

# MAINE STATE LEGISLATURE

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# Council on Jobs, Innovation and the Economy

## Interim Report February 27, 2007

### Members:

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On December 4, 2006, Governor John E. Baldacci signed an Executive Order appointing the Council on Jobs, Innovation and the Economy (Attachment A). The purpose of this group is to recommend specific structures and entities that would enhance jobs and economic growth. The Council's recommendations will build on the framework of the yearlong Brookings Institute study. The Council has bipartisan membership and includes representatives from business and the workforce community.

The Brookings report, released in October 2006, proposes two specific activities to stimulate economic activity and create jobs in Maine. The first is a \$20 million Cluster Development Fund and the second is a \$180 million Research and Development Bond. This interim letter will detail the Council's recommendations with regard to the cluster fund. A further letter describing the R&D bond will be issued in the next several weeks.

The Brookings Report makes the case for the Cluster Development Fund as follows:

“To begin cultivating a sustainable prosperity, Maine needs to focus its economic development strategy even more on investing in ...emerging industry clusters. Such investments remain the best likely sources of quality jobs for Maine workers.”  
(Brookings p.98)

Brookings goes on to express the concern that Maine's growth sectors are promising but lack critical mass. Clusters are a way to create a center of important economic activity around similar firms, their suppliers, and their supporting institutions. These include educational institutions, research and development centers and work force training groups. When all these entities work together they drive economic synergies or spillovers. **Investment in industry clusters create a multiplier effect, leveraging other resources and creating momentum for the industry sector which attracts investment, promotes growth and provides jobs.**

## **Cluster Case Example—Maine’s Boat Builders**

As a case example of cluster activity, Brookings cites the North Star Alliance, Maine’s cluster of composite technology, boat builders and marine trades (see Attachment B for a map of this cluster and its members). The North Star Alliance was funded in February 2006 by a \$15 million competitive Workforce Innovation in Regional Economic Development (WIRED) grant from the U.S. Department of Labor. Maine won one of only 13 grants issued – out of over 100 applicants. The North Star activity is industry led and focuses on job creation and workforce training. Maine has been building boats for over 400 years and has a worldwide reputation. Its competitive advantage in today’s global market rests not only on its traditional strengths of design and craftsmanship, but on world class composite technology developed at the University of Maine. The cluster grant is supporting the further advancement and dissemination of this cutting edge technology to Maine’s large and small boat builders, to related composite companies and to the state’s growing skilled workforce.

More than 25 entities are collaborating in this effort including the community colleges, workforce training boards, business advisors, and investors. The project has targeted the creation of over 2,000 jobs in a five to seven year timeframe. Recently, a new training center opened in Brunswick that will form one of the core activities to replace job loss expected from the closure of the Brunswick Naval Air Station.

**The question is how to replicate the North Star activity with other promising clusters in the Maine economy.**

On December 18, 2006, Michael Porter, a noted expert on clusters from Harvard Business School came to Maine and presented to the Council. Using specific data from the Maine economy he illustrated that Maine has many promising sectors where employment is growing and there appears to be a concentration of related activity. He advised the group that the best economic prospects will be found by focusing on sectors where Maine already has activity and some kind of competitive advantage, rather than relying on attracting new large entrants from out of state to grow the economy. In fact, such attraction money will be most effectively spent when there is strong cluster activity as the cluster’s knowledge base and skilled workforce will also attract entities to relocate to Maine.

Like Brookings, Porter advised the group to look at all clusters as opportunities rather than pick specific sectors. Porter recommended that the best process is to allow clusters to self-organize and compete for available resources – as Maine did in the national WIRED competition. This echoes the Brookings report which says

**“Promising cluster collaboratives for the most part comes together on their own; their ability to cohere is itself an indication of promise. For that reason, those administering the new fund should stick to a strictly competitive selection process for selecting funding recipients.”** (Brookings, p.103)

(Porter’s presentation is available at <http://www.isc.hbs.edu/>, and click on the Presentations tab.)

The Council has also gathered data on the activity of other states. Maine is not alone in looking to cluster activity to stimulate innovation. In fact, the National Governors Association has chosen building Innovation Clusters as its number one initiative for 2007.

“To compete in the global economy, states are making strategic investments and recognizing the importance of regional business clusters. Successful economic strategies address economic development holistically by investing in employers and entrepreneurs, employees and workforce development, and appealing physical environments that attract and retain employers and skilled workers. By promoting innovation and recruiting and retaining firms, state economic development strategies build strong business environments that foster long-term economic growth.” (National Governors Association)

States such as Texas, Arizona and Oregon have also initiated cluster funds (Attachment B).

### **Recommendations of the Council**

Given the Council’s investigation, we have concluded:

- To create good paying jobs and a robust economy in Maine, the state must grow its most promising sectors and focus its investments including business support, workforce training and R&D spending in these areas.
- A significant number of emerging clusters exist in Maine with the potential to grow, but they need support to reach critical mass.
- The state has a proven track record with the North Star Alliance as a model and the Maine Technology Institute (MTI) which has demonstrated the capacity to objectively evaluate, promote and manage funding for a variety of cluster development activities.

**Therefore, the Council recommends that the Governor implement a Cluster Development Fund at the level of \$10 million per year.** This fund will:

- Be open to all sectors based in all geographies of the state
- Be awarded to industry led consortiums in an open, competitive forum with third party review.
- Grow promising sectors through investments in cluster organization, market development, and funding for specific companies to enhance their growth. It is also anticipated that the cluster may use these funds to support access to and provide ways to collaborate with existing efforts and funding in areas such as research and development and workforce training that are relevant to the specific cluster.
- Be based on selection criteria that include economic benefits such as job creation and degree of collaboration efforts between Maine’s existing commercial entities as well as the community colleges, University of Maine System, and career centers. The efforts will be industry led and may include geographic allocations.

- Be measured by the State process currently in place to evaluate such programs.
- Be implemented and monitored by the Maine Technology Institute (MTI) in accordance with the purpose of MTI, with the expanded note that these funds would support all promising clusters, even outside MTI's designated technology areas.

Research shows that strong clusters are characterized by a high degree of innovation; entrepreneurial energy, experience and leadership; a critical mass of well-networked companies; strong industry associations or alliances; access to capital; a specialized workforce, and, of course, commercial potential. These factors should be considered by the Maine Technology Institute when making awards.

The Council has reviewed the recent evaluation of MTI by Dr. Charles Colgan. (The full report is available at [www.mainetechnology.org](http://www.mainetechnology.org).) The report notes that MTI has "largely succeeded in fulfilling the mission of the agency". MTI funded projects have had a high rate of success with 60% of research projects resulting in marketable products. MTI funded companies have grown total employment by over 600, a rate of growth of 6.2% compared with 0.9% for the Maine economy over the same period. In addition, MTI currently has a small cluster award program which had provided seed financing for many of the state's most promising emerging clusters. Based on the existence of a well reviewed entity with existing experience in allocating cluster grants, the Council recommends MTI act as the prime contractor for the Cluster Development Fund.

Finally, the Council wishes to add the following observations about the \$8 million Cluster Development Fund included in the Governor's biennial budget.

- The Council commends the Governor for taking action to implement this important facet of the Brookings Report so soon after its announcement.
- Recognizing the limited availability of funds in this budget, the Council appreciates that \$3 million in year one and \$5 million in year two have been allocated but urges an increase to the target level of \$10 million.
- The Council notes that it has been advised by bond counsel that the appropriate place for the Cluster Development Fund is in the General Fund. This is because the Fund will support expenditures that will improve the current economic activity of firms and workers in the cluster, and will not be the type of capital investments (i.e. construction) that can be funded by a long term bond.

The Council has received numerous letters in support of investment in cluster enhancement activities to grow the economy. This effort has the support of businesses in such diverse areas as software companies in Portland, boat builders in the Mid-coast region, food companies in Washington County and eco-tourism efforts in Northern Maine. The effort is also supported by cluster collaborators including the work force entities, community colleges and the University system. These letters have been included as further attachments to this interim report.

The Brookings Report has been received with great openness and hope in Maine despite or perhaps because of its frank and fact-based assessment of our situation and prospects. Regarding economic development efforts they say:

“Too often half measures and a failure to follow through have undercut the state’s recent efforts to stimulate job-creation and income growth. At the same time, Maine has frequently seemed to undertake “a little of everything” in its development work... The result: Maine’s economic development efforts have been well intentioned, but not always effective. So now that must change.” (Brookings p.98)

**As a state we have limited resources. We must focus our efforts on our most promising sectors. We must build on the competitive strengths of our emerging clusters and allow them to reach critical mass. We must integrate our existing and future workforce training, research and development investments with each sector’s activities to ensure that our products and our workforce remain competitive in an increasingly demanding world economy.**

This is what the Cluster Development Fund is designed to accomplish. We applaud its inclusion in the budget and urge that it receive the support of the legislature and be implemented in the first months of Fiscal Year 2008.

The Council appreciates the opportunity to express its views on the contribution a Cluster Development Fund will make to Maine’s economy. We look forward to delivering further recommendations on the Research and Development Bond in the near future.