

Michigan Innovation Fund - \$105M

A fund to grow Michigan's entrepreneurial and innovation ecosystem, to grow and diversify the economy and create jobs, and to build a strong network to support startup companies

Goal: Create a strong and sustainable ecosystem that supports early-stage startups and innovation, leading to broader economic growth and a diverse economy for Michigan. By providing both immediate and long-term investment into startups, as well as ensuring an ongoing cycle of reinvestment, Michigan can create a robust and dynamic environment for entrepreneurship.

The Michigan Innovation Fund supports this goal by helping to ensure Michigan has at least 5 self-sustainable evergreen funds that provide early-stage venture funding now and in the future as well as providing increased funding to key partners in the ecosystem that support startup companies, founders, and funds.

The Challenge

- Michigan is losing significant jobs, talent, and investment opportunities due to the lack of early-stage investment capital to support startups
- In Michigan, new early-stage venture capital has decreased significantly over the past several years
- Early-stage funding rounds remain extremely challenging for high-potential Michigan startups
- Most investment institutions in the state do not have the capacity or sustainability models to develop high-growth potential companies from pre-seed through Series A – the most challenging stage of growth.

How does Michigan compare?

- Startups in the Great Lakes Region take an average of 2 years longer to raise their first \$500K than startups on the coasts.
- For every \$149 of academic research expenditures in Michigan, there is \$1 of VC investment. In California, the ratio is \$7 of academic research expenditures to \$1 of VC. This represents a significant under-investment in intellectual property generated in Michigan.
- From 2020-2022, UM startups raised \$2B in total investment, however almost 1/2 of startups left MI, and raised almost 4x as much. Of those who stayed in MI – 80% of their funding came from out-of-state investors. Only 4% (\$82M) of all U-M companies that raised venture capital originated from MI investment dollars.
- Out of a sample of 231 high-tech startups originally founded in Michigan, nearly half (50%) left the state.
 - Those companies created over 4,300 jobs and had venture capital and liquidity events totaling \$3.6B.
 - In comparison, the sample of companies that stayed in Michigan created 2,300 jobs and had venture capital and liquidity events totaling \$1.4B.

What are other Midwest states doing?

- Ohio has 11 early-stage, pre-seed funds of which 6 are fully-funded evergreen funds
- Ohio continues to fund its early-stage ecosystem at about \$75M annually
- From 2016 and 2020, Ohio awarded \$221M to the six regional venture development organizations to help support early-stage investment and their evergreen funds
- During the same period, Michigan has invested about \$24M in early-stage, pre-seed capital

What is early-stage, pre-seed venture capital?

Early-stage funding, also known as pre-seed funding, typically represents the first significant investment in a startup and is both the hardest to secure and the most risky. Despite these challenges, it is crucial for a startup's initial development and future success. As we look around the country, this funding often comes from public funding, private foundations, or sometimes corporate foundations.

What is a venture evergreen fund?

Considering venture capital, one might envision traditional funds where returns are distributed to investors following successful company performances. In contrast, evergreen funds represent a unique model. These funds, frequently overseen by non-profit organizations or universities, reinvest profits into emerging early-stage startups rather than distributing them back to investors. This approach fosters a cycle of continuous investment within the ecosystem. Early-

stage evergreen funds usually need to deploy at least \$60M in investments to become self-sustaining. Michigan is currently home to 5 existing funds with proven teams and track records with strong potential to become evergreen.

What is the MI Innovation Fund?

The MI Innovation Fund is a \$105M fund to provide funding and programming that:

- Creates a fund to award grants to existing nonprofit/ university-backed, early-stage venture funds that are building their funds to an evergreen status. This means the exit returns are continuously reinvested into Michigan startups for perpetuity and that the fund is operationally self-sustaining.
- Provide funding to strengthen Michigan's entrepreneurial ecosystem by supporting organizations that provide programming, technical assistance, or other support to promote the growth and development of startup companies, founders, and funds to support an innovation ecosystem in this state.

How will we fund the MI Innovation Fund?

The **Venture Michigan Fund I and II (VMF)** were created via Public Act 296 of 2003 to “promote Michigan’s economic health by assisting in the creation of new jobs, new businesses and new industries in Michigan” and to “invest in venture capital managers with a focus on Michigan-based early-stage companies.” **The Fund has seen recent returns resulting in over \$105M cash available today.** We are recommending that the current available and future returns be reinvested in the MI Innovation Fund to continue supporting Michigan’s startup community. The goals of the MI Innovation Fund align with the original goals of the VMF to support MI early-stage companies.

How will the funds be used in 2024?

We recommend the current \$105M of funding create the MI Innovation Fund and be disbursed in 2024 as follows:

- 85% to support the state’s existing evergreen-focused funds to support long-term sustainability goals. The funds will be required to allocate at least 80% for financial investments in startup companies but can use up to 20% for admin/operations and programming, including technical assistance, coaching, and mentoring.
- 15% to support venture, founder-focused, and support organizations in the ecosystem.

What will future funding look like?

The VMF is expected to have additional returns available in the future and the funding will continue to support the MI Innovation Fund goals and ecosystem programming, as well as additional startup investments. The funding split includes:

- 40% to the state’s evergreen funds for early-stage investing,
- 40% to other investment fund programs to support existing and emerging funds
- 20% to entrepreneur and innovation ecosystem programming.

Historical Impact of Michigan’s 5 Active Evergreen Funds

- **Total Amount Invested:** \$107M
- **Total # of Companies Invested:** 660
- **Leveraged Amount:** \$4.2B
- **Total Gross Returns:** \$37.8M
- **Total Jobs Created:** 5,409

Potential Future Impact for Active Evergreen Funds with MI Innovation Fund Support (Summary)

If the same funds receive this initial round of evergreen funding, the following impact is possible:

- **Five self-sustaining evergreen funds**
- Investments in at least **500 additional Michigan-based startups/companies**
- Creation of **5,000 new, high-paying, full-time jobs**
- Leverage of at least **\$5B in additional investment**
- **Growth of state and local tax revenue**
- A stronger sustainable startup community for Michigan

For more information, contact: Jennifer Hayes, Invest Detroit; Jennifer.Hayes@InvestDetroit.com; 989-205-2083

Michigan Innovation Fund Coalition

May 13, 2024

The Honorable Winnie Brinks
Senate Majority Leader
Michigan State Senate
P.O. Box 30036
Lansing, MI 48909

The Honorable Joe Tate
Speaker of the House
Michigan House of Representatives
P.O. Box 30014
Lansing, MI 48909

Dear Majority Leader Brinks & Speaker Tate,

Thank you for your leadership in making Michigan a place where businesses of all sizes can start, grow, and thrive, and for understanding the importance of a comprehensive approach to community and economic development policy for Michigan. With that in mind, we are writing to ask for your support for the creation and funding of the Michigan Innovation Fund.

The Michigan Innovation Fund (MIF) (HBs 5651, 5652, and 5653) proposes a strategic investment of \$105 million that will anchor Michigan's status as a hub for innovation and entrepreneurship. This is not just another funding mechanism, but a sustainable, evergreen solution tailored to elevate our early-stage startups, ensuring longevity and continuous growth.

Specifically, the Fund would make investments in three core areas:

- Creates a fund to award grants to existing nonprofit/ university-backed, early-stage venture funds that are building their funds to an evergreen status. This means the exit returns are continuously reinvested into Michigan startups for perpetuity and that the fund is operationally self-sustaining.
- Provide funding to strengthen Michigan's entrepreneurial ecosystem by supporting organizations that provide programming, technical assistance, or other support to promote the growth and development of startup companies, founders, and funds to support an innovation ecosystem in this state.
- Provide funding to support a stronger pipeline of Michigan startups as investment opportunities well as dedicate funding to make investments in or alongside venture capital funds. This helps to grow the Michigan venture capital industry and sustain Michigan startup companies with a continuum of capital throughout their growth stages.

A strong startup ecosystem has an outsized impact on economic growth and attracts and retains young talent drawn to innovative thinking and high-growth opportunities. We have

seen neighboring states make higher investments in their startup ecosystems, and the result is exponential growth in sectors including and beyond technology.

MIF makes a critical investment to support and grow the earliest-stage startups without making a sizable impact on the budget by repurposing funding available from prior investment programming whose original intent was to use returns to continuously support the Michigan startup community and ecosystem¹. This investment impacts startups that need it the most by growing our ecosystem infrastructure and programming while making substantial progress toward helping Michigan venture funds become self-sustaining and a funding resource for years to come.

Although Michigan has worked hard to build a strong startup community, our neighboring states continue to invest at a much higher rate and are attracting additional capital to their state. For example, between 2016 and 2020, Ohio awarded \$221M to the six regional venture development organizations to help support early-stage investment and their evergreen funds. During the same period, Michigan invested about \$24M in early-stage, pre-seed capital with a majority of the funding being repayable grants that allow a fund to operate, but not to grow and become evergreen.²

We fear that if Michigan does not adequately fund our early-stage companies, they will leave Michigan and go to other states. We want companies starting, staying, and growing in our state. Based on the success of the existing evergreen venture funds in Michigan, we will achieve important economic development targets:

- Invest in at least **500 MI-based startups/companies**
- Create **5,000 new, high-paying, full-time jobs**
- Leverage at least **\$5B in additional investment**
- Grow state and local tax revenue
- Forge a self-sustaining startup community that stands as a model for economic development.

Although Michigan's ecosystem needs even more funding and programming to be competitive regionally and nationally, we believe the Michigan Innovation Fund proposal is a significant first step toward achieving our long-term goals for the ecosystem. This level of investment shows founders and startups that the State is committed to starting and growing companies here in Michigan.

We look forward to working with you and your caucus on this important and impactful initiative to help make Michigan's startup ecosystem more competitive. Thank you for your consideration. If you have any questions about the Michigan Innovation Fund, please reach out to Jennifer Hayes at Invest Detroit at Jennifer.hayes@investdetroit.com.

Thank you,

20 FATHOMS

ANN ARBOR SPARK

Arboretum VENTURES

bank of ann arbor

BRCC BIOSCIENCES RESEARCH COMMERCIALIZATION CENTER WESTERN MICHIGAN UNIVERSITY

BRIGHTWATER TOOLS Technologies for Regenerative Sanitation

DetroitRegionalChamber



Economic Development Leaders for Michigan

CITY OF GRAND RAPIDS SmartZone

GREENMARK BIOMEDICAL INC.

ID VENTURES

International JOINLU Join us to Lead Up

INVESTUP

LEAP stronger together

LANSING REGIONAL CHAMBER

LANSING REGIONAL SmartZone

Lenawee now

M BBA MICHIGAN BLACK BUSINESS ALLIANCE

MICHIGAN ANGEL FUND

M MICHIGAN CENTRAL

MICHIGAN RISE PRE-SEED FUND III

MICHIGAN STATE UNIVERSITY RESEARCH FOUNDATION

MICHIGAN OUTDOOR INNOVATION FUND

Michigan Technological University 1885

MICHIGAN VENTURE CAPITAL ASSOCIATION

new enterprise forum coaching perfecting connecting

PLYMOUTH GROWTH



CC:

Senator Sarah Anthony, Chair, Senate Appropriations Committee

Representative Angela Witwer, Chair, House Appropriations Committee

Senator Mary Cavanagh, Chair, Senate Appropriations Subcommittee on Labor and Economic Opportunity

Representative Will Snyder, Chair, House Appropriations Subcommittee on Labor and Economic Opportunity

House Economic Development and Small Business Committee

Senate Economic and Community Development Committee

1. *Michigan Early Stage Venture Investment Act, PA 296 of 2023*
2. *Public Policy Associates: "Michigan Startup Evergreen Fund: Landscape Scan", May 2023, [Click here](#) to view the report.*

May 13, 2024

The Honorable Winnie Brinks
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Dear Majority Leader Brinks & Speaker Tate,

We are writing to ask for your support of the **Michigan Innovation Fund**. As founders of Michigan startups, we know all too well the importance of increasing access to pre-seed and early-stage capital for new companies throughout our state. The lack of current funding puts a strain on a start-ups ability to execute quickly and compete nationally.

The Michigan Innovation Fund (MIF) (HBs 5651, 5652, and 5653) proposes a strategic investment of \$105 million that will anchor Michigan's status as a hub for innovation and entrepreneurship. Establishing a sustainable, evergreen system of funds will ensure entrepreneurs have a strong network of support. The investments made to our companies will recycle to new companies long-term - enabling Michigan founders to contribute to supporting the next generations of founders.

Specifically, the Fund would make investments in three core areas that are of importance to founders:

- Creates a fund to award grants to existing nonprofit/ university-backed, early-stage venture funds that are building their funds to an evergreen status and that have been strong partners to the community.
- Provides funding to strengthen Michigan's entrepreneurial ecosystem by supporting organizations that provide programming, technical assistance, or other support to promote the growth and development of our startup companies, founders, and funds to support an innovation ecosystem in this state.
- Provide funding to support a stronger pipeline of Michigan startups as investment opportunities well as dedicate funding to make investments in venture capital funds. This helps to grow the Michigan venture capital industry and sustain Michigan startup companies with a continuum of capital throughout their growth stages.

This proposal repurposes previously allocated investment funds to maximize their impact without further burdening the state's budget. It is a strategic move to nurture the ecosystem's infrastructure and programming, significantly aiding in our quest to make Michigan a great place to start a venture-backed business.

While Michigan's entrepreneurial environment requires more support to compete on a regional and national level, the MIF represents a monumental step forward. It signals to entrepreneurs and startups that Michigan is committed to their success, fostering an environment where innovation can flourish.

We believe in the transformative power of the Michigan Innovation Fund and hope you will too. Your backing of this legislation will be a pivotal investment in the future of Michigan's entrepreneurial landscape.

Thank you for considering this crucial initiative.

Sincerely,
Founders of Michigan Startups

360ofme

86 Repairs

AbleVu

Accelerated Filtration, Inc

Airspace Link

Alerje

Alisio

Arborsense Inc.

Ash & Erie

Atterx Biotherapeutics

Auralab Technologies Inc

Bamboo

Bedestrian

Berry Clean Brands, Inc.

BioMEMS Diagnostics, Inc.

Bioscience Navigators

Block Harbor Cybersecurity

BlueConduit

BlueConduit

Breadless

Cantilever Business Partners

Cantilever Investors

Catapult

Chiyo

CircNova

Claira Technologies, Inc.

Clixie AI

Crank Bio, Inc

CubeWorks

Curio Genomics

Diet ID

Earnstride

Electric Outdoors Inc

Envision Health, LLC

Epsilon Imaging Inc

Espervita Therapeutics

EVOQ Therapeutics

EVOQ Therapeutics

FirstIgnite

Flightpath Biosciences, Inc

GEKOT Robotics

Genomenon, Inc.

Give and Take Inc.

GreenMark Biomedical Inc.

Huck Finch

Hum

Hush

i5 BioPartners

IROA Technologies LLC

Judy Security

LABR

Lingco Language Labs

Livaq

Livegistics

M3D

Michigan Biomedical Venture Fund

**Michigan Biosciences Industry Association
(MichBio)**

Minchyn, Inc.

Mountain Pass Solutions Inc

Mudita Venture Partners

My Beauty Kit

MySwimPro

NX Fuels, Inc (dba Carbon Fuels, Inc)

OneSix Energy Inc.

Opnr

OptimizeEV

Orbion Space Technology

Passage Inc.

PassiveBolt

Peptinovo Biopharma Inc

Pocketnest

Quikly

Reaction Technologies , LLC

Ripple Science

Rydberg Technologies

SecuritySnares

SensCy

Serendip LLC

Shoptelligence

Signal Bioscience

SkySpecs

SpellBound

**SU2 Systems Inc. d/b/a Orion Trading
Systems**

Sustainable Consulting Group, LLC

Swish Brand Experiences

Tackboard

Tandem

The Latina Success

Traxen Inc

Ulendo Technologies, Inc.

Virtual Round Ballers

Waymark

We Heart Local

Western Michigan University

Zapenda

CC:

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