

Washington Economic Development Commission
Statement of Priorities for Kick-starting Job Creation
November 21, 2011

SUMMARY

We cannot wait for national recovery. The state needs a job growth strategy. However, the task of kick-starting job creation is daunting when the state budget faces such huge fiscal constraints. Policymakers must make difficult budget trade-offs in ways that do not undermine the future prosperity we seek. Generating more private sector investment and job creation requires that business have confidence in the state's long term policies for economic development and innovation.

Offered below are priorities in the context of advancing four key pillars of the innovation economy: talent, investment, infrastructure and exports. These are the pillars the WEDC has adopted in its plan to make the state the most attractive, creative and fertile environment for innovation in the world. Focusing legislative activity on these longer term priorities and related actions will contribute to business confidence, economic recovery and job creation. As a matter of priorities the state should focus efforts on the following:

1. Talent

Emphasize investments in career transition rather than in temporary income maintenance and reorient training and education priorities to meet employment demand.

2. Investment and Entrepreneurship

Affirm commitment to policies that create an “innovation ecosystem” that fosters entrepreneurship, business investment and on-shore manufacturing.

3. Infrastructure and Regulations

Design a 21st century infrastructure and regulatory environment that enhances business investment and job creation and aligns with regional job creation objectives.

4. Export

Intensify efforts to grow the national and global presence of Washington's businesses.

1. TALENT

Emphasize investments in career transition rather than static income maintenance and reorient training and education priorities to meet employment demand.

The current recession should not be the time to lose ground on enhancing the pool of qualified workers. A long-term commitment for a skilled, flexible and technically competent workforce would inspire business confidence and help attract, retain and expand industry in the state. We should reinvent our system of education–employment–life-long learning to facilitate entry of more Washingtonians for jobs that are being created. Technically trained workers are needed in almost every major sector (the big exception being construction). There are about 60,000 job vacancies currently. Many of these jobs are not filled because applicants lack the appropriate skills. The state is now competing for the production of the next generation Boeing 737 MAX--the largest manufacturing project in the world, expected to support up to 20,000 direct and indirect jobs. We already lack sufficient graduates in critical engineering disciplines. Too few young people consider manufacturing careers and our education system does not impart the necessary motivation and STEM (science, technology, engineering and math) competencies for advanced manufacturing. The Governor’s Launch Year program, Skills Centers and “Project Lead the Way” courses are examples of promising strategies to engage more high school students in STEM and problem-solving disciplines. More needs to be done to provide the unemployed opportunities to get the skills that are demanded by business. There are about 300,000 unemployed people in Washington searching for work, and a growing proportion are running out of unemployment benefits. We should be providing more “direct connect” training which include on-the-job training (OJT), apprenticeships and employer designed training objectives. According to a recent study (Lumina Foundation) 950,000 Washington residents have completed some college without earning a degree– representing more than 26 percent of the state’s adult population (2008). If a portion of this group could be enticed to complete a two or four-year degree oriented to industry needs, their employment prospects would improve.

Recommendations:

- 1. Channel talent pipeline to industry needs.** Maintain budget support for post secondary education institutions to flexibly address industry workforce needs in high demand occupations. Expand capacity of UW and WSU to enroll more engineering students, particularly needed in the aerospace industry. Integrate employer needs into education programs, utilize skills panels and provide more career pathways through industry “stackable” skills certificate programs. Support high school programs to graduate more students with problem-solving and STEM proficiencies and establish more rigorous standards for science and math teachers.
- 2. Prepare people for new career opportunities.** Return dislocated workers and the long term unemployed to gainful careers by shifting the focus of the unemployment insurance system from temporary income support toward a pathway for apprenticeships and career transition (over two-thirds of layoffs are of a structural nature).
- 3. Retain foreign student graduates.** Address skill shortages of high tech industries by increasing post-graduation residency visas for foreign students educated in Washington State.
- 4. Navigate career choices with personalized information and new learning systems.** Encourage IT platforms and social media to crowd-source, integrate and personalize real-time knowledge about career outlooks, job opportunities and options for skills certification. Support innovative models of on-line learning accompanied by rigorous assessment of skills.

2. INVESTMENT and ENTREPRENEURSHIP

Affirm the state’s commitment to policies that create an “innovation ecosystem” that fosters entrepreneurship, business investment, on-shore manufacturing and private sector job creation.

Start-up companies and formation of new regional innovation clusters is the long-term jobs engine of our economy. We should strengthen the “innovation ecosystem” that connects entrepreneurs, angel/venture capital, incubators, manufacturers and support services. According to the Kauffman Foundation, most new jobs are created by firms less than five years old. Many of these firms are founded by immigrant entrepreneurs. Entrepreneurial start-ups depend on access to capital and world class research in emerging technology areas—such as the state’s STARS program in nano-photonics, bio-fuels and smart grid. High paying jobs can also result from capturing the downstream manufacturing opportunities generated by start-ups. We should be concerned that competencies in hardware, manufacturing, and engineering are rapidly shifting to China, India, Korea, Taiwan, Brazil and other places. Advanced manufacturing combined with our strengths in information technology, logistics and advanced materials is a burgeoning commercial opportunity and vital to improving our trade position and domestic aerospace and defense industry. We cannot be complacent and give up job creation to off-shore competitors.

Recommendations:

- 1. Recruit world class entrepreneurial research teams.** Ensure adequate funding to complete the state’s commitment to recruit ten world-class innovation research teams and entrepreneurs-in-residence in areas of high commercial and job creation potential. Give weight to the role of advanced manufacturing, particularly in aerospace and defense sector. Provide for creation of a Center for Aerospace Technology Innovation at UW and WSU.
- 2. Provide operational funds for Innovation Partnership Zones to foster regional innovation.** Thirteen Innovation Partnership Zones are presently designated by the state to jump start regional innovation clusters. Provide a minimum of \$1 million operational funding (competitively awarded) for accelerating innovation partnerships and collaborations. Any state funding should be 50% matched by the local IPZ. .
- 3. Turn on foreign direct investment.** Launch a robust FDI initiative in partnership with the EB5 regional centers and overseas representatives to attract foreign investment and support immigrant investors.
- 4. Close the commercialization gap through enhanced tax policy.** Eliminate B&O tax for start-up companies until they reach profitability and make permanent state tax incentives for R&D and advanced/high tech manufacturing. Consider extension of the aerospace tax incentive for pre-production expenses from 2024 to 2034 to align to expected production duration and lifecycle.

3. INFRASTRUCTURE AND REGULATIONS

Design a 21st century infrastructure and regulatory environment that fosters economic development, a high degree of leverage, more certainty and alignment with regional job creation objectives.

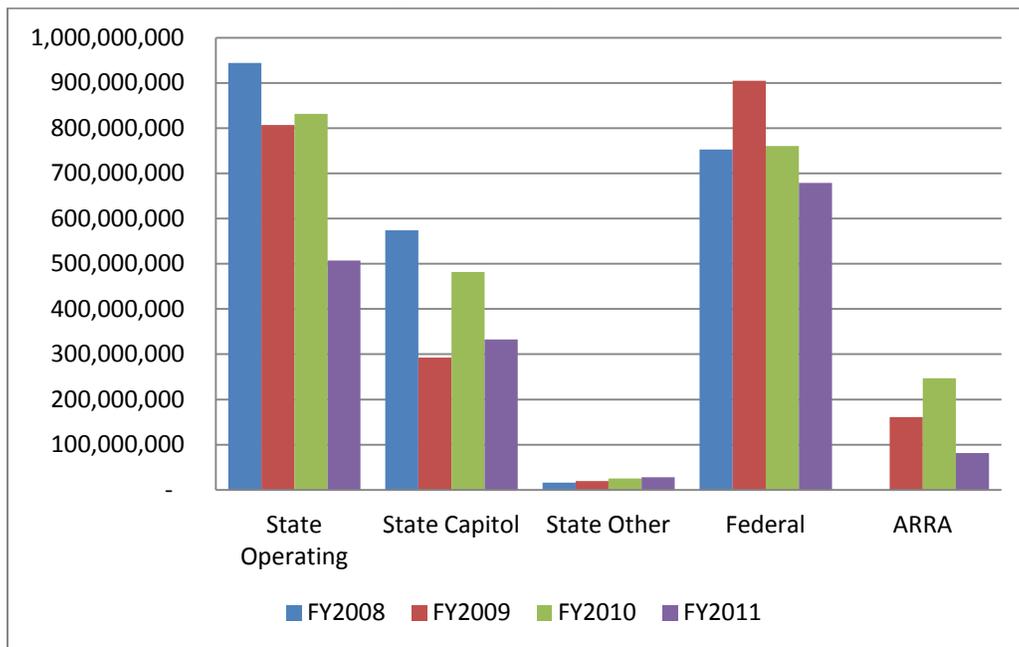
Our state’s infrastructure investments will yield greatest value if projects are selected with longer term economic development benefits, not temporary stimulus. Infrastructure investments should be designed to be leverage regional economic plans and contribute to private sector job creation. Infrastructure investments should be aligned with the priorities of regional economic entities

such as the state network of Associate Development Organizations (ADOs) and Innovation Partnership Zones (IPZs). The funding for new infrastructure investments may lie in the policies and programs that have not been reviewed in decades. More benefit will come from economic development programs and regulatory processes that are efficient, lean, timely and more certain. The state deserves a public sector where quality improvement is a daily task and new ideas for delivering more value with fewer resources are rewarded.

Recommendations:

- 1. Assess value received from state economic development and regulatory activities.**
Support the WEDC with sufficient resources to provide the state an objective and independent “scientific outcome evaluation” of economic development programs, incentives, processes and regulations. This effort should provide a fact based analysis for measuring economic impact and return on investment the citizens of Washington are receiving.
- 2. Create Lean Institute for improving government efficiency and customer service.**
Establish a state-wide Lean Institute for training public sector officials to implement total quality management, customer relationship management and leaning out agency regulatory processes. Small business can be helped by streamlining tax collection.
- 3. Align infrastructure investments to local economic development priorities.** Give more weight to infrastructure projects that augment local economic development priorities and regional innovation clusters. Consider devolving authority for project decisions to designated local economic development entities.
- 4. Pilot new financing mechanisms for collaborative innovation.** Authorize industry associations and clusters to voluntarily assess a revenue sharing mechanism for collaborative innovation, similar to agriculture commissions. This would enable industry to take the lead in directing workforce development, R&D, exports, commercialization gap funding, and marketing.

WA State Economic Development Programs – 4 Year Investment Trend*



**Preliminary data based on agency reporting of economic development activity*

4. EXPORTS

Intensify efforts to grow the national and global presence of Washington's businesses.

Exports are a driver of job growth. In fiscal year 2011, the Washington State Department of Commerce's export assistance program supported export sales of \$147.5 million. Based on updated calculations equating \$185,000 in exports with one job, Commerce's export assistance supported up to 797 jobs last year. More job creation can be realized. Only 4% of our small to medium-size goods producers export today. They lack knowledge or have an inadequate support network for exporting. Instead of curtailing our global marketing efforts, we should be aggressively moving forward to penetrate new markets and promote our own innovative culture, investment opportunities, products and services. Our ports are being challenged with growing competition from Canada and expansion of the Panama Canal. Freight mobility should be a top priority for completion of transportation projects. Substantial fuel tax increases in the past decade have enabled upgrades along crucial freeway segments, such as I-90 across Snoqualmie Pass, the North-South freeway in Spokane and I-405 corridor through Renton—a critical consideration for production of the next generation 737 MAX. Many other segments that are vital to freight mobility need to be prioritized and projects completed. Washington is the economic hub of the greater Pacific Northwest Region, which if it were one country would make it the 14th largest in the world. In 2012 Washington will be featuring its commerce and innovation role during the 50th Anniversary Celebration of the 1962 World's Fair.

Recommendations:

- 1. Optimize export assistance services to small and medium size enterprises.** Double investment in proven export assistance services by state agencies and encourage greater collaboration among state and federal export supporting entities and programs across the state. Consider export vouchers as a new and improved method of efficiently allocating export assistance resources to meet specific company needs.
- 2. Modernize transportation infrastructure for freight mobility.** Give priority to completing transportation projects directly related to improving freight mobility, enhancing supply chain efficiency and business productivity.
- 3. Intensify cross border innovation and collaboration in the Pacific Northwest.** Open new pathways for job creation by intensifying cross-border policy development with neighboring states and Canadian provinces in such areas as research partnerships, access to education, venture capital, transportation, energy management, water resources, climate change, and regulatory harmonization, immigration and trade.

Conclusion

These priorities, if adopted, will set in motion the necessary steps for long-term economic growth, innovation, investment and sustainable job creation. Our specific recommendations are not all dependent on new funding. We are calling for more leverage with the funding available and for that funding to be predictable, flexible and regionally aligned. More leverage of limited resources (and job gain) will be realized by permitting state resources to be applied intelligently and efficiently to opportunities unique to each region and industry.