



# Department of Commerce

Innovation is in our nature.

## TRIP REPORT

### Commerce Connections – Regional Conversations

#### BACKGROUND

Formerly known as the Department of Community, Trade and Economic Development or “CTED,” 2009 legislation created the new Department of Commerce and directed the department to submit by November 1, 2009, a report on recommendations to focus the new agency to better serve the needs of business in order to grow and improve jobs in Washington. This report must include analyses and proposed statutory changes that ensure the department will:

- have a concise core mission
- be aligned with the state's comprehensive economic development plan
- be accountable and transparent
- leverage state private and federal resources
- maximize partnerships and use intermediaries
- be focused and flexible in response to changing conditions
- increase local capacity building to respond to opportunities and needs
- include recommendations for creating or consolidating programs important to meeting the department's core mission, as well as recommendations for terminating or transferring programs that are inconsistent with the core mission

The complex process of evaluating and reorganizing a diverse portfolio of more than 250 programs currently administered by the agency is now underway. This process began with stating a mission, vision, and themes that would guide our work.

#### **Mission:**

Grow and improve jobs in Washington State.

**Vision:**

The Department of Commerce is at the center of a vital connection between State policy makers wondering how proposed policy will impact the business climate of the state and business leaders needing policy engagement as they strive to grow their employment in Washington State. Helping this important connection work well will grow our state's economy for the benefit of all of our citizens.

**Principles:**

1. Government doesn't create most jobs – businesses do. Over 80% of our state's economy comes from private sector activity. Businesses contribute about half of the taxes the state collects each year. We must have a tight connection to the private sector to be successful in our mission.
2. Government does play a key role in shaping the state's business climate. The policy created in Olympia has a major impact on almost every aspect of the state's business climate from the tax rates for business to the level of education and training in the workforce.
3. Strong economies require strong communities. Companies will not grow and thrive in communities where adequate social services don't exist, where people lack food and housing, where there is not sufficient infrastructure or where there is not an appropriately trained workforce.
4. A strong, vibrant business community benefits us all. Where do our governments get the money to build and maintain these strong communities? They get it from taxes paid by citizens and businesses. And those taxes are based on income generated by employment and commerce. The more successful businesses are in our state, the more employment and commerce there will be and the more money there will be to invest in our communities.
5. Government should not pick winners and losers. In general, government should avoid policy that backs specific companies or even specific technologies when designing economic policy. The more specific policy gets, the more likely the state is to pick wrong and do more harm than good.
6. Retaining our state's current businesses and promoting their growth should be our first priority. In a business, it is almost always easier and cheaper to drive growth from existing customers than it is to attract new ones. As a state, we should be sure that we

are taking care of our existing companies and driving loyalty in them in addition to the work we undertake to attract companies.

7. Always be opportunistic. Planning is important and it's always good to have a plan. But it's also important to realize that the world is changing rapidly and not to "fall in love" with your plan and miss a golden opportunity.
8. Focus on the function and form will follow.

With that framework in place, we designed a comprehensive stakeholder engagement plan to collect input that includes five "tracks", including:

1. Research and Analysis
2. Regional Conversations (the focus of this report)
3. Statewide Conversations
4. Internal Conversations (state government, boards and commissions, and Commerce employees)
5. One or more "summits" may be planned for early fall

## **WHERE WE HAVE BEEN**

In June and July, we conducted an unprecedented six-week regional tour titled Commerce Connections that included 49 focus group sessions in seven geographic regions. In each region, Commerce Director Rogers Weed and members of his management team engaged in conversation with seven different focus groups, including:

1. Small Businesses (fewer than 50 employees)
2. Large Businesses (50 or more employees)
3. Economic Development Practitioners
4. Local Governments
5. Housing and Community Service Organizations
6. Utilities
7. Legislators

Overall, 647 people participated at seven venues that attracted participation from across the region:

1. Burlington
2. Shelton
3. Vancouver
4. Wenatchee
5. Kennewick
6. SeaTac
7. Spokane

## **WHAT WE HEARD**

Each of the 49 focus groups was summarized in a theme report that was shared with participants and edited based on their feedback. The individual meeting reports are posted on the [Commerce Connections](#) website. This trip report attempts to distill that detail into key opportunities that we heard and explored in nearly every regional conversation. We identified the following major themes:

1. Get smarter about how we regulate (permitting, licensing, compliance, reporting)
2. We have an opportunity to rethink the way we fund infrastructure as we replace the funding that was re-appropriated in the last legislative session.
3. We need to continue to focus on our competitiveness as a state, including improving the perception of Washington State as a good place to do business
4. Help rural areas better “bootstrap” their economies and grow and improve jobs
5. Improve the way our education and workforce training systems anticipate and respond to the needs of employers
6. Improve the way our state encourages commercialization of research and development, including access to capital for growing businesses
7. Ensure that our tax system is encouraging the things we want to encourage

8. Overall, the employees of Commerce are very well regarded around the State for the way they engage with the local community to administer their programs

Summaries for each of the major participant groups are included later in this report. They incorporate input received across most or all regions.

## **WHAT'S NEXT**

We are currently conducting an [online survey](#) that will allow more opportunity for a wider audience to contribute thoughts on transforming the agency. The survey will allow us to put quantitative weight behind the qualitative input we have received to date.

By early September we will share our initial thinking about opportunities for change that we are considering for the plan. We will make that next stage information available online, through our Commerce Connections listserv (subscribe by going to [listserv.wa.gov](mailto:listserv.wa.gov)) , and additional outreach activities still under consideration.

Our final report will be submitted by November 1 and will be widely shared with our customers, partners, and stakeholders.

## **CONCLUSION**

Even in the midst of the worst economic climate in more than 50 years, we have some tremendous opportunities to work together to capitalize on our history of innovation, economic diversity and strong industry sectors to keep Washington globally competitive and growing.

# Commerce Connections Tour

## SMALL BUSINESS THEMES

### Small Business Assistance

Business is looking for an advocate that will not only work for them in the legislature but also provide assistance to them. The most frequently requested form of assistance is to help identify funding for growth for new ideas and innovation. Many businesses do not feel they have an advocate for them like other states do. Ideas and suggestions that will help small business include:

- Provide high tech tools for research and development
- Provide information on how to access and know about available resources
- Create some financial incentives comparable to other states
- Close the gap that exists at the Small Business Development Center for small business and medium size businesses
- Develop a virtual match-making system where businesses can have regional networking for sharing ideas and generating more business
- Assist businesses in rural areas as well as urban areas
- Identify opportunities in federal stimulus funds
- Create Small Business Innovation Research (SBIR) type program for small business innovation
- Tourism and Main Street programs can help communities grow small businesses

### International Trade

International Trade gets high marks for the work they do with businesses. International Trade needs to have increased funding if Washington is to remain a high export state.

- Help businesses attend international trade shows
- Assist with international information and contacts
- Teach how to export

### Education/Workforce

Cutting education is a long term mistake. Government has a responsibility to provide quality education so that we can have an innovative work force in our communities, both urban and rural. Universities have been helpful for tech companies but the cuts will affect ability to assist businesses.

- Need to attract PhD's to Washington to fill gaps that exist from current education system
- Need to create a just-in-time customizable training system that delivers a workforce for that meets today's employers needs

### Recruitment

Commerce needs to find out what Washington has that is unique and attract talent and companies that fit in without competing with existing companies. Other states are very aggressive in their business attraction (Tennessee, North Carolina, and South Carolina) and Washington needs to do something that keeps companies here.

- Increase support for targeted industries in foreign countries
- Offer better energy incentives for companies like Oregon, Tennessee and California have done

- Work with existing businesses to understand their supply chain and recruit complimentary businesses

### **Regulatory System and Cost of Doing Business**

The number one issue of concern for small business is the regulation process for existing, and new business. Regulations are not only onerous but increase the cost of doing business in Washington. Many feel like the state just wants to generate revenues through fees and penalties. Specific regulatory issues that were discussed:

- Cut out the retro groups with Labor & Industries to lower rates to business
- B&O tax inhibits innovation and risk taking for businesses
- Prevailing wages limit competitiveness
- Concurrency with Growth Management
- Comp plan updates limit business growth
- Inconsistency at local permit staff
- Department of Ecology permitting slows business growth
- GMA not conducive to economic development
- Unemployment compensation (other states privatize)
- Too many land use regulations plus their restrictive nature

# Commerce Connections Tour

## LARGE BUSINESS THEMES

### Cost of Doing Business

Businesses are looking for assistance from the Department of Commerce to make it easier to do business in Washington. Washington is seen as a high cost-of-doing-business state with an unfriendly business climate. Examples given included:

- Workers Compensation, Unemployment Insurance, Labor and Industries, High Minimum Wage, and B&O tax are major burdens on Washington businesses
- Washington State is viewed as taking pride in exceeding federal standards for the environment and having the toughest regulations in the country. The state should match the federal regulations

### Workforce

Workforce is seen as a key issue for the future of Washington and the ability to meet existing and future business needs. Specific comments include:

- Need to ensure adequate funding is available to the education system to train workers.
- Need to look at what positions and industries are hard to fill and create programs to train workers to fill them
- Important to start at the high school level to generate interest in hard-to-fill positions and specific industries. Need to address the drop-out rate and show students why they need to stay in school

### Infrastructure

Infrastructure in Washington is important to business success, especially having available land, buildings and services as well as transportation systems to move goods.

- Transportation is a major issue and concern. Rail service is a bottleneck between Seattle and Portland. Difficult to get raw products in, especially to get small number of rail cars
- Financing (CERB, PWTF) tools have been swept by the legislature and need to be returned to funding levels they were before session. Tax increment financing (TIF) and other tools need to be created and implemented
- Broadband is an issue in some rural areas

### Business Recruitment, Retention and Expansion

Future technologies and growing sectors provide business growth opportunities for Washington. Specific comments and ideas include:

- Clean Technology and Energy is an opportunity for the state to grow jobs in. Oregon is an example of someone who is doing it well
- Consistent reliable energy is strength for high tech manufacturing, state should look to recruit those types of companies who need the resource
- Being green and environmental minded can be used as strength to attract employees and environmental minded businesses

- Need to review what incentives we are competing with from other states and countries and decide what we want to incentivize to be in Washington
- International trade and assisting businesses with exporting are seen as some of the first things we can do to help the state recover from the recession
- Access to capital is a major issue with the banks still not loaning money
- Small businesses are seen as the backbone of the economy. Main Street and tourism programs help them succeed
- Military (retirees) provides an opportunity for employees and people who will start businesses

### **Regulation**

Regulation is seen as broken, complicated, over burdensome and not in alignment with helping to provide solutions to permitting and operations of business.

- Office of Regulatory Assistance (ORA) is seen as being helpful on major projects but needs to be part of Commerce and staffed adequately to assist most projects. Need ORA to bring state and federal agencies to the table to help get projects done and to streamline permitting process to make it more efficient
- Concern/issue: 1/3 of issues are seen as regulation specific, 2/3 of issues are seen as interpretation and implementation of regulation. No clear sense that agencies are working together to solve issues vs. prevent progress and be at odds with each other of what should and can be done
- Commerce should be advocate and convener of agencies to help projects. Need to showcase the business side of a project and the economic impact for the local community and state. Create an economic impact statement for all projects, and proposed rules, regulations and laws

# Commerce Connections Tour

## ECONOMIC DEVELOPMENT PRACTITIONER THEMES

### Partnerships

Department of Commerce can be seen as a change agent, convening of a diverse set of groups for the common good and helping to streamline processes and make it easier to do business in Washington. Partnerships create vital communities that businesses see as an advantage. Commerce department should take the lead in establishing and strengthening partnerships with associations and other state agencies.

### Recruitment and Retention

Washington is doing a good job of recruitment considering the limited investment. Commerce should be involved in a variety of different marketing opportunities to attract and retain businesses and identify ones that provide the best return on the state's investment.

- Energy, clean technology and other key sectors should be the focus for recruitment and retention
- Washington is at a disadvantage compared to other states with respect to incentive programs, including Oregon's generous incentive for solar. Commerce should review the competition, note where and how we are losing businesses and share that information with the legislature to create incentive programs that attract business
- California is seen as a place of opportunity to recruit businesses from
- Continue foreign direct investment, domestic lead generation and Team Washington activities
- Encourage utility participation and investment in marketing efforts
- Market areas of the state other than just the Puget Sound corridor
- Continue education and training like Community Survivors and Northwest Economic Development Course
- Coordinate and encourage additional customized training for workforce development

### International trade

International Trade is an extremely important part of business development. Emphasis should be placed on creating more opportunities and better trade relationships with Canada and Southeast Asia.

- Provide education to local officials and businesses on Commerce Export Services
- Use electronic communication to highlight opportunities and emphasize Washington's position in the global market place

### Tourism

There does not seem to be an understanding of how important tourism is to the economy and how it gets funded. We continually rank low in terms of tourism promotion dollars relative to other states. The Tourism Commission and tourism staff have gained credibility in past couple of years.

- Educate legislators and local elected officials on how the lodging tax works and articulate the role tourism plays in economic development
- Increase technology efforts to promote tourism

- Coordinate another tourism statewide conference to discuss issues (last one in 2005)

### **Cost of Doing Business and Regulations**

Washington is seen as a high cost-of-doing-business state. There does not appear to be any policy alignment between the Growth Management Act (GMA) and economic development. Many times they seem to be in conflict with each other. Environmental regulations across state agencies are very challenging.

- Commerce can take the lead in removing inconsistencies
- Make permitting more user friendly (should not take two years to complete project)
- Business and Occupation (B&O) Tax, Unemployment Insurance, Labor and Industries bureaucracy and highest minimum wage are barriers to attracting and retaining businesses

### **Communication**

Need to have better communication with the state. Communities are often asked for data but not given reasons or feedback as to what the information will be used for. Regular communication should let communities know about programs that can be beneficial to communities and businesses.

- Continue to have outreach meetings such as this one
- Promote outreach for communities when Department of Commerce makes changes
- Puget Sound Partnership meetings serve as a good model of communication
- Utilize electronic methods to get information like federal economic recovery funds out to communities
- Use regional managers to communicate changes
- Provide on-site training, webinars toolkits, checklists, trend information

### **Funding and Infrastructure**

It seems doubtful that current funding levels at the department, or for communities, will help get us out of the financial difficulties that we face. The current path we are on is not sustainable, and initiatives are taking funding sources away. Many of the old funds are no longer available to communities (old growth, rural opportunity etc.)

- Stop doing unfunded mandates
- Community Economic Revitalization Board (CERB) and Public Works Board are serving communities well but need to be more flexible and have their funding put back in place
- Continue to fund the Associate Development Organizations
- Access to capital is a key issue for business

# Commerce Connections Tour

## LOCAL GOVERNMENT THEMES

### **Growth Management**

The Growth Management Act (GMA) was a significant issue with Local Governments. GMA is perceived as hindering development, litigious, burdensome and not working.

- Three Growth Management Hearings Boards universally an issue
- GMA is not just an environmental-only law; it provides for infrastructure investments and economic development
- Look for how GMA planning can better support economic development

### **Infrastructure Financing**

- Need more tools: Tax Increment Financing (TIF), loan guarantees
- Consolidation of programs and functions
- Offer more local flexibility
- Don't peanut butter/reward good behavior/policies

### **Environmental Regulations**

Environmental regulations and permitting are too complex, conflicting, and time-consuming

### **Industrial Insurance**

Look at options for privatizing industrial insurance (L&I)

### **Tax System**

- Consider threshold on Business & Occupation tax
- Look at Washington Constitution restriction of lending of credit (see Oregon)

### **Support for Small Business**

Small and micro-business need more focus and support

### **Education and Training**

Strengthen workforce, technology transfer, business connection

### **Rural and Urban Disparity**

Not all jurisdictions are treated equally (rural/urban, non-Puget Sound).

### **Minimum Wage**

Pros and cons on minimum wage were heard.

### **Department of Commerce**

- Commerce should have a focused mission and reduce diversity of agencies

- Use other studies/efforts as starting point, for example the Puget Sound Regional Council's work
- Commerce could be an educator and coordinator of other state agencies. Can be an effective broker--known for customer service

# **Commerce Connections Tour**

## **COMMUNITY SERVICE AND HOUSING THEMES**

### **Relationship with Commerce**

Community service and housing agencies are very satisfied with the current relationship with Commerce. Reasons cited include:

- High level of engagement and responsiveness by program staff and leadership
- Good communication
- Processes that work, or get fixed when problems are discovered
- Relationship is based on trust that has built over time

Many expressed concern that a change in governance would hurt their ability to efficiently serve their communities.

### **Program Diversity**

Commerce is currently the intersection of many different programs. This was seen as a strength as it allowed for better program integration at the local level. Some thought the diversity of programs served to bring people together to address community issues.

### **Integration**

Need to integrate and simplify programs wherever possible. This comment was made in reference to programs both within the department and across state agencies.

### **Link to Economic Development**

Community services and housing organizations link to economic development by satisfying the basic needs of individuals which enables them to participate in training or hold a job.

Community services and housing agencies are directly connected to economic development and job creation activities in their local communities. Many serve on Chambers of Commerce and Economic Development Councils. A significant number of these agencies are major employers.

### **Innovation**

Commerce has been nationally recognized for many innovative programs including the Housing Trust Fund and the Community Jobs program.

# Commerce Connections Tour

## UTILITY THEMES

### Infrastructure Assistance

- Infrastructure assistance programs should be part of Commerce
- Commerce should help secure Public Works Assistance Account funding next biennium
- The Public Works Trust Fund still the simplest model but additional program and legislative requirements are making it harder to use – can we streamline/improve – consider using the Drinking Water State Revolving Fund/Public Works Trust Fund model

### Energy

- Energy (low cost, high quality, ample supply) is a major asset to the state – promote it
- Must safeguard the state’s status in this arena
- Wind and solar development requires large subsidies – other alternatives might be better – nuclear?
- Renewable requirements may be unrealistic, especially for small, rural utilities

### Water Supply/Water Rights

Water supply is a growing issue across the state – need to manage better

### Economic Stimulus

Commerce should maximize access to federal recovery funds for infrastructure

### Permitting and Regulations

Regulations (especially environmental regulations) frequently get in the way of “progress”

### Customer Service

Commerce’s staff and service delivery approach are excellent

### Department of Commerce

Regionalization is a great concept, but sometimes difficult to implement