.7 million appropriation is down from a high of \$28.5 million in FY2014

Entrepreneurship Eco-System Appropriations	
FY2020	\$16,400,000
FY2021	\$15,650,400
FY2022	\$15,650,000
FY2023	\$15,650,000
FY2024	\$15,650,000

# I&E State Spending Effort Across States

## State Spending Effort for I&E Programs

(State Spending per \$1 million in state GDP)



State spending effort:

- State appropriations for I&E programs
- Average annual dollar commitments from off-budget program funded by bond or other special revenue.

Michigan ranks fifth among these states in I&E spending effort relative to the size of its economy.

# Business Support Providers – Case Study Comparison

- **Michigan** – the state commits around **\$4.7 million per year** to support SBDC-delivered Tech Team, Business Accelerator Fund and SBIR/STTR matching grants as well as grants to the state's network of regional incubators
- **Ohio** – Ohio's five regional Entrepreneurial Service Providers receive annual support of **\$32.9 million per year** under their current contracts
- **Pennsylvania** – Total combined budgets for the state's Ben Franklin Technology Partners have averaged around **\$32 million per year** combining both annual state appropriations and reinvested program earnings
- **Indiana** – Elevate Ventures operates under a state contract that provides **\$6.5 million in annual support** for its coordination services to Indiana's I&E programs.



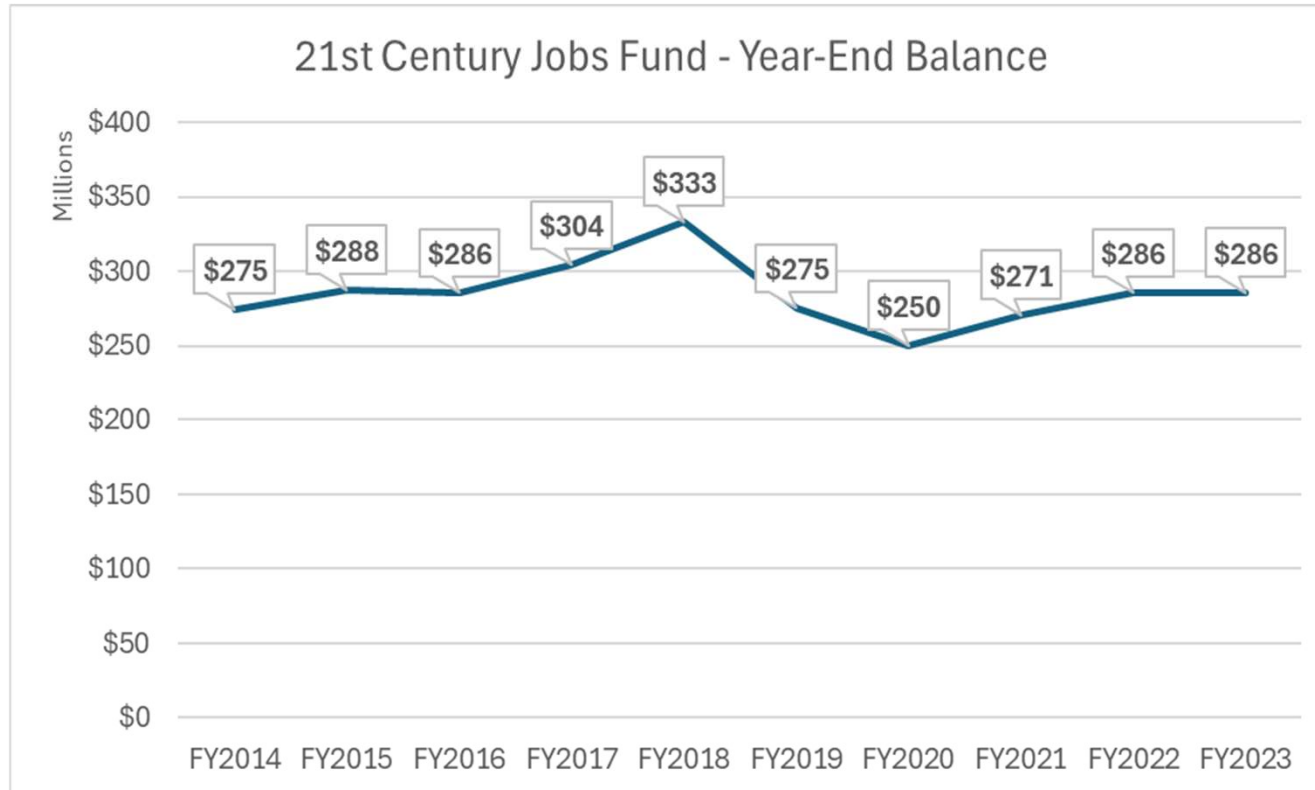
# Fiscal Roadmap: Funding Options for Michigan

# Fiscal Roadmap: Revenue Options for Michigan

## *Bonding for One-Time Revenue*

- General obligation bonds: requires legislative and voter approval
  - Ohio Third Frontier initiative: state generates \$1.2 billion to kickstart I&E programs in 2005 and 2010
  - Michigan precedent: Clean Michigan Initiative (\$675 million in 1998)
- Revenue bonds: legislative approval needed
  - Michigan precedent: 21<sup>st</sup> Century Jobs Fund was initially capitalized with \$400 million in revenue from securitization of Michigan tobacco settlement proceeds

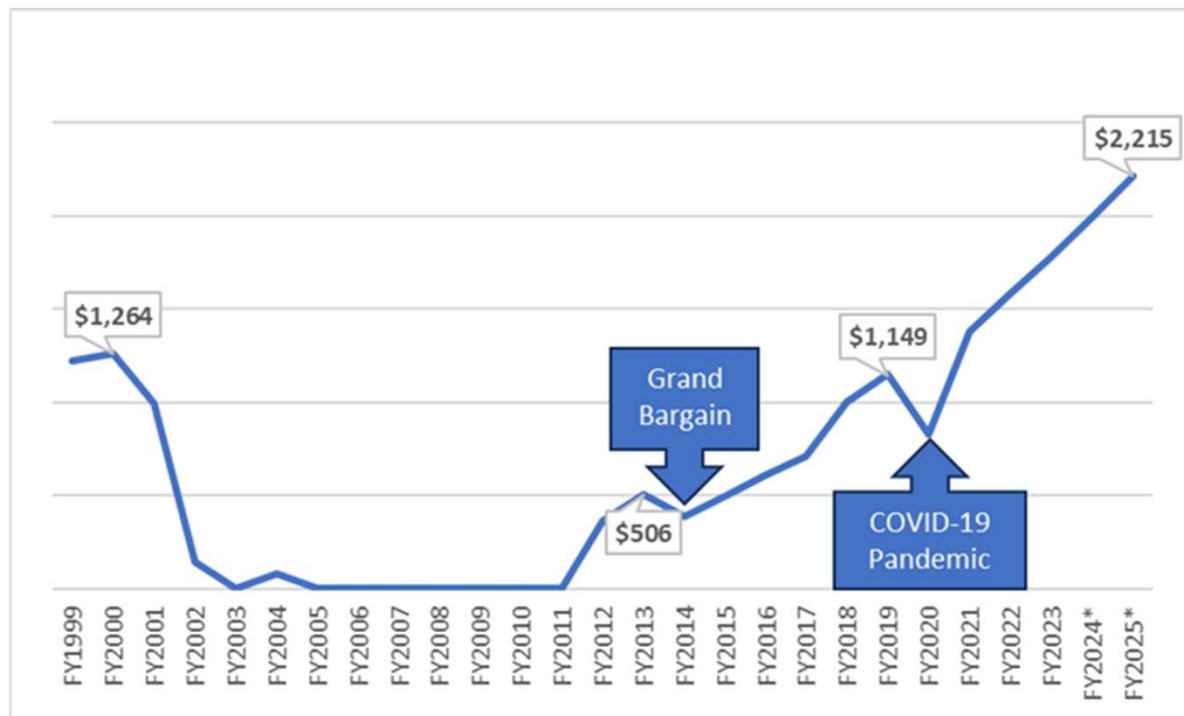
# 21<sup>st</sup> Century Jobs Fund



- The 21<sup>st</sup> Century Jobs Fund has maintained a year-end balance of at least \$250M in each of the last ten years
- That balance is available for appropriation by the legislature for economic development-related programming

# Grand Bargain and Michigan's Rainy-Day Fund

**Budget Stabilization Fund Balance History, FY1999 to FY2025**  
(in millions)



- State contributed \$195M to the Grand Bargain agreement to help Detroit arise from bankruptcy
- State law requires “repayment” of **\$17.5M annually** from tobacco settlement proceeds over 21 years
- But BSF has already grown by \$1.7 billion; more than 4-times the pledged Grand Bargain payback
- Grand Bargain repayments are now largely symbolic

# Fiscal Roadmap: Revenue Options for Michigan

## Tribal Gaming Revenue from Online Gaming and Sports Betting

- 10 percent of tax revenue generated from tribal casinos goes to the Michigan Strategic Fund
- MSF revenue from tribal gaming is up by \$17-18 million per year as a result

## Corporate Income Tax Earmarks

- Tax reforms enacted in 2023 included the temporary redirection of \$550M of Corporate Income Tax revenue (SOAR Fund and placemaking programs)
- That revenue moves back to the General Fund under current law
- House and Senate are still deliberating about maintaining the redirection (and how to use the funding)

# On the Horizon: Michigan Innovation Fund

- One-time \$60 million appropriation for a new Michigan Innovation Fund (MIF) to support I&E-related programming included in FY2025 budget
- Pending legislation (currently pending House floor action) authorizes transfer of available proceeds from the Venture Michigan Fund to the new MIF
  - \$105 million would be transferred in 2024
  - Potentially more in future years if VMF continues to realize earnings
- That legislation will also set parameters on how Innovation Fund dollars are allocated. Current bills pending on the House floor allocates funding for:
  - Nonprofit or university-based venture funds
  - Nonprofit agencies for start-up services that support the creation and growth of Michigan startup companies and support the growth of the state's venture capital talent pool

# Key Takeaways from the Research

- Economic innovation is critical to long-run economic growth and rising living standards
- Public policy interventions can help drive more innovation and help overcome marketplace challenges that can hinder it
- Michigan invests less than its neighbors in I&E programs that aim to improve the state's entrepreneurial ecosystem.
- Report identifies revenue options to increase both one-time and ongoing support for I&E programs in Michigan.

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# Panel Discussion

## Moderator

- Lisa Baragar Katz – *President, In The Mix*

## Panelists

- Ned Staebler – *President and CEO, Tech Town; Vice President for Economic Development, Wayne State University*
- Nia Batts - *Managing Director and COO of Union Heritage; Senior Advisor, Women's First Bank*
- Lisa McLaughlin – *Social entrepreneur and writer; Co-Founder, Workit Health*
- Senator Mallory McMorrow – *State Senator representing Michigan's 8<sup>th</sup> Senate District*