

# Report from the Task Force on Economic Development

Governor Locke convened the Competitiveness Council to examine the state's ability to compete in the 21<sup>st</sup> century global economy. The Council identified competitiveness issues related to taxes and fees, regulatory and permitting, physical infrastructure, and human capital and innovation. Among its recommendations, the Council endorsed ways to deploy tax incentives and tax system reforms to sustain and nurture business growth in the state. The vast majority of the Council's recommendations, however, addressed Washington's business climate, not specific economic development items.

Governor Locke and the Competitiveness Council formed the Task Force on Economic Development to investigate the capabilities of the state's economic development infrastructure and develop recommendations on how it can be strengthened. For the purposes of this examination, "economic development infrastructure" includes services and programs, administrative funding, and tax mitigation measures that make the state more competitive for recruiting and retaining companies.

## A. General Findings

The Task Force met three times in May and June, 2002. It surveyed the history, current functions and structure of the Office of Trade and Economic Development (OTED), considered how OTED's funding and programs compare with other states, and arrived at the following findings:

- **The economic development infrastructure of the state has been weakened over time. Since the mid-1980s, funding for the state's economic development programs have decreased and the focus of Washington's economic development efforts has been diluted. Other states have devised strategies, committed resources and authorized incentives that place Washington at a significant competitive disadvantage. Furthermore, in an increasingly competitive global economy, the state is competing in a new economic paradigm with severely diminished capabilities.**
- **Though well intentioned, the Legislature has required OTED to implement a number of discrete programs and assume many responsibilities without funding adequate enough to meet our pressing economic development needs. Programs for recruiting and retaining businesses, for example, have never recovered resources lost in the early 1990s.**
- **Given the state's present budgetary situation and the need for an additional and on-going analysis of economic development programs, essential improvements and enhancements to our economic development infrastructure may not be attained immediately or altogether at this time.**

## **B. General Conclusions**

The Task Force received presentations, reviewed comprehensive data and information, and deliberated on ways to improve and enhance the state's economic development infrastructure, and concluded the following:

- **The state's economic development efforts must have continuity and stability, and they must be comprehensive. They should be based on effective policies and programs; allow sufficient funding flexibility to tailor services to unique opportunities; offer incentives that demonstrably assist in the retention, expansion, and recruitment of business; coordinate state, local and private sector development initiatives; facilitate and effectively marshal support from communities and constituency groups for economic development policies and programs; and, foster a collaborative approach among parties involved in or benefiting from economic development initiatives.**
- **The funding for economic development programs must be significantly increased to restore resources lost over the last decade and to augment the capabilities of our economic development infrastructure. The effectiveness of economic development programs must also be recovered. A formal framework must be created under which progress towards achieving those objectives can be sustained and continuous improvement efforts maintained. Under this framework, efforts should also be pursued to build relationships with stakeholders, including the Legislature, to advance the economic development interests of the state.**
- **The state's economic development infrastructure can be markedly strengthened by implementing fundamental changes in three areas: (1) governance, (2) funding, and (3) enabling tools.**

## **C. Recommendations**

Based on its assessment, the Task Force strongly recommends that the Governor, Legislature, and OTED adopt the recommendations identified in the following sections:

### **I. Governance**

To establish and maintain strategic focus, OTED requires a new governance structure to assist in the development and evaluation of its priorities. The Task Force recommends that the Legislature create a new "Economic Development Commission" that has policy and strategic oversight over OTED. This Commission should consist of a limited number of members appointed by the Governor and confirmed by the Senate.

The Commission will perform many functions associated with its duty to provide policy direction. First, it will establish and evaluate a long-term, sustainable strategy for economic development. The Commission will prepare, review and revise this strategy on

a periodic basis (i.e., every three years) and submit an annual progress report to the Governor and Legislature. Second, the Commission will assume an integral role in forming private/public partnerships and coordinating partners within a comprehensive statewide network. This structure should create a vital constituency for supporting and implementing economic development programs and ensure a continuous process for involving stakeholders in the formation of policies. Third, the Commission would be authorized to create and oversee private funding for business development and recruitment efforts. And, fourth, the Commission will serve as an advisory group for OTED, the Governor, Legislature, local governments, and other partners in economic development.

This recommendation does not contemplate any change in the appointing and reporting relationship between the Director of the Department of Community, Trade and Economic Development (CTED), of which OTED is an operating division, and the Governor. Formulation of the agency's budget would continue to be the responsibility of the Director, subject to approval by the Governor and the Legislature. However, the budget should be developed by the Director and the Governor in consultation with the Commission and consistent with the policy direction of the Commission.

Finally, the Task Force proposes that title of the CTED Director position should be enhanced to raise its profile and to send a strong message about the state's commitment to economic development.

**Recommendation:**

➤ **An Economic Development Commission should be formed with the following duties:**

- **Develop a periodic economic development strategy and perform annual evaluation;**
- **Policy oversight of OTED;**
- **Provide planning and strategic direction to OTED;**
- **Update and review performance measures to ensure the success of economic development programs; and**
- **Oversee the deployment of private funds for business development and recruitment, as such funds may be made available to the Commission's disposal.**

➤ **Membership should be consistent with the following principles:**

- **No less than five, but no more than nine, voluntary members, appointed by the Governor to serve staggered terms, and confirmed by the Senate.**
- **Representation from each of Washington's diverse geographic regions. Each member must first and foremost serve statewide interests while preserving their regional perspectives.**

- **Representation should derive predominantly from the private sector, and consider both existing and emerging industries, small businesses, as well as women and minority businesses.**
  - **Members should be recognized leaders with demonstrated experience or expertise in areas related to economic development.**
- **The Director of CTED should be designated Secretary of Community, Trade and Economic Development.**

## **II. Funding**

**1. Funding Priorities and Program Focus:** Through the development of its strategic plan, OTED has clearly identified its current mission. Through the years, however, the Legislature has directed OTED to implement numerous programs and responsibilities without adequate funding or reassessing the state's overall priorities. This has left OTED with many small, under-funded, programs that cannot be effectively implemented within a comprehensive strategy. The Task Force recommends that the Governor, Legislature and OTED strategically establish a select number of core functions for the agency.

### **Recommendation:**

- **Under the current budgetary situation, OTED should, in the short-term, consider its core strengths and focus on a few specific functions that have a depth of impact on communities and economic development efforts.**

**2. Maintenance of Funding Levels:** State funding for economic development programs administered by OTED has decreased over time. Data show that neighboring states devote more funds per capita to economic development relative to Washington State. The Task Force reviewed comparisons of Washington's economic development funding with 25 other states, all of whom responded to a funding survey executed by the National Association of State Development Agencies (NASDA). According to the NASDA survey results, Washington is 21<sup>st</sup> of those 25 states in economic funding per \$1 million gross state product; in net operating funds, the state placed 24<sup>th</sup> of 25. Washington was also 21<sup>st</sup> of 25 states in full-time equivalent (FTE) personnel per one million residents.

The Task Force recognizes that given the state's severe budget shortage, the Legislature may be hesitant to augment funding for OTED at this time. The Task Force believes the best way to achieve economic stability and growth, which should help relieve the state's budgetary deficiencies, is through economic development and job creation. OTED is the only state agency whose mission is to promote commerce and its positive effects on the state's tax revenues. Continued deterioration of funding for OTED will severely undercut its already limited capacity to deliver necessary economic development services to support the state's economic recovery.

**Recommendation:**

- **The Governor and Legislature should preserve OTED's existing budgetary levels for the 2003-2005 biennium.**

*3. Discretionary Use of Funds:* The Legislature has frequently used budget provisos as a means to direct OTED's functions; they have prescribed the agency's discretion and use of state general funds. Those limitations have inhibited the ability of OTED to prioritize its functions and effectively respond to changing and unique circumstances. This situation, combined with the state's current budget challenges, warns that OTED will continue to have insufficient resources to accomplish its core functions.

The agency requires sufficient flexibility to use its limited resources in a manner that allows it to respond to the needs of a dynamic economy at any particular place and time. Funding flexibility could permit, for example, the allocation of money as incentives for regional cooperation, demonstration projects that have potential for being replicated, and contracts with organizations to implement strategic plans or programs. Discretionary use of funds by the agency is a short-term imperative and a long-term benefit.

**Recommendation:**

- **In the short term, the Legislature should grant OTED sufficient flexibility to use its limited resources to adapt and focus its programs effectively. And it should be authorized to exercise broad discretion in expending funds when doing so will be subject to oversight and review by the Economic Development Commission.**

*4. Enhancement of Funding Levels:* At a time when Washington's economy is adversely impacted by both national and international forces, the economic future of our State depends largely on its ability to successfully retain and expand existing businesses and recruit new ones. Washington must sustain an economic development infrastructure capable of effectuating this purpose. A strong business community provides stable jobs and critical revenues that support the functions of state and local governments. Successful economic development efforts by the State are critical to achieving that strength.

**Recommendation:**

- **Funding for economic development programs should be brought to a level that is competitive with peer states as soon as possible. The Governor and Legislature should provide additional funds for economic development programs when the potential for return on investment on those funds can be sufficiently demonstrated.**

*5. Statewide Marketing Program:* Increasing the state's visibility in the global marketplace has become more difficult over the last few years. Washington has had fewer resources to promote itself and it has also encountered greater competition from

other states and nations. The state is facing significant national and international competition for business. The relocation of Boeing's headquarters and other events of the past year have reduced Washington's external stature and image. Other states are aggressively marketing their respective states and increasingly dedicating resources to recruit new businesses and attract new jobs.

**Recommendation:**

- **An appropriate level of funding should be provided for OTED to implement the current development of a comprehensive messaging, marketing and branding strategy that will be administered in partnership with the public and private sectors.**

### **III. Enabling Tools**

The Competitiveness Council report contained several recommendations designed to improve the state's business climate. These included mechanisms that could be construed as "enabling tools" for economic development. Presently, OTED and the State may utilize several enabling tools. OTED administers grant programs, serves as a conduit for federal funds, facilitates access to capital, promotes trade products and tourism opportunities, provides business assistance, and supports the development of critical partnerships. Limited tax abatement options are also available. Business and occupation tax deferrals are allowed for certain development, manufacturing, and research and development activities in rural areas. Credits against the business and occupation tax may be taken for job creation and job training. Furthermore, tax credits or deferrals may be taken for software development and help desk services located in rural counties, and the development of certain electric generation resources.

The Task Force lacked adequate time to thoroughly review existing and potential enabling tools to determine their level of effectiveness or suitability to the state. Nevertheless, it expressed an appreciation for the role that enabling tools play in a comprehensive economic development effort, and it proposes the following:

***1. Preservation of Existing Tax Incentives and Equalizing Taxes:*** The State possesses a multitude of enabling tools that it can deploy to assist in the retention, expansion, and recruitment of employers. The most noteworthy "tax incentive" allowed under state law are a sales and use tax exemption on the purchase and installation of manufacturing machinery and equipment ("M&E exemption"), and a business and occupation tax credit for investments in research and development of specific technologies. The M&E exemption equalizes Washington's tax treatment with that of Oregon and Idaho. Compared to some states, however, the financial value of Washington's enabling tools may seem minimal.

Although some parties dispute the usefulness of tax incentives, they have proven to be an important component of a comprehensive statewide economic development program. The state's current fiscal crisis has stimulated a discussion about the net benefit of business

tax exemptions, credits, and deferrals. Circumstances may impel policymakers to call for the elimination of certain tax incentives and laws that equalize tax treatment for certain business activities. The Competitiveness Council has recommended that “Washington should avoid increasing the tax burden on business and should maintain existing exemptions and incentives.”

**Recommendation:**

- **Existing tax incentives and tax exemptions or deductions that replicate the tax treatment of particular business activities by neighboring states should be preserved at least for the duration of the 2003-2005 biennium.**

**2. Directives to the Economic Development Commission:** The Task Force asks that the Economic Development Commission, once it has been established, proceed to discuss the following issues:

**a. Workforce Training:** The Competitiveness Council recommended that “Washington should accelerate training of workers for high demand fields. This requires not only training new workers, but also upgrading the skills of existing workers and retraining displaced workers so that they can re-enter the workforce. Information provided to the Task Force indicated that Washington ranks 47<sup>th</sup> in the country in workforce training funds. Training is cited as the issue of greatest importance to expanding and relocating companies across the country.

**b. Investment Tax Credits:** Most states offer some form of investment tax credit. If such a credit were available in Washington, it might encourage companies to modernize their facilities to remain competitive.

**c. Evaluation of Tax Incentives:** A comparatively higher percentage of taxes are initially charged to or collected by private sector businesses in Washington than in other states. The Competitiveness Council report recommended that “(t)he state should consider ways to develop and use tax incentives to keep and grow businesses in Washington. Currently, the state’s unique tax system combined with equally unique provisions of the Washington State Constitution, limit the state’s ability to offer tax incentives to new and expanding companies.” The Competitiveness Council further proposed ways to address tax system dissimilarities with other states.

Existing tax incentives and proposed new ones, and adjustments to the tax system should be examined by the Commission to determine if they help attract and retain successful businesses in Washington. Specific enabling tools that should be evaluated include: Blocks grants; Tax increment financing; tax abatements; infrastructure grants; industrial revenue bonds; enterprise zones; “opportunity funds”; job tax credits; loans and block grants.

**3. *Permitting Processes:*** The Task Force recognizes other efforts to pursue permit reform in Washington. The Competitiveness Council issued many recommendations intended to bring greater efficiency and predictability to state and local environmental permitting processes. These recommendations address concerns affecting efforts to assist expanding businesses and those that are being recruited to locate in the state that need permit approvals for new development. In essence, the Council endorsed ideas to consolidate permit processes, reduce the number of permits required to complete a project, and improve permit coordination among agencies.

**Recommendation:**

- **The Economic Development Commission should pursue an initiative for continuous examination of government service delivery systems to business including permits and infrastructure such that delivery is provided at the most direct and efficient level of government possible.**

**4. *Benchmarking Permit Processes:*** A system for benchmarking and enforcing timelines would provide funding from increased permit fees to support overtime work by a designated staff team, or in some cases, hiring of special project reviewers to ensure that important business development projects move quickly through the permit review process. Regular, non-expedited permits would not be affected.

**Recommendation:**

- **Establish a priority permit system available in each jurisdiction to expedite permit review for major projects.**