

CHARTING A NEW COURSE: RESTORING JOB GROWTH IN THE MINNEAPOLIS-ST. PAUL REGION

April 2010



EXECUTIVE SUMMARY

For three decades, the Minneapolis-St. Paul region's diversified, vibrant economy outpaced the nation in employment, wages, and overall GDP. The region's many strengths include a highly educated workforce, an excellent quality of life, leading-edge research, and a remarkable concentration of Fortune 500 companies. During the past decade and well before the current economic downturn, however, the region has fallen behind much of the nation in terms of job growth. If this trend continues, both the economy and our quality of life will decline.

The Itasca Project Job Growth Task Force was created to study factors that support job growth and identify strategies and policies the region could employ to create, attract, and retain quality jobs. Supported by research and analysis from McKinsey & Company, the task force studied the Minneapolis-St. Paul region's environment and capabilities and benchmarked them against high performing regions both in the USA and around the globe.¹

Key findings of the task force included:

- **The Minneapolis-St. Paul region boasts sturdy economic foundations and many unique strengths.** Our base of large, high-performing companies, our high quality of life, strong human capital, and productive research community have been important assets for decades. These regional strengths need to be carefully nurtured and maintained to support future economic prosperity.
- **Several factors prevent the region from attracting, creating and retaining high-quality jobs.** These include the relatively high cost of doing business in the region due to an uncompetitive tax structure, high labor costs (especially for lower-skilled workers), and burdensome regulatory mandates and processes. In addition, the region has experienced falling levels of new business creation. This is due in part to limited access to seed capital and venture capital, insufficient networking and mentoring opportunities for local entrepreneurs, and a culture that does not value entrepreneurs as strongly as other regions. Finally, the region lacks a unified vision for economic development, a coordinated strategy for driving job growth, and an entity to drive that strategy.
- **Other regions have overcome similar challenges with bold actions to drive job growth and economic development.** While each region's solution varies depending upon its inherent strengths and weaknesses, our research reveals some common ingredients for success. In addition to enhancing or bolstering economic pillars such as human capital, infrastructure, and the business climate, regions succeed by following a strategic vision and strategies for

¹ "Minneapolis-St. Paul region" generally refers to the 13 county Metropolitan Statistical Area (MSA). For additional information on regions that were selected for benchmarking and best practices, see page 24 (About This Report).

economic development that coordinate efforts, leverage core strengths, and moderate inherent disadvantages. Regions that have made their visions of growth a reality have built new capabilities in marketing and branding and bolstered their business attraction, expansion and retention efforts. Regions across the country are taking such actions to aggressively compete to bring new jobs to their local economies.

The Itasca Project Job Growth Task Force has proposed three strategic priorities for the region, informed by our research into best practices and the gaps we have identified in the region's current economic development system:

- 1) Address the cost of doing business
- 2) Develop a vision, strategy, and approach for *regional* economic development
- 3) Enhance entrepreneurship and innovation

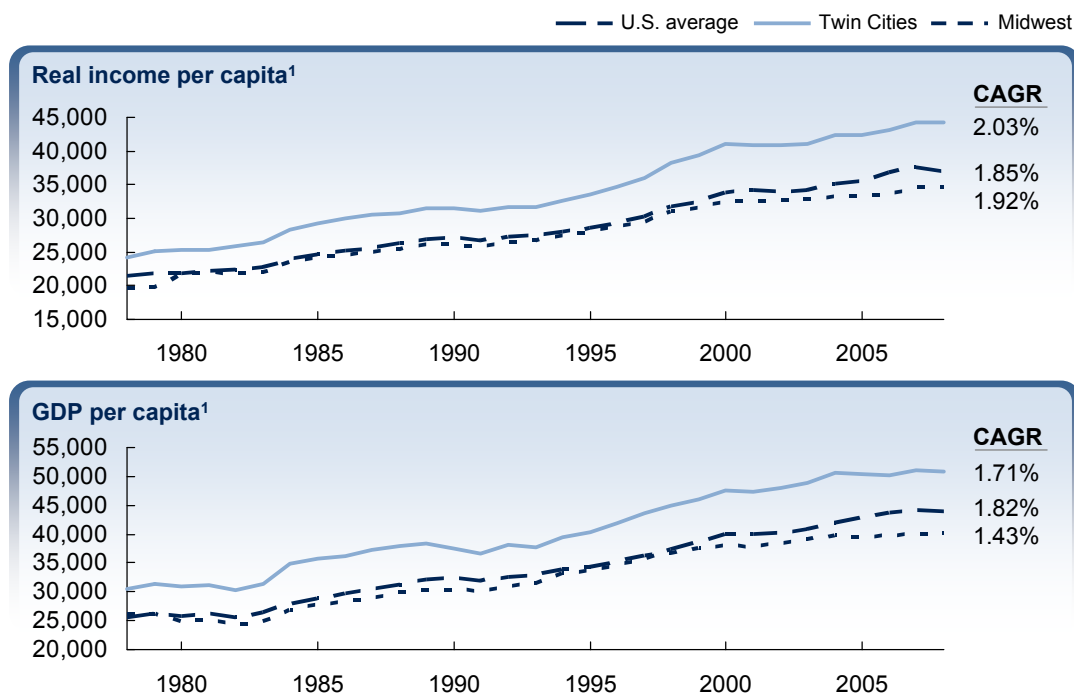
Success will require regional coordination and cooperation. Stakeholders will need to temper historic intra-region competition in order to rally around common goals and strategies. The business community, public sector, educational community, and community leaders will need to form creative partnerships that encourage and celebrate collaboration.

The Itasca Project Job Growth Task Force offers its findings to the community in the interest of securing our region's economic well-being. It has defined the situation, identified challenges, and proposed a way forward. It now urges leaders across all sectors to mobilize around this issue so that our region can once again reclaim its place as one of the most prosperous economies in the nation.

INTRODUCTION

For 30 years, the Minneapolis-St. Paul region has enjoyed steady economic growth, outpacing the Midwest region and the U.S. in general (Exhibit 1) in income and GDP per capita. The region owes much of its success to a highly educated, productive workforce, a quality of life that has attracted and retained talented people, and leading-edge research and innovation.

Exhibit 1 THE TWIN CITIES HAVE ENJOYED 30 YEARS OF STEADY GROWTH

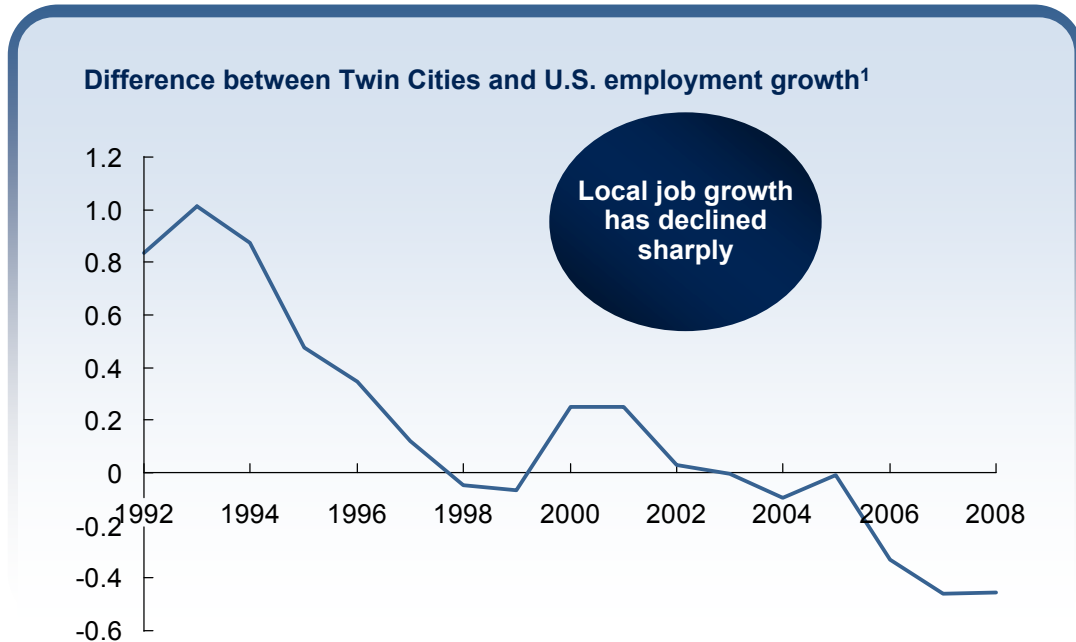


SOURCE: Bureau of Economic Analysis; Economy.com

Despite this history of prosperity, some troubling trends have emerged. Even before the recent global economic downturn, the region's GDP per capita growth, real income per capita, and employment growth began lagging national averages (Exhibit 2). In *Forbes'* "Best Places for Business and Careers" ranking, Minneapolis-St. Paul fell from 20th to 76th between 2003 and 2009. During the same period, the Milken Institute's "Best-Performing Cities" index has the region dropping from 99th to 123rd.

Compounding these issues, public funding at the state and local levels is in crisis, restricting the range of solutions available to policy makers. The recent downturn has put new pressures on local community organizations such as schools, arts institutions, and non-profits, which threaten to lower the quality of life in the region.

Exhibit 2 BUT EMPLOYMENT GROWTH HAS DECLINED FOR MORE THAN A DECADE



¹ Three-year moving average difference between Twin Cities and the U.S., calculated by using the given year and the previous two years

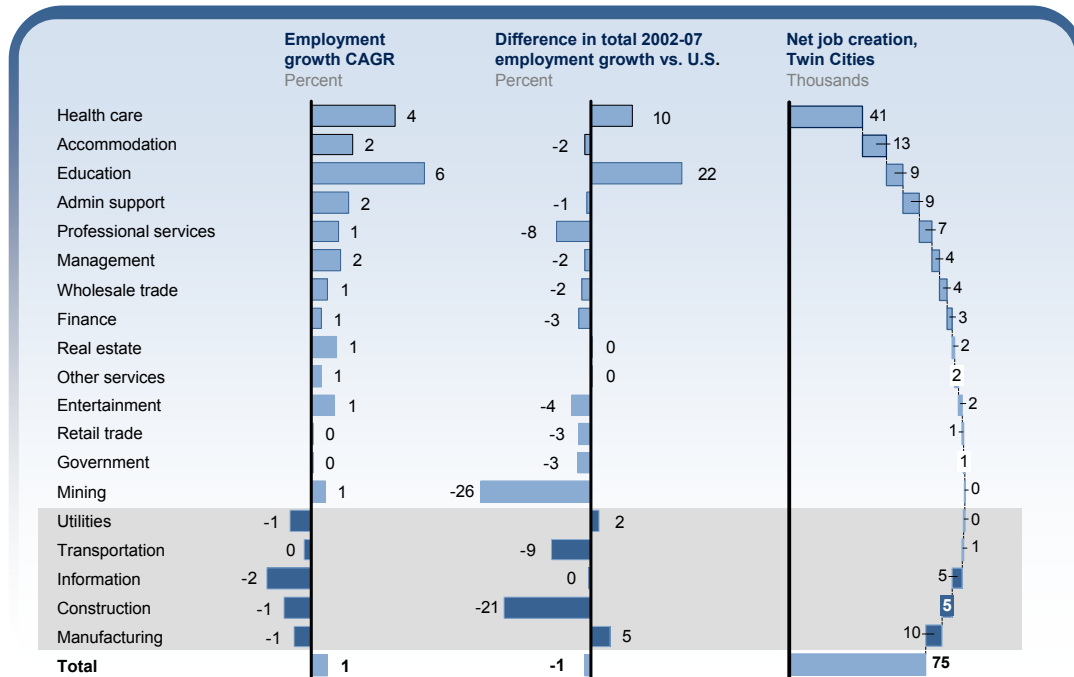
SOURCE: Bureau of Labor Statistics

Still, some sectors have added jobs in recent years (Exhibit 3). Health care and education both grew faster here than in the nation as a whole and account for the majority of the region's job growth from 2002 to 2007. While these sectors are critical to the current and future well-being of the region, the jobs created have productivity and average wages significantly below the region's average. In fact, nine out of every ten jobs created from 2002-2007 fell into a sector with below average productivity.²ⁱ Furthermore, growth in sectors like health care and education is largely driven by demographics and requires significant government investment. Important private sector-led industries like manufacturing, construction, and information did not generate new jobs during this period.

To prevent further erosion in job creation, local leaders and policy makers must acknowledge and address the many challenges impeding economic development. The cost of doing business in the Minneapolis-St. Paul region is significantly higher than in peer regions and the country as a whole; the area lacks a strong entrepreneurship culture, which dampens economic development; and our strong position in human capital is at risk. Furthermore, the region does not have a vision for economic development or an entity to execute that vision.

² Sector defined at the 4-digit NAIC code level. 67,000 jobs were created in sectors with below-MSP average productivity as of 2002, while only 6,000 jobs were created in sectors with above-MSP average productivity.

Exhibit 3 HEALTH CARE AND EDUCATION BOTH GREW FASTER THAN THE NATIONAL AVERAGE AND DROVE MUCH OF THE TWIN CITIES' RECENT EMPLOYMENT GROWTH – 2002-2007



SOURCE: Bureau of Economic Analysis; Bureau of Labor Statistics; Moody's Economy.com; McKinsey analysis

Fortunately, at the present time, the Minneapolis-St. Paul region still boasts sturdy economic foundations and many unique strengths. Our base of large, high-performing companies, our sound quality of life, strong human capital, and productive research community all can contribute to a robust recovery.

THE REGION'S STRENGTHS

Base of Large Companies

The Minneapolis-St. Paul region has one of the most impressive concentrations of large public and private corporations in the country. Eighteen Fortune 500 companies have headquarters in the region, placing it third in the country in per capita terms. These firms, which generate over \$400 billion in revenue per yearⁱⁱ, span a variety of sectors, from financial services (U.S. Bancorp, Ameriprise Financial, Travelers, Thrivent Financial) and retail (Target, Supervalu, Best Buy) to consumer and industrial goods (General Mills, Land O'Lakes, 3M) and healthcare (UnitedHealth Group, Medtronic). The region is also home to large private companies, led by Cargill and Carlson Companies, placing it sixth in the nation on *Forbes'* "Largest Private Companies" list. Other companies, though not headquartered here, have significant employment centers in the region, including Wells Fargo, Delta, and Boston Scientific.

These large firms drive much of the region's employment and economic activity and its high quality of life, thanks to their contributions to our tax base and employment rate, as well as their giving to the arts, social events, and charitable organizations. Further, these large companies and others like them, along with their employees, are important customer bases for the region's small- and medium-sized companies. Ensuring that all companies, regardless of size, prosper and choose to expand here is critical to securing the region's future prosperity.

Superior Human Capital

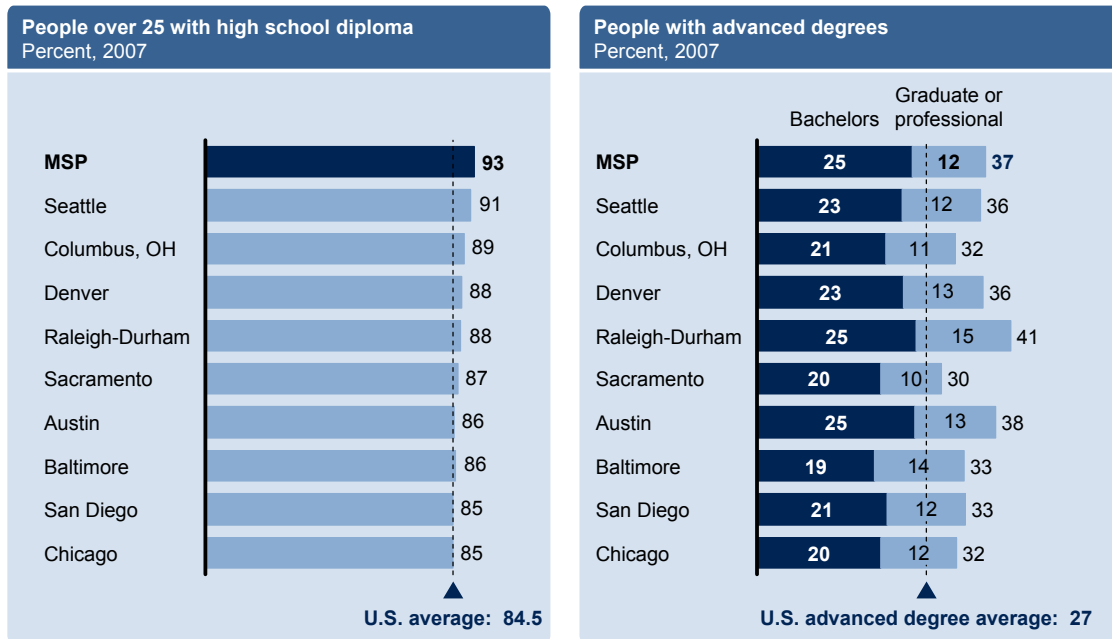
The people of Minneapolis-St. Paul are among the most educated in the country. More than nine in ten of those over age 25 have a high school diploma or equivalent, the third-highest record in the country. Nearly four in ten have a bachelor's degree or higher, placing Minneapolis-St. Paul as the sixth most educated region in the countryⁱⁱⁱ (Exhibit 4).

Minnesota consistently outscores other states in reading and math proficiency. For example, 28 percent more of Minnesota's fourth-graders score at or above proficiency on national math exams than the national average and 14 percent more in reading^{iv}.

In higher education, the Minneapolis-St. Paul region ranks ninth among metro areas on the college destinations index, most notably with the University of Minnesota ranked 22nd among the nation's public universities and Carleton College and Macalester College ranked eighth and 29th, respectively, among all liberal arts colleges by *U.S. News & World Report*.

The area's educational resources contribute to a highly skilled workforce that has a significant proportion of workers in knowledge-based jobs—those "that require considerable judgment in the creation, use, and communication of ideas (46% of MSP workforce is comprised of knowledge workers, compared to 40% nationwide)."^v Most knowledge workers have more education and command higher

Exhibit 4 TWIN CITIES RESIDENTS ARE HIGHLY EDUCATED



SOURCE: U.S. Census "American Community Survey"; McKinsey analysis

wages, and knowledge-based jobs have been growing at a much faster rate in the U.S. than non-knowledge-based jobs. Given global trends, knowledge workers are likely to represent a large share of national employment growth in the years ahead.

Other trends raise concerns about the region's ability to maintain a highly educated, high-quality workforce, however. The region faces a well-documented achievement gap between ethnic groups. The on-time graduation rate for white students is 80% compared to 47% for minority students^{vi}. On nationwide tests, Minnesota demonstrates one of the largest achievement gaps in the nation. For example, Minnesota has the third-widest gap in the country in math test scores and seventh-widest in reading test scores between black and white students (Exhibit 5)^{vii}. Given that minority populations are growing faster than the overall population, the state must close this gap to keep pace with the nation.³

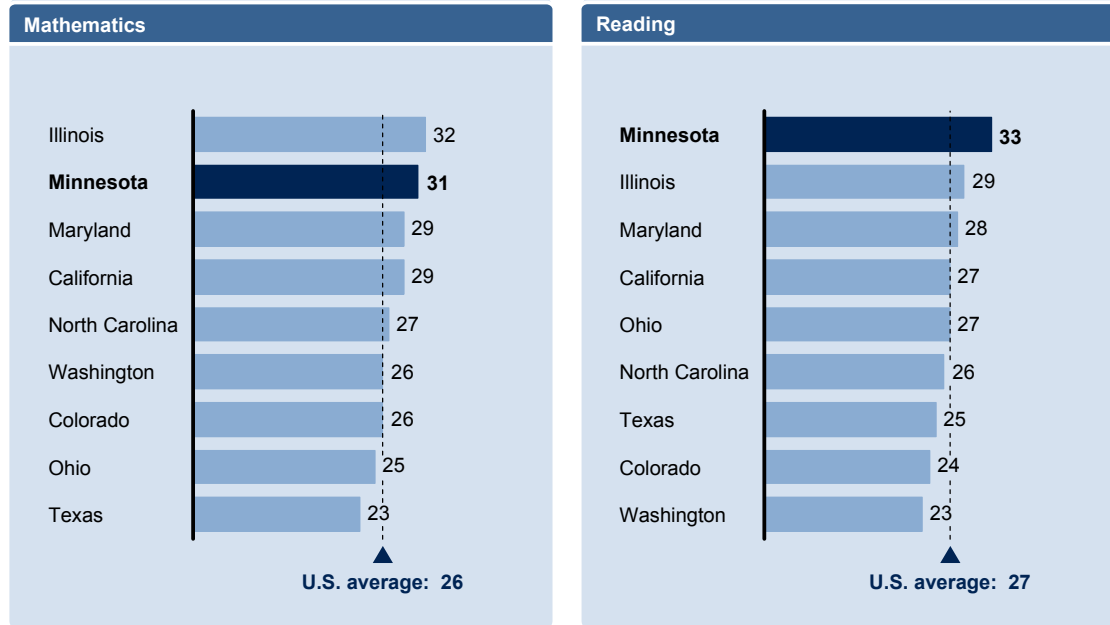
Meanwhile, the share of aging Minnesotans is rising faster in this state than in the country as a whole, which may lead to a significant shortfall in the labor force (Exhibit 6). To maintain our workforce and fill the shortfall, we will need to attract, develop, and retain more high-quality workers.

The region does currently have a great competitive advantage when it comes to a quality workforce. However, to maintain this competitive advantage we will need to address the achievement gap and looming workforce shortage.

³ For additional information on Minnesota's education assessment, see previous Itasca Project research in "MN's Future: World-class Schools, World-class Jobs" available at www.TheItascaProject.com and "Mind the Gap" at www.mncompass.org/disparities/close-the-gap.

Exhibit 5 MINNESOTA'S BLACK STUDENTS MAY BE FALLING BEHIND

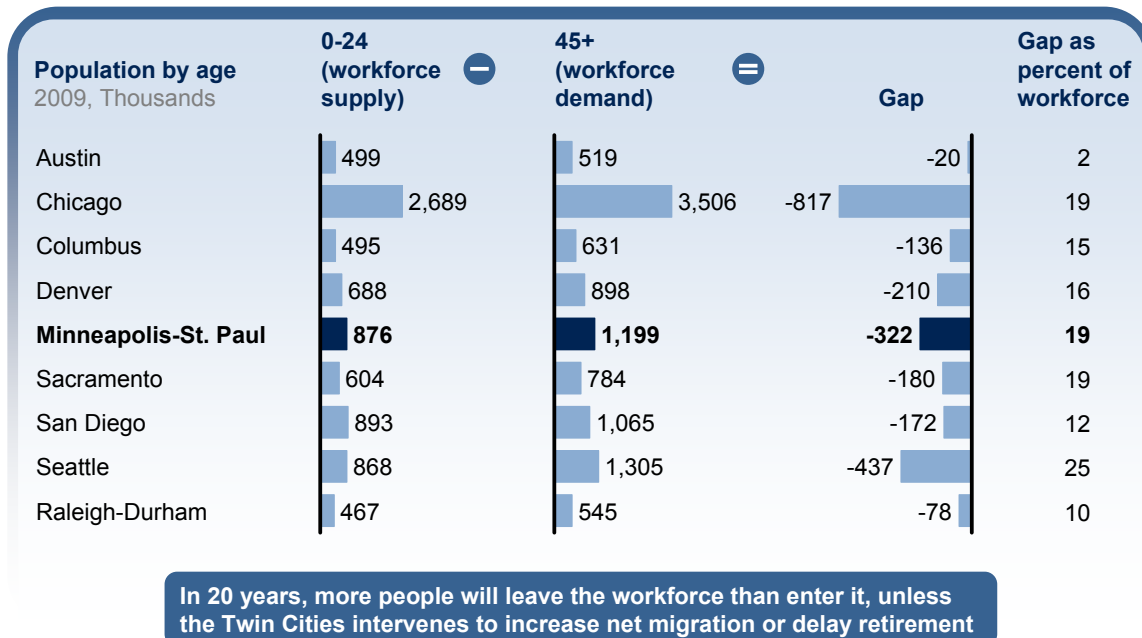
Achievement score gaps between black and white fourth-graders¹ in 2007



¹ Scores taken from results of NAEP standardized tests

SOURCE: National Center for Education Statistics, 2007

Exhibit 6 DEMOGRAPHIC TRENDS POINT TO A WORKFORCE SHORTFALL IN 20 YEARS



SOURCE: Census Bureau, 2009

High Quality of Life

Minnesotans consistently rank among the happiest and healthiest people in the country. *Forbes* ranked Minnesota the fifth-happiest state in 2009, and the Gallup-Healthways Well-Being index ranks the state fourth in the nation based on emotional and physical health, healthy behavior, work environment and access to resources. Many other factors contribute to this high quality of life, including strong culture and entertainment, high civic involvement, strong infrastructure, and relatively low crime rates.

The Minneapolis-St. Paul region has a vibrant theater establishment, second only to New York City in theater seats per capita, and third in museums per capita^{viii}. The region is renowned for its healthy, athletic culture; *Men's Health* ranked Minneapolis as the third-fittest city in 2009, and Minnesota tops the Gallup-Healthways physical health index. Minneapolis-St. Paul also has the nation's highest level of civic involvement, with nearly one in four citizens volunteering annually^{ix}.

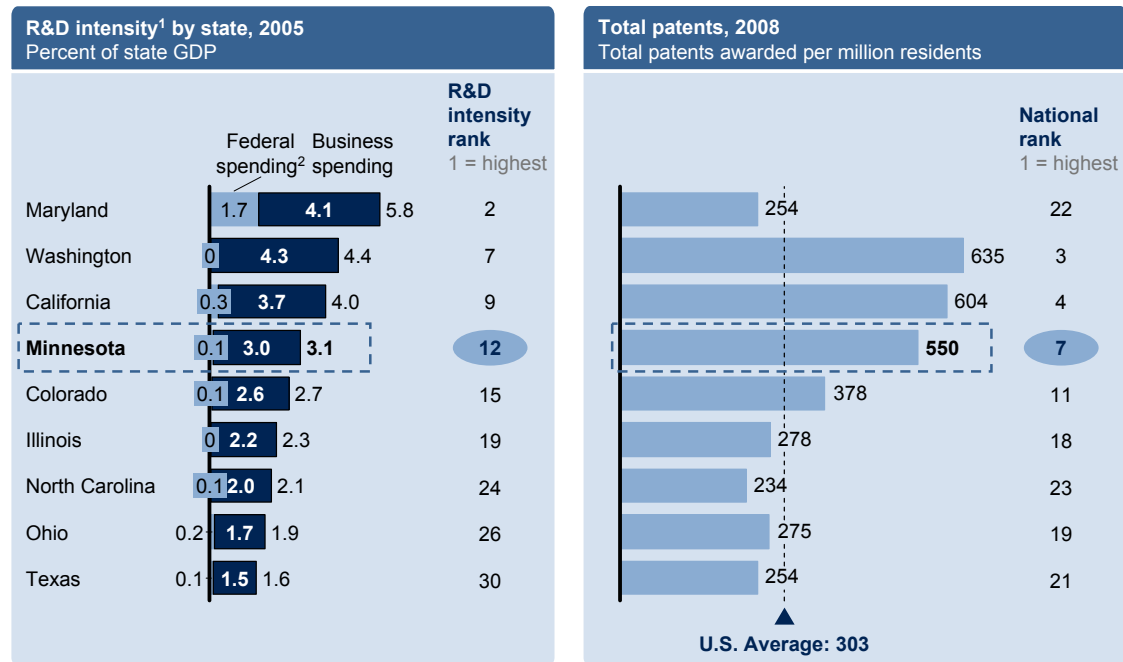
Transportation is critical to the region's attractiveness to employers and employees, and therefore to job growth. By most infrastructure measures, Minneapolis-St. Paul rates slightly above average when compared to peer cities. Average commute times by car and by public transport are at or below the national average, for example, and the area has less traffic than many peer regions. Business and leisure travelers alike benefit from one of the most active airports in the country. More than a thousand flights per day depart from Minneapolis-St. Paul International Airport, which ranks ninth nationally in number of destinations served^x. Maintaining this leadership in transportation infrastructure—a key to attracting employers and employees—will require careful attention and investment, as other regions are designing high-quality, livable communities with investments in transportation and implementing progressive land use policies.

Finally, according to a national survey of executives and site consultants^{xi} who help corporations identify where to relocate and expand, the crime rate is the most important indicator of quality of life. Here, the region has mixed results. While overall crime rates in the Minneapolis-St. Paul region have recently crept above the national average, the incidence of violent crime still remains 14 percent below the national average.

Research and Idea Generation

The Minneapolis-St. Paul region has been a world leader in the generation of ideas—the base of an innovative and entrepreneurial economy. It has long relied on strong regional entities such as the University of Minnesota and the Mayo Clinic, as well as private sector research and development in medical devices and other areas. As a result, Minnesota ranks 12th in R&D intensity nationally (total R&D spending per dollar of GDP^{xii}). Minnesota is also one of the best-performing states in research output, far exceeding the national average in total patents awarded per capita (Exhibit 7).

Exhibit 7 MINNESOTA HAS RELATIVELY HIGH R&D SPENDING AND OUTPUT



¹ Total R&D performed in state/total GDP

² Includes federal funding, federally-funded research and development centers, and nonprofit research

SOURCE: National Science Foundation; US Patent and Trademark Office; Census 2008

The University of Minnesota is an important asset to the region, ranked in the top quartile in terms of academic article output per million dollars of academic R&D. The National Science Foundation ranked the University of Minnesota ninth among public universities for R&D expenditures.^{xiii} According to Essential Science Indicators, the University has three fields of research ranked among the top five programs at public universities: mathematics (2), chemistry (3) and environment/ecology (4). Another 12 programs rank in the top 10, giving the University a total of 15 top-10 programs at public universities in the 19 general fields included in the citation database.^{xiv} Furthermore, in recent years, the University has strengthened its research commercialization efforts through the Technology Transfer Office, aligned with a previous Itasca Project task force. In 2009, the University earned \$95 million in licensing revenue, second among public universities.

CHALLENGES TO THE REGION'S ECONOMY

The Ease and Cost of Doing Business

The advantages to Minneapolis-St. Paul companies—high quality of life and an educated workforce—are tempered by relatively high taxes and labor costs, both of which exceed the averages of the nation and peer cities. Indeed, the Milken Institute ranks Minnesota as the 13th most expensive state for businesses, taking into account the costs of wages, taxes, electricity and rent^{xv}. There is a strong perception—both internally and externally—that the region is a challenging place to do business. According to a site selector who helps companies identify locations for company expansions, “The region needs to address its image of being hostile to business.” This negative image of the region is increasingly highlighted by other regions, particularly other Midwestern states, who are working to recruit businesses to their own area.

“The region needs to address its image of being hostile to business.”

Tax Structure

Multiple national rankings place Minnesota near the bottom in terms of the business tax environment. In 2009, for example, the Tax Foundation^{xvi} ranked Minnesota 43rd based on corporate, personal, individual, sales and unemployment taxes. The Small Business and Entrepreneurship Council^{xvii} ranked Minnesota 49th based on the impact of the tax code on small businesses, and in 2007, the Milken Institute^{xviii} ranked Minnesota 43rd based on annual state tax revenue as a share of personal income.

“We would love to build close to our headquarters. However, the high property and employment tax burdens currently rule out even including MN in our initial screening.”

These rankings are driven largely by Minnesota's high marginal tax rates. The state's top corporate tax rate of 9.8 percent, combined with the national tax rate, is 41.4 percent, second only to Pennsylvania (Exhibit 8)^{xix}. Minnesota's maximum unemployment insurance tax^{xx} for employees making above \$25,000 is the highest in the country.⁴ Furthermore, Minnesota's top personal tax rate of 7.9%, which impacts many pass-through corporations and small businesses, is the nation's 11th highest^{xxi}.

Tax rates naturally influence decisions to expand in, move to, or leave Minnesota. According to one site selector, “The corporate income tax is obscene, at almost 10%, and personal income tax is not too much better, at almost 8% . . . that poses a problem.”

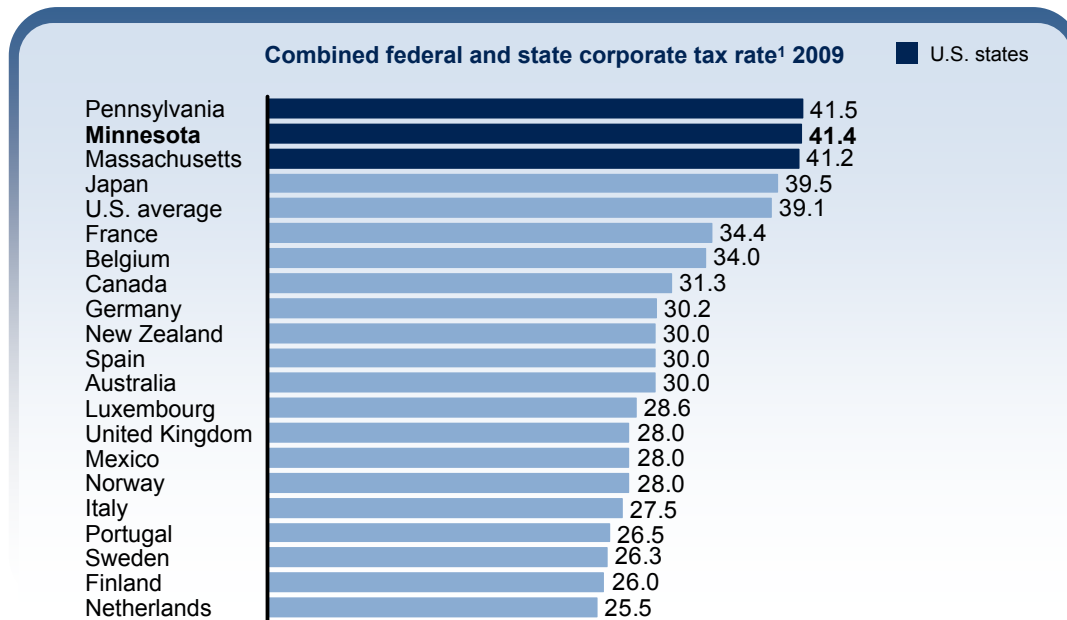
As a local CEO of a multinational firm recently asked in a public forum, “If I have a chance to invest in a factory in Ireland at zero [corporate taxes], or a factory in

⁴ Applying the maximum unemployment insurance rate (9.3% for Minnesota) by the cutoff wage (\$25,000 for Minnesota) yields the maximum unemployment tax rate.

Singapore at zero . . . why would I want to invest in Minnesota or the United States?” Another local CEO stated, while considering locations for a new customer service call center with over 200 jobs, “We would love to build close to our headquarters. However, the high property and employment tax burdens currently rule out even including Minnesota in our initial screening.”

These quotes reflect a consistent theme echoed by CEOs and site selectors alike, believing that in the competitive world of investment decision making, Minnesota’s tax structure is a substantial and immediate roadblock for those who evaluate the region for expansion potential.

Exhibit 8 CORPORATE TAX RATES



* Note: Does not include Austria (25%), Denmark (25%), Greece (25%), Korea (24.2%), Switzerland (21.17%), Czech Rep (20%), Hungary (20%), Turkey (20%), Poland (19%), Slovak Rep (19%), Iceland (15%), Ireland (12.5%)

¹ Combined rate adjusted for federal deduction of state tax

SOURCE: Tax Foundation

Regulation

By many accounts, Minnesota has a challenging regulatory environment. For example, the 2008 U.S. Economic Freedom Index, published by the Pacific Research Institute in association with *Forbes* magazine, ranks Minnesota 36th out of 50^{xxii}. The index measures how regulations impose restrictions on people’s behavior and, in turn, impact the free allocation of private resources.⁵ The Small Business Survival Index came up with a similar assessment, ranking the state 43rd in terms of regulatory environment. Finally, Minnesota ranks 30th on Regulatory Environment by *Forbes* “Best States for Business” rankings.

⁵ Indicators include right to work laws, minimum wage laws, and environmental, labor and educational restrictions, among others.

These low ratings are driven in part by health care mandates. Minnesota ranks 50th out of 51 in terms of number of health insurance mandates”^{xxiii}.

Further, according to interviews, the region’s many layers of government often complicate and lengthen the permitting process. As a local real estate developer relayed, “There are companies who were considering locating in the Twin Cities region – but the length of time required to get their project approved was simply not competitive.” This sentiment was widely echoed in the interviews and discussions with area business leaders.

Labor Costs

The Minneapolis-St. Paul region has a reputation for having high labor costs. As one site selector put it, “You’d need a really good reason to be here... because hourly wage costs are higher.” An analysis of labor costs does reveal that lower-skilled workers in the Minneapolis-St. Paul region earn, on average, six percent more in wages than their counterparts in peer cities, while higher-skilled workers⁶ earn about one percent more^{xxiv}. Obviously, while higher wages can discourage companies from moving to the region or expanding here, it also means that lower-skilled workers can maintain a higher standard of living.

Multiple factors contribute to this wage premium. First, the region has a relatively old labor force, with 55 percent over the age of 40. Older workers tend to have more experience and receive more compensation than younger workers—those 40-54 earn an average of 21 percent more. Meanwhile, the region’s lower-skilled workers have more education—20 percent hold a bachelor’s degree or higher^{xxv}—and higher education levels typically command wage premiums. Minnesota’s labor laws and industry structure also mean more unionization. About 17 percent of workers in the state belong to unions, the 13th highest rate in the country^{xxvi}. Since union labor typically commands premiums upward of 40 percent in total compensation, unionization tends to contribute to higher wages.

Innovation and Entrepreneurship

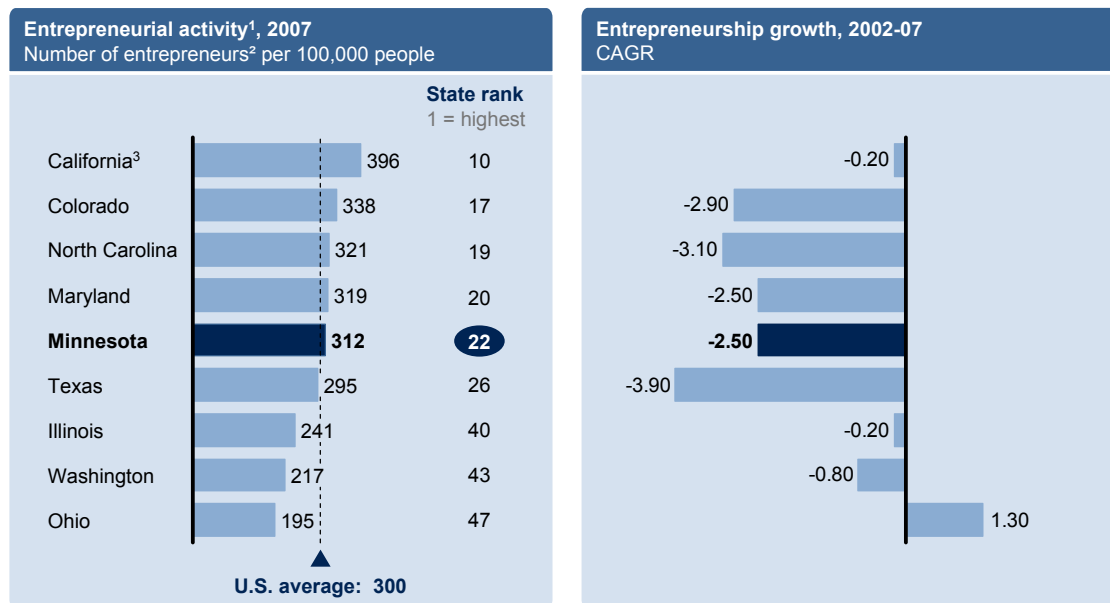
Minneapolis-St. Paul has produced many successful entrepreneurs and has a long history of turning small businesses into industry leaders. Medtronic, Best Buy, Carlson Companies and Cargill are just a few examples of local start-ups that have become global enterprises. Much of this success can be attributed to previously mentioned regional strengths, such as human capital.

However, in recent years, the region has struggled to create and grow small businesses. From 2002-2007, the number of new entrepreneurs declined by 2.5% annually (Exhibit 9). The average ratio of firm births to firm closings, an important measure of

⁶ High skill employment includes architecture and engineering, arts and design, business and finance, social services, computer and mathematical, education, healthcare, legal, social science, and management occupations.

business start-up health, lagged most peer regions from 2002 to 2006. Minnesota saw a net flow of 1,218 small and medium businesses leave the state from 1997 to 2008^{xxvii}. These worrying economic trends of declining entrepreneurship, slow small business growth, and migration to other regions indicate the insufficient support for entrepreneurs.

Exhibit 9 THE TWIN CITIES REGION HAS SEEN A DECLINE IN ENTREPRENEURSHIP



1 Using Census Current Population Survey data, the study tracks the number of non-business owners who become business owners month-to-month

2 First-time entrepreneurs

3 Peer states chosen based on similar population, GDP per capita, education levels, business climate, industry diversity, and labor laws

SOURCE: Kauffman Foundation Index of Entrepreneurial Activity, 2007

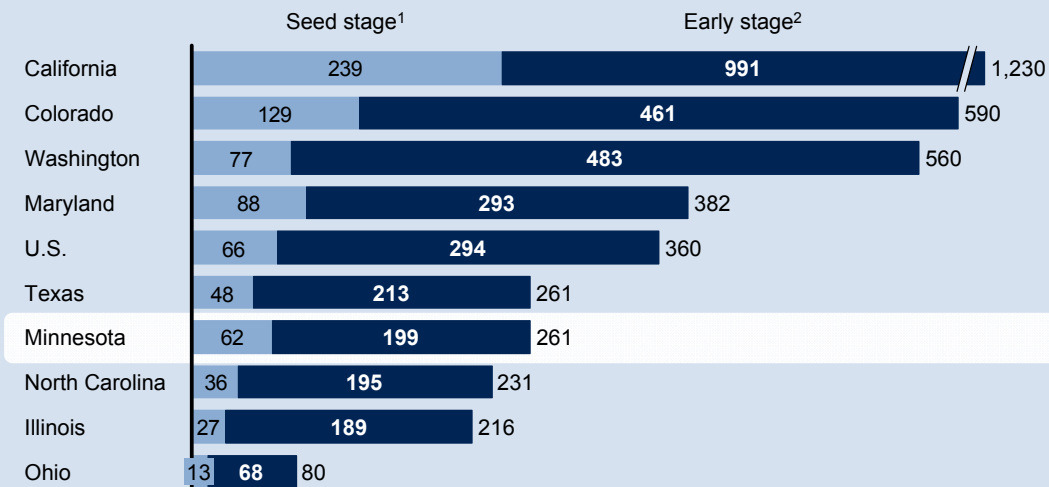
Finding capital is a challenge for most entrepreneurs, but is especially difficult for those in the Minneapolis-St. Paul region, which lags peer regions at all stages of starting and growing a business. Minnesota overall lags peer states and the national average in seed and early-stage per capita investments (Exhibit 10). The region also significantly lags most peer regions in venture capital investment, both in terms of total number of deals and value per deal (Exhibit 11). Minneapolis-St. Paul also trails peer cities in traditional small business lending, and the gap is growing (Exhibit 12). Neighboring states have introduced compelling incentives to encourage investors to sponsor companies located in their state. For example, Wisconsin, Iowa, and North Dakota all offer tax credits to angel investors. Minnesota passed an angel tax credit this legislative session, which is a significant positive step for increasing access to capital for entrepreneurs.

A vibrant entrepreneurial culture, strong networks and support resources are all crucial to the success of entrepreneurs, but local entrepreneurs say Minneapolis-St. Paul is falling short in these areas. Many interviewees stated start-up failures are often seen as total failures in the region, whereas strong entrepreneurial

Exhibit 10 MINNESOTA NEEDS MORE SEED AND EARLY-STAGE FUNDING

Minnesota lags in early-stage funding

Early-stage investments (\$ per capita), 1995-2009



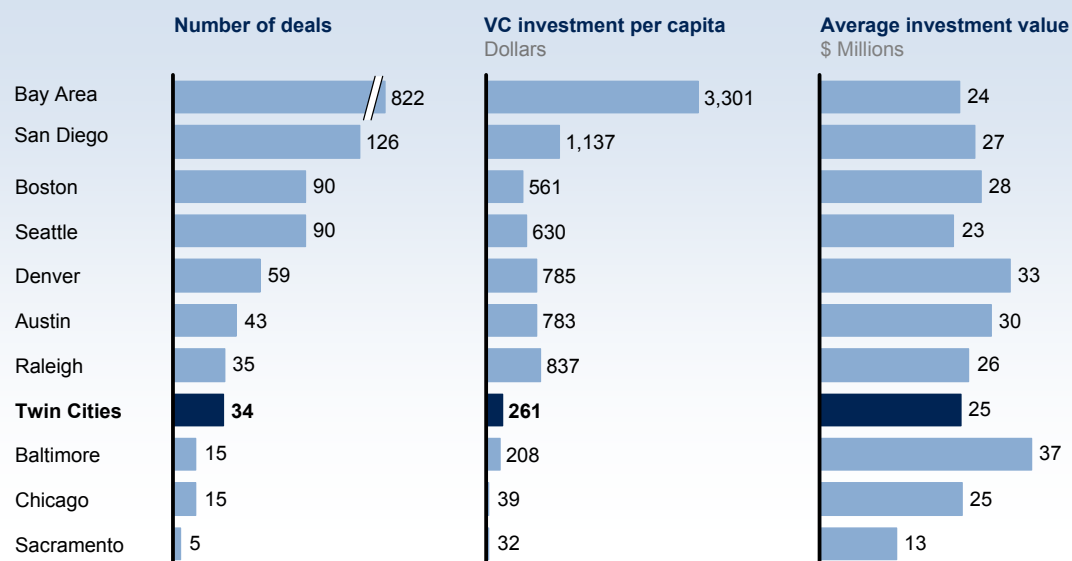
1 In the seed or initial stage of funding, the company has a concept or product under development but is not fully operational and usually has been in existence less than 18 months

2 In early-stage funding, the company has a product or service in testing or pilot production. In some cases, the product may be commercially available and generating revenues. Companies at this stage are usually in business less than three years

SOURCE: PWC Moneytree; U.S. Census

Exhibit 11 THE TWIN CITIES REGION LAGS IN VENTURE CAPITAL DEALS

Venture capital investment by metropolitan area, 2006-09¹



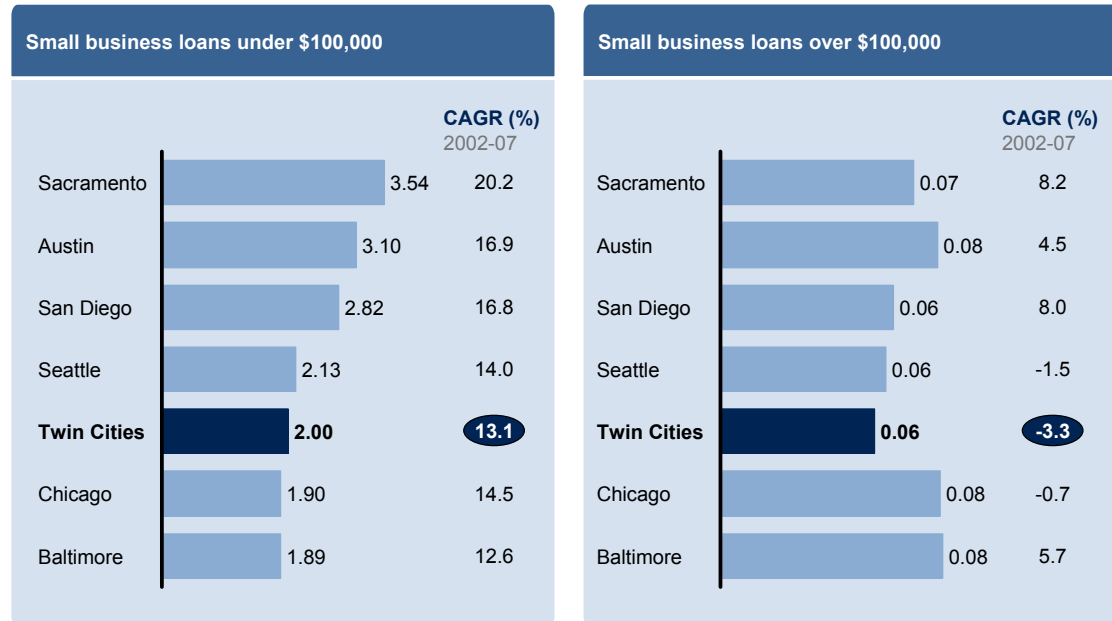
1 The location of a deal is specified by the location of the receiving company; rounds are counted as separate deals; includes deals \$10M and greater

SOURCE: Economy.com; Capital IQ

cultures view start-up failures as part of the creative process and one step in eventual success. Local business people say the region needs more networking opportunities for young entrepreneurs to learn from experienced start-ups.

Exhibit 12 TWIN CITIES SMALL BUSINESSES OBTAIN FEWER LOANS, AND THE GAP IS GROWING

Number per small and medium business¹, 2007



¹ Small and medium businesses are those with fewer than 500 employees

SOURCE: Federal Financial Institution Examination Council FFIEC MSA Aggregate Report 2007

Organizations in the region do host speaker series and broad networking events, but many peer regions have more direct programs that support entrepreneurs. For example, an Austin program works with the University of Texas to help early-stage entrepreneurs find funding and provides human capital (business students) and expert guidance. The Wisconsin Entrepreneurs Network provides entrepreneurs access to resources and expert guidance.

The Minneapolis-St. Paul region needs to leverage its strengths to improve its climate of innovation and entrepreneurship. The region could realize more value from its strong human capital and the wealth of innovation from the University of Minnesota, Mayo Clinic, and private sector research through targeted initiatives that better translate innovative ideas to the marketplace and catalyze entrepreneurship and job growth.

LEVERAGING THE REGION'S STRENGTHS MORE EFFECTIVELY

Though the region must address some critical challenges, it can build on tremendous assets. Like any successful business, a region must put those assets to use, deliver efficient marketing to tout competitive advantages, and employ an effective sales force. Our research in other regions—especially those with above-average economic growth—shows that the Minneapolis-St. Paul region can leverage its strengths and market its assets much more effectively.

In benchmarking successful regions, one of the most profound and consistent trends was their focus on setting an explicit vision and strategy for regional economic development. A regional approach has the benefits of bundling regional assets, leveraging a region's scale more effectively, and maximizing the impact of all economic development efforts.

More specifically, in high performing regions, strong regional economic development organizations and coordinated

strategies helped attract new companies, retain and expand existing companies, and create new companies. While the Minneapolis-St. Paul region does have some existing assets within the economic development sphere, it lacks both a comprehensive vision and a strategy. There are many organizations and agencies working on pieces of the economic development puzzle, but efforts are often uncoordinated. As one site selector said, “The Twin Cities stands out in this country like a sore thumb for not having a regional program. You probably have lost a significant amount of corporate prospects due to the lack of a regional agency.”

Our interviews with best-practice regional organizations, business leaders and site selectors yielded three core activities of a regional economic

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CASE STUDIES

Allegheny Conference

For the latter part of the 20th century, the steel industry, Pittsburgh's main economic engine, was withering, resulting in above-average unemployment and low employment growth. Compounding the problem, the area's multiple economic development organizations did not coordinate strategies, hampering economic development efforts. To help meet the city's challenges, a group of local leaders agreed to consolidate economic development efforts.

The strategy was simple: combine marketing, attraction and retention efforts with research and advocacy into one privately funded organization that would act as the development entity for the entire region. This collaboration led to a new regional vision and branding campaign—along with strong execution. The effort produced 42,000 new jobs between 2002 and 2007 and the attraction of many high-profile companies to the area. From 2006 to 2008, the organization directly assisted the expansion or relocation of 105 companies to the region that included \$2.2 billion in capital investment^{xviii}.

development effort: establishing a regional vision, offering attraction services, including regional marketing and branding, and offering retention and expansion services for existing local companies.

Regional Vision

At the heart of successful economic development efforts is a regional vision for economic growth that leverages the region's core strengths. Raleigh-Durham, for instance, developed a regional vision "based on the belief that successful regions depend on the intellectual abilities of their people" and made the most of their existing human capital advantage and strong base of academic institutions. As they put it:

"The Research Triangle Region's vision is to be a world leader in intellectual capacity, education and innovation to enhance productivity and economic growth and achieve a superior quality of life for all our citizens."

The Research Triangle developed a clear, measurable, long-term plan to execute on this regional vision: "A five-year, \$5-million action agenda to generate 100,000 new jobs and increase employment in all 13 counties of the Research Triangle Region." The plan exceeded expectations, delivering over 110,000 jobs in five years.

A strong regional vision offers several advantages:

- First, and most importantly, it coordinates and prioritizes the activities of multiple public, private and academic organizations, making the region significantly more efficient and effective at creating jobs.
- The vision helps convey the region's identity and advantages to companies inside and outside the region, making selling the region much easier.

CASE STUDIES

Opportunity Austin

In 2003, the collapse of the dot-com bubble hit the Austin metro area, with unemployment climbing and talented workers leaving the area. Facing this new reality, the Chamber of Commerce created "Opportunity Austin," a new, privately funded economic development organization that agreed on a regional vision and coordinated economic development. The effort also engaged community leaders to attract businesses within specified sectors, retain existing businesses and advocate for policies aimed at economic growth.

In addition, the Chamber of Commerce and community leaders pushed several initiatives to create a healthy entrepreneurial ecosystem. The Central Texas Angel Network, which includes about 100 people providing funding for start-up businesses, helps to create a strong private equity community. The Chamber also pushed the legislature to create a \$200M Emerging Technology Fund, run by a statewide board that looks to invest \$250,000 to \$5M in companies focused on biopharmaceuticals, clean energy, and information technology. The Austin Technology Council organizes networking events and provides a support system for small-businesses. To incubate ideas, the University of Texas sponsors the IC2 program, which helps capitalize the ideas from the University through technology transfer.

From these efforts, the Austin area created 124,000 jobs from 2004 to 2008, accounting for \$5.7 billion in overall payroll increases, and attracted 144 corporate relocations^{xxix}.

- The vision helps unite previously disparate communities. As one economic development director explained, “Economies do not operate within political boundaries...A company relocating to one community from outside the region benefits all other communities.” As such, a vision helps divert energies from intra-regional relocations and toward more beneficial regional programs.
- Finally, as another economic development director indicated, “[A regional] focus makes it easy for the customer.” Companies and site selectors find it easier to deal with a regional entity rather than multiple municipalities vying for their attention. As noted previously, the Minneapolis-St. Paul area does not have a regional vision for economic development but rather many distinct, relatively uncoordinated efforts.

Retention Services

Most successful economic development regions create a single organization to engage in the core activities of attracting and retaining businesses and marketing the region in and out of state.

Retention and expansion services include local business checkups, connecting businesses to state and local resources, and serving as a project manager for business expansion. Run well, retention efforts make businesses more willing to expand and create jobs in the area.

Grow Minnesota!, organized by the Minnesota Chamber of Commerce, is an important business retention program for the region. It uses local chambers of commerce to conduct site visits at local businesses and records findings on a database, which help it advocate policies to aid local businesses. Grow Minnesota! shares information gathered on visits with respective local chambers who work on issues with economic development agencies. While Grow Minnesota! provides a good base, it is a state, not a regional, initiative, and it does not have full, consistent participation across all regional chambers.

Attraction Services

Best practice regional economic development organizations serve as the primary contact for site selectors and businesses looking to

CASE STUDIES

Kansas City

In 2004, Kansas City had an outdated regional plan and an inconsistent regional vision. Many people outside the region did not have a clear view of Kansas City, and few site selectors included the region on their short lists. In response, the Kansas City Area Development Council (KCADC) launched a three-part marketing campaign aimed at unifying the two-state, 18-county region. The efforts included a campaign to promote the city to site selectors, a grassroots marketing effort aimed at unifying the region, and an effort to attract young professionals to the area. Area leaders also signed a “Declaration of Interdependence” to help unify the region.

KCADC’s efforts helped attract 24 companies to Kansas City in 2007, with most falling into its Smart Port or Animal Health Initiatives^{xxx}.

relocate to the region, offering one-stop-shop attraction services. The organization connects businesses to state and local resources while serving as project managers for companies throughout the process. Attracting businesses also involves branding the area in accordance with its regional vision and marketing externally to site selectors, companies, and potential employees and internally to align regional stakeholders.

“It takes four times as long to gather information on the Twin Cities on the internet than for other cities...and that is for professional site consultants. Imagine what it is like for people with limited experience.”

tors, companies, and potential employees and internally to align regional stakeholders.

Without a single organization focused on attraction and marketing services, companies looking to relocate to the region must deal with many different economic development agencies and governmental authorities, which deters many from putting a region on their relocation short lists.

Minneapolis-St. Paul lacks a holistic regional attraction effort. As one site selector explained, “It takes four times as long to gather information on the Twin Cities on the internet than for other cities...and that is for professional site consultants. Imagine what it is like for people with limited experience.”

As another put it, “The region has not developed a clear brand image for itself. I get piles of marketing materials every week—and nothing on the Twin Cities.” Many businesses simply fail to look at the region when expanding or relocating.

The region does conduct some marketing, of course. Positively Minnesota, a state-wide program run by DEED, showcases the state’s assets to companies and site selectors. The program also assists businesses by serving as a liaison with other state agencies, and administers financing to attract and retain businesses. The Minneapolis Regional Chamber of Commerce recently launched a website, Metromsp.org, to provide information about the region. It features a tool to help site selectors conduct real estate searches.

These programs provide a base upon which to build. Metromsp.org relies on financing from the entire region but needs a staff to follow up on inquiries. Positively Minnesota has had success in coordinating incentives for companies, but the effort is largely state-wide and not regionally focused. In addition, both of these organizations receive less funding than competing regional organizations.

The region needs an organization that acts as a central hub for economic development. The efforts underway are not heavily coordinated, do not operate under a unified vision, and have differing geographic scopes for impact. Successful economic development must include a strategy focused on the region that actively coordinates retention, attraction, and marketing efforts. As a local mayor stated, “The days of Minneapolis competing against St. Paul are over. We need to be competing as a region against cities in Europe and Asia.”

Finally, with a coordinated strategy the region can be a contender for more new jobs. As one economic development professional in a high-performing region stated, “We have been wondering when Minneapolis-St. Paul would get its act together. When it does, we know we’ll need to worry.”

CHARTING A NEW COURSE

The Minneapolis-St. Paul region has extraordinary strengths in several areas that are key to robust economic development, including a strong education system, a

high quality labor force, excellent research capabilities, and high quality of life.

“I see a divide between regions that execute on a coordinated regional strategic plan and regions that do not. Every year, the chasm between the haves and the have-nots widens. The Twin Cities cannot afford to be left behind.”

However, the region finds itself at a critical juncture. In recent years, growth in employment, wages and GDP have all fallen below national averages and significant challenges lie ahead, including billion-dollar budget deficits, an increasingly global economy and a projected labor shortage. The region has some distressing weaknesses, including a very challenging business climate, declining support for entrepreneurial activity, and an uncoordinated and ineffective regional economic development strategy. As one local businessman explained, “I see a divide between regions that execute on a coordinated regional strategic plan and regions that do not. Every year, the gap between the haves and the have-nots widens. The Twin Cities cannot afford to be left behind.”

Given research on best practices and gaps in the Minneapolis-St. Paul region’s efforts, the Itasca Project Job Growth Task Force has proposed three strategic priorities for the region:

- **Address the cost of doing business.** The business climate is a significant roadblock to those considering adding jobs in the region. The state should adopt a more competitive tax structure and ease regulatory and permitting burdens to encourage employers to keep and add to the quality jobs in the region.
- **Develop a regional vision, strategy, and approach for economic development.** To be competitive, the Minneapolis-St. Paul region must develop a vision and strategic plan that best leverages its strengths for economic development. The region must improve its abilities to retain and expand existing companies and market itself nationally and internationally to attract new companies.
- **Enhance entrepreneurship and innovation.** Fostering a robust culture of entrepreneurship is critical for a prosperous economy.

In addition to these three priorities, the region should continue to bolster existing strengths. Since human capital may be the most important driver of job growth, we need to expand our highly educated workforce. An efficient transportation system that helps employers move goods, allows people to access jobs, and creates quality, livable places is also critical to economic development and job growth.

The Itasca Project Job Growth Task Force believes that by working together to better capitalize on our strengths and address our weaknesses our region could become a global magnet for investment and business expansion. To do so will require cooperative and reinforcing activity from all sectors – business, government, academia and other nonprofit organizations.

The private sector can help by leading the effort to market our region and enhance business retention and attraction. This means funding and governing a centralized economic development entity that becomes the focus for business development activities in the region. The private sector can also enhance the entrepreneurial environment in the region by partnering with the region's research powerhouse—the University of Minnesota—to improve commercialization efforts and to develop a new pipeline of entrepreneurs. The private sector can also do more to support emerging entrepreneurs and other activities that enhance the start-up culture of the region.

Legislators and policy makers also play a crucial role. Meaningful improvements in the tax and regulatory environment would have a profoundly positive impact on the business climate, how the region is viewed internally and externally, and would neutralize the most potent criticism of the Minneapolis-St. Paul region.

Academic institutions, foundations, and nonprofit organizations can support this effort to enhance job growth by ensuring we provide a world-class education to all students in Minnesota and work to close the achievement gap. These organizations also play a critical role in supporting an entrepreneurial culture and maintaining the region's favorable quality of life.

Taken together, these changes would significantly advance the profile of our region and give us a platform from which we could aggressively market ourselves around the world.

We should seize these opportunities together without delay.

ABOUT THIS REPORT

The Itasca Project sponsored this report to better understand the region's job growth performance and to identify opportunities to increase the number and quality of jobs in the region.

The Job Growth Task Force's recommendations are based on research and analysis conducted by McKinsey & Company, a global management consulting firm.

Methodology for the project included reviewing best practices of high performing regions both domestically and internationally, analyzing public data sources, reviewing literature on economic development, and interviewing experts on the topic. The research included interviews of over 40 external experts including economic development professionals, site selectors and economists, as well as interviews of over 50 local stakeholder groups including local companies, universities, non-profit and public sector organizations.

This report concludes the first phase of the project, which involved fact-finding and identifying opportunities. The second phase, which includes communications, advocating, and implementation continues.

The focus of this report is on the economic health of the Minneapolis-St. Paul metropolitan area, most often defined by the Metropolitan Statistical Area (MSA). Whenever possible, data was gathered at the MSA level. Generally, references to Minneapolis-St. Paul, the Minneapolis-St. Paul region, MSP, Twin Cities, or "the region" mean the MSA. Where MSA-level data was not available, metrics for the state of Minnesota were used.

Many charts compare the Minneapolis-St. Paul region to a defined set of peer regions. Researchers chose the sets for comparison based on population, GDP per capita, education levels, and industry diversity. These are regions we will have to compete against to win more jobs. Specifically, for peer city data comparisons, the following cities were included: Austin, Baltimore, Chicago, Columbus, Denver, Raleigh-Durham, Sacramento, San Diego, and Seattle. In addition, researchers sought out many examples from other regions both domestically and internationally to highlight specific best practices.

ABOUT THE ITASCA PROJECT

The Itasca Project is an employer-led alliance drawn together by an interest in new and better ways to address regional issues that impact our future economic competitiveness and quality of life in the Twin Cities area. Its 50-plus participants are primarily private-sector CEOs, public-sector leaders, and the leaders of major Minneapolis-St. Paul-based foundations.

Officers

Chairperson	Mary Brainerd, President and CEO of HealthPartners
Vice-chairpersons	Richard Davis, Chairman, President, and CEO, US Bancorp Bruce Nicholson, Chairman, President and CEO, Thrivent Financial for Lutherans

TASK FORCE

This work was led by a task force convened by The Itasca Project.

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Task Force members

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Michael Gorman	Split Rock Partners
Randy Hogan	Pentair
Russ Nelson	Nelson, Tietz & Hoye
Stan Harpstead	Mayor, City of Arden Hills
Yvonne Cheung Ho	MEDA

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