



UNLOCKING WASHINGTON'S FULL POTENTIAL

A FRAMEWORK FOR DIVERSIFIED & INCLUSIVE ECONOMIC GROWTH



BCG
THE BOSTON CONSULTING GROUP



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Washington state's economic performance data tells a compelling story. The state is thriving. It ranks among the top 10 states for job growth and is a top-five state for income growth per capita. However, the statewide data masks a more complex regional narrative, one in which prosperity is spread unevenly, and some communities—including many of Washington's rural areas—are outright struggling.

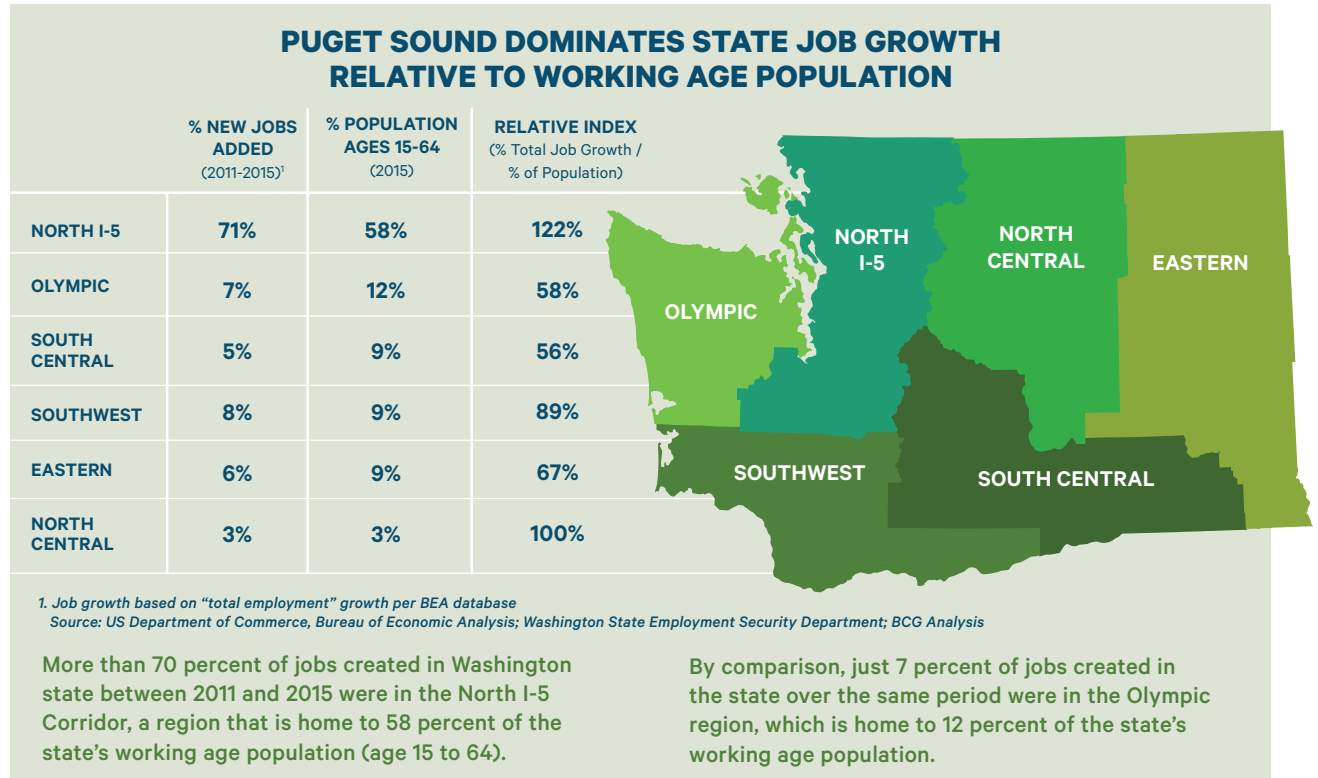
By dividing the state into six parts based on human geography (connected regions where people live, work, commute, and trade), a “de-averaged” picture of economic performance can be created.

Such an analysis indicates that the future will likely be bright in areas of the state that are already experiencing strong economic performance. However, this analysis also exposes a stark, and potentially growing, urban-rural divide.

Washington needs a concentrated effort to drive growth in its rural communities. The Washington Roundtable partnered with The Boston Consulting Group (BCG) to look more deeply into the state's economic performance data to understand regional disparities and develop a framework for growth that is diversified (not concentrated in one industry) and inclusive (balanced across all regions and benefitting individuals in all socioeconomic levels).

KEY FINDINGS

There is opportunity to maintain Washington's top-five position for per-capita income growth and boost its position to become a top-five state for job growth by bridging the urban-rural divide and driving growth that is distributed more equitably statewide.



At its current growth rate, Washington is projected to produce 1.4 million new jobs over the next decade. To become a top-five state for job growth, Washington must create 250,000 jobs, in addition to those already projected, by 2027. The state can realize 120,000, or nearly half, of the additional jobs needed to reach the top-five goal by raising economic performance in regions outside the North I-5 Corridor up to the state's average growth rate. To do that, key challenges in five areas must be addressed: human capital, infrastructure, innovation ecosystem, trade and investment, and regulation.

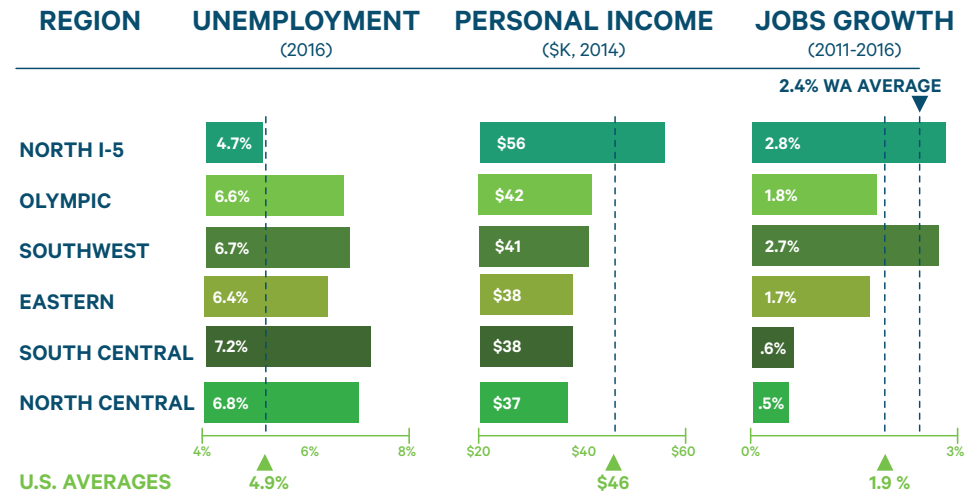
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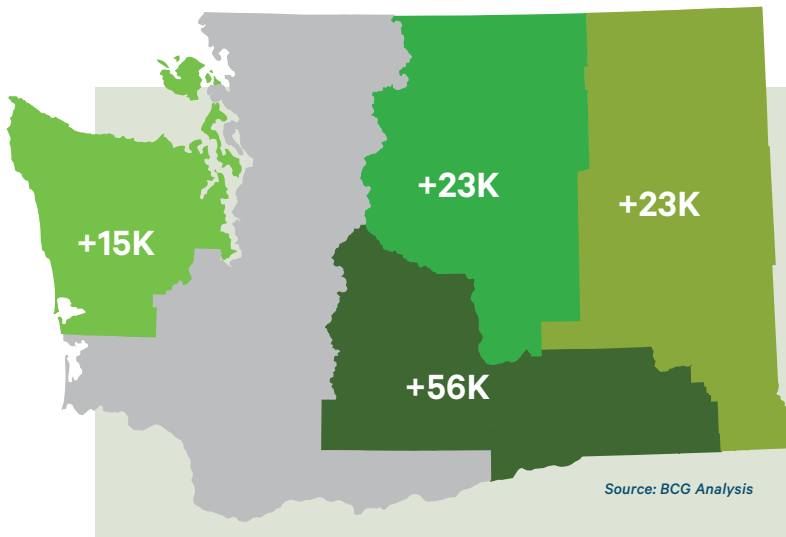


OPPORTUNITY: INCREASE JOB GROWTH IN UNDERPERFORMING REGIONS

Washington state experienced average annual job growth of 2.4 percent from 2011 to 2016, a rate well above the national growth rate of 1.9 percent. When looking at the data on a de-averaged basis, two regions stand out—the North I-5 Corridor and the Southwest Region, which came in at 2.8 and 2.7 percent average annual job growth respectively, with growth concentrated in those regions' major metropolitan areas. Given their outsized impact on state job growth (the North I-5 Corridor is home to two-thirds of the state's jobs), it is important that Washington continue to support growth in its high-performing regions. However, to bridge the urban-rural divide and realize our goal of diversified and inclusive statewide growth, job growth in the other regions must improve.



Source: US Department of Labor, US Bureau of Labor Statistics; US Census Bureau; Washington State Employment Security Department; BCG Analysis



IMPACT OF RAISING UNDERPERFORMING REGIONS TO WASHINGTON AVERAGE (2.4%)

Increasing job growth in underperforming regions (Olympic, Eastern, South Central, & North Central) to the recent statewide average of 2.4 percent annually will translate to 120,000 new jobs in addition to the 1.4 million new jobs projected statewide by 2027. Achieving this level of additional job growth will require concerted statewide and regional efforts that address key drivers of economic growth.

**GETTING UNDERPERFORMING REGIONS TO AVERAGE GROWTH
WOULD ADD 120,000 JOBS BEYOND MOMENTUM CASE**

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THE DRIVERS OF ECONOMIC GROWTH

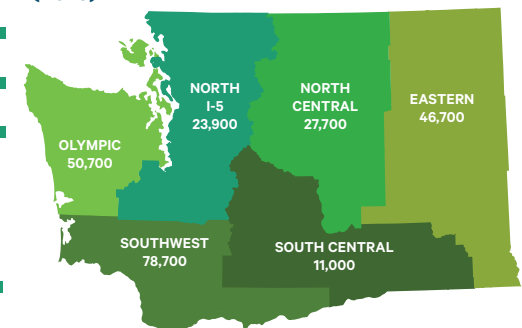
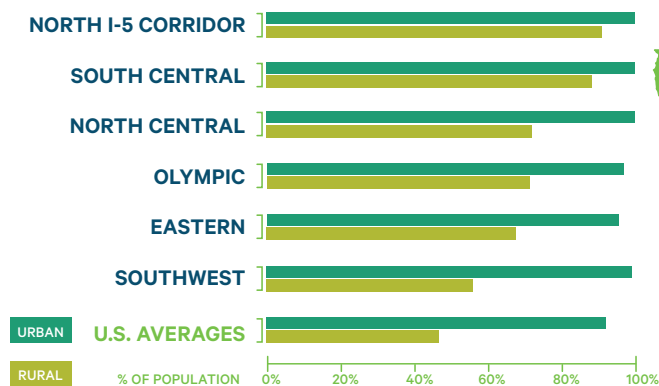
The fundamentals of economic development, and ultimately the determinants of job growth, tend to be similar regardless of location. Successful efforts in both urban and rural environments commonly depend on five factors:

- **HUMAN CAPITAL:** A labor force that is appropriately sized, healthy, and educated.
- **INFRASTRUCTURE:** Physical and digital infrastructure that facilitates efficient movement of people, goods, capital, and ideas.
- **INNOVATION ECOSYSTEM:** A business culture that encourages research, development, and entrepreneurship.
- **TRADE AND INVESTMENT:** Access to capital for new ideas and enterprises, a clear strategy for encouraging and securing foreign direct investment, and effective supporting organizations (trade organizations, chambers of commerce, etc.).
- **PUBLIC POLICY CLIMATE:** Growth-oriented tax policy, streamlined and responsible regulations, and investment incentives that encourage growth.

BCG ANALYSIS OF THESE DRIVERS, COUPLED WITH INPUT FROM EXTENSIVE STAKEHOLDER INTERVIEWS STATEWIDE, HIGHLIGHTS DISTINCT CHALLENGES ACROSS WASHINGTON:

- The state's education pipeline does not supply a workforce with education and training levels sufficient to meet employer demand.
- State road, highway, and bridge networks continue to be strained due to the burdens of age and population growth.
- An estimated 280,000 rural residents do not have broadband access. This hinders delivery of education, training, and online services. It also limits productivity and options for remote workers, entrepreneurs, and prospective investors.
- There is a lack of a regional focus in promoting Washington, and its sub-regions, for business attraction or retention and tourism.
- Entrepreneurs need better support networks to foster innovation, investment, and growth.
- The state's "one size fits all" policy and regulatory climate unduly burdens non-urban regions.

POPULATION WITH ACCESS TO ADVANCED BROADBAND (2015)



OF RURAL POPULATION
WITHOUT ACCESS BY REGION

Advanced broadband is defined by the FCC reflecting advances in technology, market offerings, and consumer demand; in 2015, speeds of 25mbps downloads/3mbps uploads

Source: WA Department of Transportation; Federal Communications Commission; WA Department of Transportation; U.S. Federal Aviation Administration; US DOT FHA research

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ILLUSTRATIVE STRENGTHS AND CHALLENGES BY REGION

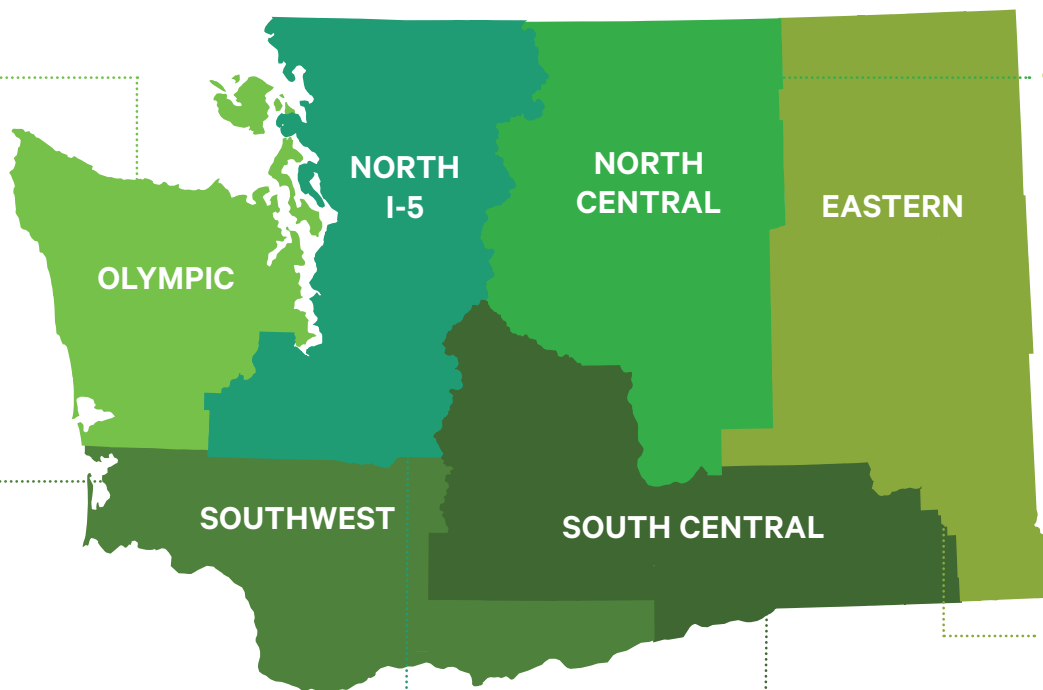
BCG examined publicly available research and distilled feedback from stakeholder interviews to provide illustrative examples of the comparative strengths in each region and challenges to improving economic performance.

• OLYMPIC:

Interviewees report strong quality of life with access to ample outdoor activities. Historically reliant on the timber industry, the region struggles with high unemployment as well as slow GDP and job growth. The regional unemployment rate in 2016 was 6.6 percent, compared to the U.S. average of 4.9 percent. Availability of broadband is a challenge, with 13,000 rural inhabitants (29 percent of the population) lacking access.

• SOUTHWEST:

This region has the state's fastest GDP growth, due largely to Vancouver's success. Academic innovation with key players—Washington State University, Clark College, and Gorge MakerSpace—is a strength. The region struggles with unemployment (6.7 percent, compared to U.S. average of 4.9 percent in 2016). It is the least digitally connected region in the state (78,000 inhabitants lack broadband access).



• NORTH I-5 CORRIDOR:

This region benefits from diverse industries, global connections, and a growing economy. Significant innovation is driven by a well-educated talent pool. Challenges include transportation congestion, a tax and political climate that discourages investment, and the regulatory environment.

• SOUTH CENTRAL:

The region gets high marks for quality of life and growing tourism in the revitalized Walla Walla and Yakima regions. The Pacific Northwest National Laboratory in Richland is a hub of innovation and job creation. However, outside the Tri-Cities, the region has the highest unemployment in the state, due partly to seasonal employment trends. The region's 2016 unemployment rate was 7.2 percent, compared to the U.S. average of 4.9 percent. Per-capita income was \$38,000 versus the Washington average of \$50,000 and U.S. average of \$46,000.

• NORTH CENTRAL:

With an economy rooted in agriculture and tourism, this region has struggled in the aftermath of damaging wild fires. Nonetheless, it is an emerging area for data center and tech onshoring, and its food processing and manufacturing sectors have potential for growth. Among its challenges: limited to no venture capital and low education attainment levels (80 percent of the region's adult population has a high school diploma, compared to the U.S. average of 87 percent).

• EASTERN:

The region has a robust urban center—Spokane—with health care and aerospace innovation. It has a strong agricultural export economy. Venture capital and angel investments are underdeveloped in Spokane. Broadband availability is a challenge—78,000 inhabitants, or 32 percent of the population, lack access. Per-capita income of \$38,000 per year trails the Washington average of \$50,000 and the U.S. average of \$46,000.



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Washington's economic growth story will likely continue to be positive over the next decade. However, on its current trajectory, growth will continue to be disproportionately concentrated in the North I-5 Corridor. Such a growth story—although positive overall—will limit opportunities for far too many residents and communities across our state, particularly those in rural areas.

The Washington Roundtable urges state and regional leaders to pursue new policies over the next decade that will bridge the urban-rural divide and drive economic growth more equitably across Washington state. The Roundtable worked with BCG to develop the following framework for growth, including recommendations for actions that offer the greatest potential to invigorate economic activity in rural regions where growth has trailed the state average. BCG estimates the combined impact of these actions will enable the state to maintain its top-five status for personal income growth per capita, improve its position to become a top-five state for job growth, and do it in a way that benefits all of Washington. We look forward to working with policymakers, economic development and community leaders, and other stakeholders in the pursuit and implementation of these goals.



HUMAN CAPITAL

GOAL	By 2030, 70 percent of Washington high school students will go on to attain a postsecondary credential by age 26.
IMPACT	This will lead to 31,000 more students attaining a credential each year. On average, each will earn nearly \$1 million more in their lifetime. Their combined success will reduce unemployment by a third and cut poverty in half.
NEAR-TERM ACTIONS	<ul style="list-style-type: none">• Develop private sector driven workforce demand tools and studies.• Establish partnerships between private sector employers, community colleges, and workforce development organizations to address supply-side talent issues.



INFRASTRUCTURE

GOAL	Expand broadband access to all state residents, including 280,000 individuals without it today, most of whom reside in rural areas.
IMPACT	This will lead to \$260 million in additional economic growth and create approximately 6,000 jobs.
NEAR-TERM ACTIONS	<ul style="list-style-type: none">• Establish statewide subsidies to support build-out of broadband infrastructure.• Develop a prioritized list of underserved areas.• Leverage federal resources to support build-out.



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INNOVATION ECOSYSTEM

GOAL	Support an adequately-funded Washington business attraction and tourism marketing program.
IMPACT	This will bring \$5-\$10 billion in additional visitor spending to the Washington economy and create 35,000 to 70,000 jobs by 2027.
NEAR-TERM ACTIONS	<ul style="list-style-type: none">• Evaluate peer-state programs designed to encourage business investment and tourism.• Secure state funding for program.



TRADE & INVESTMENT

GOAL	Drive substantial increases in regional coordination and economic development projects.
IMPACT	This will create up to 60,000 jobs, predominantly in underserved regions, by 2027.
NEAR-TERM ACTIONS	<ul style="list-style-type: none">• Dedicate state funds to support economic development projects.• Incentivize regional cooperation through grants and associated investment strategies.



POLICY CLIMATE

GOAL	Eliminate duplicative regulation and ease regulatory burdens on Washington industries.
IMPACT	This will add up to 40,000 jobs by 2027, increasing present value of income for impacted workers by up to 23 percent.
NEAR-TERM ACTIONS	<ul style="list-style-type: none">• Build out regulatory road mapping program to expand reach and impact.

THE BOSTON CONSULTING GROUP (BCG) is a global management consulting firm and the world's leading advisor on business strategy. We partner with clients from the private, public, and not-for-profit sectors in all regions to identify their highest-value opportunities, address their most critical challenges, and transform their enterprises. Our customized approach combines deep insight into the dynamics of companies and markets with close collaboration at all levels of the client organization. This ensures that our clients achieve sustainable competitive advantage, build more capable organizations, and secure lasting results. Founded in 1963, BCG is a private company with more than 90 offices in 50 countries.

For more information, visit [bcg.com](https://www.bcg.com).

WASHINGTON ROUNDTABLE is a nonprofit organization composed of senior executives of major private sector employers in Washington state. Our members work together to effect positive change on public policy issues that they believe are most important to supporting state economic vitality and fostering opportunity for all Washingtonians.

For more information, visit [waroundtable.com](https://www.waroundtable.com).