THE KRESGE FOUNDATION

Expanding opportunities in America's cities

Speech by Rip Rapson:

Cross-Sector Collaboration Is Vital to Economic Development

Delivered Nov. 13, 2014, at the Boston Federal Reserve Bank.

November 13, 2014

Prabal Chakrabarti asked if I might reflect on three questions:

1. Why is it sensible to collaborate on economic development?
2. Can collaboration lead to economic growth and, if so, how?
3. What examples of collaboration from my philanthropic experience might work just as well in smaller cities?

A tough assignment with an audience of this kind of sophistication and experience. It's made even more difficult by the reality that there is nothing more locally determined and particular to context than economic revitalization: the players, the market forces, the history and on and on. So I'll stick to Prabal's script and try to reflect on my own experiences with the hope that there will be some resonance to your circumstance.

I'll accordingly organize my remarks into three parts:

- First, I want to make the overarching case that it is indeed sensible to pursue collaboration as a vehicle to enable economic development.
- Second, I'll describe three sets of collaborations I've been involved with that have influenced economic development, either directly or indirectly: one set spurred by a broad-based community consortium, one by philanthropy and one by the private sector.
- And third, I'll close by suggesting a handful of principles that might be susceptible to migrating to the Working Cities effort.

I. The Case for Cross-Sector Collaboration

I rarely talk to an economic-development director or a public official or the head of a business-development organization who believes that community development is a straightforward proposition that can be best accomplished by simply going it alone.

Instead, what I hear is that the challenges of economic revitalization have changed immeasurably over the last decade: new constraints on public fund flows; evolving demographics and pressures on workforce development systems; dizzying reconfigurations of markets; the rise and fall of dominant market players; the disconnect between where people live and centers of employment; the rise of entrepreneurial impulses, particularly in the tech sector and among young people; a heightened awareness of the need to embrace solutions that provide all urban residents with the opportunity to join the economic mainstream. You can tick them off better than I can.

As a result, I would suggest that community and economic development presents a constellation of challenges so densely packed, intertwined and complex that the solutions must be systematic, not atomistic; dynamic, not rigid; long term, not episodic; participatory, not hierarchical. It will be the increasingly rare circumstance in which these challenges can be resolved through neat and tidy technical interventions.

Instead, communities will have to bring to bear multifaceted adaptive solutions requiring changes in beliefs, priorities and behaviors of multiple parties.

And yet, we gravitate – whether we're a public agency or a philanthropy or a business – toward organizing our activities into silos of tight subject-matter expertise: housing, economic development, health, transportation.

In simpler times, that may have served us well. But this tendency to organize our public systems vertically works at cross-purposes with the tendency of people to live their lives horizontally.

A community member's ability to hold a job may depend on the proximity of her home to her workplace and the transportation connections between the two. Her health may be shaped by the proximity of her neighborhood to truck traffic routes servicing a port or rail yard or the ease of her access to affordable, highquality community health care. Her ability to tap networks of supportive social capital may derive from the availability of effective multiservice organizations.

Viewed through this lens, public systems are inextricably interlinked, with no clear articulation of where one ends and another begins.

This presents a particular challenge to the public sector's traditional toolbox. When everything looks like a nail, your hammer suits you just fine. But fewer and fewer challenges are presenting themselves as nails. And it may be that the municipal toolbox doesn't contain everything that's needed.

Some of our nation's largest and most resource-rich cities may have relative immunity from the need to reach beyond their own capacities. But in most places – say, those not necessarily equipped with the rare alchemy of a New York or Boston or San Francisco – the path to unlocking these challenges has been to coalesce a group of independent actors from different sectors capable of marshaling shared resources around a common agenda.

The cliché of the whole being larger than the sum of the parts holds considerable truth in this context. Each partner brings unique assets. Drawing on diverse partners permits a community to bridge traditional divides. Agreeing on shared objectives catalyzes what no single intervention could.

So let me turn to three examples from my background of what this can look like.

II. The Minnesota Initiative Foundations

The first example draws from small communities in out-state Minnesota.

In the mid-1980s, Minnesota's traditional extraction economy was on its deathbed as the mining, timber and agricultural sectors that had fueled the state's economy for a century were being bypassed by other technologies and competitors, stripping rural communities of jobs, people and hope.

The McKnight Foundation, Minnesota's largest private foundation – created from the wealth of the founder of 3M, William McKnight – determined that the best way it could help was to assist in birthing regional foundations in each of six regions outside the Twin Cities metropolitan area and provide them with the tools they needed to engage meaningfully in economic development – grants, business loans, leadership development programs, donor services and more. McKnight joined with the Minnesota Legislature to provide what at that point was a substantial base of capitalization – about $25 million apiece – and to give them the power, unique among private foundations, to do market-rate lending.

Over the next 30 years, each of the six foundations – which came to be known as the Minnesota Initiative Foundations – grew their assets, refined their economic development strategies and emerged as the de facto planning and development organizations in greater Minnesota. Most importantly, they created governance structures comprising the key actors within the region: public officials, hospital administrators, economic development specialists, educational executives, small businesses, residents.

Each developed a distinct personality:

- The Northland Foundation in Duluth became known as the region's most sophisticated driver of socially focused development projects – mixed-use development projects in disinvested sections of Duluth, small manufacturing businesses in towns previously dominated by iron ore.
- The Initiative Foundation carved out deep expertise in water management and multisector environmental-enhancement projects.
- The Northwest Minnesota Foundation helped communities throughout its region draw businesses, schools and philanthropists together in path-breaking approaches to school readiness.
- The Southwest Initiative Foundation pursued, well before the rest of the state, highly innovative methods of promoting wind energy and transmission.
- The Southern Minnesota Initiative Foundation created an enduring business CEO consortium from companies like the Mayo Clinic, Hormel and others to tackle emerging issues such as the changing demographics of the food processing and health care workforces.
- And the West Central Initiative undertook pioneering work in developing subregional economic-development frameworks that initially served as the template for the allocation of state welfare-to-work funds and later provided the road map for distributing out-state workforce-development funds.

McKnight recapitalized the foundations on a five-year cycle, providing stability in times of difficulty and permitting the foundations to grow their bases to their current sizes of approximately $50 million in assets apiece with anywhere from a dozen to 25 employees.[1]

The Minnesota Initiative Foundations have a deeply collegial relationship. Their executives meet regularly as a group. Their entire staffs meet together at least annually, and in smaller constellations far more frequently. At one of those annual retreats, in 2003, I suggested that they use their collective leverage to pursue policy of shared interest, suggesting that they might start with early childhood development. They agreed.

Over the next decade, they forged almost 100 early childhood coalitions encompassing more than 300 communities. Each foundation pursued localized approaches suited to the character of its place: some focused on business volunteers helping kids to read, others on expanding library services and yet others on expanding maternal health supports. But they also leveraged their collective weight to push statewide policy reform that ushered in an era of innovation that placed Minnesota in the front rank of states promoting school readiness.

A year after the Minnesota Initiative Foundations launched their early childhood work, I suggested that this localized collective-action strategy might serve as a template for tackling statewide economic development with a regional focus. Again, they agreed to take it for a test drive.

McKnight and the Minnesota Initiative Foundations convened some 20 business groups, nonprofits, educational institutions and state and local public-sector agencies to create the Regional Economic Development, or RED, Group. RED launched economic development initiatives in the six initiative foundation regions, but coordinated carefully with the Minnesota Department of Employment and Economic Development to ensure that there was an updraft of the models into state policies and practices. Just a couple examples of how this updraft created an increasingly tight alignment between local and state-level economic development policy:

- The state replaced its 13 traditional regional planning districts in favor of the catchment zones of the Minnesota Initiative Foundations.
- The Department of Employment and Economic Development created six new positions for regional workforce and economic development specialists, assigned to each of the initiative foundations' regions.
- RED marshaled a fund that permitted the Minnesota State Colleges and Universities System to coordinate its customized training activities within the initiative foundation regions and to tie together more systematically state and RED Group local economic development initiatives.

It's almost impossible to overstate how effective the Minnesota Initiative Foundations have been in pursuing collective action to aggregate financial capital, drive programmatic impact and foster cross-sector partnerships in ways that directly strengthen regional economies.

III. The Itasca Project

So let me turn next to a second example, this one driven by the private sector.

A decade ago, the president of the University of Minnesota, Mark Yudoff, issued a challenge to the Twin Cities region. The region was becoming increasingly complacent, he argued, losing the edge it would need to compete in the 21st century. The challenge provoked Larry Perlman, the head of the region's leading technology company at the time, Control Data, to ask me – as the head of the McKnight Foundation – to co-convene the business leadership of the region to see what might be done.

I, in turn, enlisted the help of the newly formed Minneapolis office of McKinsey and Co., and formed a small working group to choreograph a response. After surveying more than 100 corporate CEOs on the highest-priority challenges facing the region, Larry and I wrote a letter to 50 of them, asking them to attend a meeting at the McKnight offices to help create what, in effect, would be a regional business plan. It was an ambitious invite list: the CEOs of companies like 3M, Best Buy, Medtronic, Health Partners, the Carlson Companies, Northwest Airlines, as well as the governor, the mayors of Minneapolis and St. Paul, the head of the Metropolitan Council, the president of the University of Minnesota and the chancellor of the state university system.

Every single one of them showed up at that first meeting of what came to be called the Itasca Project. Not their vice presidents of community affairs, but the principals themselves. And they kept coming, quarter after quarter.

The first couple of meetings were pivotal for a number of reasons.

First, the group endorsed four main priorities and committed its energies to attacking them.

McKinsey's CEO survey had identified four main priorities:

- Creation of a regional transit system.
- Enhancement of early childhood development opportunities.
- Improved patent transfer between private companies and the universities.

- Reductions in health disparities.

This surprised and infuriated the state's most powerful business organizations, for whom the beginning and end of a business agenda was reducing taxes and easing regulatory burdens.

But Itasca forged ahead nevertheless, setting up working groups for each of the four areas. Each would be co-chaired by two CEOs and staffed by a combination of McKinsey, McKnight and topical experts from the nonprofit and academic communities. This was a key decision, because it inserted the nonprofit sector's expertise and perspectives directly into the decision-making process.

The second memorable aspect of the early meetings was that Itasca chose to meet without an executive director, budget or formal governance structure.

McKinsey would continue to provide the quarter-by-quarter meeting support. McKnight would underwrite the incidental costs and continue to convene a small executive committee to choreograph the process. And the group handed the responsibilities of chair to Jim Campbell, who had just retired as head of Wells Fargo Bank in the Upper Midwest and who was perhaps the most respected corporate leader in town.

And third, Itasca chose to put all its weight behind one early, seemingly intractable challenge.

It chose transit.

Itasca distilled from the wisdom of countless regional transit plans that had been floated, but not adopted, over the last 20 years a comprehensive, up-to-the-moment plan susceptible of adoption by the Legislature and governor.

It then launched one of the most sophisticated advocacy campaigns the state had seen – arranging visits of public officials to Denver and Seattle to see how transit could be launched, developing a far-reaching public relations campaign, hosting every single key legislator from both parties at a dinner with one of Itasca's CEOs, creating unassailable case statements for each and every piece of the plan, and on and on.

The Itasca Project engineered the passage of a legislative package that enshrined the blueprint it had developed, and called for the set-aside of billions of dollars for its implementation. Then-Gov. Tim Pawlenty vetoed the package. But in a testimonial to the Itasca members' work, the Republican-controlled

Legislature overrode the veto of their party's leader and the legislation became law.

The fruits of that work changed the arc of Minnesota transit history. The Twin Cities now has in place, and is continuing to build piece by piece, a comprehensive metropolitan regional transit system – all birthed from a unique private, public, philanthropic, nonprofit partnership. And Itasca isn't done. It has subsequently turned its energies to early childhood development, health disparities and a number of equally pressing civic priorities.

IV. Detroit

That brings me to the third example. It's actually three mini-examples of how philanthropy has helped create and drive cross-sector collaborations in Detroit.

But first, a disclaimer. It's easy to see in Detroit's remarkable emerging renaissance a case so exceptional that it has little to say to other communities – particularly those that are smaller, less afflicted with political dysfunction or not dominated by an industrial monoculture as powerful as the automobile industry.

But Detroit's commitment to collective action over the last seven years illustrates what can happen when a set of civic players helps identify an aspirational horizon line and spur cross-disciplinary, cross-sector energies to help put in place the essential building blocks of community health.

Three illustrations: public transit, entrepreneurialism and land use.

So first, transit.

There is probably no place in America that has been more hostile to public transportation than Detroit.

Philanthropy and the private sector have taken the lead in changing that.

Shortly after I arrived at Kresge some eight years ago, I had lunch with one of the city's great corporate leaders, Roger Penske, about his next civic act after having overseen Detroit's successful hosting of the Super Bowl. I suggested that the city desperately needed a light-rail system along Woodward Avenue, the region's spinal cord. Not only would the line connect all the businesses, sports and entertainment venues, residential districts and cultural, educational and health care institutions up and down the avenue, it would also put in place the first, catalytic spoke of a regional transit system.

Roger took the challenge seriously. He subsequently convened a couple dozen civic leaders to discuss the feasibility of constructing a privately financed line that would be turned over in due course to a public operating authority. The problem was the price tag: it would cost $100 million. Roger looked at me and said that if Kresge would be willing to invest the first $35 million, he would find the rest through corporate and institutional commitments. It was a crazy idea – municipal governments, not foundations, build streetcars – but the audacity of the aspiration justified the risk. I agreed.

We quickly formed a philanthropic/private-sector consortium that has had to navigate a seemingly endless cascade of obstacles – local and federal bureaucratic resistance, engineering complexity, delays and cost increases. But we raised $175 million, cleared out the political underbrush and accomplished what no city in America ever has – a light-rail line planned and predominantly financed by the private and philanthropic sectors. We broke ground in August and will see the first riders in 2016.

The second example is the creation of an ecology of entrepreneurship.

Detroit has been an automobile monoculture for the better part of a century, creating an environment of calcification that makes change so exceedingly difficult. Six years ago, the Ford, Kresge and Kellogg foundations made the lead investments in what would become a $135 million fund to promote the diversification of the city's economy.

Called the New Economy Initiative, the fund provides the supports that small businesses need in order to get started, obtain traction and grow. We've provided hundreds and hundreds of entrepreneurs with back-office support, training, mentoring, seed capital and affordable space.

As important as that seed money has been, equally important has been the sense of possibility that has drawn in the private and public sectors to play their natural and essential roles.

Our economic development agency has become a full partner in a wide suite of entrepreneurial strategies, from creating an inner-city grocery store fund to supporting pop-up retail to beginning to rebuild the city's historic African-American shopping districts.

The private sector has joined with an energy and commitment unimaginable even four years ago. Quicken

Loans, led by its inimitable founder Dan Gilbert, moved his company's headquarters downtown, convinced others to join him and has purchased some 60 buildings in the central business district in an effort to transform it into a new technology and innovation hub.

The nonprofit sector has engaged as well. The Henry Ford Hospital System has created a new center on innovation. Tech Town, the region's largest business incubator, has spun off scores of startups. The Detroit Creative Corridor Center has helped commercial and industrial designers and other members of the creative industry locate to Detroit, get started and accelerate their growth.

More and more, all of these philanthropic, public, private and nonprofit gestures in the entrepreneurialism space are tightly aligned and mutually reinforcing, creating what we term the Detroit Innovation District. The resulting vibrancy has been breathtaking. Restaurants, tech firms, service businesses and arts activity are reweaving the fabric of the city, serving as a magnet for young people eager to make their mark and giving former Detroiters a reason to return home.

The third example of cross-sector activity is land use.

In those vast stretches of abandonment so familiar from the national media's photo essays, Detroit has more public open space than any American city – the equivalent of 40 square miles, or the size of San Francisco. It is more space, far more space, than traditional planning and development constructs can handle; more space than a municipality can manage through its normal tendency to spread services in equal portions across its landmass. It is one of urban America's most disturbing and seemingly intractable problems.
At the request of then-Mayor Bing, Kresge took the lead in pulling together a strategy to address it.

The first step was to create a powerful, data-driven architecture of information and analysis to develop multiple investment scenarios. The city's planning and economic development functions just didn't have the capacity to do these kinds of analyses on their own. The trick was to assemble a talent pool that combined the best city staff with outside experts who had walked part of this road before. Kresge was able to identify and pay the costs of a project leader and technical teams from Detroit and elsewhere who fit that bill.

The second strand of the strategy was to create an effective, far-reaching community engagement process. Again, Kresge – joined by the Ford and Kellogg foundations – agreed to underwrite the costs. It turned out to be a far bumpier road than anyone imagined. But, at the end of the day, we created a citizen engagement process of unprecedented scope and effectiveness, using a mosaic of organizing tactics that not only engaged more than 35,000 Detroit residents, but also helped establish a new civic platform for how Detroiters engage in dialogue about challenges and opportunities.

The two strands – technical analysis and community engagement – combined to create the Detroit Future City plan, a blueprint for doubling down on the city's nodes of strength and converting blighted or abandoned land into productive uses – whether parks, urban farms, reforestation, green and blue infrastructure or countless other possibilities.

It's more than just a plan. We're already seeing results.

For example, a private-public-philanthropic task force recently completed a blight remediation plan that nests within the larger Detroit Future City plan. The task force dispatched more than 125 young people equipped with iPhones to inventory the condition of every single parcel in the city – all 390,000 of them. They sent their documentation back to a central command that ensured that the right data had been incorporated, and then combined those data with some two dozen other databases – tax records, water and electrical histories, police calls, health reports and the like – to create a platform that informs which properties can be rehabilitated, which might be deconstructed and recycled and which need to be demolished.

Mayor Duggan has taken firm hold of the recommendations, ramping up powerfully the city's capacity to clear land, transfer title and pursue redevelopment options.

So whether in transit, small-business development or land use, philanthropy has served an essential role in pulling together the sectors to chart a shared course, coordinate capabilities and marshal resources.

V. Principles

You'll draw your own conclusions about how these examples bear on your circumstance. But let me offer four principles – very briefly – that I think can be distilled from them.

First, collaboration across sectors and professions starts with a shared conviction that progress requires an explicit departure from projecting into the future on a straight-line basis current ways of working.

In Detroit, the bankruptcy helped crystallize – but by no means created – a pervasive sense that Detroit had to be re-imagined in all dimensions: from restructuring municipal government to exploring new economic drivers, from putting our financial house in order to pursuing radically different concepts of the city's physical form. Business as usual was simply not an option. We had to acknowledge that explicitly before public, private, philanthropic and community leaders were ready to join forces around the table and drive change.

Second, collaborations have to agree on a shared sense of direction.

So basic, right? Not. This may be the hardest part.

It's one thing to identify the need for change. It's quite another to forge consensus about what strategies will move you to very different endpoints. The parties have to be prepared to engage in robust and often difficult debate. They have to signal clearly what their priorities are. They may have to sublimate individual self-interest to the collective will.

In Detroit, the philanthropic community put a pin in a handful of activities that became the point of departure for shared engagement and investment. In Minneapolis-St. Paul, the business community branched out from its traditional agenda of tax relief and regulatory reform to draw in natural partners with a shared interest in a broader civic agenda. In the small towns of rural Minnesota, the initiative foundations provided a platform to construct broad-based civic consensus around highly specific community priorities.

Third, within that overarching set of aspirations, collaborations need the traction generated by an "early small wins" strategy.

Itasca needed the early win of transportation reform to ramp up to other shared priorities. Detroit needed to demonstrate that it could actually build a light-rail line, create an entrepreneurial support system and get traction in attacking blight and abandonment. The Initiative Funds used early childhood development and regional economic development to slowly build the kind of cross-sector bridges necessary to attack the distinctive challenges small communities in Minnesota were facing.

These early wins provide a vehicle to hold one another accountable against decision-making processes and the plans they generate. It enables members to check among themselves for progress. It ensures that discretionary resources are flowing to the kinds of transactions or places that have been targeted so that their impact can be concentrated and leveraged.

And fourth, collaboration necessarily entails a more distributive leadership model than municipal governments have traditionally embraced.

The collaborations I've described required that a community substitute multiple points of leadership for a more traditional public-sector command-and-control model. That, in turn, requires a slow and difficult aggregation of trust among the participants.

Although many traditional decision-makers in Minneapolis-St. Paul were deeply skeptical of a virtual organization comprising business leaders, academic leaders, foundations and nonprofits forging what was, in essence, a new civic agenda and marshaling the resources to help catalyze it, that decision-making model has sunk its roots deeply in the Twin Cities' soil. Although the Minnesota Initiative Foundations have ruffled the feathers of people and organizations that believe they wield too much authority, they have persisted and built allies one organization at a time, to the point that their legitimacy and efficacy is one of the first principles of local economic development in Minnesota. And the foundation community in Detroit has been attacked for not being accountable, for choosing the wrong priorities and for being an elitist institution. We've simply tried to keep our eye on the ball and get things done – it seems to be working.

VI. Conclusion

At root, a collaboration asks people to think how they or their institution can convene or lead or participate in an initiative that extends beyond the confines of well-established institutional fence lines. It asks people to reflect carefully on the strengths of their place, assess in a hard-headed way their role in reinforcing those strengths and move collectively to capitalize on them.

The Gateway Cities, with the enormous lift of the Federal Reserve, are – or at least so it seems to an outside observer – poised to do just that. To be sure, you'll have to diverge from long-held practices, establish a shared sense of priorities, select actionable early candidates for success and take your bearings from a model of shared leadership. But the tone and activities that I've seen suggests that you're willing and prepared to do exactly that.

You know, the author Kurt Vonnegut once said: “I want to stay as close to the edge as I can without going over. Out on the edge you see all kinds of things you can’t see from the center.” The Working Cities Challenge perches you just there. It strikes me that in this complex, difficult and confusing environment, that is exactly where you want to be.

So good luck, and thanks for listening.

[1] For example, the Initiative Foundation has assets of $60.8 million; the Northwest Minnesota Foundation, $50 million in assets; the Southwest Minnesota Foundation, $50 million in assets (as of only 2008); and the West Central Initiative, $55 million. See also https://www.mcknight.org/newsroom/news-releases/minnesota-initiative-fou....