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Redefining Economic Success in Washington State:

3 KEYS TO QUALITY GROWTH

Acknowledgement

In 2021, the Washington State Legislature commissioned a comprehensive business competitiveness analysis of the state's economy by the Legislative Committee on Economic Development and International Relations (LCEDIR), to be administered by the Office of the Lieutenant Governor. This report is the result of that effort produced through a collaborative process involving numerous contributors.

We would like to acknowledge the substantial contributions and guidance that the Lieutenant Governor's office provided throughout this process.

Lieutenant Governor Denny Heck

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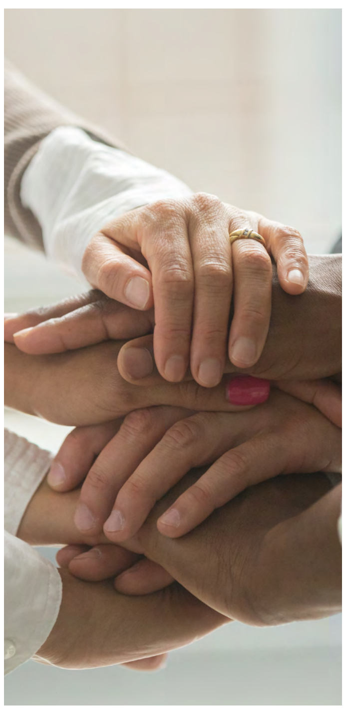

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- Representative **Alex Ybarra**

ECONorthwest is a consulting firm based in the Pacific Northwest that specializes in economics, finance, and planning. We understand that businesses and governments face difficult decisions about how to make the best use of limited resources. We help our clients make thoughtful, data-driven decisions using tools and methods that meet the highest standards of best practice. Our focus is to bring a diverse set of perspectives that allow us to fully understand — and effectively communicate — the benefits, costs, and tradeoffs associated with any decision. Our consultants have advanced degrees in a variety of fields, including economics, planning, and public policy; and work on projects ranging from strategy to implementation.

Ryan Donahue, principal of **RM Donahue Consulting**, is a researcher and strategist focused on inclusive economic development in cities, regions, and states. RM Donahue Consulting has worked with state and regional organizations across the country. Ryan Donahue has partnered with the Brookings Institution, where he is a Nonresident Fellow, on strategy projects in a variety of regions, from high-growth markets (San Diego, Denver, Nashville) to older industrial cities (Birmingham, Syracuse, Grand Rapids).

Triangle Associates has been a trusted third-party in public and community facilitation and input work for over 40 years, and our methods of helping groups develop equitable processes to make good decisions have withstood the test of time. Triangle's facilitation practice is grounded in helping diverse, multi-party advisory and input groups work together to co-develop lasting input processes, recommendations, policies, and decisions.

Community Attributes, Inc. supports all phases of economic and community development — from visioning to implementation. We aim to support decision-making by linking community development objectives with economic opportunities in the context of regional economic trends. The hallmarks of our practice are flexibility, responsiveness, and innovation, all of which we wholeheartedly employ to meet our clients' needs.

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3 KEYS TO QUALITY GROWTH

EXECUTIVE SUMMARY

Executive Summary | Project Overview

Prior to this report, Washington had not completed a comprehensive study measuring the competitiveness of the state economy in nearly a decade. This study takes a hard look at the Washington economy, scrutinizes traditional indicators of success, and evaluates some common barriers to growth. The process was iterative, gathering insight from diverse groups including small and minority business owners, industry economists, and Labor representatives, among others. Using data analysis, an in-depth industry review, and application of an equity lens, this outreach shed light on the key barriers the state faces to enhancing business competitiveness today. This report moves the conversation forward towards solutions.

Washington Long-term Economic Trends: Highlights

- Successfully transitioned the economy into a knowledge and tech leader.
- Strong growth in the economy is limited by an aging workforce and a skills gap, decades in the making.
- Household incomes have gained compared to the U.S. average at all points of the income distribution — but inequality has widened.
- Job opportunities and natural amenities are attracting households and talent to all regions of the state.
- Housing production hasn't kept pace with population or job growth, triggering persistent affordability and homelessness crises.
- Small businesses are struggling to compete for labor and access to resources in a changed economy.

Equitable Outcomes Accelerate Economic Growth:
Reframing Business Competitiveness Centered on Outcomes

Focus on creating quality jobs and shared prosperity

In order to track success, Washington needs to **prioritize desired outcomes and develop indicators that reflect a strong, balanced economy**. After taking a hard look at traditional approaches to evaluating business competitiveness, this report suggests a revision that incorporates updated values and tracks performance compared to peer regions.

As Washington looks towards the future and sets a course for continued economic growth, resiliency and inclusion need to be top state priorities. By dismantling barriers and expanding opportunities for low-income earners and communities of color, more people can fully engage in the economy both as producers and consumers. **This can translate into greater rates of entrepreneurship and economic growth, less reliance on social supports, a greater tax base, and decreasing income and wealth disparities.**

Washington must focus on addressing three key areas, identified next, that are currently the biggest barriers to Washington's ability to achieve more quality jobs, economic growth, and shared prosperity.

Assessing Washington's strengths, challenges, and opportunities lays the groundwork for future economic development strategies.

Strengths that have made WA a leader in business growth for decades

- Talent attraction with consistent in-migration.
- Strong Information and Communication Technology (ICT) presence and skilled tech labor.
- Established, high performing network of public, private and training institutions.
- Robust infrastructure and transportation system (including ports).
- Low energy costs, clean energy, natural assets, and amenities.

Challenges that threaten WA's position as an economic leader

- Skilled labor shortages.
- Access to housing that is affordable to all workers.
- Childcare affordability and supply limitations.
- The impacts of climate change.
- Stable funding sources to support future infrastructure projects, including maintaining and preserving current assets.
- Access to capital for high-growth potential business.
- Complex and costly business and development regulatory frameworks.

Executive Summary | Big Idea 1

Build more housing of all types that are affordable to all residents.

KEY TAKEAWAY:

Washington State has the fewest number of housing units per household of any state in the country.

Why does this matter for economic development?

The underproduction of housing is limiting economic productivity and growth, the creation of jobs, and perpetuating disparate outcomes and wealth inequity for the next generation of Washingtonians.

The Problem

- Washington State has the fewest number of housing units per household of any state in the country, and the housing crisis is getting worse as the number of units built has not kept pace with household formation over the last decade.
- The lack of supply puts strong upward pressure on home prices and rents. 44% of Washington renter households are cost burdened and spend more than 30% of their income on housing; 22% of renters are *severely* cost burdened and spend more than 50% of their income on housing.
- Chronically undersupplied housing is the principal driver of the state's homelessness crisis. Washington's homelessness rate—30 per 10,000 residents—is well above the U.S. average (18 per 10,000 residents).
- Homeownership is becoming more unattainable, particularly for BIPOC households. The Black homeownership rate is 11.5% lower than the national average, which ranks last among peer states, and the 7th lowest nationally.

Despite current efforts and legislative focus, Washington is still not building enough homes, particularly homes that are affordable at lower and middle incomes, and that provide wealth building opportunities for all.

BY THE NUMBERS

11.5%
lower Black homeownership rate than the U.S. average, last among peer states

1.06
housing units per household Washington State compared to 1.14 nationally

190K
Number of units Washington would need to build to achieve the national ratio

$695K
The average new home construction price statewide, the 6th highest of any state

Equip the workforce for success, and close the skills gap.

KEY TAKEAWAY:

Washington needs to train 200,000 more skilled workers over the next 10 years to keep pace with job openings, a 30% increase over current rates.

The Problem

- Businesses across the state are experiencing persistent and worsening labor shortages.
  - The number of job openings are at record highs, as is the share of the workforce aged 55 and older.
- There is a chronic gap in the training and skillset development of the workforce across the state relative to labor need.
- Annually there is a shortage of 20,000 skilled workers. Meeting this need would require a 30% increase in the number of certificates and degrees granted in the state.
  - In-migration of skilled workers helps offset about half of the shortage within the state. 85% of those moving to the state have a bachelor's or graduate degree, leaving the largest deficit in the mid-level skilled workforce.

Despite current efforts to boost educational attainment, particularly in high-demand fields such as STEM and health, there is a chronic gap between the skills employers require and the skills with which job seekers are equipped. While strong workforce demand is seen at all education levels, particularly in STEM, workers with mid-level training or education (associates, certificates, and apprenticeship completers) make up half of worker need. In-migration helps offset the shortage, but is heavily concentrated in workers with bachelor's and higher levels of educational attainment.

Why does this matter for economic development?

Businesses consider access to a skilled workforce when making location decisions. A limited supply of skilled workers may prevent businesses from locating, expanding, or remaining in an area.

BY THE NUMBERS

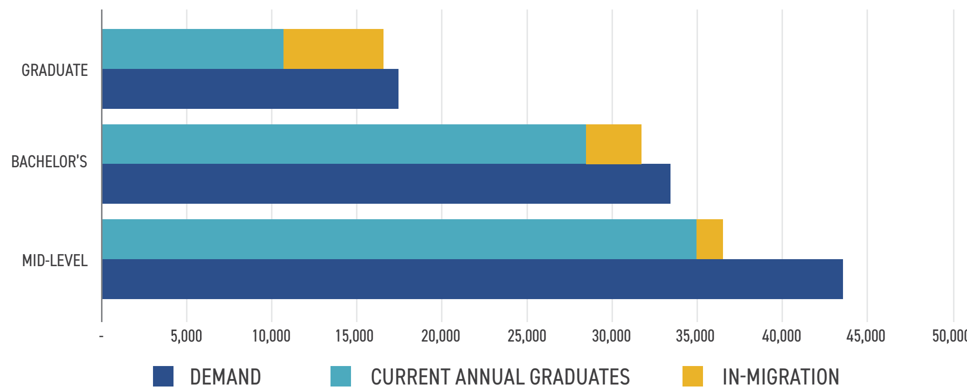
25%
percentage of workers over age 55, an all time high

2.5%
percentage of workers quitting their job monthly (30% annualized), the 10th lowest state rate

221K
job openings statewide, a 40% increase from pre-pandemic levels (2018 and 2019)

18,442
active apprentices statewide in 2019, an increase from 12,376 in 2015

SKILLED WORKERS SUPPLY AND DEMAND GAPS



Source: 2017 Skilled and Educated Workforce Report

Revitalize entrepreneurship (and make it easier to do business).

KEY TAKEAWAY:

Washington is forming 30% fewer high-growth potential businesses than a decade ago, and ranks 4th lowest among peer states.

The Problem

Declining Entrepreneurship and High-propensity Formation

- Entrepreneurship has been on the decline nationally and in Washington over the past 40 years.
- WA's high-propensity business formation—**those most likely to turn into a business with a payroll**—has declined 30% from the early 2000s (per capita), and now ranks 4th lowest among peer states.
- The economy has consistently performed well on traditional economic development indicators (capacity builders), but that has not translated into shared prosperity (realized outcomes).
- Only one third of the jobs in the state pay enough for families to support their living expenses.

Limited Access to Capital

- There are a variety of barriers that are preventing businesses of all sizes from forming, growing, and competing in the global economy.
  - Venture capital is funding smaller deal sizes in Washington State than the national average.
- Small businesses, particularly those owned by communities of color, have limited access to capital needed to grow.
- BIPOC-owned firms were half as likely as White-owned firms to use a financial services provider.

Burdensome Regulatory Environment

- The variety of permits required from all levels of government are complicated, costly, and time consuming.

BY THE NUMBERS

61% of Black-owned firms and **73%** of Hispanic-owned firms applied for PPP compared to **82%** of White-owned firms

13% of Black-owned firms and **20%** of Hispanic-owned firms received all the financing they sought, compared to **40%** of White-owned firms

- Land use and growth management has created an amenity value and produced environment benefits, but has also contributed to a limited number of available and suitable sites for business expansion.
- The Wharton Residential Land Use Regulatory Index ranks the Puget Sound region as the 4th most regulated region in the country for permitting and land use, behind only New York, San Francisco, and Providence (Portland is ranked 10th).

Washington has historically performed well on traditional economic indicators and has leading businesses that have driven success for a subset of the population. However, **this success has masked growing problems**—decreasing high-propensity business formation fueled by inequitable access to capital and business supports, and a regulatory environment that disproportionately hurts small businesses. Current initiatives and programs are inadequate to address the extent of these problems.

Why does this matter for economic development?

Declining rates of business formation, a trend accelerated by complex regulations and limited access to capital, limits the potential for future economic expansion and shared prosperity in Washington.

Executive Summary | Where to Go Next

Where to Go Next

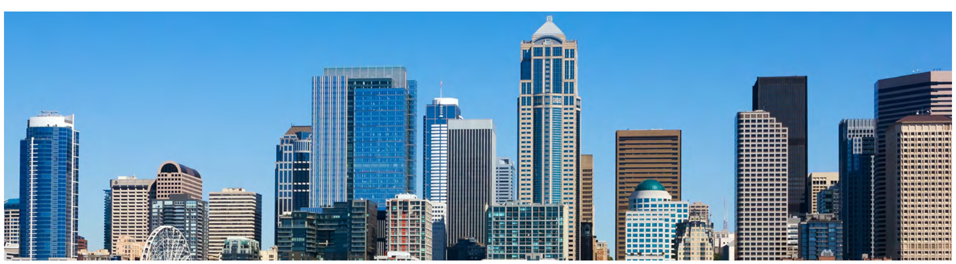
Measuring success

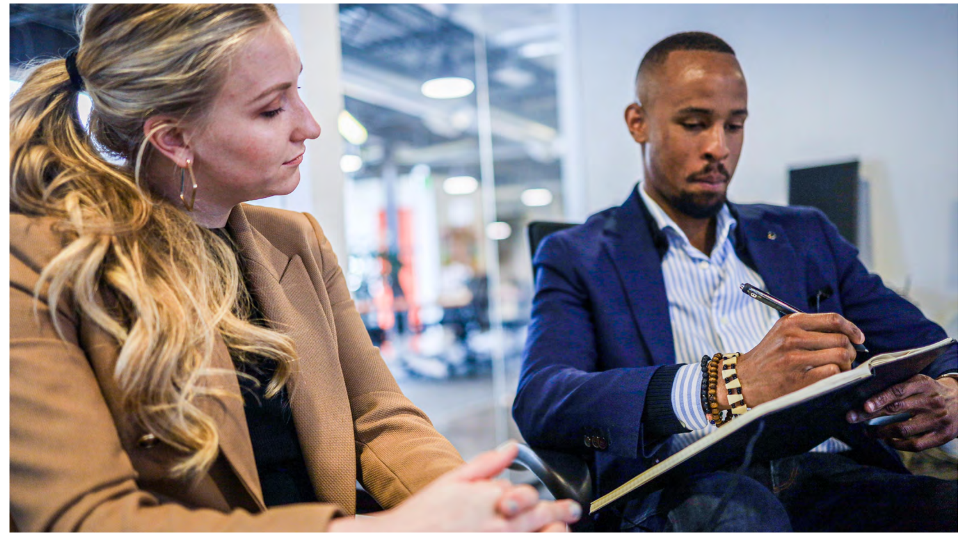
The status quo is currently not producing the desired outcomes. This report helps identify and prioritize desired outcomes. In order to measure the progress on identified outcomes of producing more quality jobs and creating opportunities to build wealth, the state needs to commit to tracking metrics that can measure changes over time. As it relates to wealth, there are limited data points that serve as proxies for wealth. If the goal is for shared prosperity, additional resources must be devoted to producing metrics that directly measure wealth outcomes in the State of Washington.

Policy options

Increasing housing production: Washington needs to build housing units of all kinds in areas of high economic opportunity that are affordable and provide wealth building opportunities. Areas of potential intervention include: eliminating exclusionary zoning, options to build more housing units in identified areas of high opportunity that leverage public investment, working with local governments to address misaligned fee structures and lengthy review processes, as well as clarifying and calibrating statewide growth management.

Equipping workers with needed skills by enhancing technical programs and apprenticeships: Maintaining the status quo is no longer an option for Washington State if it wants to continue to be a competitive force in the national and global economy. While traditional degree attainment remains an important part of workforce development, Washington needs to further explore nontraditional skill delivery certifications and training, as well as alternative job programs to address the growing gaps in mid-level skill quality jobs. Areas of the greatest opportunities at the mid-level are expected to be in production and trades; business, management, and sales; human and protective service; health professions; and computer and information science.





Revitalizing entrepreneurship: Washington can no longer rely on its past successes to ensure its economic future. Washington needs to improve targeted regulatory policies and business supports for firms that will create quality jobs and wealth building opportunities. This includes supporting firms with high-growth potential, improving access to capital for minority and low-income entrepreneurs, as well as simplifying regulatory requirements for small businesses. Doubling employment in the manufacturing industry statewide (HB 1170, 2021) would improve high-propensity business formation, but specific policies need to be made to achieve this goal.

Childcare and broadband access are important and known areas of need across the state. They are intentionally not highlighted as priorities in this report given recent efforts at the state and federal level to address these barriers. These interventions and actions should continue to be monitored as it will take time to measure the efficacy of these efforts and if additional policy action is warranted.

1

INTRODUCTION, FRAMEWORK, & EQUITY LENS

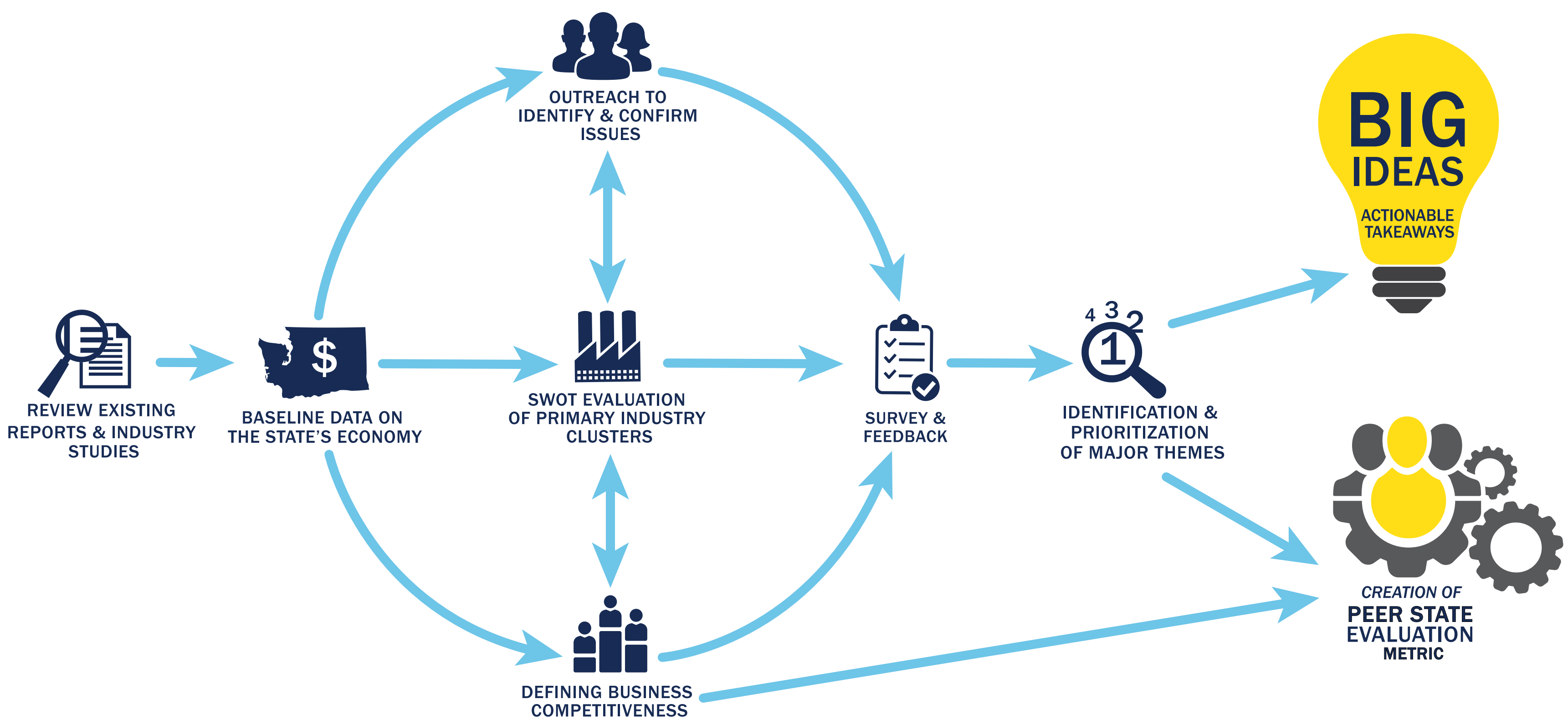
To Have a Competitive Business Environment, You Need an Accessible Economy

Understand your strengths, focus on your opportunities.

Prior to this report, it had been a decade since the State of Washington last looked at its business climate and how it compares to peer states. In that time we have seen multiple disruptions: e-commerce expansion, airplane recalls, a pandemic, immigration shifts, jumps in inflation, and an unpredictable supply chain that can leave key components stuck in the Suez Canal. Some disruptions seem to arrive overnight and can be resolved through flexible logistics or strategic partnerships. Others build slowly and present baseline costs that put the state at a strategic disadvantage. The focus of this study is the latter: what are key, foundational barriers that affect business competitiveness—whether they be Fortune 500 companies or sole proprietorships—as they compete across the state, regionally, and globally.

This study takes a hard look at the Washington economy, scrutinizes traditional indicators of success, and evaluates some common barriers to growth. The process was iterative and gathered insight from diverse groups and through contrasting approaches.

It undertook a five months long engagement process speaking with elected officials, minority business owners, industry economists, tribal leaders, women's groups, Labor representatives, economic development professionals, chamber presidents, and unemployed workers, among others. The technical review looks at the State of the State, identifying key trends in the data that might have been overlooked in the past, but suddenly become urgent areas of concern when putting them into context. The Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis takes an in-depth look at key sectors and foundation items in Washington and highlights strategic opportunities that could be pursued in the near term. In addition, it took into account a hard look at traditional approaches to evaluating business competitiveness and a revision suggested that incorporates updated values the state may include in future metrics. This will all be brought together in a summary of the most urgent needs and three ideas most deserving of focused efforts.

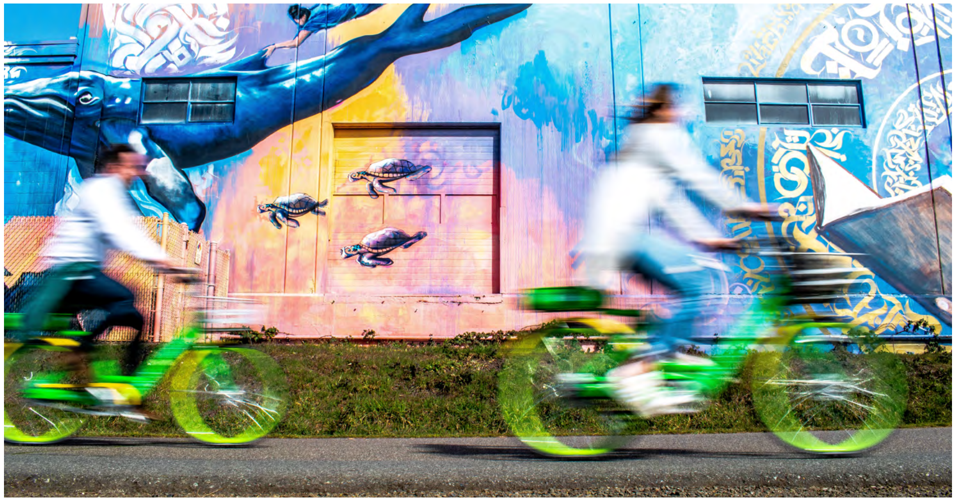


Strong Economic Analysis Requires an Equity Lens

A rising tide does not always lift all boats.

As Washington looks towards the future and sets a course for continued economic growth, resiliency and inclusion must be top state priorities. Building an expanded vision for economic prosperity requires new tools, including a more nuanced set of metrics for measuring success, wider definitions of business growth, and a better process for including voices from across the state. An equitable Washington economy helps to ensure that working-class people and people of color have quality jobs paying living wages, access to the capital needed to build their wealth and their businesses, and a role at decision making tables. Washington State's diverse population includes workers, entrepreneurs, innovators, and leaders all looking to increase their economic security and mobility.

This report is examining the state's economy using a different research methodology than has been used before. **Our approach centers economic equity** as critical to the state's vitality and growth and offers evidence-based findings that show where disparities exist and what the state can do to reduce them. Because achieving equity is a complex goal, having good research strategies is an important first step. We used a racial equity approach in our research process to ensure we identified racial disparities, why they exist, and how to address them. We also used this approach to help develop findings that can be used to promote equity. This framework illustrates the circular nature of equity planning, decision-making, and implementation of actions. These methods guided the team on what issues to look for in the data analysis and community engagement.



Understanding the limitations of the datasets that we have access to, how they were collected, who was left out, and how the survey design shaped the responses is critical in how we use and interpret data. Without a critical eye towards "the data" and what it can tell us, we risk finding false results in our analysis. To this end, we took the following steps to ensure meaningful and accurate findings:

- Disaggregate data by race/ethnicity wherever possible (geographies, ownership, etc.) to find where inequities exist.
- Perform analyses that are intersectional in approach. How do race and ethnicity intersect with other identity categories that exacerbate or mitigate economic mobility or access to resources?
- Locate and utilize data sets from unconventional sources to help add context to larger data analysis.
- Maintain a strong commitment to interrogating our data sources, sampling methods, and the validity of our analyses.
- Recognize that data contains biases, and work to clearly document and establish plans to mitigate bias within the data we maintain and in how we use data to make decisions.
- Use accessible and understandable visualization and communication tools to share insights from our data to a wide range of audiences across a variety of access needs.

2

STATE OF THE STATE

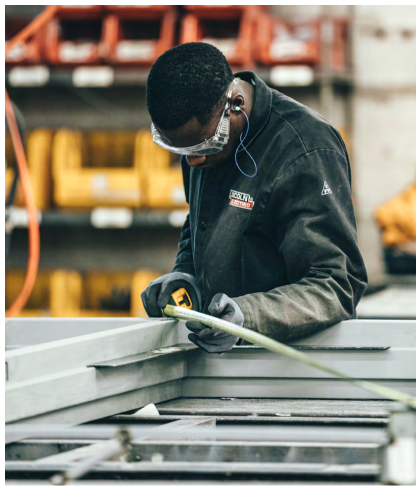
State of the State

Washington has transitioned its economy into a knowledge and tech leader.

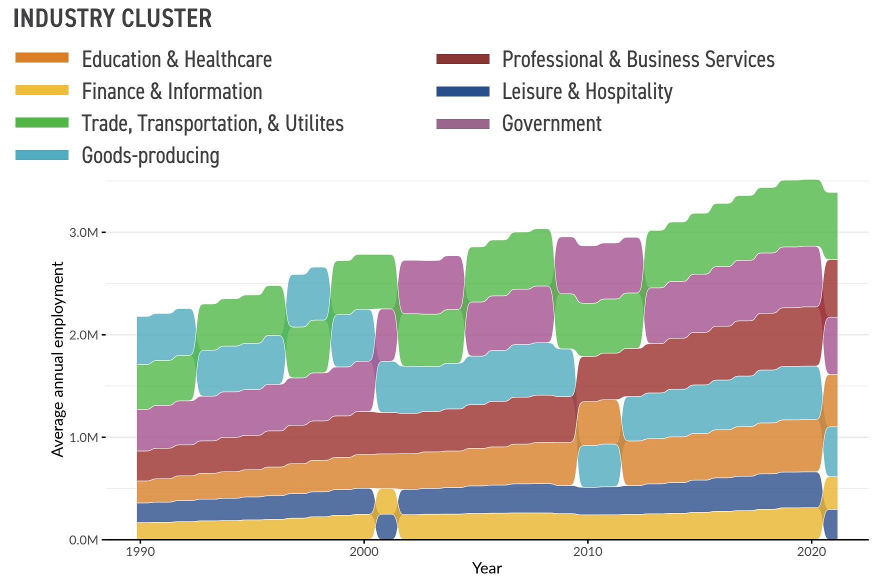
This section will establish a baseline trajectory for businesses, industries, and geographies prior to the COVID-19 pandemic—then determine how they have been impacted in Washington's recovery to date. This will primarily focus on a quantitative analysis to help frame trends and to contextualize the feedback received from industry stakeholder outreach. This section investigates how the composition of industries has changed in the last 30 years, identifies long run trends in workforce demographics, contextualizes the income distribution compared to the U.S. and regional peer states, explores the components of population growth, and investigates the housing affordability crises across the state.

Introduction

A generation ago, Washington's economic outlook was mixed. The immediately preceding decades had been characterized by severe recessions, uneven job growth, and periods of sizable out-migration in urban and rural parts of the state. The wood products industry was adjusting to federal harvest restrictions, automation, and foreign and domestic competition. And the technology sector was taking hold but still in its relative early stages. Per capita income hovered around the U.S. average.



But the state's economic foundation—its human, physical, natural, and social capital—was strong in 1990. A skilled workforce, highly regarded schools and universities, deep-water ports, and talent-attracting natural amenities were in place. Over the next 30 years, the state made a successful transition into a knowledge economy while resource extractive industries settled into important, supporting roles. Traditional economic metrics—jobs, output, household incomes—pulled away from national averages. Washington went from a middling performer to one of the most prosperous states in the nation. **This generally positive economic story is marred by two critical failings: highly unequal income growth across racial/ethnic groups and chronic housing underproduction.** The state's current economic performance could be summarized as a period of prosperity inequitably shared.



Source: Employment Security Department Washington State

Washington has been a leading U.S. job growth center during the past 30 years and successfully transitioned into the knowledge economy

Washington's jobs fall into seven industrial supersectors: trade, transportation, and utilities; professional and business services; education and healthcare; finance and information; leisure and hospitality; goods-producing; and government. Every sector has grown over the past three decades (see chart). This period will be remembered for the transition from industrial resources extractive activities to knowledge-based work. Recent employment in the goods-producing sector (manufacturing) is narrowly above its level in 1990. A combination of factory automation and offshoring has led to sharp sectoral losses nationally. The small, 4% increase in jobs over 30 years is better performance than most of the U.S.

State of the State

Growing the manufacturing and construction sectors provides an opportunity for quality jobs.

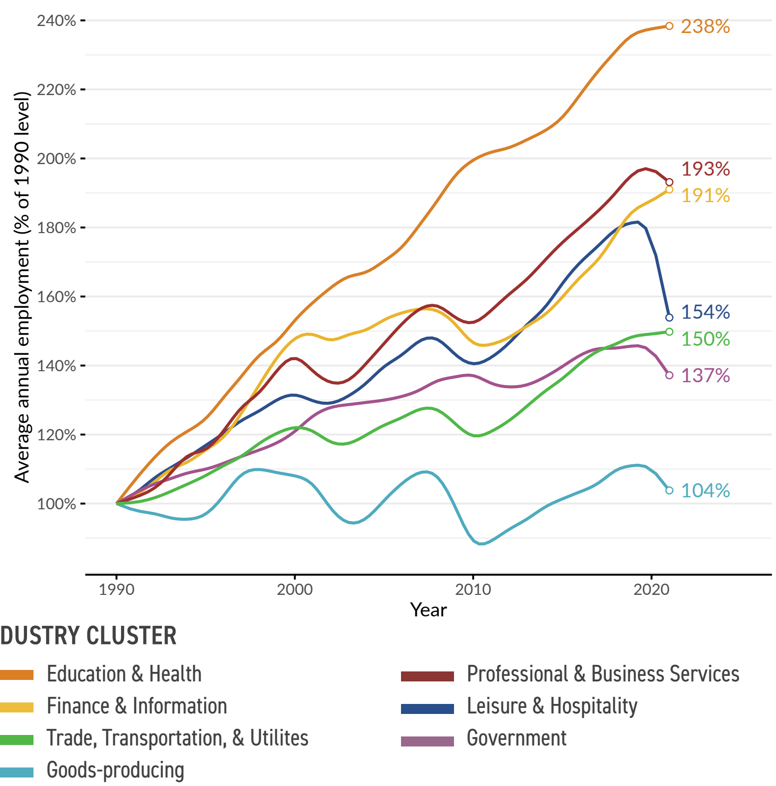
Which industry supersectors had the largest employment growth over the last 30 years?

The education and healthcare sectors (eds and meds) experienced demographically-driven, robust growth. An aging population drives demand in the healthcare sector and, until recently, the children of baby boomers (the baby boom echo) supported higher education enrollments. Both sectors are labor intensive, and many of the related occupations do not lend themselves to automation.

The next two fastest growing sectors—professional business services and finance and information—draw disproportionately on workers with bachelor's and advanced degrees. Unlike the goods-producing sector, which needs access to particular resources and specialized infrastructure, workers in these sectors are freer to choose high amenity locations where they would prefer to live. And over the past three decades, Washington has fared well in the competition for this work.

Washington's leisure and hospitality sector grew with the rest of the economy until March 2020 and then contracted sharply. The sector's outlook is tied to public health conditions, which remain uncertain entering 2022. App-based restaurant ordering, hotel self check-in kiosks, and other forms of automation will slow the sector's job recovery and drive demand for training by former industry employees.

WASHINGTON STATE SUPERSECTOR CHANGE IN EMPLOYMENT SINCE 1990

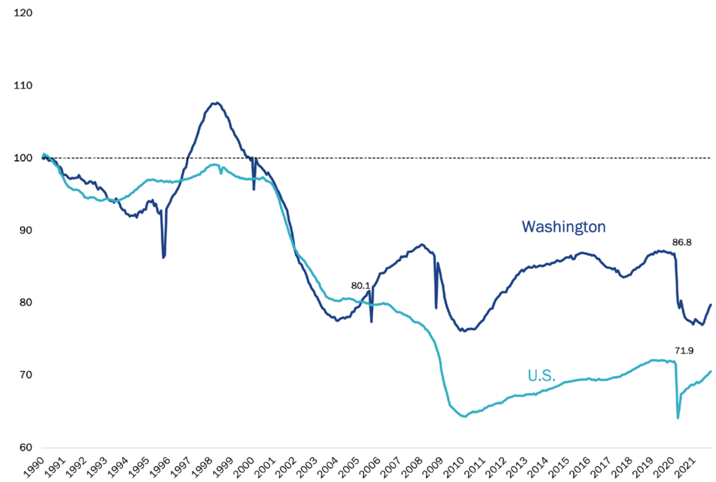


Source: Employment Security Department Washington State

Manufacturing sector employment declined in the last 30 years, but less than the overall U.S. decline

Within the goods-producing sector, the decline in manufacturing sector employment almost completely offset the near doubling of the number of workers in the construction sector since 1990. Through the middle of the 2000s, the 20% manufacturing employment decline in Washington matched the national rate—since then, employment recovered 5% (pre-pandemic) compared to a further 8% decline nationally. In the last legislative session, HB1170 was passed with the goal of reversing this trend and aiming to double the number of manufacturing jobs in the state.

MANUFACTURING SECTOR EMPLOYMENT
WASHINGTON STATE VS. U.S. CHANGE SINCE 1900 (INDEX 1990=100)

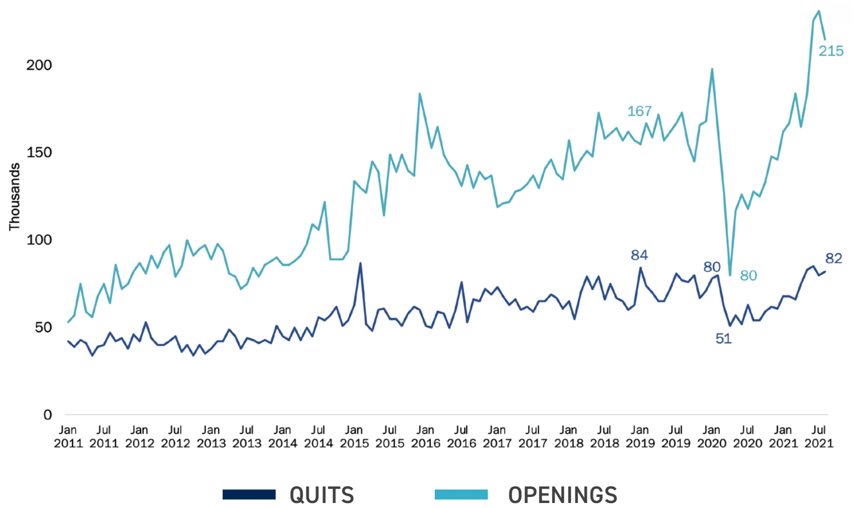


Source: Federal Reserve Economic Data

State of the State

Washington has a skills gap decades in the making.

WASHINGTON TOTAL JOB OPENINGS AND QUITS



Source: Bureau of Labor Statistics, Job Openings and Labor Turnover Survey

The current workforce challenge is both a retention and a recruitment problem

Early in the pandemic, the number of job openings dropped to the lowest level in a decade as did the number of people leaving their jobs. By mid 2021, job openings increased to record highs and the number of people quitting their jobs was in line with numbers for the few years leading into the pandemic. While the so-called "Great Resignation" is more related to the rate of workers quitting as the unemployment rate increased, the larger change is the growing inability of firms to hire workers at all skill levels.

More than half of Washington jobs are in big firms (500+ employees)

More than half of Washington workers (52%) work for a firm with more than 500 employees—up from 42% in 1993. Employment shares in a number of small- to mid-sized firm categories (0–19, 20–49, 50–249, 250–499) all declined during the period. In 1990, Washington had the highest share of employees in the 50–249 employment category when compared in a 20-state peer group. By 2020, Washington's position fell to 12th. For employment in the 500+ category, Washington went from 18th in 1990—ahead of only Idaho and Oregon—to 10th in 2020.

The share of the workforce aged 55+ has more than doubled in the past two decades

Demographers and workforce developers have long anticipated an older workforce as the baby boom generation aged. The youngest baby boomers turned 57 in 2021, and as the generational cohort aged, the share of workers aged 55+ has steadily risen—from less than 10% in 1990 to almost a quarter in 2019.

The share is growing for a number of reasons: the baby boomer generation is bigger than the generations that preceded it, people are living longer thanks to improvements in healthcare, people are working longer because of insufficient retirement savings, and some older Washingtonians are working more by choice.

An older workforce brings more experience, but also less predictability about ongoing participation rates and weekly hours. Businesses and their workforce development partners must understand, and plan for, new dynamics—extended careers, late career training needs, phased retirements, bridge jobs (e.g., a change in occupation or switch to part-time status), apprenticeships, and mentorship opportunities.

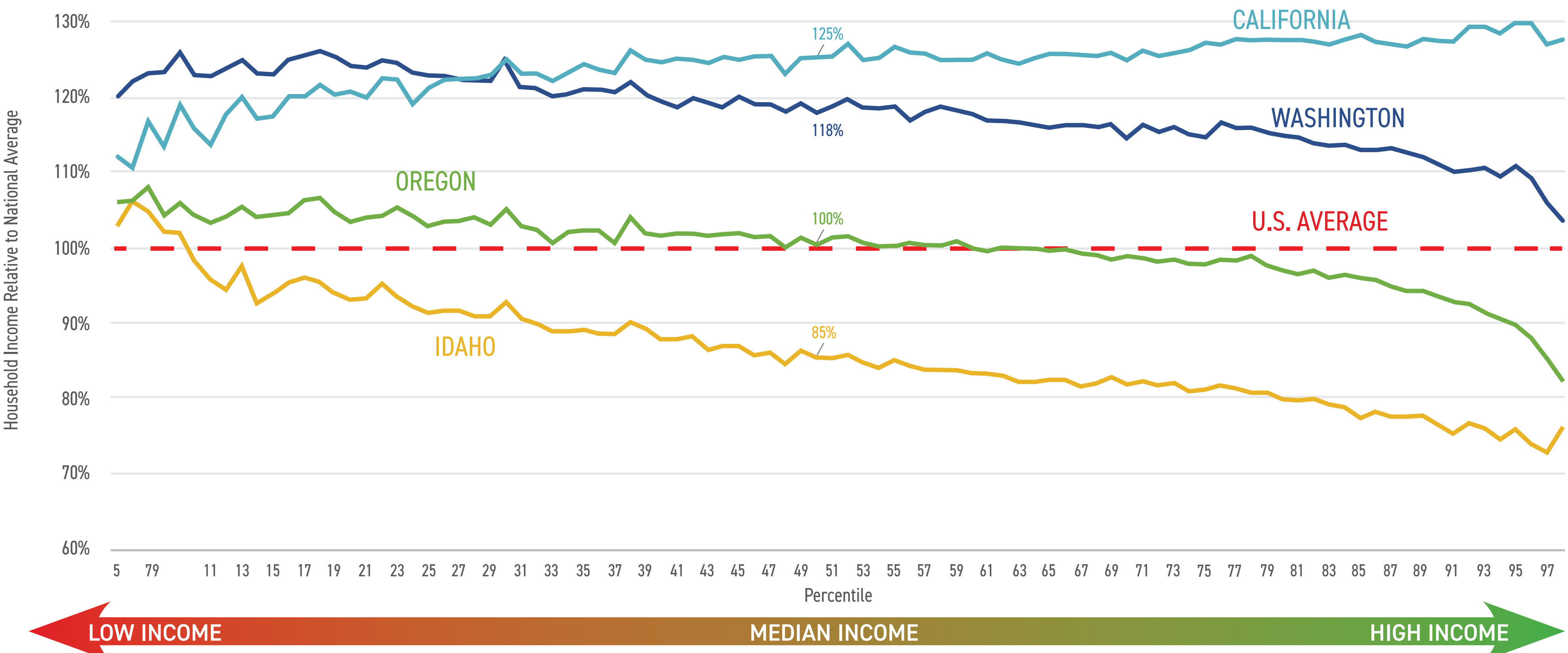
State of the State

Household incomes have pulled away from U.S. levels at all points of the income distribution. But inequality has widened.

In 2019, Washington household incomes were consistently above U.S. levels across income distribution—from the 5th to 97th percentiles (see chart). The Washington-U.S. differences are highest at the lower end of household income thanks to strong, pre-pandemic economic conditions and the state's minimum wage law. Washington's median (50th percentile) household income was 18% above the U.S. level in 2019. At higher income levels, the Washington-U.S. differences gradually converge.

Income inequality widened during the 2010s. The Palma Ratio, which compares the aggregate incomes of high income households (i.e., top 10%) to low income households (i.e., bottom 40%), increased from 2.35 to 2.55 at the state level. That means the top 10% of households had 255%—or more than 2 and a half times—the incomes of the bottom 40% in 2019. By contrast, Norway's Palma Ratio is 1.0. The inequality measure rose in King, Pierce, and Spokane counties, but declined in Clark County.

HOUSEHOLD INCOME DISTRIBUTION RELATIVE TO U.S. AVERAGE, 2019



Source: PUMS 2019

State of the State

Job opportunities and natural amenities are attracting households and talent to nearly every part of the state.

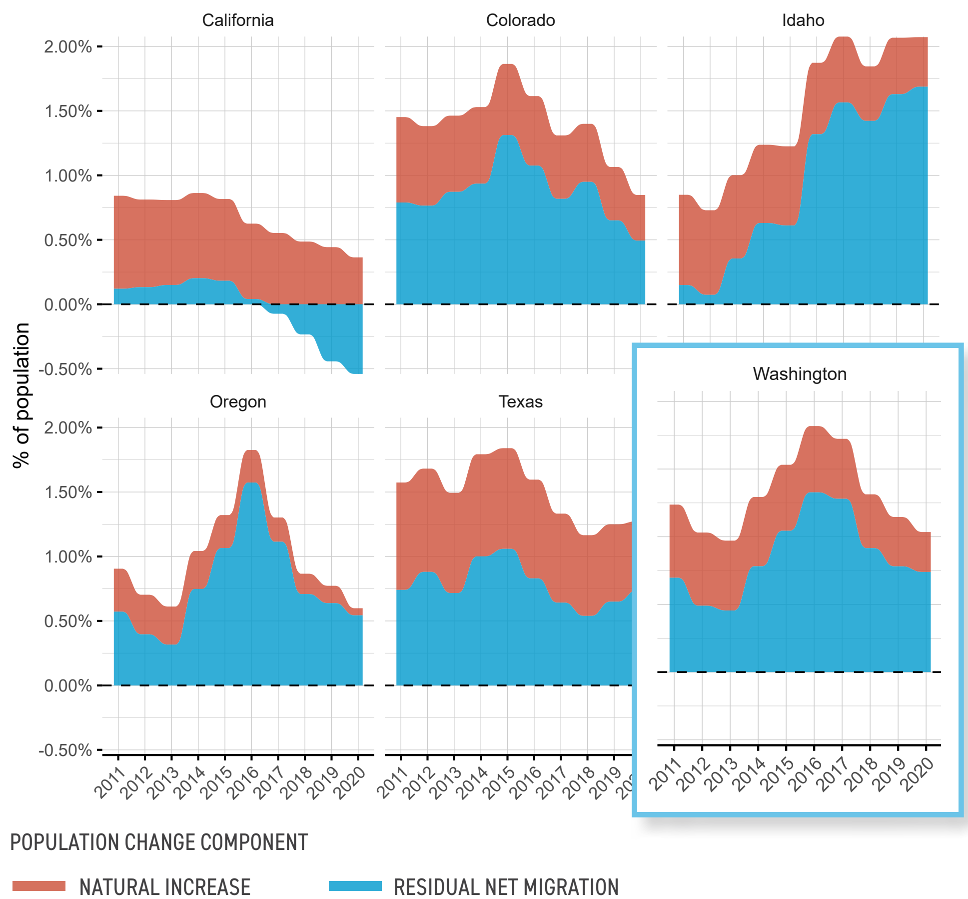
Key demographic indicators are becoming increasingly important measures of the state's economic health. Washington and the U.S. have entered a period of low population growth that's expected to continue in coming decades. Nationally, the population grew at its lowest rate in history during the 2010s—a function of an aging baby boom cohort, low fertility rates, and tighter U.S. immigration policy. Many regions of the country anticipate acute workforce shortages and declines in their prime-age working populations (25–54-year-olds). Prominent labor economists argue that **workforce shortages—rather than job-eliminating automation—must be the top concern of policymakers and economic developers**.

Washington's migration story is a positive one. Every region of the state has attracted net migrants consistently since 1990. That was not the case in the three decades leading up to 1990 (see chart). The ability to attract population broadly in both urban and rural areas is uncommon across the U.S. and an advantage for Washington.

The migrants' states of origin tell a story as well. Washington has drawn heavily from California and Oregon—nearby states with similarly competitive natural amenities. The diversity of job offerings and, relative to California, lower housing costs are likely drivers.

Interestingly, even Texas, which pulls people from much of the country, lost population to Washington on a net basis during the 2010s. And Washington has been migration neutral with Colorado, Idaho, and Nevada.

POPULATION CHANGE COMPONENTS, BY STATE



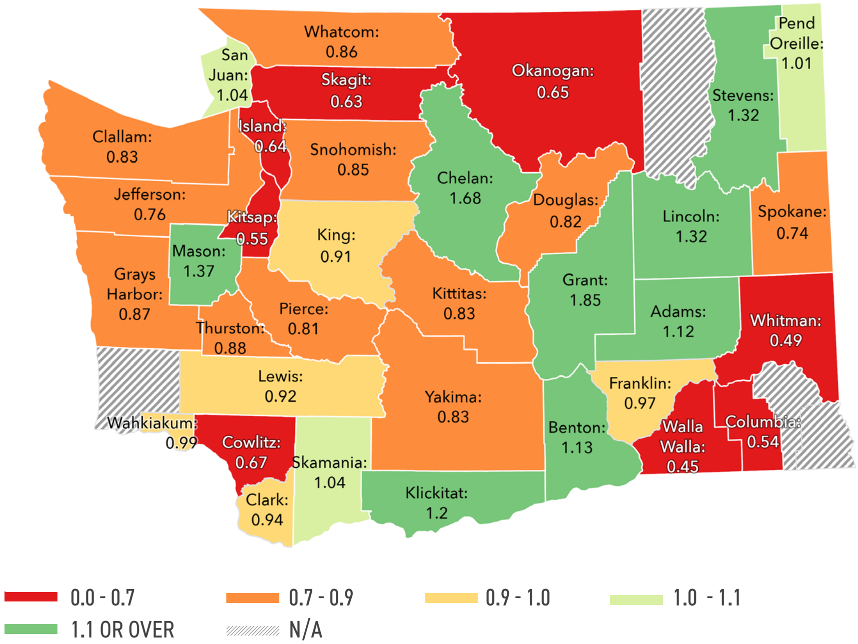
Source: Census Population Estimates

THE BOTTOM LINE: in a coming era that will be defined by slower population growth, Washington appears well positioned to compete with its regional neighbors for households and talent.

State of the State

Housing production has not kept pace with population or job growth, which has triggered affordability and homelessness crises.

NUMBER OF HOUSING UNITS BUILT PER NEW HOUSEHOLD FORMED FROM 2010-2020



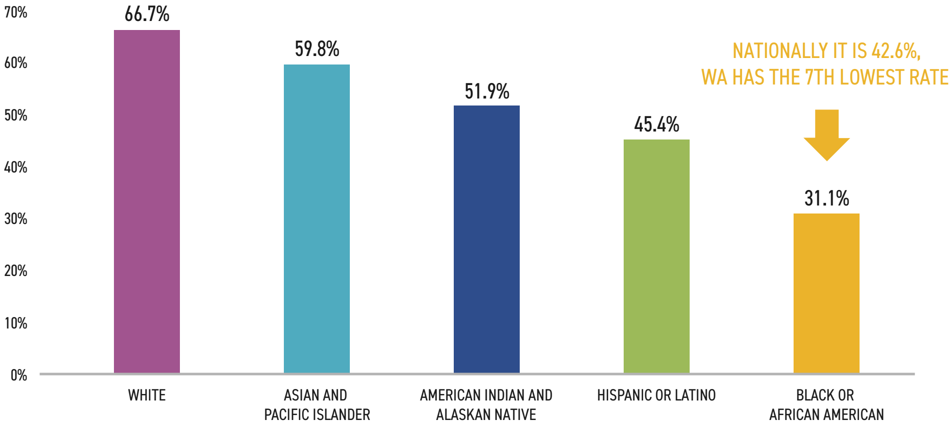
Source: U.S. Census, Washington Office of Financial Management

Washington's low production and high cost housing market drives the state's homelessness crisis. 22% of Washington renter households spend more than 50% of their income on rent and are at increased risk of homelessness. High housing prices also lock households out of home ownership. Differential homeownership rates are a key contributor to large wealth gaps across racial/ethnic groups. Two-thirds of White Washington households are homeowners—a higher share than any other racial/ethnic group and more than twice the rate for Black households.

The sustained success in job creation and population attraction has come with a price: exceptionally high housing price inflation. The median home price to median household income ratio (PTI) exceeds 6.0 along most of the I-5 corridor, approaches 8.0 in and around Seattle, and stands at 6.7 in Spokane. The national PTI is 4.4. A household with median income can afford the median priced home in only nine of the state's 39 counties—and seven of those are east of the Cascades.

Population and job growth do not automatically translate into high housing prices. Many other U.S. regions have built housing to accommodate their growing economies. Washington hasn't. In fact, Washington has the fewest housing units per household in the U.S.—Washington's 1.06 units per household versus a U.S. average 1.14. The problem was exacerbated by underproduction during the past decade when every county on the I-5 corridor, coastal counties, and several eastside counties built fewer housing units than the number of households created.

WASHINGTON STATE HOMEOWNERSHIP RATE BY RACE/ETHNICITY, 2019



Source: Census 2019 ACS

3

OUTREACH & ENGAGEMENT

Outreach & Engagement

Identify gaps in outreach and develop strategy.

Outreach Approach

Gathering insight on economic goals, barriers, and issues for small businesses, employers, employees, and communities in Washington State required a robust outreach approach. This approach, facilitated through a neutral third-party facilitation and public outreach firm, utilized a variety of outreach strategies to gather as many perspectives as possible in a short time frame. Focus groups were offered during standing (i.e., "go-to-you") meetings or at times requested by participants to streamline scheduling. The consultant team reached out to new and existing contacts and organizations, and provided pre-drafted emails for organizations to share with their networks to ease coordination and scheduling. Preliminary outreach included:

- Contact with 16 organizations.
- 25 stakeholder interviews.
- 10 focus groups.
- 2 surveys *(distributed through organizations that were unable to hold focus groups)*.

After the initial round of outreach, the consultant team implemented a follow-up engagement strategy to reach additional communities and gather their perspectives. Outreach included:

- Analyzing gaps in outreach and brainstorming additional stakeholders and organizations.
- Following up with focus group participants that indicated interest in hosting additional focus groups.
- Utilizing stakeholder connections and existing networks to convene additional focus groups.
- Sharing information about the project and purpose through introductory calls with stakeholders.

Focus Group Approach

The consultant team worked together to develop a focus group plan and questions for participants. All focus groups began with an overview of the project purpose as well as necessary background information. The third-party facilitator led the discussions by asking participants to share barriers to growth, community goals, potential state investments, and the definition of quality jobs. Focus groups were conducted online using a virtual whiteboard as a visual aid to document participant feedback in real time. Focus groups included:

- **Washington State Commission of Asian Pacific American Affairs**
- **Washington State Women's Commission (WSWC)**
- **WSWC Stakeholders**
- **Quinault Prosperity, Health, and Human Services Subcommittee**
- **Latino Education and Training Institute (LETI)**
- **Washington State Labor Council (WSLC)**
- **Seattle Metropolitan Chamber of Commerce REACH**




Engagement and Outreach

Workforce development, cost of living, connectivity are large concerns.

Key Themes & Feedback

The following is a short list of key themes and systemic barriers that consistently surfaced in focus group conversations; however, individual circumstances and specific barriers varied among participants.

Infrastructure gaps create barriers to participate in the economy for employees and employers.

Employers and employees face a variety of barriers that make it difficult to access funding, assistance, and business support. This includes administrative requirements for small businesses related to paperwork, licensing, and employment, as well as access to health care, childcare, quality jobs defined by flexible working hours to care for children or elders, mental health support, and cultural and linguistically specific support and resources.

Business-specific support and investments included improved access to information and resources, access to capital and loans, support for community-based organizations that provide resources for small businesses, incentives to contract with small or minority-owned businesses, and streamlined and consistent labor and contracting requirements.

Lack of affordable housing impacts recruitment and retention.

Many participants indicated that the rising cost of housing is a significant barrier for both employees and employers. This impacts communities' ability to build generational wealth, which has broad-reaching cultural and social impacts. Rising housing costs can lead to workforce migration. Employees can't afford to live near their jobs or must work more than one job to afford housing. Employers indicated that commercial affordability was also an issue.

The shift to digital work highlighted a need for reliable broadband and technological literacy.

Focus group participants noted that small businesses, especially non-English speaking, immigrant, or BIPOC-owned businesses, need resources and support to navigate digital paperwork to actively participate in the growing economy. Limited access to broadband also impacts education and learning opportunities.

High-quality education opens the door to high-quality jobs.

Limited access to affordable and high-quality education prevents employees from accepting positions in areas with limited public schooling options. Many employees cannot attend classes during weekdays or working hours. Participants suggested providing more virtual classes and classes on the weekends, as well as courses in the primary languages of perspective students.

Promote and provide vocational training opportunities early on.

Vocational training tracks beginning in high school are needed to increase the amount of workers with needed skills, particularly in the trades, nursing, and physician assistant professions, among other specialized professionals. Focus group participants suggested increasing both in-person and online vocational training opportunities, increasing resources for this type of training, and investing in local community colleges.

Shifting economic priorities are causing workforce transitions.

Employees need support to make career changes to respond to the changing economy (i.e., climate change focused jobs, remote working, etc.). Additional resources could include supporting the transfer of titles or accreditations from different states or countries, supporting the growth of transferable skills and transition between sectors, increasing entrepreneurship and artistry programs, and clarifying pathways to unemployment support.

For a list of focus group participants and notes, see Appendix.

4

SWOT SUMMARY

SWOT Summary

Washington has a diverse economy, with a variety of distinct challenges.

This chapter presents the findings from an assessment of Washington's strengths, challenges, and opportunities (a modified SWOT analysis). Assessing Washington's strengths, challenges, and opportunities lays the groundwork for future economic development strategies. The SWOT analysis touches on the overall factors that reach into multiple aspects of the economy and aims to identify themes that emerge across industry clusters.

Overview

For the purposes of the modified SWOT analysis for Washington's sectors, the strengths, challenges, and opportunities can be characterized as:

- **Strengths:** specific assets and characteristics of the sector/foundational item that separate it from competition and give it an advantage.
- **Challenges:** internal and external elements that represent a weakness or threat to the sector/foundational item and could work against a successful outcome. Challenges need to be acknowledged to be fixed or mitigated.
- **Opportunities:** factors that the sector/foundational item can prepare for to capitalize on or use to its advantage and to better achieve stated objectives.

The SWOT analysis reflects regional input from across the state and the best available data. The SWOT process involved the use of existing industry studies and plans, and secondary data from several state and federal sources. The State of the State and Business Competitiveness Reports acted as the foundation of the review of strength, challenges, and opportunities. The analysis was bolstered by qualitative input from various stakeholders, including industry experts and Department of Commerce sector leads.

Washington Industries

The SWOT analysis is conducted for 13 sectors of Washington's economy:

AEROSPACE: The aerospace sector is a major driver of economic activity in Washington State with more than 1,300 aerospace-related companies.

AGRICULTURE & AGRIBUSINESS (including processing): Agriculture is Washington's second-largest export category, making the state a key supplier of food for export markets.

CLIMATE/ENERGY: Washington State ranks 13th in the nation for clean energy jobs, with more than 85,000 as of 2020.

FOREST PRODUCTS: Washington's working forests sustain the third largest manufacturing sector in the state.

INFORMATION & COMMUNICATIONS TECHNOLOGY: The ICT industry employs roughly 278,000 people across Washington, including software developers, computer systems analysts, and web developers.

LIFE SCIENCES/GLOBAL HEALTH: More than 1,100 life science firms and 170 global health organizations reside in Washington, employing nearly 40,000 workers statewide, as of 2019.

MARITIME: Maritime activities in Washington support a broad range of industries, including boat and ship building, recreational boat construction, commercial fishing and seafood processing, maritime logistics and shipping, and passenger water transportation.

MILITARY, DEFENSE & NATIONAL SECURITY: In the past three years, businesses in Washington State were awarded nearly $15 billion in contracts, roughly 4% of the state's GDP.

TRADE/LOGISTICS: It is estimated that 921,400 jobs were supported by trade (exports and imports) in Washington in 2017, approximately 28% of total statewide employment.

CONSTRUCTION (Housing, Commercial, Infrastructure): The state's construction sector employs an estimated 223,000 workers.

HOSPITALITY/TOURISM: Historically, hospitality and tourism has been the state's fourth-largest industry and has employed more than 180,000 workers statewide.

MANUFACTURING: As of 2019, manufacturing employment was responsible for nearly 300,000 Washington jobs.

FINANCIAL SERVICES: The financial services cluster supports direct investment in Washington's innovation economy and presents opportunities for high-value job creation statewide.

SWOT Summary

Washington has excelled at attracting talent.

Key cross-industry strengths

- Talent attraction, consistent in-migration
- Strong ICT presence and skilled tech labor
- Established, high-performing network of public, private, and joint educational and training institutions
- Robust infrastructure and transportation system
- Low energy costs, clean energy
- Natural assets and features

Industries throughout Washington benefit from the state's many assets and unique resources.

A key strength of the state has been the **ability to attract a talented labor pool,** and garner **consistent in-migration**. The interconnected nature of Washington's top industries has allowed the benefits of a large skilled labor force to be felt widely. Attracted through strong education and public institutions, in addition to global private enterprises, the talented labor flowing into the state have especially benefited industries requiring a highly skilled and tech-minded labor force.

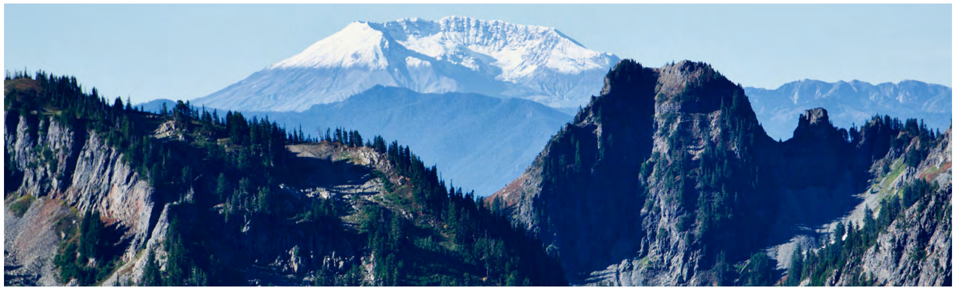
Another cross-industry strength belonging to Washington is the **strong ICT presence and skilled tech labor force** accompanying the ICT industry. Technology and innovation have increasingly found a presence in industries throughout the state. Washington's **life sciences** industry has especially benefited, as artificial intelligence, cloud computing, machine learning, and other technologies have gained footing within the industry.

An **established, high-performing network of public, private, and joint educational and training institutions** support nearly every major Washington sector. Washington's two largest universities, University of Washington and Washington State University, support a large number of industries through their research initiatives, including aerospace, agriculture, climate and energy, forest products, and life sciences.

Washington's **robust infrastructure and transportation system** is another key strength the state possesses. Led by Washington's robust system of ports and the maritime industry, the state has become well established as a trade hub. The fluid transportation of imports and exports via water, road, and rail supports several Washington industries, including the **manufacturing, agriculture and agribusiness, and aerospace industries.**

Energy costs in Washington State are among the lowest per kilowatt-hour of any U.S. state. Low energy costs are obtained through a range of renewable energy offerings and competitively priced natural gas. **Clean energy** is a staple of Washington's power grid, which boasts the **largest coordinated hydroelectric system** in the world and continues to see investment and research to advance current technologies. Industries leading research in clean energy include forest products and agriculture (biomass and biochar), maritime and aerospace (sustainable and alternative fuels), and ICT (technological innovations in clean energy).

Washington's natural assets include **rich soils, diverse climates, a healthy supply of water, robust forestland, extensive coast lines and river mileage, and natural deep-water ports.** Washington's proximity to western trade partners is another strength leveraged by many of Washington's industries, including agriculture and agribusiness, maritime, and trade and logistics. Washington's expansive forestland, which includes many national and state parks alongside extensive privately owned land, support several of Washington's key industries. These industries include hospitality and tourism, forest products, and construction.



SWOT Summary

Foundational challenges run across many industries.

Key cross-industry challenges

- Skilled labor shortages
- Childcare supply limitations
- Climate change impacts
- Pandemic impacts on the travel industry
- Pandemic impacts to global supply chains
- The rise in remote work during the COVID-19 pandemic

Several foundational challenges were impacting Washington's industries even prior to the pandemic.

Skilled labor shortage is a challenge faced by many industries in Washington State. Even prior to the pandemic, some industries like construction were suffering from a lack of qualified workers due to factors such as an aging workforce, declining numbers of skilled immigrants entering the workforce, lack of interest in blue-collar jobs among young people, and competition with other higher-skilled industries. As Washington is recovering from the COVID-19 recession, labor shortages are showing up in more industries ranging from food service and warehouses, to accounting and finance.

Childcare supply limitations have emerged as one of the drivers for the labor shortage impacting many industries statewide. Before the pandemic, over half a million children ages 0-12 did not have access to licensed childcare in Washington State, according to an industry assessment report from the state Department of Commerce. The pandemic has made clear that the absence of reliable and affordable childcare limits which jobs people can accept, makes it harder to advance, and restricts the ability of the state's economy to grow.

The impacts of climate change present challenges for most industries in Washington State. Extreme climate events can be costly to individuals and governments, as they can disrupt factories, supply chain operations, and other infrastructure, and also disrupt transport. Climate volatility may force companies to deal with uncertainty in the price of resources for production, energy transport, and insurance. Climate change, wildfires, and rising sea levels will reshape where and when tourists travel.

New challenges for most industries throughout Washington State have emerged since the start of the COVID-19 pandemic.

Pandemic impacts on the travel industry, including a lack of international coordination, severe travel restrictions, and slower vaccination rates in some parts of the world continue to hamper the recovery of several industries in Washington, such as aerospace and hospitality and tourism.

Pandemic impacts to the global supply chains have shown that supply chains remain vulnerable to shocks and disruptions, with many industries currently wrestling to overcome supply-side shortages and logistics-capacity constraints. The global supply chain is likely to continue to undergo major changes; for example, relocating activities outside of China. This may change the pattern of where entrepreneurs locate their businesses, with whom they collaborate, how they define their own supply and value chains, and how they source needed capabilities. The pandemic will continue to test the ability of most industries in Washington to adapt and improve supply-chain resilience.

The rise in remote work during the COVID-19 pandemic makes it easier for employees and companies to uproot. Startup founders are more likely to choose their HQ based on personal and quality-of-life reasons. This has implications for housing, transit, and the future of real estate.

SWOT Summary

Opportunities remain in talent and technology.

Key cross-industry opportunities

- Restructuring workforce development and training systems throughout the state
- Closing workforce equity gaps
- Creating well-paying and high-demand jobs at all levels
- Accelerate the clean economy and clean technologies
- Environmental sustainability
- Innovations to maintain global leadership role in technology

Many of the key cross-industry opportunities facing Washington pertain to the workforce of the future, including:

Restructuring workforce development and training systems throughout the state. Through restructured or innovative workforce training programs, each industry can skill up their respective labor forces to be prepared for the future of work. This will likely be achieved through additional investment into workforce training and continued partnerships with Washington's higher education institutions, including the state's robust Community and Technical Colleges network.

Closing workforce equity gaps. Through programs like Apprenti, started by the Washington Technology Industry Association, **state registered apprenticeship and training programs** can help underrepresented populations more easily enter an industry's workforce. Construction, which has historically suffered from a workforce lacking racial and gender diversity, could leverage existing training programs to increase diversity in their workforce while simultaneously addressing current and expected shortages associated with an aging workforce.

Creating well-paying and high-demand jobs at all levels. As technology and innovation continues to reshape the global economy, creating a resilient economy will depend on each industry's ability to generate well-paying and high-demand jobs that reach all levels of the workforce.

Washington's remaining opportunities lie in the state's historical success as a leader in technology and environmental sustainability.

Accelerate the clean economy and clean technologies. Current research surrounding alternative and clean fuel technology is underway in the climate and energy, aerospace, maritime, manufacturing, and forest products industries. **Mass timber** has also continued to gain traction throughout the state, supporting green initiatives within the forest products and construction industries.

Environmental sustainability, in addition to the advancements in clean energy and clean fuels discussed above, present opportunities for many of Washington's key industries. Prominent environmental sustainability opportunities include:

- **Improving the efficiency and yield of agricultural production.**
- **Increasing the demand for more sustainably produced agricultural goods.**
- **Wildfire prevention.**
- **Continued investment in green building initiatives.**

Continued innovations to maintain global leadership role in technology. Extending beyond the state's technology centered industries, which continue to build upon a strong history of innovation, are non-technologically centered industries investing in their own innovation. Benefiting from a strong tech workforce and educational institutions, Washington's agricultural industry is a prime example of this innovation. Current technology advances are focusing on automation and drones working to enhance efficiency in water use, non-pesticide pest repellents, production density, storage, and packaging.

5

REDEFINING BUSINESS COMPETITIVENESS

Redefining Business Competitiveness

Existing definitions of business competitiveness oversimplify growth.

The Washington State Legislature wants to examine the state's economic competitiveness so that it can craft economic development policies and practices that yield strong, quality, and equitable growth in a challenging and tumultuous post-COVID economic environment. The purpose of defining and assessing Washington's competitiveness is to shape the state's strategy, including which policies are prioritized and how the state deploys its scarce economic development resources. This section lays out a new and more actionable way for Washington leaders to think about the state's competitiveness.

Redefining Business Competitiveness to Drive Smarter Policy and Practice

There is no shortage of rankings that purport to measure the economic competitiveness of states and regions. These rankings typically define competitiveness as some combination of the below factors.

Energy costs	Small business formation
Export volume	Education attainment
Innovation (patents, R&D)	Access to capital
Workforce attributes	Taxes and regulations
Infrastructure	Foreign direct investment
Health outcomes	Environmental quality

Each of these rankings reflects a different theory or definition of what drives economic competitiveness. Each of them is flawed as a guide for state policy and strategy—they cannot help Washington clarify its biggest economic opportunities or strategically focus its scarce resources to create strong, quality, and equitable growth across the state. Because these rankings have powerfully shaped how policymakers and economic development practitioners understand what matters to economic competitiveness, the first step towards a new state strategy is a shared understanding of how these rankings are flawed and why Washington needs a new definition of competitiveness. Below is a summary of the three main types of rankings that tend to circulate in policy and advocacy discussions and the ways in which each is flawed as a means of shaping strategy.

- **Choosing every factor:** national publications like US News and CNBC publish state economy rankings based on dozens of factors. This raises two problems. First, the choices about how to weight these different factors are often opaque or misguided. The result is arbitrarily weighting the "cost of doing business" as highly as education, technology, and innovation combined (which runs counter to research on what drives quality, inclusive growth). Regardless of these methodological flaws, this "kitchen sink" definition of competitiveness is not useful as a strategy tool because it does not highlight factors that are most impactful and deserving of focus and investment. It may be that each of these factors bears some relation to state competitiveness, but with limited budgets, which should the state invest in?

- **Choosing the wrong factors (low costs, business attraction):** rankings that identify a more specific set of factors that drive competitiveness, but that—according to economic research—rely on the wrong factors. Rankings by industry publications like "Area Development" assess states based on factors that are presumed to be important in business attraction projects. This definition of competitiveness is flawed because even if it does capture the priorities of relocating businesses, that represents a small portion of economic activity in any given year. What matters most to the few big firms that engage in competitive site selection projects every year is unlikely to also be most important to the other 95% of the economy.

- **Choosing only some of the right factors (innovation):** this approach is exemplified by the Information Technology and Innovation Foundation's "State New Economy Index", which emphasizes outcomes like IT jobs, patents, and venture capital. Rankings like these are more in-line with the research on what drives long-term growth in states, but this innovation-centric definition of competitiveness is flawed if the goal is to generate quality and equitable growth. Many of these factors (e.g., patents or venture capital investment) can be driven almost entirely by the top 1%–5% of firms. They do not reflect an economy that is creating widespread, equitable opportunity—strong innovation capacity is a necessary but insufficient condition for that outcome.

Reframing Business Competitiveness

Washington leaders must first define what ***outcomes*** they want to result from increased competitiveness.

Rankings each have their own particular shortcomings or gaps, but in summary they fail as a tool for guiding strategy in at least one way:

- **Failing to identify what actually drives growth in a state economy:** site selection, for example, presumes that business attraction is the key input into a growing economy.

- **Failing to identify the type of growth that leads to quality jobs:** innovation is a key driver of long-run growth, but high performance on innovation does not necessarily create an abundance of living-wage, middle-skill jobs.

- **Failing to elevate inclusion as a key driver of competitiveness:** each of these rankings relies on population-wide averages or medians, which fails to capture disparities—and closing racial disparities in education, job quality, and wealth is one of the most powerful ways that a state can improve competitiveness (whether defined in terms of innovation or business attraction).

There are no objective, universal business competitiveness metrics

Why are there so many different, competing competitiveness rankings? Because each of these rankings is created with a certain type of business in mind. Area Development magazine presumes that businesses that relocate from one state to the other are most important; the Information Technology and Innovation Foundation presumes that technology businesses are most important. Some rankings are more grounded in economic research, but **ultimately there is no one "correct" assessment of a state's competitiveness because there is not just one type of business.**

For example, for a small, high-growth software startup competitiveness may depend primarily on a rich pool of highly-educated tech talent, top computer science programs at globally-relevant universities, and abundant venture capital. That's why Silicon Valley can claim to be the most "competitive" region in the U.S. But for a rural, mid-sized manufacturer in a legacy industry with low profit margins, competitiveness may depend on low taxes, low-wage labor, and port infrastructure. That's why a state like South Carolina is in the top of competitiveness rankings focused on low costs and business attraction "wins," even though the state is struggling to gain a foothold in the innovation economy, create quality jobs, and close racial disparities.

This means that existing competitiveness rankings are different not because one state defined "competitiveness" correctly and the others failed to. **Rather, the competitiveness rankings are different because they define competitiveness with different types of businesses in mind.**

In summary: existing definitions of competitiveness are not created to aid in the development of a strategy for strong, equitable, and quality growth, and any assessment of competitiveness begins with a decision of what businesses matter most. That means that Washington State needs to create a new definition of competitiveness that represents a clear choice about what businesses matter most. That does not mean picking one industry over another. It means affirming that the businesses that matter most are those that address the biggest needs of Washington residents: quality jobs and equitable wealth creation.

The takeaway is that if the Washington State Legislature wants to organize around a portfolio of policies and investments that consistently produce robust and inclusive growth, then it cannot rely on existing rankings to illuminate the path forward. The Legislature will need to redefine what economic competitiveness means and how it is measured.

Reframing Business Competitiveness

A competitive economy should produce quality jobs and inclusive wealth creation opportunities.

While many rankings frame competitiveness as that which matters most to one industry or another, from the perspective of state policymakers, competitiveness is simply the ability of the Washington economy to consistently produce the outcomes that matter most to people. Competitiveness is not a goal in its own right; it is a means to an end.

There is consensus among both policymakers and economic, workforce, and community development organizations about what outcomes matter—and this consensus is supported by research and data. The two most important economic problems that can be addressed through business competitiveness are **(1) lack of quality jobs, (2) limited wealth-creation opportunities, and profound racial disparities in both areas.**

- **The quality jobs challenge and opportunity:** quality jobs are generally defined as living-wage jobs that do not require a four-year college degree. These jobs have been disappearing as the economy has "hollowed out" due to trade and automation over the past several decades. A decade of extraordinary growth in Washington did little to reverse this trend. Statewide, just over one in three workers has a quality job.

- **The wealth creation challenge and opportunity:** racial wealth disparities are far larger than racial income gaps; these two phenomena are related, but each deserve focus. Homeownership is a crucial source of wealth, as well as an indicator of broader wealth disparities (for example, wealth in the form of a home can enable people to pursue entrepreneurship or invest in businesses formed by others in their community). Communities of color in Washington only own 10% of firms with high-growth potential, despite accounting for nearly 33% of the population. Washington lags behind many of its peer states in terms of high-impact entrepreneurship. Unleashing the entrepreneurial potential of minorities is a crucial leverage point for the state.

These are widely recognized as the two deepest, most persistent, most harmful barriers to a strong, equitable economy in Washington that can be addressed through policies and practices that work through businesses. These are not just unfortunate downsides to an economy that is functioning well—the lack of quality jobs causes lower productivity, and the lack of wealth, particularly in communities of color, is a drag on the state's ability to create new, innovative, high-growth businesses.

Different organizations and stakeholders may have different theories as to which interventions would most effectively combat these problems (small business support vs. workforce development vs. infrastructure investment), but there is near-universal agreement that a competitive economy should deliver these outcomes.

How different definitions of competitiveness can shape strategy:

Leaders in Birmingham, Alabama, were contemplating a major investment in a precision medicine innovation initiative (a major strength of University of Alabama at Birmingham). They decided, however, that given limited resources, their region's competitiveness depended more on closing racial disparities than on increasing patents or attracting PhD scientists. This different definition of competitiveness reshaped their strategy—they instead invested in a population health initiative that drew on some of the same strengths but would create more middle-skill, middle-wage jobs and improve health outcomes (and thus economic outcomes) in Black communities.

There are businesses of all sizes, across industries and geographies, that are well-positioned to deliver these outcomes: from small BIPOC-owned tech firms that, with better access to capital, could become wealth generators, to large manufacturing firms that provide quality jobs but need help innovating and reskilling to adapt to new economic realities. The purpose of this definition of competitiveness is to turn the attention of state policymakers and practitioners towards these types of opportunities that most directly impact these key outcomes.

Reframing Business Competitiveness

Defining and measuring business competitiveness through realized outcomes and capacity builders.

We propose a three-part definition of competitiveness: one set of interrelated key realized outcomes and two sets of key capacity builders. This definition is simple by design—it is intended to be easy to communicate to a variety of stakeholders, apply in different policy and strategy contexts, and to serve as the basis for a simple dashboard of approximately 10 metrics that the state could use to track its performance and shape policy decisions over time.

Key realized outcomes

Most definitions of economic competitiveness focus on proxies: "innovation is a proxy for broader economic health, because innovation drives growth and growth in turn creates quality jobs," or "low regulation is a proxy for broader economic health, because with less regulation entrepreneurs will flourish and create more quality jobs." Our new definition of competitiveness skips past these assumptions—in part because Washington is extremely innovative, but only one in three workers has a quality job. If Washington leaders and their stakeholders agree on what outcomes a healthy, well-functioning, competitive economy should provide, then those outcomes—not proxies—need to be at the center of the discussion. These are the outcomes that Washington should track over time, relative to peer states.

Similarly, wealth creation can be an ***input*** to business competitiveness—most entrepreneurs start businesses with personal or family savings, so more widespread wealth creation could unleash the potential of Washington's "missing entrepreneurs." Research by Raj Chetty and colleagues has found that the U.S. could quadruple innovation if women, people of color, and people who grew up in low-income households patented at the same rate as men who grew up in high-income households.

How does measuring outcomes for people help inform business-focused policies and practices?

Job quality metrics help shape strategy in two ways. First, certain industries and types of businesses are richer in quality jobs than others and have greater growth potential; elevating growth in quality jobs as a key outcome can therefore help policymakers understand *whose competitiveness matters most.* Then policies and investments can be targeted at improving the competitiveness of those particular types of businesses and industries.

Flawed Assumptions

"... innovation is a proxy for broader economic health, because innovation drives growth and growth in turn creates quality jobs", or "low regulation is a proxy for broader economic health, because with less regulation entrepreneurs will flourish and create more quality jobs".

Second, an emphasis on job quality helps illuminate *what kinds of help businesses need*. Businesses have unlimited needs, but certain interventions are more likely than others to have an impact on the creation, retention, and diversification of quality jobs.

Racial wealth disparity metrics help in one key way: Washington could *create many more competitive businesses if it eliminated race-based barriers to business creation.* Business competitiveness is not just about addressing the needs of existing businesses; it is also about unleashing the potential of all Washingtonians so that more competitive businesses are created.

Key capacity builders

While a relentless focus on quality jobs and equitable wealth creation will go a long way towards guiding policymakers and practitioners towards a competitiveness agenda that meets Washington's needs, there are other factors that leaders should monitor.

- **The first is talent.** There are likely ways for Washington to increase quality jobs and wealth creation in the near term without boosting education attainment (for instance, helping mid-sized manufacturers upgrade their technology while upskilling their existing workers). But in the longer term, these outcomes depend on a growing and more diverse pool of talented workers. We refer to talent as an "enabler" rather than a key outcome in its own right because there is abundant evidence that there are disparities in job quality by race even after accounting for education—therefore education is necessary but insufficient for inclusive growth.
- **The second is innovation.** Washington needs to equip companies that provide good jobs, and entrepreneurs of color, with the know-how and technology required to keep up with changing economic conditions and market trends. As with education, we refer to innovation as an "enabler" because innovation alone cannot be counted on to deliver quality and inclusive growth—many innovative firms have few middle-skill and middle-wage job opportunities, and innovative industries can grow without meaningfully diversifying their workforces.

Reframing Business Competitiveness

Outcomes and drivers at a glance.

Key Realized Outcomes

Policies and investments should be evaluated for whether they are likely to achieve these outcomes.

A competitive economy *produces abundant quality jobs and equitable opportunities to build wealth.*

In a positive feedback loop, equitable access to quality jobs and wealth-creation opportunities make the economy more competitive through increased talent, innovation, productivity, and more high-impact entrepreneurship.

Key Capacity Builders

Necessary but insufficient inputs to a competitive economy. Investments in talent and innovation should be targeted at industries and businesses that are most likely to create quality jobs and close wealth disparities.

A competitive economy is *fueled by equitable talent development.*

Human capital — the nation's collective knowledge — is worth 10 times as much as all urban land in the country. Education attainment is one of two factors (along with patent rates) that explains most of the growing gap in incomes across states.

A competitive economy *continuously regenerates through innovation.*

A competitive economy needs to be resilient. The firms that create quality jobs and generate wealth must have access to know-how and technologies that enable them to create new products and services and continue to provide economic opportunity.

6

SURVEY & THEMES

Barriers to Business Growth – Emerging Themes

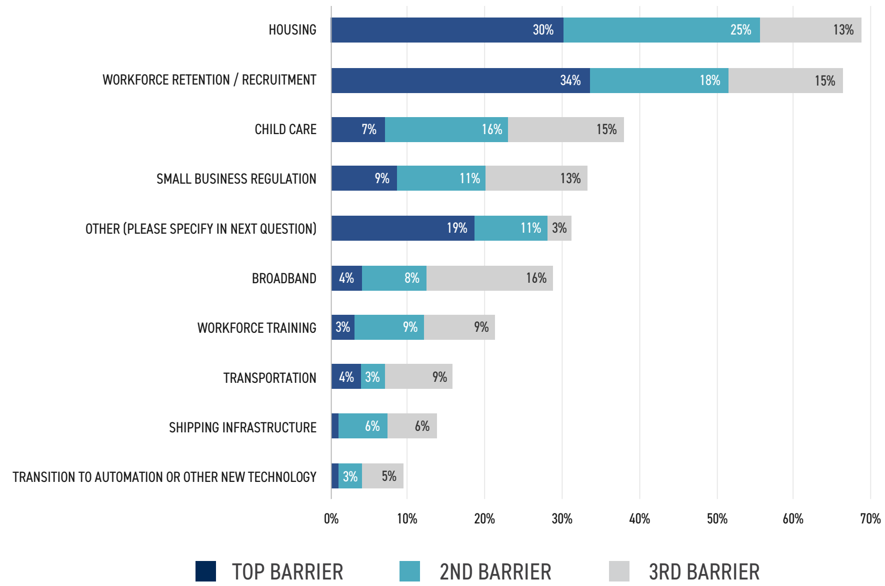
Firms struggle to find labor, labor struggles to find housing

Data analysis efforts highlighted trends within Washington's economy, such as the growth of eds and meds as well as the significance of the aging workforce. To gain a balanced understanding of the local economy, hearing directly from business owners, economic development professionals, elected representatives, economists, and other local actors was needed. Nine themes emerged from stakeholder outreach, research, and data analysis as potential barriers to business growth in Washington. These themes included:

- Workforce Retention / Recruitment
- Child Care
- Housing
- Broadband
- Shipping Infrastructure
- Transportation
- Transition to Automation
- Workforce Training
- Small Business Regulation

To vet these themes and ensure that they captured what businesses were experiencing on the ground, the consultant team developed a survey asking respondents to rank key barriers to economic growth in Washington (see chart). The survey was distributed through the Washington Economic Development Association (WEDA) to economic development professionals first, then more broadly, and received 115 responses.

TOP BARRIERS TO BUSINESS GROWTH IN WASHINGTON



Housing and Workforce Retention / Recruitment rose to the top of the list as key barriers to business growth in Washington followed by childcare, small business regulation, and broadband. Respondents also wrote in other barriers, the most prominent of which were:

Government regulation—Respondents consistently described unclear or unnecessary environmental mandates, burdensome COVID restrictions, and overreaching L&I regulation enforcement. Other respondents described frustration with frequently changing and one-size-fits all regulations which do not account for business size or location.

Lack of business financial and technical assistance—respondents indicated need for access to capital, especially when starting a business. Some noted a general need for funding assistance. Respondents also noted that there was a lack of technical resources to help small business owners and that many business owners would benefit from training on financial literacy. In some cases, the assistance is available, but business owners do not know how to access it.

The final themes emerging from the analysis show that the state is facing a handful of structural issues that it cannot avoid any longer if it wants to remain a dynamic economy.

Survey & Themes

Themes: Cost of Living, Education, and Regulation

Housing

Washington State has the fewest housing units per household of any state and the housing crisis is getting worse.[1] The underproduction of housing is limiting economic productivity and growth, the creation of jobs, and perpetuating disparate outcomes of wealth inequity for the next generation of Washingtonians.

Workforce Replacement

Businesses of all sizes are struggling to find workers to fill vacancies. While this is partially due to the pandemic, worker replacement will be a continuing problem as a large share of the workforce reaches retirement. Continued business growth, especially in STEM and other high demand fields will further fuel the need for workers. Current workforce development programs and initiatives are not enough to meet the growing need, projected to be 20,000 annually over the coming years, a 30% increase over current rates.

Combined and replaced workforce retention / recruitment and workforce training, recognizing that replacement is the challenge and training is the answer.

"The supply [of housing] is currently dangerously low and not addressing this problem immediately via all mechanisms possible will bring disaster."

Childcare

Washington has the 9th most expensive infant care of any state,[2] and only 35 childcare slots for infants, toddlers, or preschoolers for every 100 children whose parents work.[3] Limited and unaffordable childcare prevents many parents from fully engaging in the workforce, restricting family economic advancement and employers' ability to fill jobs.

Broadband

Over 338,000 Washingtonians lack access to a basic broadband connection, and many more lack access to the speeds necessary to fully engage in an increasingly digital world. Limited access to reliable, affordable, and fast internet prevents workers from taking advantage of work from home opportunities or other training opportunities that enhance economic mobility. Businesses that do not have adequate broadband access cannot maintain a web presence or access certain services, which can impact their viability.

High-growth / Innovative Firms

Entrepreneurship has been on the decline nationally and in Washington over the past 40 years. Of particular concern, Washington's high-propensity business formation—those most likely to turn into a business with a payroll and living wage jobs—have declined 30% from the early 2000s (per capita), and now rank 4th lowest among peer states.[4] Washington remains competitive on most traditional economic development measures, but low growth in high-propensity firms could indicate limited potential for future economic expansion and shared prosperity.

Added due to stakeholder feedback and additional research acknowledging that certain businesses drive economic growth.

[1] U.S. Census, Washington Office of Financial Management
[2] Economic Policy Center Institute https://www.epi.org/child-care-costs-in-the-united-states/#/WA
[3] Child Care Aware Data. (2019). https://www.childcareaware.org/our-issues/research/ccdc/state/wa/
[4] Business Formation Statistics, U.S. Census

Survey & Themes

Themes: Cost of Living, Education, and Regulation

Regulatory Environment

The regulatory environment is limiting business formation and expansion. The Wharton Residential Land Use Regulatory Index ranks the Puget Sound regions as the 4th most regulated region in the country for permitting and land use. While Washington has made some efforts to centralize and coordinate efforts across regulatory agencies and support small businesses, businesses still struggle to keep up with regulations and access developable land.

Encompasses small business regulation among other regulatory barriers to business of all sizes.

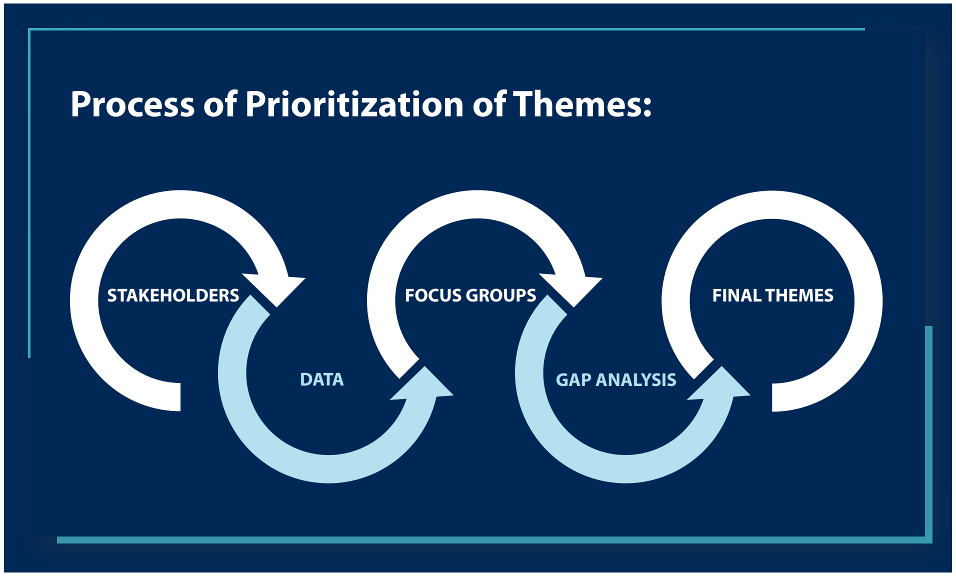
Access to Capital

Both new and existing businesses lack the capital they need to succeed. Barriers are especially acute for people of color. While Washington is working to address this issue, many programs are time limited, rely on consistent reallocation, and are inaccessible to subsets of the population.

Came up both in written in survey responses as well as additional stakeholder outreach as a key barrier to economic growth.

Final themes do not include:

- *Shipping Infrastructure – determined to be largely a workforce shortage issue.*
- *Transportation – costs and commute times are largely due to lack of affordable housing near employment centers.*
- *Transition to Automation – determined to be a driver of the increased need for skilled labor.*



7

THREE BIG IDEAS

Big Idea #1

Build more housing of all types that are affordable to all residents.

KEY TAKEAWAY:

Washington State has the fewest number of housing units per household of any state in the country.

The Problem

- Washington State has the fewest number of housing units per household of any state in the country, and the housing crisis is getting worse as the number of units built has not kept pace with household formation over the last decade.
- The lack of supply puts strong upward pressure on home prices and rents. 44% of Washington renter households are cost burdened and spend more than 30% of their income on housing; 22% of renters are *severely* cost burdened and spend more than 50% of their income on housing.
- Chronically undersupplied housing is the principal driver of the state's homelessness crisis. Washington's homelessness rate—30 per 10,000 residents—is well above the U.S. average (18 per 10,000 residents).
- Homeownership is becoming more unattainable, particularly for BIPOC households. The Black homeownership rate is 11.5% lower than the national average, which ranks last among peer states, and the 7th lowest nationally.

Despite current efforts and legislative focus, Washington is still not building enough homes, particularly homes that are affordable at lower and middle incomes, and that provide wealth building opportunities for all.

Why does this matter for economic development?

The underproduction of housing is limiting economic productivity and growth, the creation of jobs, and perpetuating disparate outcomes and wealth inequity for the next generation of Washingtonians.

BY THE NUMBERS

11.5%
lower Black homeownership rate than the U.S. average, last among peer states

1.06
housing units per household Washington State compared to 1.14 nationally

190K
Number of units Washington would need to build to achieve the national ratio

$695K
The average new home construction price statewide, the 6th highest of any state

Big Idea #2

Equip the workforce for success, and close the skills gap.

KEY TAKEAWAY:

Washington needs to train 200,000 more skilled workers over the next 10 years to keep pace with job openings, a 30% increase over current rates.

The Problem

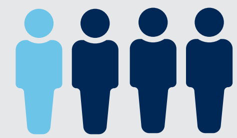
- Businesses across the state are experiencing persistent and worsening labor shortages.
  - The number of job openings are at record highs, as is the share of the workforce aged 55 and older.
- There is a chronic gap in the training and skillset development of the workforce across the state relative to labor need.
- Annually there is a shortage of 20,000 skilled workers. Meeting this need would require a 30% increase in the number of certificates and degrees granted in the state.
  - In-migration of skilled workers helps offset about half of the shortage within the state. 85% of those moving to the state have a bachelor's or graduate degree, leaving the largest deficit in the mid-level skilled workforce.

Despite current efforts to boost educational attainment, particularly in high-demand fields such as STEM and health, there is a chronic gap between the skills employers require and the skills with which job seekers are equipped. While strong workforce demand is seen at all education levels, particularly in STEM, workers with mid-level training or education (associates, certificates, and apprenticeship completers) make up half of worker need. In-migration helps offset the shortage, but is heavily concentrated in workers with bachelor's and higher levels of educational attainment.

Why does this matter for economic development?

Businesses consider access to a skilled workforce when making location decisions. A limited supply of skilled workers may prevent businesses from locating, expanding, or remaining in an area.

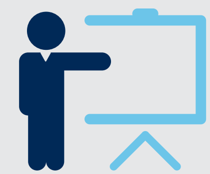
BY THE NUMBERS



25%
percentage of workers over age 55, an all time high

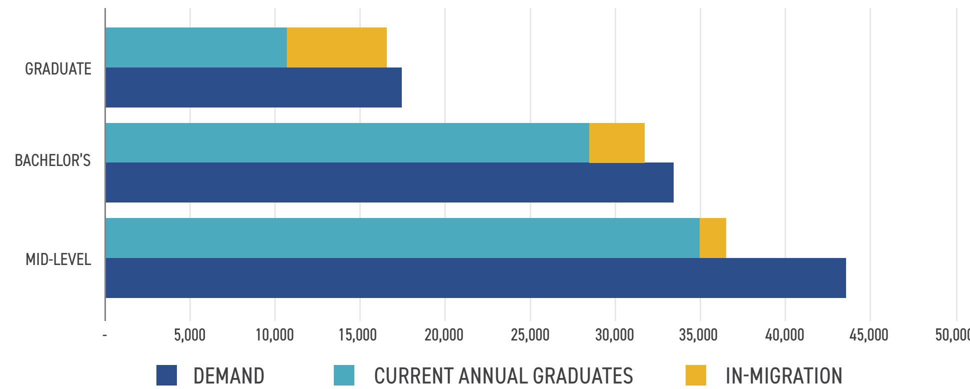
2.5%
percentage of workers quitting their job monthly (30% annualized), the 10th lowest state rate

221K
job openings statewide, a 40% increase from pre-pandemic levels (2018 and 2019)



18,442
active apprentices statewide in 2019, an increase from 12,376 in 2015

SKILLED WORKERS SUPPLY AND DEMAND GAPS



Source: 2017 Skilled and Educated Workforce Report

Big Idea #3

Revitalize entrepreneurship (and make it easier to do business).

KEY TAKEAWAY:

Washington is forming 30% fewer high-growth potential businesses than a decade ago, and ranks 4th lowest among peer states.

The Problem

Declining Entrepreneurship and High-propensity Formation

- Entrepreneurship has been on the decline nationally and in Washington over the past 40 years.
- WA's high-propensity business formation—**those most likely to turn into a business with a payroll**—has declined 30% from the early 2000s (per capita), and now ranks 4th lowest among peer states.
- The economy has consistently performed well on traditional economic development indicators (capacity builders), but that has not translated into shared prosperity (realized outcomes).
- Only one third of the jobs in the state pay enough for families to support their living expenses.

Limited Access to Capital

- There are a variety of barriers that are preventing businesses of all sizes from forming, growing, and competing in the global economy.
  - Venture capital is funding smaller deal sizes in Washington State than the national average.
- Small businesses, particularly those owned by communities of color, have limited access to capital needed to grow.
- BIPOC-owned firms were half as likely as White-owned firms to use a financial services provider.

Burdensome Regulatory Environment

- The variety of permits required from all levels of government are complicated, costly, and time consuming.

BY THE NUMBERS

61% of Black-owned firms and **73%** of Hispanic-owned firms applied for PPP compared to **82%** of White-owned firms

13% of Black-owned firms and **20%** of Hispanic-owned firms received all the financing they sought, compared to **40%** of White-owned firms

- Land use and growth management has created an amenity value and produced environment benefits, but has also contributed to a limited number of available and suitable sites for business expansion.
- The Wharton Residential Land Use Regulatory Index ranks the Puget Sound region as the 4th most regulated region in the country for permitting and land use, behind only New York, San Francisco, and Providence (Portland is ranked 10th).

Washington has historically performed well on traditional economic indicators and has leading businesses that have driven success for a subset of the population. However, **this success has masked growing problems**—decreasing high-propensity business formation fueled by inequitable access to capital and business supports, and a regulatory environment that disproportionately hurts small businesses. Current initiatives and programs are inadequate to address the extent of these problems.

Why does this matter for economic development?

Declining rates of business formation, a trend accelerated by complex regulations and limited access to capital, limits the potential for future economic expansion and shared prosperity in Washington.

Addendum

Peer States and Quality Job Definition

Peer State Selection

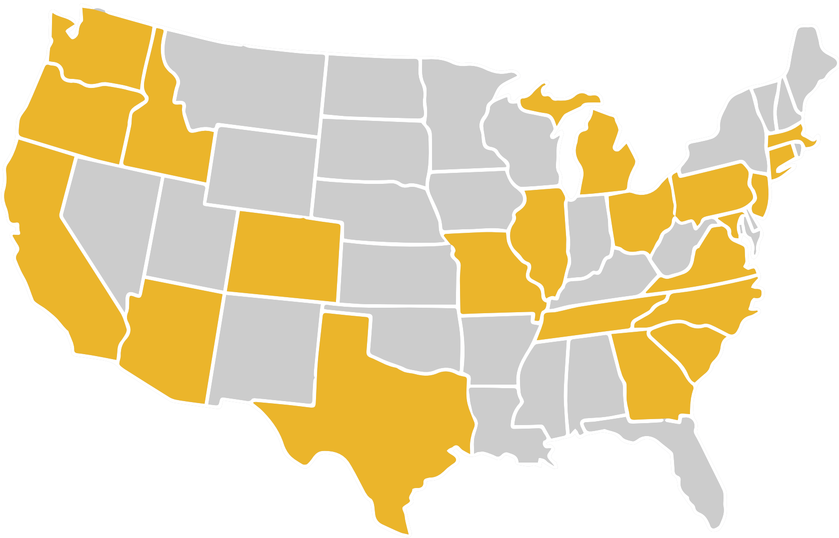
As part of this study, Washington was compared against a set of 16 other states that meet the following criteria:

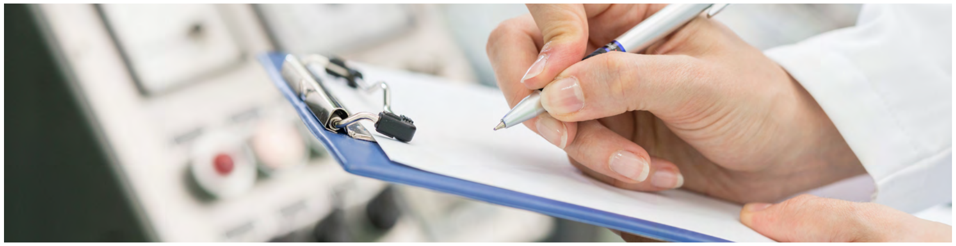
Size: between half the size of Washington and twice the size of Washington (3.5 million to 14 million).

Innovation: rank in top 30 of ITIF's State New Economy Ranking, which combines data on knowledge jobs, globalization, economic dynamism, digital infrastructure, and innovation.

Economic Geography: the second largest metro area in the state has a population of at least 400,000, in order to capture states that have to balance the needs of multiple metro areas in addition to rural areas.

In addition to these 16 states, Washington is also compared to California, Idaho, Texas, and South Carolina, because they are of particular interest to leaders in Washington, despite not meeting the above criteria. The group of 21 states, including Washington, is as follows:





Quality Jobs — Definition and Rationale

There is no simple way to define a quality job. At minimum, however, a quality job should allow families to cover their basic expenses: food, childcare, health insurance, housing, transportation, and other necessities. There are several "living wage" calculators that measure, by region and family type, what hourly wage meets this threshold. The living wage in a given region can vary substantially based on family type. According to the MIT Living Wage calculator, the living wage in the Seattle metro area ranges from about $19 per hour for a single adult without children to $58 per hour for a single adult with three children. For the purposes of economic strategy and policy, however, there needs to be a single wage threshold that can be used to measure performance.

In 2021, The Brookings Institution did an analysis of wage levels required to lift half of economically struggling families to self-sufficiency in different regions. For example, in Seattle, almost 35% of families are economically struggling, and a wage of about $25 per hour would be enough to lift half of those families to self-sufficiency. For example, earning a $25 per hour wage would be enough to move a family with two working adults and two children to self-sufficiency, but not enough for a family with one working adult and three children. The Brookings Institution called these "family-sustaining" wages. To apply this approach to all of Washington, we compared Brookings "family-sustaining" wages to data from the MIT Living Wage Calculator, which is available for every county in Washington to analyze how they compare. This approach to defining a quality job represents approximately the wage that would lift half of currently-struggling families in each county to self-sufficiency. This approach was then replicated for each of the peer states, allowing for the calculation of the number of jobs in each state that pay above the threshold of "family-sustaining", and for the purpose of this report are referred to as quality jobs.

For more information, visit www.ltgov.wa.gov/2022-business-competitiveness-analysis