

# Skills for the Next Washington

A Statewide Strategy for Industry  
Cluster Development



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Workforce Training and Education Coordinating Board  
128 10th Avenue SW, PO Box 43105, Olympia, 98504-3105  
360-753-5662, Fax 360-586-5862  
[www.wtb.wa.gov](http://www.wtb.wa.gov)

## Skills for the Next Washington

### Introduction

Governor Gregoire's *The Next Washington* presents an action plan for "Growing Jobs and Income in a Global Economy." Among its three components are education and skills—"the most important investment we can make in our economic future." *The Next Washington* calls for significantly expanding opportunities for Washingtonians to access college and workforce training, especially in programs in high demand by our economy. It also calls for improved partnerships among workforce and economic development efforts at the state and regional levels.

*Skills for the Next Washington* sets forth ways that workforce and economic development can better align so that Washingtonians will have the skills required for the next Washington.

Governor Gregoire called upon the Workforce Training and Education Coordinating Board (Workforce Board), the Department of Community, Trade, and Economic Development (CTED), and the Economic Development Commission to "develop a plan to support coordination at the state and regional levels, with a special emphasis on key economic clusters." To achieve this, the three-agency partnership engaged other stakeholders from the state and local levels. Work group members included representatives from the Higher Education Coordinating Board (HECB), the State Board for Community and Technical Colleges (SBCTC), the Employment Security Department (ESD), Associate Development Organizations (ADOs), Workforce Development Councils (WDCs), and others. A draft of this paper was then shared with approximately 200 local workforce and economic officials at six cluster academies around the state in order to obtain their input.

Based on Governor Gregoire's direction and many discussions, *Skills for the Next Washington* presents a framework for coordinating workforce and economic development at the state and local levels focusing on a cluster-based approach. It does not attempt to describe comprehensively all the inter-related aspects of workforce and economic development or even all varieties of sector-based approaches. Sector strategies embody many approaches, of which a cluster-based approach is one.

Sector strategies focus on the common needs of firms in an industry (such as biotech or ship building). In sector strategies, governments assist firms in an industry by addressing their common needs, as opposed to targeting the needs of individual firms. In sector strategies, the industry may be small and just emerging, or strong and vibrant, or an industry that is past its prime. Sector strategies may include national and state strategies, such as Washington's targeted sectors strategy. Cluster strategy is a particular type of sectoral strategy, focusing on industries with certain characteristics within regional areas. It is an organizing principle around which workforce and economic development may be coordinated.

Local areas throughout the state have already embraced a cluster-based approach to workforce and economic development, and are coordinating workforce and economic development plans and actions. By adopting this framework, the state will be playing catch-up to what most local areas are already doing. But by adopting this framework, the state will be in a better position to assist local areas, and to remove state-created barriers where these have impeded local progress.

## What is an Industry Cluster?

“The nation’s ability to produce high-value products and services depends on the creation and strengthening of regional clusters of industries that become hubs of innovation.”

(F. Duane Ackerman and Michael E. Porter for the Council on Competitiveness)

Local, state, and national economies are characterized by prominent pockets of unusual economic success—entertainment in Los Angeles, shoes in Northern Italy, pharmaceuticals in Philadelphia. We have many such examples in Washington—wine in Walla Walla, software east of Lake Washington, aerospace in Snohomish and King counties. Much of the world’s economic success is situated in such localized concentrations of economic star power.<sup>1</sup>

This is no accident. Although we live in an increasingly global economy, location still matters. Different locations have different advantages and disadvantages for particular industries. Locations vary in factor inputs such as natural resources, human capital, and physical infrastructure, supporting institutions such as education and research institutions; and access to suppliers and to markets. Over time, economic concentrations emerge where these factors are particularly favorable for a given industry. Sometimes too, chance plays a role, such as the birthplace of a single visionary entrepreneur.

Industry cluster is the term for a geographic concentration of interdependent competitive firms that do business with each other, including firms that sell inside and outside of the geographic region as well as support firms that supply new materials, components, and business services, and other institutions including government and education. It includes upstream suppliers of inputs—such as firms that supply materials and equipment, and downstream customers, including other firms. It also includes related entities that shape the environment within which the industry operates—such as government regulatory bodies. The key characteristic is inter-relatedness.

A cluster is not the same thing as an industry sector. A sector is a group of firms with similar business processes, products or services, for example construction or health services. At the core of a cluster is a particular industry sector, but a cluster is not restricted to firms within the sector since it includes related institutions and firms in other industries. Also, firms exist in sectors even when there are few firms in the sector in a geographical area. A cluster, by definition, requires geographic concentration.<sup>2</sup>

How large is a cluster? The location of a cluster is not necessarily restricted by government boundaries. Some firms and related organizations in a cluster may transcend county, state, and even national lines. But clusters are geographically concentrated in areas that tend to be relatively small—generally an area within which individuals can reasonably commute—what economists refer to as a

<sup>1</sup> The following summary of cluster theory relies heavily on the work of Michael E. Porter. For example; see, *Clusters and Competition: New Agendas for Companies, Governments, and Institutions*, Chapter 7 of *On Competition*, Michael E. Porter, Harvard Business School Press, Cambridge, MA, 1998.

<sup>2</sup> In 2007, the Governor’s Policy Office convened a work group that developed definitions for the terms “cluster,” “sector,” and related terms.

labor market. Cluster relationships, however, can extend far beyond the geographic center; for example the supply chain for the Boeing company's *Dreamliner*.

### **Why Focus on Clusters?**

Why focus on clusters? Because that is where economic growth is most likely to occur and where innovation is most likely to begin. A majority of the well-paying jobs in the region, or those expected to be created in the region are likely to exist within clusters. And the cluster concept includes those organizations that help to develop the workforce pipeline.

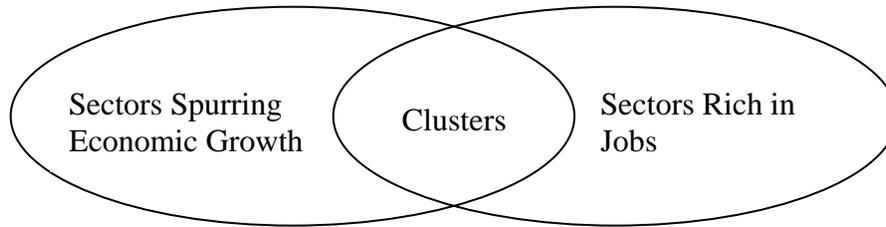
There are several reasons why economic growth is most likely to occur where there are clusters. Since there is already a concentration of firms in the industry, the market has demonstrated that the geographic location is advantageous to the industry's growth. These favorable conditions are likely to spur further growth of established businesses. New firms are more likely to locate there because there is already a concentration of the specialized resources, including workers that supply the industry. Often these concentrated inputs lead to lower costs per unit of output; for example, the presence of a pool of experienced employees trained in all facets of the industry lowers recruitment and training costs. Related institutions, such as research organizations, are more likely to be found where there is a concentration in the industry sector (either because they helped to germinate the cluster, or because they decided to locate where the action is). Complementary businesses are more likely to be located nearby as well, and make the location even more enticing to new businesses in the core industry; for example, bed and breakfasts locating near a concentration of wineries lead to more wineries sprouting up in a region.

Innovation is more likely to occur where clusters exist. Spin-off companies are more likely to start as specialized employees discover new ideas, products, and services. What economists refer to as barriers to entry are lower than elsewhere. Often, these firms find it necessary to work collaboratively to develop new technologies, products, and services, develop research grant proposals, or bid on contracts. The scores of information technology firms that have started in and around Seattle are a prime example.

Finally, in spite of 21<sup>st</sup> Century transportation and communications, face-to-face relationships are still important. Local business networking and social interactions enhance the flow of information within a cluster in ways that are not available through long-distance relationships. Locating where a cluster exists eases access to information from within the industry and from related industries and institutions.

Some sectors of the economy are rich in job opportunities and some sectors drive economic development, but these are not always the same sectors. Retail trade, for example, is a sector of the economy with many employment opportunities. Retail trade, however, is not a sector that usually spurs economic development or innovation. Clusters are in sectors of the economy that tend to be rich in both employment and economic development opportunities. As illustrated in the below diagram, clusters are part of the economy where workforce and economic development overlap. When focusing on clusters, government can advance both workforce and economic development.

## Washington Economy



### The Role of Government in Advancing Clusters

Clusters include governmental entities that help supply inputs such as human resources to the cluster's core industry; that purchase products or services from the core industry; and that regulate the core industry. Examples include physical infrastructure such as roads and bridges, educational institutions and the public employment service, and laws and agencies that regulate worker health and safety.

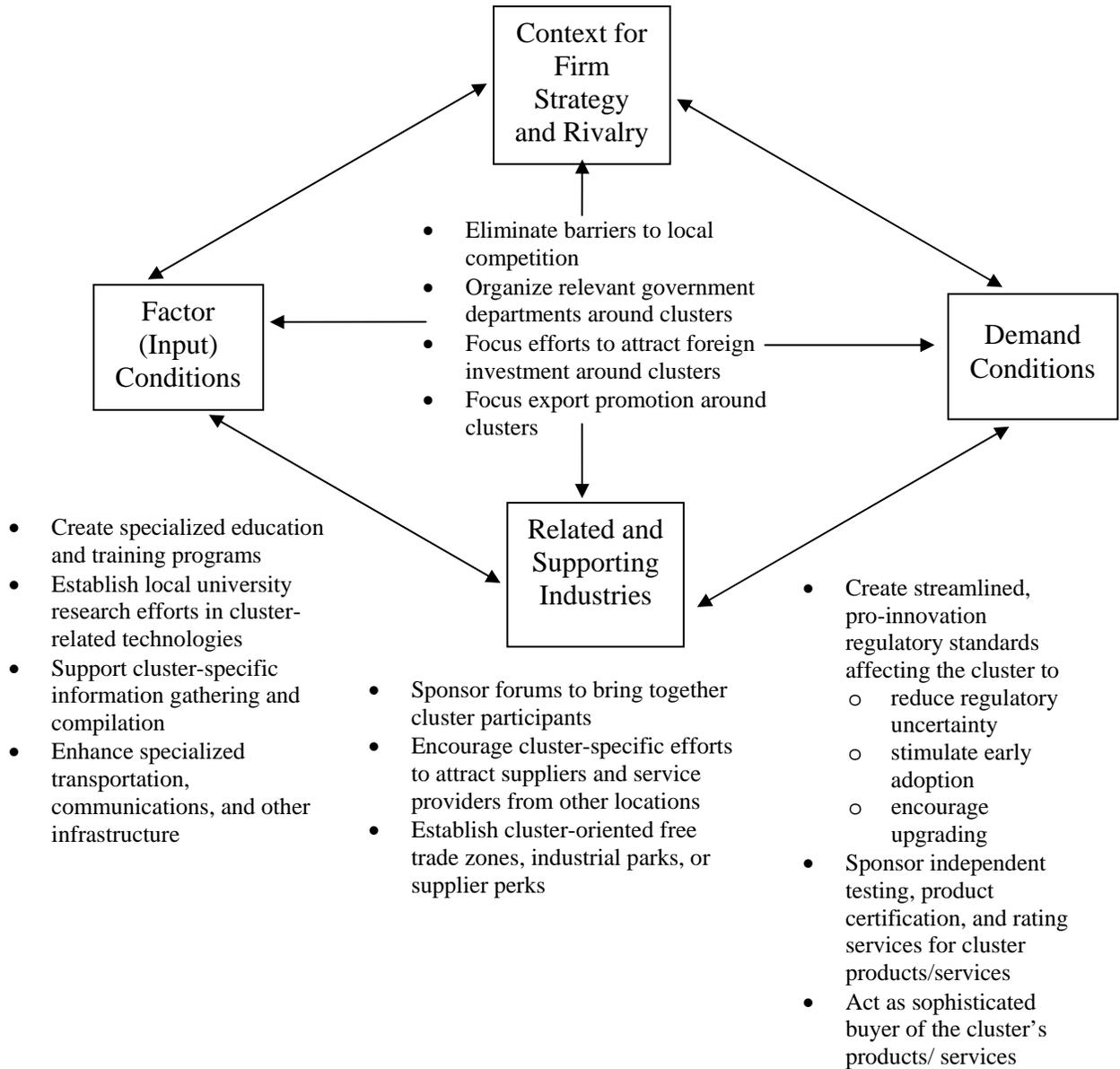
Government can assist clusters by helping to provide public goods, such as education, roads, and water and sewer systems, that are of value to many firms because their benefits are not limited to the particular firms or individuals that directly pay for the goods or services. Government can also help alleviate bottlenecks, such as skill shortages, that impede cluster growth. By focusing on providing public goods for clusters, rather than on resources for individual firms, government can avoid entering into unfair competition. Government can instead assist all firms that face similar needs.

In targeting clusters, there is no need for government to guess at which industry sector will emerge to be the next big thing. Cluster strategy directs government to target industry sectors that the private market has already identified as competitive for that geographic location. This is not to say that a focus on emerging industries or innovation has no place in cluster strategy; far from it. It suggests that a place to focus is on emerging industries and innovations that are inter-connected with a cluster's core industry. An example is building university research capacity in automotive technology in a geographic area with an existing automobile manufacturing cluster.

Governments and others would be wise, however, to exercise caution before expending resources to build a cluster where one does not exist, potentially competing with other geographic areas where the market has already demonstrated a competitive advantage.

In some cases, an area may be particularly strong in related firms and other organizations before the emergence of the new industry at the core of the cluster. For example, an area may have a strong medical school and other health research institutions that could become the backbone for a new biotechnology cluster. In this type of scenario, the supporting institutions precede the strong presence of the new core industry. Both of these paths to innovation—innovation beginning with a strong core industry or innovation beginning with related firms and institutions—can be supported by Washington's new Innovation Partnership Zone program discussed later in this paper.

The following diagram, borrowed from Michael Porter, illustrates some of the many ways in which government can support industry clusters.



## **Coordinating Workforce and Economic Development around Clusters in Washington**

As mentioned in the introduction, most local areas around the state have already taken steps to coordinate workforce and economic development around industry clusters. While some of the ways that government can assist industry clusters exist at the state level, others are missing. Also missing, until now, has been an agreed upon framework that puts the pieces into place in a coherent manner. Too often, the state's cluster efforts have operated as isolated programs. Local leaders have been uncertain as to the state's commitment to a cluster approach as state support has waxed and waned over the years. For state and local government to effectively coordinate workforce and economic development around clusters in Washington, certain steps should take place and be sustained:

1. Clusters should be identified.
2. Cluster partners should be brought together.
3. Programs and resources should be available to assist clusters.
4. State and regional workforce and economic plans should lay out how government will support clusters.
5. State and local government should implement programs and direct resources to assist clusters in a coordinated and strategic manner.

### **1. Identifying Clusters in Washington**

The first step is for the state and local areas to identify clusters in Washington. Most areas have already performed at least some cluster analysis of their local economy and selected strategic clusters for assistance. In many cases, Workforce Development Councils<sup>3</sup> and Associate Development Organizations<sup>4</sup> have developed a common, or at least overlapping, list of targeted clusters. The methodology local areas have employed to identify clusters and select strategic clusters have varied around the state. At the state level, the Workforce Board and CTED have respectively identified clusters for workforce and economic development, but not in concert with one another.

Substitute House Bill 1091, requested by Governor Gregoire and passed by the 2007 Legislature, directs the Economic Development Commission and the Workforce Board to jointly convene a work group to:

Specify the process and criteria for identification of substate geographic concentrations of firms or employment in an industry and the industry's customers, suppliers, supporting businesses, and institutions, which process will include the use of labor market information from the Employment Security Department and local labor markets; and establish criteria for identifying strategic clusters which are important to economic prosperity in the state, considering cluster size, growth rate, and wage levels among other factors. (SHB 1091 Sec.2(2))

The Economic Development Commission and the Workforce Board have convened a work group consisting of researchers and technical experts, and representatives of state and local agencies, to

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<sup>3</sup> There are 12 Workforce Development Councils which oversee workforce development programs in regions throughout the state.

<sup>4</sup> Associate Development Organizations include Economic Development Councils and other organizations.

develop the process and criteria for identifying clusters. The process proposed by the work group consists of two main phases.

During the first phase, the state procures a quantitative analysis of economic and labor market data. The analysis examines the location quotients of industries in each workforce development area in Washington, and critical neighboring areas outside of the state, such as Portland. Variables include employment, wages, revenue, and the number of firms compared to the national average. Next, the analysis uses an input-output model to identify linkages with other industries, and then map by county firms in the clusters. Finally, to help identify those clusters that are strategic, the analysis creates a matrix showing the clusters and their characteristics by a number of variables including indicators of innovation, out-of-state trade, wage levels, and the rate of employment growth, among others. Whether a cluster is strategic depends on the goal being pursued. The matrix is intended to help the Economic Development Commission, the Workforce Board, Associate Development Organizations, Workforce Development Councils and others identify which clusters are strategic to their own goals.

The second phase of the process begins with discussions with local economic development, workforce development, and industry leaders to examine Phase I findings and obtain important information about each area not captured by Phase I data. The process thus includes the ability of local areas to supplement state information with data collected locally—data that may identify additional clusters or a cluster’s strategic value for the local area. Discussions with industry leaders are to include information on key linkages and the networking and flow of information within their cluster. Finally, all this information—state and local—will be brought back to the Economic Development Commission and the Workforce Board, as specified in SHB 1091, for use in identifying clusters and strategic clusters in Washington. The information will be made available to anyone who wants to use it.

To recognize emerging clusters, Phase I analysis identifies industries with a rapid change in the basic variables used to distinguish clusters—such as the number of firms and level of employment. There is a minimum threshold for each of these variables. For example, an increase from one to three firms is a large percentage increase, but by itself would not indicate an emerging cluster because the number of firms would be too small. Certain characteristics might be given priority when identifying emerging strategic clusters, such as intermediate products used in producing other products, an enabling technology, the potential market, the potential for in-state employment, the potential for wages, and meeting a public policy purpose (such as sustainability or public health). Phase II gathers input from local and industry leaders to verify the analysis and capture what is missing.

The Employment Security Department’s Labor Market and Economic Analysis (LMEA) unit serves as the state’s basic source of economic and labor market data. This includes most of the data for identifying industries that are at the core of clusters in Washington. The LMEA unit, however, does not regularly conduct cluster analysis nor has the resources to use input-output models to discover related firms and institutions that make up an entire cluster around a core industry. LMEA does, however, employ regional economists. These state-supported economists are a valuable local resource that can assist Workforce Development Councils and Associate Development Organizations, including Economic Development Councils and others, find data that help identify local clusters and strategic clusters that may have been missed in the state’s Phase I analysis.

## **2. Convening Cluster Partners**

Once a cluster is identified, the next step is to bring representatives of cluster firms and institutions together to discover ways to mutually benefit one another. While this may seem a rather mundane step, full of meetings, cluster efforts around the world note frequently that the greatest results are achieved by simply bringing people together to learn how they can help one another. Washington has already taken a number of steps in this direction, and state programs and resources are assisting local efforts.

Since 2000, the Workforce Board has allocated funds to form Industry Skill Panels. These regional partnerships of business, labor, and public and private education and training providers connect with a core industry around workforce issues. In other words, Skill Panels are a convening of cluster partners—the firms in the core industry, and related firms and institutions. The Workforce Board offers funds, on a competitive basis, to clusters identified in the Board’s research and other clusters documented by local data. In most cases, Workforce Development Councils have convened the Skill Panels. Over 40 have been established. The panels assess the skill gaps in the cluster, develop plans to close the gaps, and see that the plans are implemented. The Governor has authorized the Workforce Board to use Workforce Investment Act (WIA) discretionary funds for Skill Panels. The 2007 Legislature appropriated \$340,000 per year in State General Funds, and the 2008 Legislature placed Skill Panels into state statute.

CTED operates a targeted sector program at the state level. The targeted sectors are: aerospace, agriculture/food processing, tourism, forest products, life sciences (including health care), technology (including electronics, software, and telecommunications), and marine services. CTED staff work closely with each industry, building partnerships, and extending state trade and economic development assistance. While targeted sectors has been in part a state, rather than a regional approach, CTED has had one program explicitly linked to assisting regional clusters. HB 2498, enacted in 2006, authorized a fund from which CTED could allocate money to local areas for the purpose of assisting industry clusters. The money could be used to facilitate the formation of cluster partnerships. The 2007-2009 biennial budget, however, provided no appropriation for this program.

The 2007 Legislature, at the request of Governor Gregoire, enacted and funded the new Innovation Partnership Zones program. Innovation Partnership Zones are clusters that include institutional research and training capacity, and in which the core industry competes globally. The legislation facilitates the formation of cluster partnerships and makes the zones eligible for certain government resources (see below). A principal purpose of the zones is to spur commercially viable innovations in strategic industry clusters.

## **3. Programs and Resources**

Washington already has a number of programs and pots of money that state agencies have directed to assisting clusters, and other resources that could be targeted to clusters, but are not at this time. Another step in coordinating workforce and economic development around clusters is to acknowledge these resources and the role they play, or can play, in supporting clusters. In some cases, legislative or administrative action will be needed for them to play this role. The following briefly describes existing workforce and economic programs that can be applied to clusters.

## *Resources for Closing Cluster Skill Gaps*

The state's 34 community and technical colleges have established Centers of Excellence in 11 Washington clusters. These centers are sources of expertise on how colleges can assist in closing skill gaps in their regional clusters and in the core industry sectors throughout the state. The designated colleges develop expertise, curriculum, faculty, and partnerships related to a particular industry cluster. The critical feature is that the centers really know and understand their industry cluster and are lasting resources for the cluster. Working closely with their related Skill Panel, the centers provide technical assistance to colleges around the state so that their services are fashioned to meet industry needs.

The community and technical colleges and the four-year institutions receive "high demand funds" from the Legislature to increase student enrollments in fields where employer demand exceeds the number of students coming out of in-state colleges and universities. The institutions can use these funds to address the skill gaps in clusters. High employer demand programs of study are not always the same as clusters, though they often support clusters.

The community and technical colleges also receive Workforce Development Funds from the Legislature. These are fairly flexible funds used to start up, expand, or update workforce education programs. These funds can also be directed toward programs in industry clusters.

There are also several state programs that provide support for customized training (although Washington still ranks near the bottom among states in funding for customized training). Customized training is directed to the unique needs of an employer or a small group of employers. The three programs are: the Job Skills Program, the Customized Training Program, and the Workforce Investment Act Incumbent Worker program. Here again is the possibility of directing or prioritizing resources toward meeting the workforce needs of clusters.

The Washington State Apprenticeship and Training Council and its administrative arm at the Department of Labor and Industries support registered apprenticeship training around the state. Although most of the current apprenticeship programs in the state are in the construction trades, the apprenticeship training model has been successfully used in several other industry sectors and it could be a useful model of training for a wide variety of occupations.

Finally, the Pacific Mountain Workforce Development Council<sup>5</sup> and Southwest Washington Workforce Development Council<sup>6</sup> (the latter in partnership with Portland) have received U.S. Department of Labor (Workforce Innovation in Regional Economic Development) WIRED grants. WIRED helps build strategic industry clusters for the 21<sup>st</sup> Century by closing skill gaps while transforming how workforce and economic development organizations work together in this process.

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<sup>5</sup> The Pacific Mountain Workforce Development Council encompasses five counties: Thurston, Mason, Lewis, Pacific and Grays Harbor.

<sup>6</sup> The Southwest Washington Workforce Development Council encompasses three counties: Clark, Cowlitz and Wahkiakum.

### *Other Economic Resources for Clusters*

The Innovation Partnership Zones legislation and funding provides resources for research and development in these specially-designated clusters. The zones are eligible for infrastructure financing tools, sales and use tax for public facilities in rural counties, and the Job Skills customized training program. The zones will be the location of new innovation research teams, with at least 10 “significant entrepreneurial researchers” over the next 10 years.

The CTED cluster program, mentioned earlier, is authorized to assist clusters. The 2007-2009 biennial budget, however, provided no appropriation for this program.

CTED has an array of other economic development programs and tools that, although not limited to assisting clusters, can be targeted to aid clusters. Here’s a partial list:

#### *Business Loan Portfolio*

- Rural Washington Loan Fund
- North and South Coastal Revolving Loan Funds
- North and South Coastal Revolving Technical Assistance Loan Funds
- Community Development Block Grant Float Loan Program
- HUD 108 Loan Guarantee Program
- Forest Products Revolving Loan Funds
- EPA Brownfields Redevelopment Revolving Loan Fund
- Hazardous Waste Loan Fund and Petroleum Cleanup Loan Fund

#### *Community Development Finance*

Direct and specific technical assistance support Washington small and mid-sized businesses and related economic development projects—primarily focused on the identification and feasibility assessment of financial projects and the financial structuring of projects. Manufacturing projects that provide family-wage jobs get immediate attention.

#### *Community Economic Assistance Center*

- Community Economic Revitalization Board funding
- Rural Opportunity Fund
- Old Growth Diversification Fund
- Main Street funding
- Community Empowerment Zone administration
- Washington Development Network (pass through funding to Associate Development Organizations, which include Economic Development Councils and others)
- Local Infrastructure Finance Tool program Job Development Fund program

#### *Field Staff*

Staff provide marketing, recruiting, expanding, retaining and site development services to local governments, tribes, Associate Development Organizations, and other entities.

CTED's International Trade and Economic Development services have been realigned internally to support regional priorities. An expanded Regional Services team of economic development technical and finance staff are now stationed in seven regional offices.

Regional Managers collaborate with regional partners and are accountable for all business and project development activities, which includes business recruitment, retention and expansion; business and infrastructure financing; and regional strategic planning. They are conduits to other services, including recruitment case management and international trade development assistance; marketing communications and economic development training; leadership capacity building; contract management services; and tourism.

Finally, strong cluster efforts are characterized by government staff expertise in the core industry and related organizations. Such staff know intimately the industry and its supporting institutions. Washington has had pockets of such expertise at the Centers of Excellence, Skill Panels, the Targeted Sectors program, and elsewhere, but more could be done in this area. For example, WorkSource in the Tri-Cities has assigned business services staff to targeted clusters.

#### **4. State and Regional Planning**

It is not sufficient to establish cluster partnerships, identify skill and other economic gaps, develop strategies to close those gaps, and employ resources and programs to implement those strategies. It is not sufficient to have disparate efforts by individual cluster partnerships. To advance the *Next Washington*, state and local government efforts to assist clusters should be part of a rational and coordinated whole so these efforts don't bump up against one another. Instead we must take full advantage of the synergy of working together. State and regional economy-wide planning, consistent with cluster-based strategies, should coordinate government resources in a rational manner. The planning should include sector strategies of which cluster-based strategies are a part.

##### *State Planning*

On a regular basis, the Workforce Board develops the state's comprehensive plan for workforce development, *High Skills, High Wages*. This plan lays out the goals, objectives and strategies for the workforce development system. One of the four goals is, "Meet the workforce needs of industry by preparing students, current workers, and dislocated workers with the skills employers need." Objectives and strategies include targeting workforce resources to industry clusters, and the 2006 edition of *High Skills, High Wages*, identified six strategic clusters in each of six regions of the state.

The Higher Education Coordinating Board (HECB) develops the *Strategic Master Plan for Higher Education* which provides strategic direction for the state's public higher education institutions over a 10-year planning horizon. The *Master Plan* is updated every four years and was just updated in 2008. The 2008 *Master Plan* includes a section outlining strategic goals for higher education in supporting workforce and economic development, including goals for high demand enrollments and research commercialization.

The 2007 Legislature enacted SB 5995 reconstituting the state Economic Development Commission. The Legislature modeled many of the functions of the commission after the Workforce Board, including developing a comprehensive plan for economic development. At this point, the new

commission is just beginning. Its comprehensive plan will be an opportunity to set forth how economic development efforts can be coordinated around industry clusters.

CTED administers the vast majority of state economic development programs in Washington. CTED's agency strategic plan identifies the goals, objectives, and strategies for those programs for a five-year period. It is critical that CTED's plan also emphasizes how its programs can help grow Washington's industry clusters.

The workforce and economic development plans should identify clusters based upon the process and criteria developed following HB 1091. This is largely a technical exercise. This does not mean the plans and efforts of workforce and economic development should be identical in the industry sectors they target. There are industry sectors and firms that do not fall within the definition of clusters that may be nonetheless strategic for the state to target for either workforce or economic development, or both. There may be sectors, for example, with substantial employment opportunities that workforce programs should serve, yet that are not particularly strategic for the state's economic future. ***Clusters are not the be all and end all of either workforce or economic development.*** There are important sectors and firms that lie outside existing regional industry concentrations—for example sectors and firms associated with nascent technology.

As the Workforce Board, Higher Education Coordinating Board, the Economic Development Commission, and CTED move forward in their planning efforts, it will be important that their plans are coordinated and consistent with one another, incorporating appropriate elements of this framework. The state's plans for workforce and economic development should not point in different directions.

In 2007 and 2008 important first steps were taken to facilitate this alignment. The Legislature made the Executive Director of the Workforce Board a member of the Economic Development Commission, and the Governor appointed the Director of CTED (also a member of the Commission) as a participating official on the Workforce Board. These steps will facilitate communication among the three bodies. Their staffs, also, will need to meet on a frequent basis.

### *Regional Planning*

Regional plans should also recognize the importance of industry clusters and explain how resources will be deployed to assist them. Many of the plans already do this.

The state's 12 Workforce Development Councils create the workforce development system strategic plans for their regions. The plans are an opportunity for the key business, labor, and education and training partners (who are members of a WDC) to examine the skill gaps in their region and identify ways of closing the gaps. The plans identify the workforce development goals, objectives and strategies for their regions, consistent with the state comprehensive plan for workforce development.

The regional plans include clusters as a major element. The plans identify the industry clusters in the region and outline the steps the workforce development system will take to close the skill gaps in these clusters. The industry clusters identified in the plans are consistent with, but not limited to, the clusters identified in the state plan.

The Workforce Development Councils are directed to develop regional strategic plans by an executive order issued by former Governor Locke. The Workforce Development Councils squeeze out funds to pay for the planning process, including the research to identify regional workforce needs, from the money the federal government provides for the administration of Workforce Investment Act Title I direct services to disadvantaged youth, adults, and dislocated workers. In 2007, HB 1880 was introduced that would have recognized this critical planning function in state statute and authorized State General Fund support. The bill, however, was not enacted.

HB 5092, enacted by the 2007 Legislature, provides new authorization of county-designated Associate Development Organizations. The legislation gave these organizations the assignment of building economic development plans for their area, and the Legislature provided State General Funds for this purpose. The legislation requires the Associate Development Organizations, which include Economic Development Councils and other organizations, to link their plans with the Economic Development Commission's statewide strategic plan. As the Associate Development Organizations formulate plans for their areas, the plans should identify their industry clusters—again, consistent with but not limited to the clusters in the state plans—and the strategies for addressing their economic needs.

In developing their local plans for workforce and economic development, the Workforce Development Councils and Associate Development Organizations should be joined at the hip, and many already are. Workforce Development Councils, by federal statute, include a least one representative of local economic development agencies. The Southwest Washington WDC and the Columbia River Economic Development Council have taken the additional step of jointly funding and employing a critical staff person. The two types of Councils should endlessly endeavor to coordinate their planning and implementation efforts so that they are consistent with one another, particularly in their efforts to assist industry clusters. Their plans to support clusters should be linked strongly with one another. By working together, workforce and economic development efforts will be more efficient and effective. Just to give one example, new training opportunities should be timed with the job creation that is expected from new economic development initiatives.

As stated earlier, cluster boundaries do not necessarily follow jurisdictional lines, and their size and shape vary from one cluster to another. Frequently, clusters extend beyond the boundaries of a single Workforce Development Council or a single Associate Development Organization. Regional planning, and workforce and economic development efforts, should recognize this and incorporate neighboring jurisdictions as appropriate to serve clusters.

Finally, state and regional planning efforts should be coordinated with one another. For this purpose, the Workforce Board requires Workforce Development Council plans to be consistent with the state plan, and the Board reviews and approves the plans based on their consistency. This does not mean that the local plan should be identical with the state's plan. Nor does it mean that the state is the fountain of all wisdom—far from it. An important part of the Workforce Board's state planning effort is to review local plans for new ideas and to fully involve the input of the local workforce councils. This is an interactive process that enables an influential role for both state and local stakeholders. The statutes for the newly constituted Economic Development Commission and Associate Development Organizations make use of a similar interactive state and local process.

## 5. Implementation

The point of planning, of course, is to identify actions that will actually be implemented. In carrying out their plans to assist industry clusters, state and local workforce and economic development entities should coordinate their efforts. We should be aligned with one another to efficiently and effectively get the job done.

State and local entities have a number of tools that can be employed in ways that coordinate their cluster efforts. Below is a list of tools that agencies commonly use to implement public policies.

- Planning requirements and approval
- Allocations
- Application requirements
- Requests for Proposals
- Contracts
- Policies and procedures
- Data and information
- Performance measurement
- Conferences and other opportunities for information sharing and professional development
- Marketing and communication
- Awards for Best Practices

When using these tools, agencies can prioritize cluster assistance. Second, they can also require or encourage efforts that are coordinated with other workforce and economic development efforts aimed at assisting the same cluster. Third, they can formulate the tools in a collaborative manner. Using the example of Requests for Proposals (RFPs): agencies can work together to design RFPs, make related RFPs from multiple agencies consistent with one another, require applicants to integrate their efforts, and time different agencies' RFP processes to be in sync. In such ways, the government and public and private education institutions that are part of a cluster can better work together to promote the cluster's core and related industries.

### What Remains to be Done?

As Washington moves forward with a framework for coordinating workforce and economic development around industry clusters, certain questions need to be answered.

- What is currently working well?
- What needs to be changed?
- What new state support is needed?

During the past year, state and local workforce and economic development leaders have examined these questions, including at six regional cluster academies held throughout the state. These leaders have proposed a number of initiatives to help Washington move forward.

Based upon this review, we recommend the following actions to advance *Skills for the Next Washington*.

## Recommendations

- Amend current programs to increase flexibility and efficiency in serving clusters.

Before requesting new resources, it is critical to examine current programs to make certain that they are administered as efficiently as possible. In some cases, this may require statutory amendments. As an example, the State Board for Community and Technical Colleges is now reviewing the Customized Training Program to see whether changes would make the program easier for employers to use.

- Codify common definitions for the terms “cluster,” “sector,” and “high demand.”

These terms are frequently used inconsistently, creating confusion and poor communication. By placing consistent definitions where these terms appear in state statute, it will help to alleviate this confusion.

- Authorize the Labor Market and Economic Analysis (LMEA) unit of the Employment Security Department to conduct additional research on industry clusters.

The LMEA unit is the state’s center of labor market data. LMEA, however, is not currently directed by state statute to conduct cluster research.

- Request the Workforce Board, CTED, and the Economic Development Commission to coordinate planning for workforce and economic development, especially around industry clusters.

While these three partner agencies do not need statutory authorization to coordinate planning around industry clusters, such authorization would lend a sense of long-standing commitment to a cluster approach, helping to address the state’s history of starts and stops in supporting clusters.

- Add CTED and Associate Development Organizations, which include Economic Development Councils and other organizations, to the Workforce Compact describing roles and responsibilities.

The parties represented on the Workforce Board formulated a compact in 2007 that delineates the roles and responsibilities of each organization. CTED and Associate Development Organizations were not party to the compact. Since that time, the director of CTED has been added as a participating official on the Board. Adding CTED and the Associate Development Organizations to the Compact would help communicate that workforce and economic development must work together.

- Authorize the state’s 12 Workforce Development Councils to coordinate workforce development planning in their regions, with a special focus on industry clusters. The strategic planning responsibilities of the Workforce Development Councils are not currently recognized in state statute, but are instead established by executive order and requirements adopted by the Workforce Board. While the workforce councils already coordinate strategic planning and do

emphasize industry clusters, placing this responsibility into state statute would reinforce this function and would be an important part of completing this state/local framework.

- Authorize the Workforce Development Councils and the Associate Development Organizations to work together to coordinate planning for workforce and economic development in their area.

Although these two groups do not require statutory authority to work together to support clusters, by placing this requirement in statute it would create a sense of sustained state support for this approach.

- Place the state's community and technical colleges' Centers of Excellence into statute.

Statutory authorization would provide a foundation for ongoing support. The Centers should be described in statute without naming individual Centers in order to allow the colleges the flexibility to support Centers that match the changing economy.

The above recommendations can be implemented without necessarily requiring additional state resources. This is noted in light of the current revenue forecast for the next biennium. As things change and state leaders think about additional investments, the above activities would be worthy of the state's consideration. In addition, the state should consider the following two recommendations with clear budgetary impacts.

- Provide funding for the CTED cluster grant program.

The CTED cluster grant program provided resources that enabled several of the local cluster efforts to get off the ground. No funding has been provided during the current biennium.

- Establish a state version of the federal WIRED grant to promote workforce and economic development in strategic industry clusters.

The WIRED grant program provides flexible funds for workforce and economic development entities to work together to transform industries to be competitive in the 21st Century. Local practitioners and policy leaders have frequently commented on the lack of funding that is not tied up in existing bureaucratic requirements.

## **Conclusion**

This paper has presented a framework for coordinating workforce and economic development around industry clusters. It has summarized the theoretical underpinnings of cluster strategies, discussed the role of government in assisting clusters, sketched out the current efforts in Washington, and indicated recommended next steps. During the past year policy-makers and practitioners have examined the questions: What is currently working well? What needs to be changed? What new state support is needed? These leaders have validated the above proposals as promising next steps to advance how the state can assist local efforts to grow industry clusters in regions throughout Washington—and grow the economy in ways that benefit all Washingtonians.