

**Washington State Department of Commerce**

# **Competitive Washington**

**How Our State Ranks**

**May 2013**



**Department of Commerce**  
Innovation is in our nature.

# Commerce Mission: Grow and Improve Jobs

## Key Metrics

1. Overall job growth and growth in high-, medium- and low-wage jobs
2. Income per job, hourly
3. Growth in income per job vs. other states

## Global Priorities

Competitiveness

Education/  
Workforce Training

Efficient,  
Effective  
Regulation

Infrastructure  
Investment

## Specific Priorities

Community  
Capacity

Rural Focus

Sector Focus

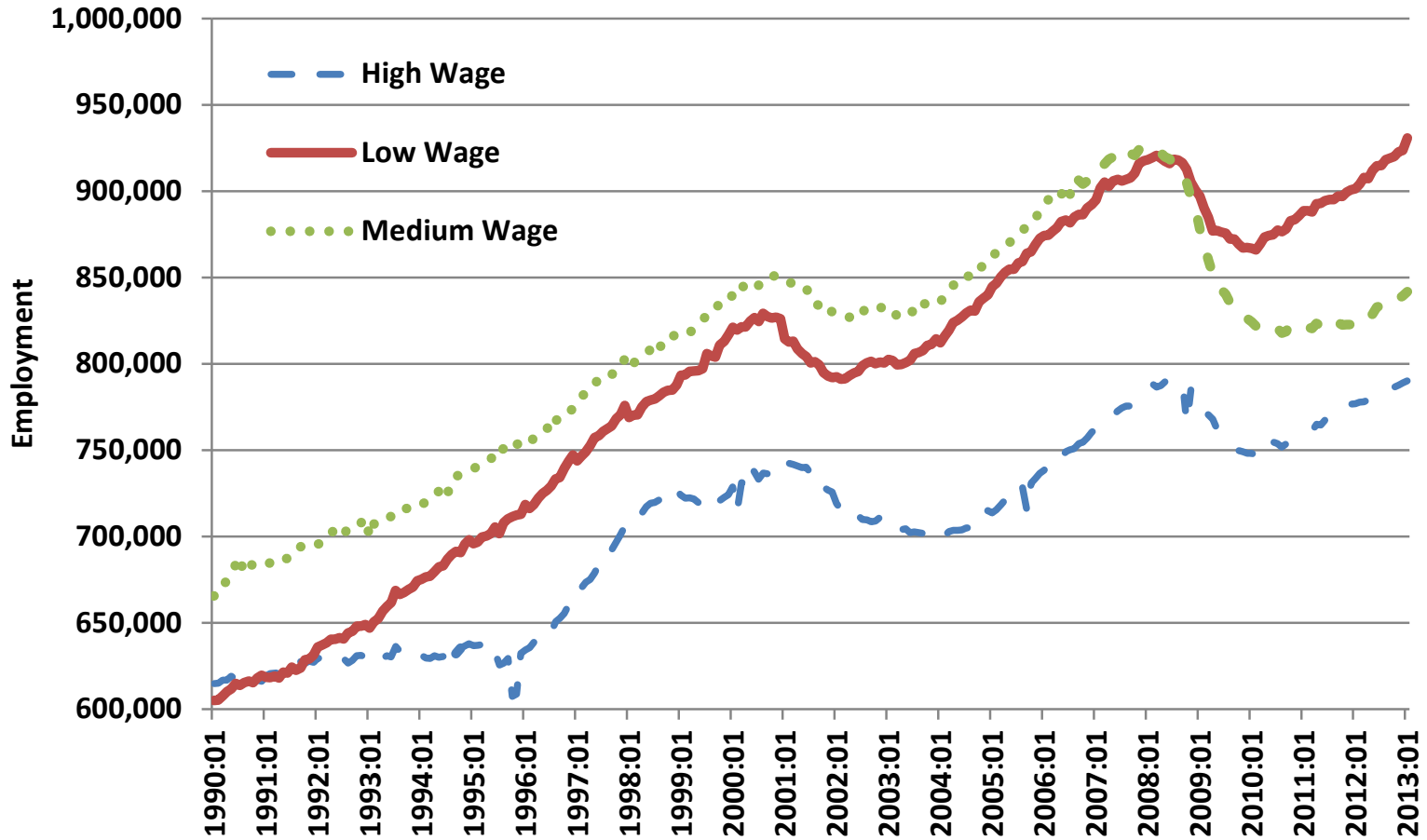
Small Business

Commerce Strategic Plan available at [www.commerce.wa.gov](http://www.commerce.wa.gov)



# High-, Medium-, and Low-Wage Job Growth

Three-Month Moving Average, Through January 2013



# Why Talk About Competitiveness?

- National and global competition for markets and jobs
- Continuous learning and improvement focus state resources for the greatest impact
- Better understand Washington's *real* competitive strengths and weaknesses
- Develop innovative job creation strategies and policies

# Things to Know About Rankings

- Specific indicators tend to go up and down from year to year – trends across studies and over time provide deeper insight
- Small changes in actual performance between states may translate into larger gaps in rankings
- Wide variance between study methods and transparency
- Year-to-year changes in metrics, weighting, and methods limit longitudinal analysis even within individual studies
- Timing of data collection varies from study to study, so some policy changes are not immediately noticed

# Accurate Information = Better Policies

- Washington's economic policies should give more weight to the underlying metrics in studies than to summary rankings
- Rigorous cross-analysis of studies provides deeper insights
- Popular media rankings (Forbes, CNBC) should be used for supplemental analysis

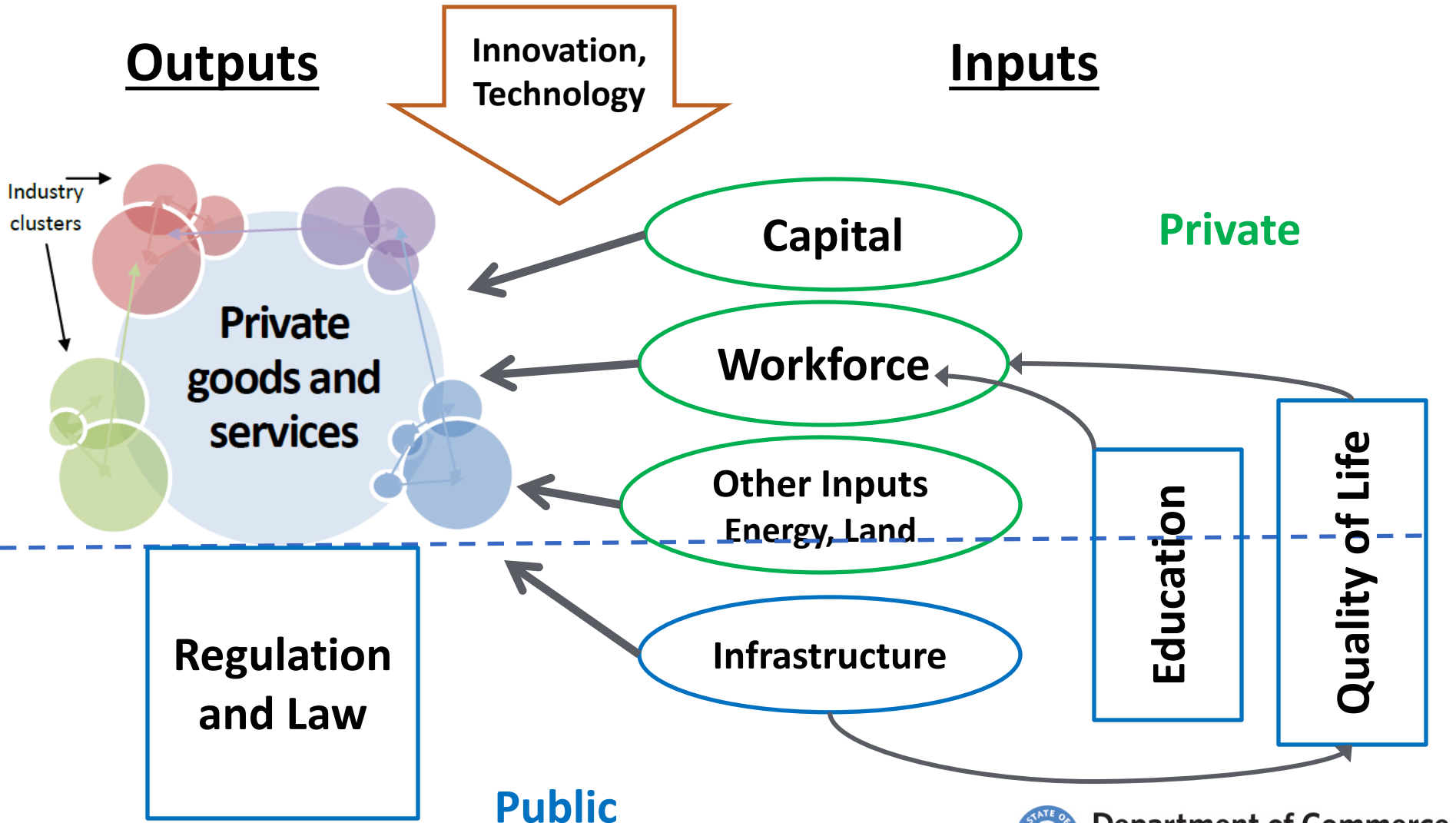
# Washington: A Competitive, High-Value State

- Recent studies show a moderate trend of improvement in areas of existing competitive strength, declines in areas of existing competitiveness weakness
- Washington competes well in innovation, technology, low energy costs, quality of life, workforce, exports, and some parts of our tax structure
- We're less competitive in employment costs, regulatory burden, sales taxes, and cost of living



# Washington's Economy

## Schematic Representation



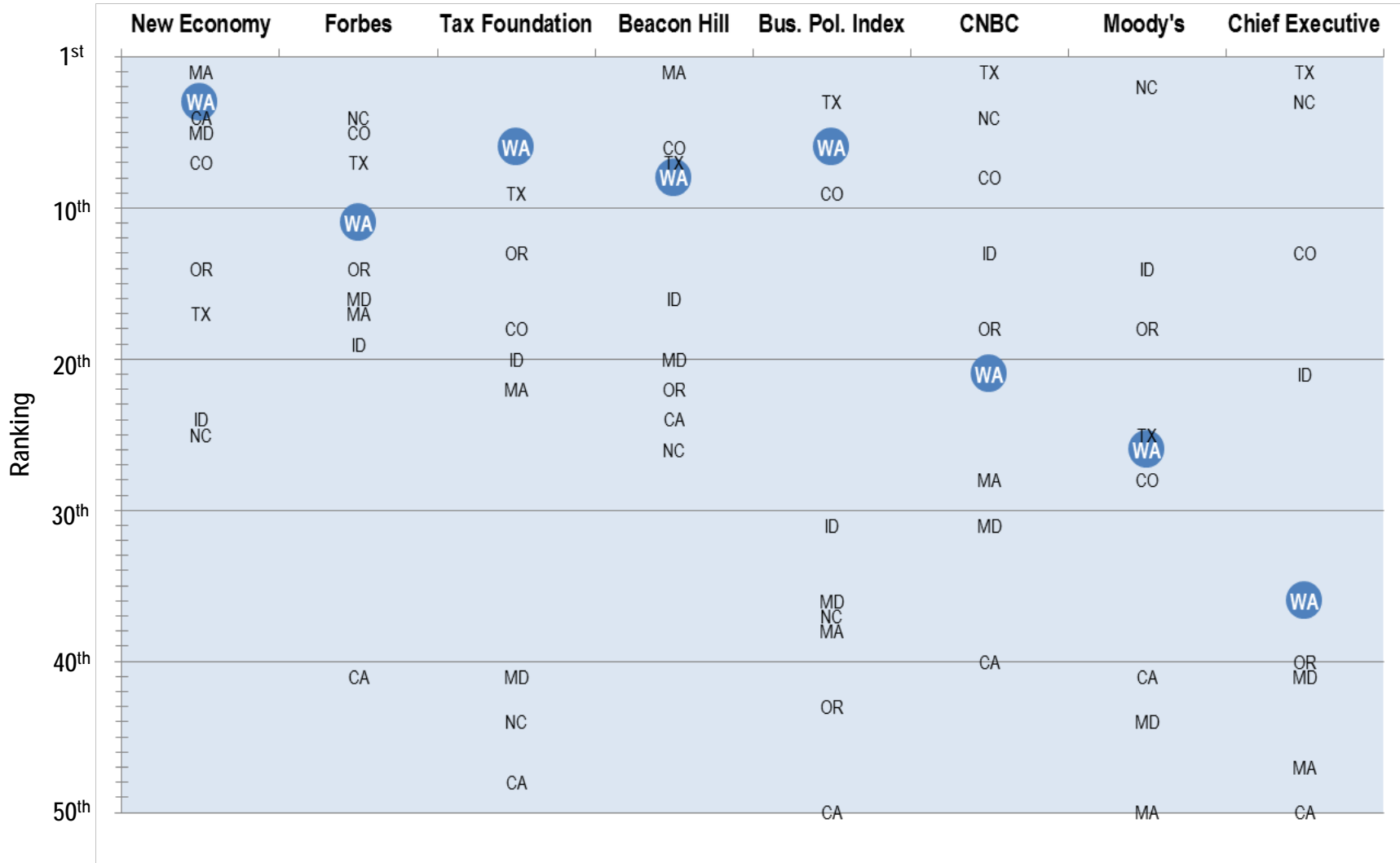
# Competitiveness Studies

## Current Rank:



Year	Index/Report	Previous Rank	Current Rank	Next Update
2012	State New Economy Index	2 <sup>nd</sup>	3 <sup>rd</sup>	11/2013
2013	Tax Foundation State Tax Climate	7 <sup>th</sup>	6 <sup>th</sup>	1/2014
2012	U.S. Business Policy Index	11 <sup>th</sup>	6 <sup>th</sup>	12/2013
2012	Beacon Hill Institute	9 <sup>th</sup>	8 <sup>th</sup>	3/2014
2012	Forbes' Best States for Business	7 <sup>th</sup>	11 <sup>th</sup>	12/2013
2012	CNBC's Top States for Business	20 <sup>th</sup>	21 <sup>st</sup>	6/2013
2012	Moody's Cost of Doing Business	21 <sup>st</sup>	26 <sup>th</sup>	6/2013
2013	Chief Executive Magazine	37 <sup>th</sup>	36 <sup>th</sup>	5/2014
2012	WA State Economic Climate Study	1 <sup>st</sup> to 48 <sup>th</sup>	1 <sup>st</sup> to 45 <sup>th</sup>	12/2013
2011	Michael Porter/States & Clusters	N/A	1 <sup>st</sup> to 45 <sup>th</sup>	N/A

# Competitor State Standings, Overall Rank

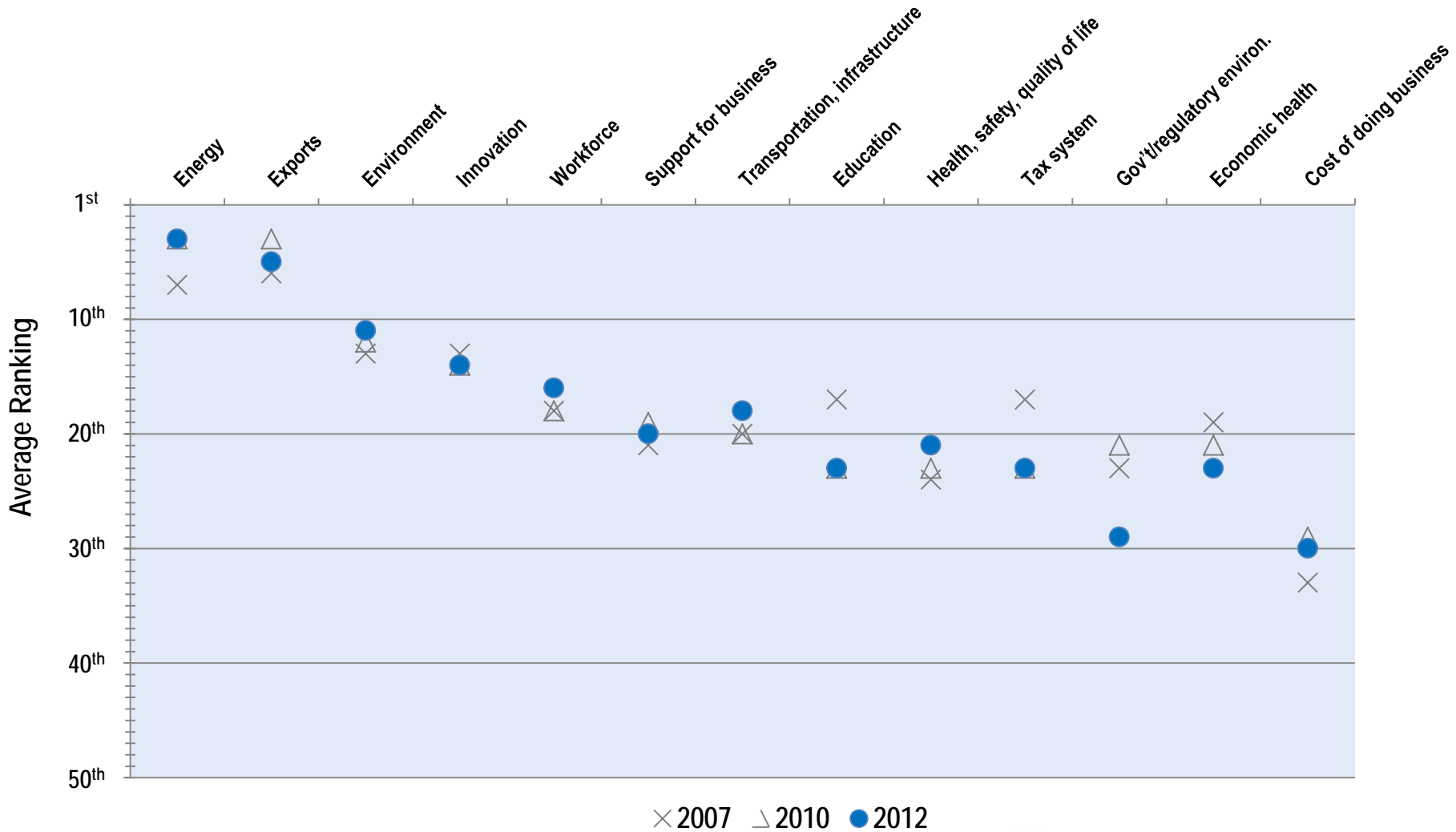


# What Types of Metrics are Studied?

Metric Areas  (Metrics from all of the competitiveness studies, re-categorized. Listed in order of WA's overall strength in each category.)	Number of metrics where WA's current rank is in the:			"Strength Ratio"  (Percent of metrics where WA ranks in the top-third)	Current Average Rank
	Top third of all states (1 <sup>st</sup> to 16 <sup>th</sup> )	Middle third of all states (17 <sup>th</sup> to 33 <sup>rd</sup> )	Bottom third of all states (34 <sup>th</sup> to 50 <sup>th</sup> )		
Energy	5	-	-	100%	3 <sup>rd</sup>
Exports	4	-	-	100%	5 <sup>th</sup>
Innovation	17	4	4	68%	14 <sup>th</sup>
Environment	5	2	-	71%	11 <sup>th</sup>
Workforce	8	5	1	57%	16 <sup>th</sup>
Transportation, infrastructure	6	5	2	46%	18 <sup>th</sup>
Support for business	4	1	2	57%	20 <sup>th</sup>
Health, safety, quality of life	10	4	4	56%	21 <sup>st</sup>
Education	4	2	2	50%	23 <sup>rd</sup>
Economic health	8	4	6	44%	23 <sup>rd</sup>
Tax system	7	4	5	44%	23 <sup>rd</sup>
Gov't/regulatory structure	4	3	6	31%	29 <sup>th</sup>
Cost of doing business	5	3	10	28%	30 <sup>th</sup>
<b>Total metrics</b>	<b>87</b>	<b>37</b>	<b>42</b>	<b>52%</b>	



# Change in Average Rankings by Metric Area



x 2007 △ 2010 ● 2012



# Changes in Selected Metric Areas

A closer look at Washington's recent performance across a selection of metrics:

- K-12 Education
- Innovation
- Economic health
- Tax system
- Government and regulatory environment
- Cost of doing business
- Transportation and infrastructure

# K-12 Education

Number of metrics: 10

Average rank in 2011: 22<sup>nd</sup>

Average rank in 2012: 23<sup>rd</sup>

2012 strength ratio: 50% (mixed strength/weakness)

Alarm Bells: 3

Prognosis: *Plateaued while others improve*

Study	Metric	Rank	Change	Notes
WA Climate	4 <sup>th</sup> grade reading	29 <sup>th</sup>	-10 🚨	Our scores stable, other states improved
Beacon Hill	Percent of population over 25 that graduated high school	16 <sup>th</sup>	-7 🚨	Scores have been stable, others improved
WA Climate	Completed 4 years of high school or more	16 <sup>th</sup>	-10 🚨	Scores have been stable, others improved
Beacon Hill	Percent of students proficient in mathematics, 4 <sup>th</sup> grade	13 <sup>th</sup>	-	Same rank as 2007, but slightly lower scores

- Washington’s education *scores* have remained relatively stable, but our rankings on some metrics have eroded as other states’ have improved. Our average rank in this area has fallen from 17<sup>th</sup> in 2007 to 23<sup>rd</sup> in 2012.
- 4<sup>th</sup> grade reading scores exceed national average, despite rankings drops since 2007.
- Small gains in 4<sup>th</sup> grade math scores this year compared to 2010.

# Innovation

Number of metrics: 25

Average rank in 2011: 14<sup>th</sup>

Average rank in 2012: 14<sup>th</sup>

2012 strength ratio: 68% (competitive strength)

Alarm Bells: 2

Prognosis: Prime opportunity

Study	Metric	Rank	Change	Notes
New Economy	Entrepreneurial activity	40 <sup>th</sup>	-16 🚨	2007 may have been a particularly strong year; rank has been stable since then
New Economy	Immigration of knowledge workers	19 <sup>th</sup>	-14 🚨	Lost ground steadily over time compared to the end of the 2000s
WA Climate	Per capita university R&D spending	21 <sup>st</sup>	+4	Per-capita spending of \$201 in 2011 was a “dramatic” increase over previous \$163
New Economy	Industrial investment in R&D	10 <sup>th</sup>	+21	Big gains since 2007, but lost ground since high of 4 <sup>th</sup> in 2010

- Growth in areas like IPOs, patents, and the number of scientists and engineers were offset slightly by recent losses in industrial R&D spending and immigration of knowledge workers.
- Modest increases in university support for R&D investments, and expanding the number of science and engineering students and graduates, built on our existing strength in this area.
- Per capita university R&D spending and related metrics had shown persistent declines, but appear to be reversing.





# Economic Health

Number of metrics: 18



Average rank in 2011: 27<sup>th</sup>

Average rank in 2012: 23<sup>rd</sup> (+4)

2012 strength ratio: 44% (competitive weakness)

Alarm Bells: 2

Prognosis: *Cautious optimism*

Study	Metric	Rank	Change	Notes
CNBC	Economy (composite)	45 <sup>nd</sup>	-15 	Down 27 ranks from 2010; high volatility metric; methodology unknown
Beacon Hill	Total deposits per capita	41 <sup>st</sup>	-8 	Steady decline in rank, though underlying score is stable
WA Climate	High-wage industry share of employment	13 <sup>th</sup>	+26	Significant gains since 2007, though down 5 ranks since 2011
WA Climate	Total employment growth rate	11 <sup>th</sup>	-2	Declined since 2007, but climbed 27 ranks compared to 2011

- Though we've regained ground since 2011, we're still 3 ranks below 2007 levels on average.
- Washington lagged the nation in recovering from the recession. We had big declines in year over-year economic *growth* rankings. These declines reversed in this year's studies.
- Our performance in the *underlying* categories – per capita income, annual earnings per job, and employment – are essentially unchanged from last year and 2007.

# Tax System

Number of metrics: 16

Average rank in 2011: 22<sup>nd</sup>

Average rank in 2012: 23<sup>rd</sup> (-1)

2012 strength ratio: 44% (mixed strength/weakness)

Alarm Bells: 0

Prognosis: *Unique challenge and opportunity*

Study	Metric	Rank	Change	Notes
Business Policy Index	Corporate income tax	1 <sup>st</sup>	-	High marks for not having state income or capital gains taxes
Business Policy Index	State and local property tax collections	17 <sup>th</sup>	+8	Rank has gradually improved – was 25 <sup>th</sup> in 2007
Moody's	State and local tax burden (composite)	33 <sup>rd</sup>	+1	Structural reliance on sales taxes reduces ranking as recovery picks up
Business Policy Index	Wireless taxes	49 <sup>th</sup>	-	New metric this year

- Washington's unique tax structure results in rankings that vary widely across studies: high in studies that emphasize income and capital gains tax metrics, low in studies that focus on sales taxes (which include our B&O taxes), and towards the middle in property taxes and overall tax burden.
- The addition of a "wireless tax" metric, in which we rank low, reduced our average rank in this area to 23<sup>rd</sup>. Modest improvements in other tax ranks (gas, diesel, overall) would otherwise have improved our average rank to 21<sup>st</sup>.

# Government & Regulatory Structure

Number of metrics: 12



Average rank in 2011: 27<sup>th</sup>

Average rank in 2012: 29<sup>th</sup> (-2)

2012 strength ratio: 31% (competitive weakness)

Alarm Bells: 2

Prognosis: Room for improvement

Study	Metric	Rank	Change	Notes
Forbes	Regulatory environment (composite)	38 <sup>th</sup>	-33 	A second year of big declines due to methodology changes
New Economy	E-Government	25 <sup>th</sup>	-15 	Improved compared to 2010, but still below 2007 ranking
Beacon Hill	Government integrity index	4 <sup>th</sup>	+7	We continue to lead, but Forbes and others no longer use these metrics
Business Policy Index	Number of health insurance mandates	41 <sup>st</sup>	+2	Other states added mandates, while ours remained about the same

- Last year, Forbes gave bonus points to right-to-work states, eroding our ranking. This year, it made methodological changes to its regulatory ranking, replacing PRI's "*Index of Economic Freedom*" study with "*Freedom in the 50 States*" by George Mason University's Mercatus Center.
- The new study heavily emphasizes labor and health insurance requirements. Factors that seemed to most detrimentally affect our scoring were the minimum wage, existence of right-to-work laws (lack of), paid family leave, and a number of health insurance factors.

# Cost of Doing Business

Number of metrics: 18



Average rank in 2011: 29<sup>th</sup>

Average rank in 2012: 31<sup>st</sup> (-2)

2012 strength ratio: 28% (competitive weakness)

Alarm Bells: 3

Prognosis: Some progress, but continuing challenge

Study	Metric	Rank	Change	Notes
Moody's	Unit labor cost (composite)	43 <sup>rd</sup>	-5 	Employment figures revised upward while productivity steady
WA Climate	Workers compensation premium costs	38 <sup>th</sup>	-24 	Big declines in last two years, compared to 2007-10 ranks
Business Policy Index	Workers compensation premium costs	38 <sup>th</sup>	+11	Changed methodology; now <i>employer cost</i> , not <i>benefits</i> , per \$100 in wages
WA Climate	Unemployment insurance costs	39 <sup>th</sup>	+10	Improvements may be related to recent policy changes
Tax Foundation	Unemployment tax index	18 <sup>th</sup>	+16	Improvements may be related to recent policy changes

- Washington consistently receives low marks for not being a right-to-work state, having a high minimum wage, and having a large union presence. Unemployment insurance reforms are starting to show in ranking improvements, however workers comp rankings remain low.
- Moody's ranking decline resulted from upwards revisions to employment, reducing productivity per labor unit. This impacted rankings in Forbes, which relies on Moody's.

# Transportation & Infrastructure

Number of metrics: 13


Average rank in 2011: 19<sup>th</sup>

Average rank in 2012: 18<sup>th</sup> (+1)

2012 strength ratio: 46% (mixed strength/weakness)

Alarm Bells: 1

Prognosis: *Transportation key to improvement*

Study	Metric	Rank	Change	Notes
CNBC	Infrastructure and transportation	36 <sup>th</sup>	-23 	Methodology change; had risen 17 points in 2011 report!
Beacon Hill	Average travel time to work	37 <sup>th</sup>	+2	Slight gains over time
WA Climate	Interstate miles in poor condition	19 <sup>th</sup>	+22	Represents Washington's best score on this metric since 1999
WA Climate	Air traffic delays	18 <sup>th</sup>	+14	Delays exceeding 15 minutes at Sea-Tac lowest in 23 years; 0.3/1,000 trips

- Washington's infrastructure ranking is particularly strong in categories related to broadband, online population, and air travel.
- Overall, our average ranking in this metric area has gradually strengthened over time. Gains would have been even higher without CNBC's major methodological change, decreased our overall rank in this area by 2.

# Strengths We Can Further Develop

- High wage/high skill workforce
- Strong technology/innovation performance; globally competitive companies
- Statewide export-oriented culture
- Low-cost power
- No income or capital gains taxes

# Areas Where We Can Do Better

- Strengthen K-12 and higher education, such as by graduating more science and engineering students
- Improve transportation systems to move goods to markets and people to work
- Support innovative industries and clusters (such as aerospace, bio-tech)
- Further reduce business costs and regulatory burdens

# Case Study 1: Amazon Fulfillment Center

## *Workforce investment pays dividends*

- \$100 million facility and 300 jobs
- Eleven states were in competition to be the site of the Fulfillment Center
- Washington chosen as winner in the fall of 2012 and facility will open in fall 2013

Client Needs	Competitiveness Issues	What Happened
Qualified workforce and commitment to hiring veterans	<b>Skilled workforce</b>	The chosen site is located close to the Intel R&D facility as well as Joint Base Lewis-McCord, giving access to both veterans and a skilled pool of workers.
Community support	<b>Support for business</b>	Local property ownership group, and state and local agencies, worked to facilitate process by assembling resources like utility incentives, workforce information, etc.
Permitting process	<b>Regulatory environment</b>	City worked with developer to get a “shovel-ready” site with all entitlements in place, which helped reduce expenses and permitting time.



## Case Study 2: Frito-Lay

### *Renewing Washington's commitment to upgrading our workforce*

- Retention of 400 jobs in Washington and \$25 million in capital investment
- Potential competitors: 34 other chip manufacturing plants located around the country
- Increased training led to excess savings and triggered further investment

Client Needs	Competitiveness Issues	What Happened
Increase worker productivity	<b>Support for business</b>	The site received \$150,000 in WIA money to offset training costs.
Show progress sufficient for headquarters to invest in new automation technology	<b>Workforce</b>	The increased productivity and profitability triggered the \$25 million in investment to upgrade the facility.

# Case Study 3: Railex

## *Infrastructure upgrades lead to job expansion*

- 400 new jobs in Walla Walla County and \$20 million in investment
- Investment should allow for doubling of weekly truckloads
- \$4.5 million in public infrastructure improvements and \$44 million in private sector investments

Client Needs	Competitiveness Issues	What Happened
Double output at existing distribution facility	<b>Support for business</b>	Commerce assisted in getting \$110,000 WIA money for expansion of the facility.
Increase certainty of on-time delivery and stability of freight cost	<b>Infrastructure</b>	The scheduling of temperature-controlled rail service will increase certainty of on-time delivery.

## Case Study 4: Nanosys

### *Lack of funding leads to missed opportunity*

- The California company sought Department of Defense (DoD) funding for a facility to produce product that replaced rare earth materials.
- Sought a U.S. location for 300 manufacturing jobs and \$200 million investment
- DoD chose not to invest and the facility was built in Korea

Client Needs	Competitiveness Issues	What Happened
Relatively close location to Pacific Rim	<b>Infrastructure</b>	Washington was identified as the top U.S. spot due to its location.
Inexpensive energy	<b>Cost of doing business</b>	Washington was identified as the top U.S. spot due to its low energy costs.
High-tech labor force	<b>Workforce</b>	Washington was identified as the top U.S. spot due to its sophisticated workforce.
Funding to build facility	<b>Support for business</b>	DoD chose not to fund so Samsung, a partner, offered the money to locate it in Korea

# Maintaining a Competitive Edge

- Washington may not be able to control methodological decisions or others changes in the rules of the game
- What we can do is better understand Washington's *real* competitive strengths and weaknesses, and tailor policies and strategies to the national and, increasingly, global competition for markets and jobs.

## Next Steps

- Continue to track and analyze data so we have the most current, reliable and accurate information to make Washington more competitive
- Collaborate with other state-level entities to analyze data, identify information gaps and develop policies
- Greatest opportunities for improvements in competitiveness: education, transportation and regulatory reform