



Department of Commerce
Innovation is in our nature.

Associate Development Organizations Report, 2009-2010

Provided as directed by RCW 43.330.082

December 2010
Report to the Legislature
Rogers Weed, Director

ACKNOWLEDGEMENTS

Washington State Department of Commerce

Business Services Division

Patti Brooke, Assistant Director

Mary Trimarco, Business Development Managing Director

Research and report production provided by Commerce Research Services

Cezanne Murphy-Levesque, Project Lead

David Elliott, Researcher

Aaron Nickell, Researcher

Steve Salmi, Ph.D., Program Manager/Editor

Special thanks to the associate development organizations and Department of Commerce Regional Services staff who participated in this study.

Washington State Department of Commerce

Business Services Division

1011 Plum Street SE

P.O. Box 42525

Olympia, WA 98504-2525

www.commerce.wa.gov

TABLE OF CONTENTS

EXECUTIVE SUMMARY	4
OVERVIEW.....	5
LOCAL ECONOMIC DEVELOPMENT IN WASHINGTON.....	7
KEY OUTCOMES	10
ADO PERFORMANCE RESULTS	17
ADO SURVEY FINDINGS	28
APPENDIX A: ADO BUDGET DETAIL	35
APPENDIX B: ORGANIZATIONAL CHANGES.....	36

EXECUTIVE SUMMARY

Overview

This is the biennial report to the Legislature of associate development organizations (ADOs) performance results as required by RCW 43.330.082. This report includes background information on local economic development in Washington state, ADO performance results as reported by the ADOs and insights into the future of ADOs given the current economic environment.

These topics were investigated using data from a variety of sources: performance measure data as reported by the ADOs to the Department of Commerce (Commerce), a survey of ADOs regarding organizational priorities and changes, and economic, demographic and budget information published by governmental and nonprofit agencies.

Key findings

ADO network has contributed the creation and retention of businesses, jobs and private investment throughout the state as indicated by performance measure data. In FY 2010, ADOs recruited 46 companies to locate facilities within the state, provided support for 263 businesses to stay open or expand and helped 158 new businesses get off the ground. Combined, these efforts led to 6,635 jobs being created and retained and more than \$1 billion in private investment. Note that the data are self-reported by the ADOs.

In 2007 the state increased ADO funding by 162 percent to strengthen local economic development efforts throughout the state. The state has not been able to sustain this level of funding; as a result the ADOs have taken several budget reductions. However, ADOs receive twice as much funding than they did prior to 2007. ADOs have adjusted their level of service to their communities according to these fluctuations. As a result of a recent 6.3 percent budget cut by the Governor, 58 percent of ADOs are considering reducing staffing levels. Additionally, seven ADOs are considering merging with other organizations to achieve administrative efficiencies. Several ADOs identified strategies to obtain funding from alternative sources.

OVERVIEW

The ADO biennial report to the Legislature

The Department of Commerce (Commerce) is required to report to the Legislature and the Washington Economic Development Commission by December 31 of each even numbered year. The report must include the performance results of the contracts with associate development organizations (ADOs) as required by RCW 43.330.082.

This report provides background information on local economic development in Washington state, ADO performance results, and insights into the future of ADOs within the current economic environment.

Study scope and methodology

The following questions were developed to establish the scope of the study:

1. What were the ADOs' performance results, and are there trends that can be attributable to the variation in annual budgets, demand for services, population, geography, unemployment, or the general economic condition?
2. Given the recent reductions in funding (e.g., from the state, local governments, foundations and/or private investors), how are ADOs adjusting their organizational and/or funding models to continue to be effective?
3. What are the relationships between each ADO's scope of service and types of proposed funding or organizational changes?

The project team used the self-reported performance measure data from the program's contract management database, information collected directly from the ADOs via an electronic survey, and economic, demographic and budget information published by federal and state agencies and nonprofit organizations.

This was an exploratory research project designed to illuminate the varied dynamics that impact ADOs performance measures. A combination of quantitative and qualitative research was used. Although the resulting report presents performance data descriptively, it also analyzes the data with an eye toward key variables that could impact performance.

ADO performance measure data

ADOs report quarterly to Commerce the types and quantities of economic development activities funded by the ADO grant and local match for each county. ADOs also report the number of businesses, jobs, and the types and amounts of investments leveraged with the ADO grant funds.

Performance measure data was available for FY 2008 through FY 2010. For the purpose of this study, the data was annualized by fiscal year for ease of comparison and longitudinal comparisons of the performance measures were made when appropriate.

ADO performance results are presented in two sections. The first discusses each of the major outcome categories: jobs, companies served, investment and state tax dollars generated or retained. The second section examines the inputs and outputs in each of the following activity areas:

- Recruitment of new businesses into Washington,
- Retention and expansion of existing businesses,
- Business start-up assistance, and
- Community asset building.

Survey

In early November, ADOs received an online survey that focused on organizational changes and performance measurement. ADOs were given one week to respond, and then received follow-up emails and phone calls. Responses were received from 31 ADOs representing 35 counties, a response rate of almost 90 percent.

The survey was designed to determine how the ADOs were responding to the most recent budget cuts in terms of organizational and funding-model changes and their ability to meet their clients' needs. Additional questions were included to gather information of service priorities and to try to understand the ADOs' perspective on the most cost-effective uses of their state funding.

Study limitations

There are several limitations to the ADO performance measure data. First, the data are self-reported by each ADO. Second, ADOs report difficulty determining the value of certain measures such as amount of private investment leveraged and state tax dollars generated for each project. Gathering this information depends greatly on the strength of the relationship between the ADO and the business. Lastly, the performance measures were significantly overhauled at the beginning of the 2009-2011 biennium, reducing the original 97 performance measures to the current 38. Along with the reduction in the number of metrics, the definitions of each metric were more concisely defined. As a result of these changes, some of the measures are not comparable across the biennia.

LOCAL ECONOMIC DEVELOPMENT IN WASHINGTON

Associate development organizations

Associate development organizations (ADOs) are local organizations designated by each county to serve as Commerce's primary partner in local economic development activities in their county. The ADO's role is broad and is defined both by the enabling statute RCW Chapter 43.330 and the needs of each community. Broadly, the ADO provides advocacy and leadership, building relationships with its partners in state and local governments, community groups and local businesses. Specifically, ADOs are an integral part of the state's economic development plan that provides direct technical assistance and funding for economic activities in every county. An ADO's economic development activities can be organized into the following categories:

- Recruitment of new businesses into Washington
- Retention and expansion of existing businesses
- Business start-up assistance
- Community asset building
- Regional planning and collaboration

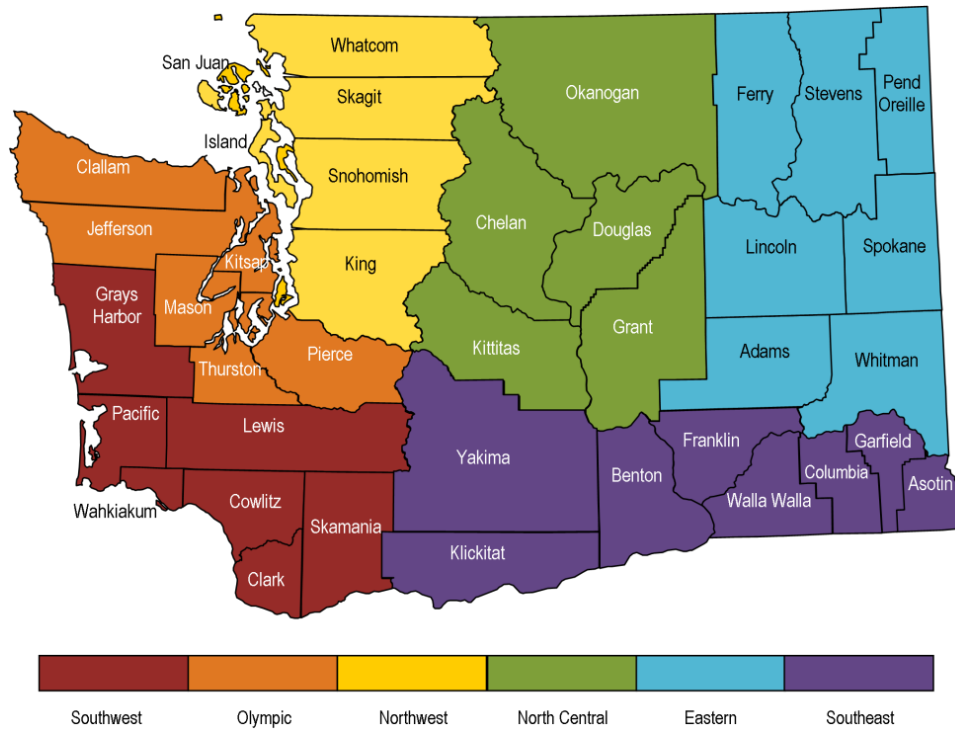
The majority of ADOs represent one county, although three ADOs represent multiple counties. Most counties select nonprofit organizations to serve as the ADO, but local governments may also be designated as the county's ADO. Currently there are three ports, one public development authority and one Washington State University extension office that are designated as ADOs.

ADO/Commerce relationship

Governor Booth Gardner's 1985 Team Washington Strategy was aimed at enhancing local economic development service delivery by forming public-private and state-local partnerships. ADOs were created as an integral part of that plan to reach every county in the state. Originally the Local Economic Development Assistance Program provided administrative grants to the 33 ADOs that served the state's 39 counties. The Growth Management Act of 1990 formally recognized the ADO network as the delivery system for local economic development resources and assigned the program to the Department of Trade and Economic Development (now Commerce).

Commerce maintains a contracted partnership with 34 ADOs, serving 39 counties. In addition, Commerce Regional Services staff provides support for the ADOs' local economic development projects. Figure 1 shows the six areas served by Regional Services staff through FY 2010. In July 2010, Regional Services staff was reduced and the counties were redistributed into four larger regions.

Figure 1: ADO regions FY 2007 to 2010

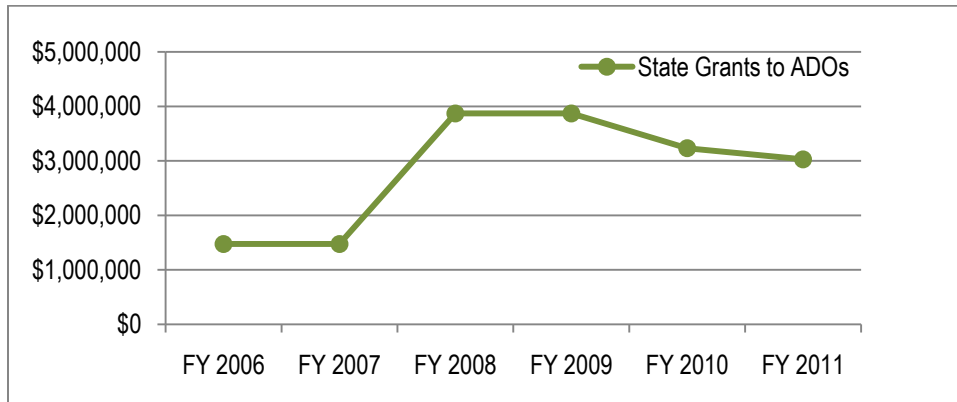


As part of the annual contract with Commerce, the ADOs report quarterly on 38 input, output, and outcome performance measures. The input and output measures are required economic development activities and the outcome measures are considered the state’s return on the investment in the ADO program. Commerce is required to annually review the performance of each ADO. An ADO must meet greater than one half of their agreed-upon performance measure targets or a remediation plan to address performance gaps is developed.

ADO funding history

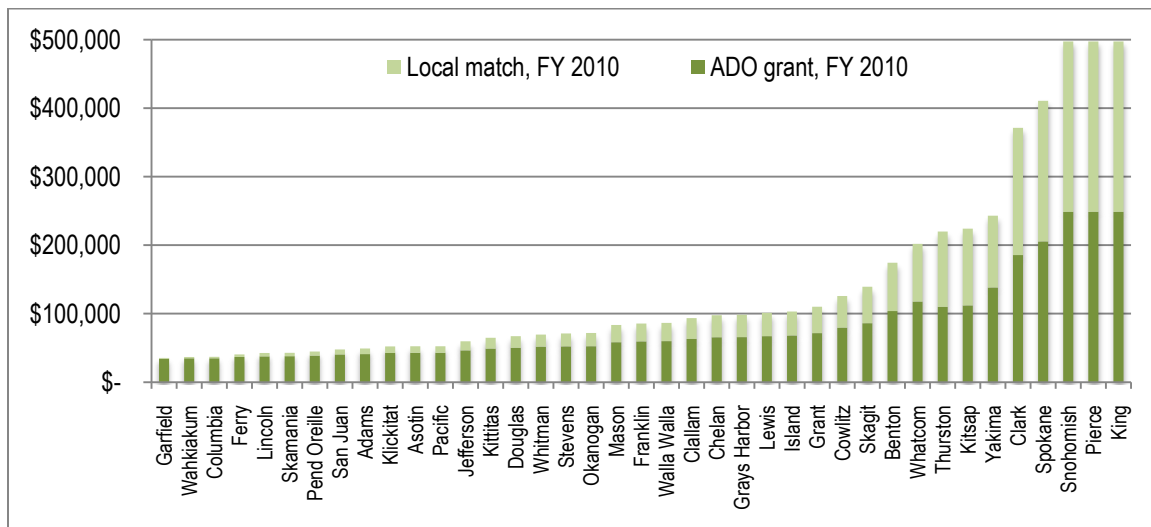
In the 2007 session the Legislature passed 2SSB 5092, providing ADOs with a 162 percent increase in state funding to build upon their service capacity (RCW 43.330.080). This legislation brought the total ADO budget to \$7.8 million for the 2007-2009 biennium. In the 2009 session, ADO funding was reduced to \$6.5 million for the 2009-2011 biennium. In September of this year Governor Gregoire announced an across-the-board reduction of an additional 6.3 percent for this fiscal year FY 2011 (Figure 2).

Figure 2: ADO funding history, FY 2005 to 2011



The formula used to distribute the pass-through funding to ADOs is based on statutory guidelines. RCW 43.330.086 provides the maximum levels of ADO funding from the state. The base allocation for rural counties is up to \$40,000 plus an additional amount of up to \$0.90 per capita. The maximum allocation for urban counties is as high as \$0.90 per capita, up to a maximum of \$300,000 per county.¹ Every county is required to match the state’s per capita contribution with local funds dollar for dollar. However, the ADO program has never been funded to these levels and the current per capita rate is up to \$0.55. Figure 3 shows the state grant (base allocation and per capita amount) to ADOs and the local match for each county for FY 2010.

Figure 3: ADO funding and local match by county, FY 2010



¹ The enabling statute uses the Office of Financial Management definitions for urban and rural counties based on population density. Urban counties are those with more than 100 people per square mile, while rural counties have less than 100 people per square mile (RCW 43.330.086 and 82.14.370).

KEY OUTCOMES

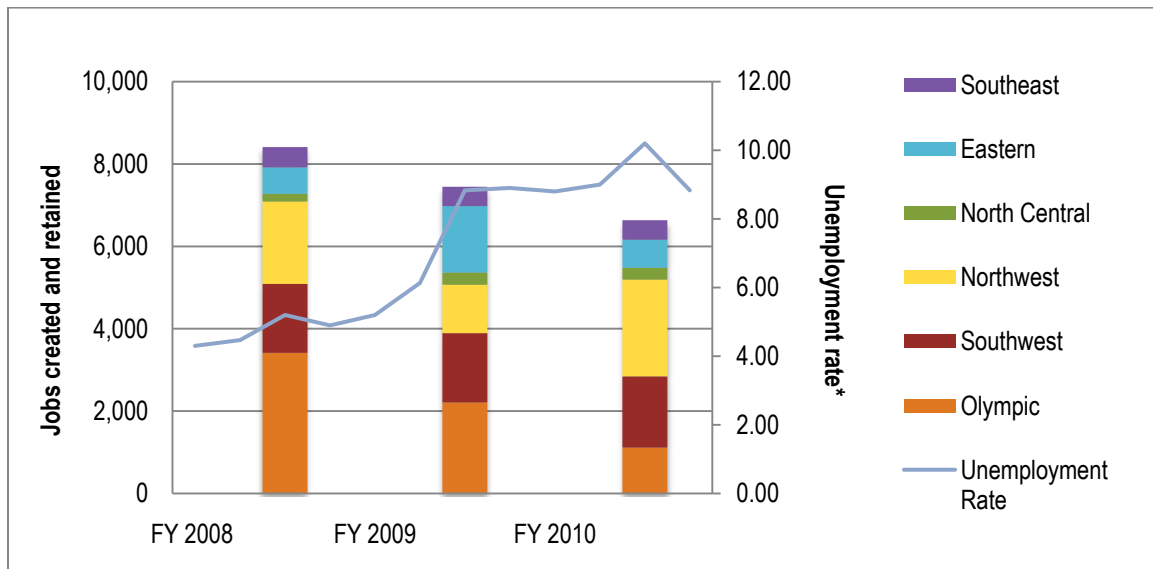
Performance data reported by the ADOs indicate that this system of localized resource delivery has contributed significantly to economic development throughout the state. In FY 2010 the ADOs created or retained 6,635 jobs; facilitated recruiting, retaining, expanding and starting 467 businesses; and spurred more than \$1 billion in private investment. The following section describes and analyzes each of these outcome metrics.

Jobs

Job creation outcomes reported by ADOs can be divided into the following categories: jobs created at businesses that have just located in the county, jobs created at businesses that have started within the last year, or jobs created through business expansion. Retained jobs are those that would have likely ended in the next 12 months without the ADOs' and partners' intervention.

Statewide job creation and retention outcomes have decreased steadily over the past three years. However, when compared to the statewide unemployment rates from the Employment Security Department, this result is not surprising as employment has also dropped dramatically and may not reflect a weak performance by the ADOs. Figure 4 shows jobs created and retained by region and the statewide unemployment rate from July 2007 through June 2010.

Figure 4: Jobs created and retained by region and unemployment rate,* FY 2008 to 2010



* Washington State unemployment rate, not seasonally adjusted

Source: Washington State Employment Security Department

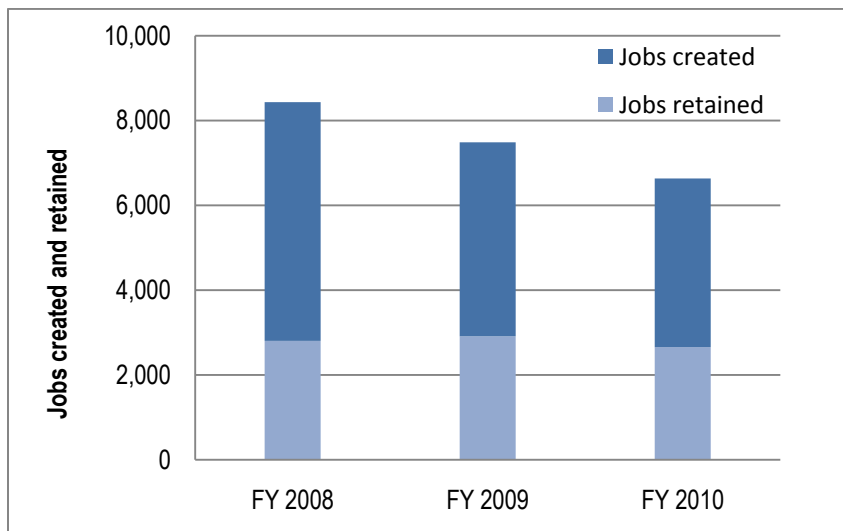
The economic downturn has played a large role in the rate of ADO job creation. Table 1 shows the jobs created and retained by activity area from FY 2008 to FY 2010. With lower revenues and a tight credit market, existing companies are less likely to invest in expanding or relocating their businesses, creating fewer opportunities for new jobs.

Table 1: Jobs created and retained by ADO activities

<i>Activity</i>	<i>FY 2008</i>	<i>FY 2009</i>	<i>FY 2010</i>
Business recruitment	2,456	1,719	1,771
Business expansion	2,785	2,509	1,803
Business retention	2,779	2,872	2,657
Business start-ups	415	387	404
Total jobs created, retained	8,411	7,447	6,635

Job creation through business recruitment and business expansion has dropped off dramatically, while jobs created by start-ups remain relatively constant (Figure 5).

Figure 5: Jobs created to jobs retained, FY 2008 to 2010

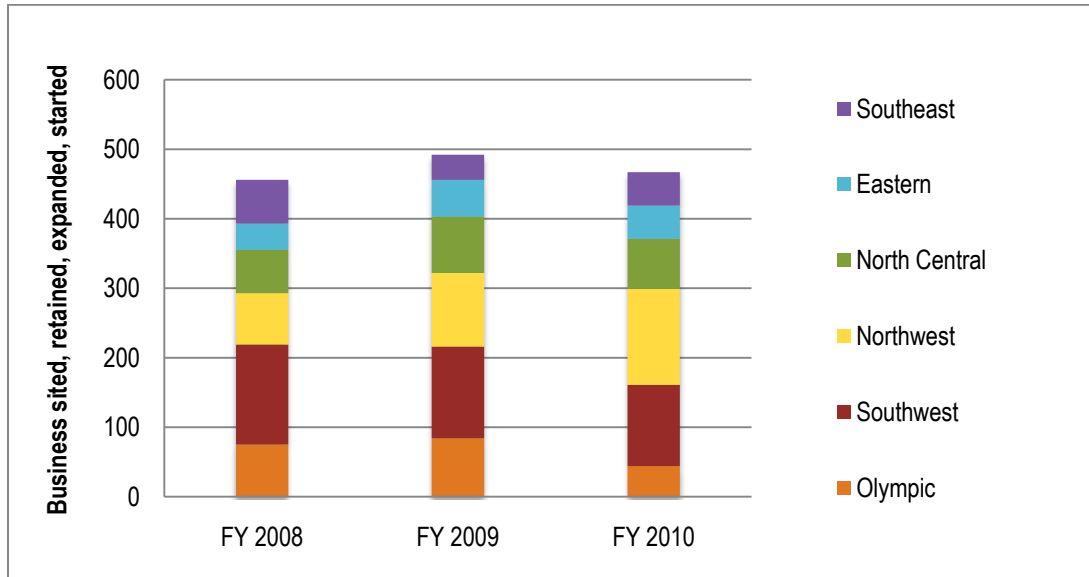


Companies recruited, retained, expanded and started

ADOs partner with businesses to support relocation, retention, expansion and start-ups (Figure 6). These companies are served in a variety of ways. Recruitment is the process of assisting an out-of-state company to establish a presence in Washington. For the purposes of performance measure reporting, a business is counted as having

been “sited” when they have purchased or taken control of property with the intention of locating in a community, spending private-sector dollars and creating jobs. Business expansion is the process of assisting an existing Washington business to meet its increased employment or space needs. Retention is the process of assisting an existing Washington business to continue its operations at a sustainable level. A business is considered a start-up if it has generated revenue for less than a year, whether or not it has obtained a business license.

Figure 6: Businesses sited, expanded, retained and started by region, FY 2008 to 2010



ADOs have recruited, retained, expanded and helped start an average of 472 businesses each year since the major funding increase in 2007 (Table 2). The number of businesses recruited into the state has dropped each year, which is thought to be directly related to the economic downturn.

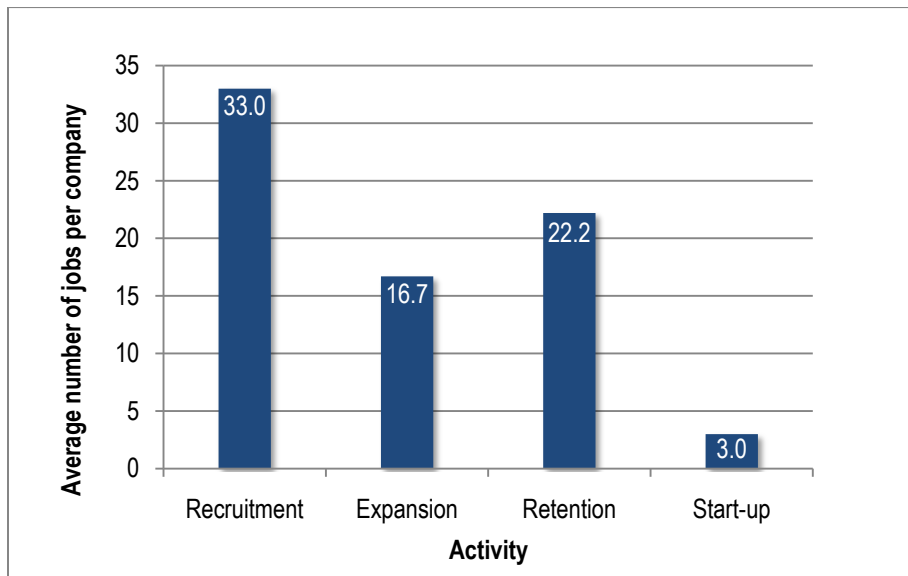
Table 2: Businesses sited, expanded, retained and started, FY 2008 to 2010

<i>Activity</i>	<i>FY 2008</i>	<i>FY 2009</i>	<i>FY 2010</i>
Businesses sited	75	62	46
Businesses expanded	147	130	150
Businesses retained	105	174	114
Business start-ups	128	125	158
Total businesses served	456	492	467

There may be relationship between the general type of service delivered to a business and the number of jobs created or retained (Figure 7). By averaging the three years of

available data, the greatest number of jobs created per company is derived from business recruited to the area. Business recruitment created an average 33 jobs per company. This is because the client is an established business that is intending to move an existing business or expand to create an additional facility or office in the state. Alternatively, business start-ups created the fewest number of jobs per company, with an average of only three jobs.

Figure 7: Number of jobs created or retained by activity, three-year average



Investment

ADOs are required to report the amount of private, public and infrastructure investments made by the ADO and its partners throughout the year. ADOs have stated that investment and revenue data are sometimes very difficult to obtain from businesses; therefore these amounts are estimated or omitted depending on the situation. Private investment is the amount invested by private individuals (non-government) in the financing of a project and can be private monies lent or equity invested. Public investment is the amount invested by all governmental bodies (federal, state and local) in an economic development financing project. Note that Small Business Administration (SBA) loans are considered private rather than public dollars.

Private investment has fluctuated considerably over the last few years (Table 3). Retention cases usually generate little or no private investment, whereas the vast majority of investment comes from the expansion of existing companies. However, a steady increase in private investment has been reported under the category of business retention and expansion. This is because a few large projects have accounted for the majority of the state-wide investment totals. In FY 2010, REC Silicon invested approximately \$600 million in its facility in Moses Lake. This represented 87 percent

of the state-wide private investment in the category of expansion and retention. Additionally, Cowlitz County reported private investment of \$230 million, which accounted for 66 percent of the state-wide total for recruitment in FY 2010. In FY 2009, recruitment projects in Cowlitz and Douglas counties tallied more than \$400 million in private investment – which accounted for nearly 69 percent of the state-wide private investment.

Table 3: Private investment, FY 2008 to 2010

<i>Activity</i>	<i>FY 2008</i>	<i>FY 2009</i>	<i>FY 2010</i>
Recruitment	\$403,664,258	\$681,865,500	\$348,264,993
Business retention and expansion	\$272,857,631	\$421,399,810	\$687,218,281
Start-ups	\$24,412,523	\$23,823,700	\$6,980,430
Total private investment	\$700,934,412	\$1,127,089,010	\$1,042,463,704

Private investments by start-up companies were much lower in FY 2010 compared to the previous two years (Table 3). This finding seems to be in direct contradiction with the increased number of start-up businesses served by ADOs. There are two possible and non-exclusive reasons for this apparent contradiction. First, the increase in start-up businesses may be connected to high unemployment rates and the increased length of time that people are experiencing unemployment. These people may not have the resources to fund their investment in the business compared to previous years. Second, Commerce incorporated more succinct definitions of the performance measures in FY 2010 and the difference may be, in part, due to these changes.

Public investment increased in the category of business retention and expansion to more than \$37 million in FY 2010 (Table 4). Similar to private investment, the majority of public investment in that year was attributable to one project. The Columbia River EDC reported public investment of \$29 million for the development of a new U.S. Army Reserve Training Center in Vancouver.

Table 4: Public investment, FY 2008 to 2010

<i>Activity</i>	<i>FY 2008</i>	<i>FY 2009</i>	<i>FY 2010</i>
Recruitment	\$10,952,046	\$25,189,200	\$21,818,408
Business retention and expansion	\$2,605,665	\$2,343,913	\$37,793,990
Start-ups	\$1,141,400	\$67,000	\$1,368,000
Total public investment	\$14,699,111	\$ 27,600,113	\$62,980,398

State tax dollars generated and retained

The amount of state tax dollars generated by businesses includes state sales tax on construction, planning, new equipment, etc.; real estate excise taxes; property taxes; and Business and Occupation (B&O) taxes.² Tax dollars are retained when the ADO provides services that allow the company to keep taxable property or continue taxable activities. The retained tax is calculated based on an estimate of the value that is presently taxed to the company and would cease to be used by the company if the company downsized or failed. These values are estimates calculated by the reporting ADOs.

The variation in state tax dollars generated and retained is similar to the figures for private investment, with increases in taxes generated by expanding businesses and a decline in taxes generated by start-ups (Table 5). Again, the increase in tax dollars is largely attributable to a small number of large projects, as discussed in the previous section.

Table 5: State tax dollars generated and retained by Activity, FY 2008 to 2010

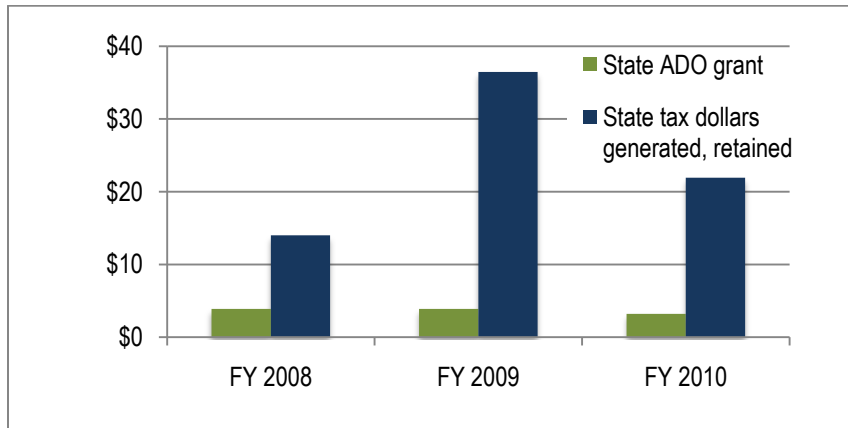
	<i>FY 2008</i>	<i>FY 2009</i>	<i>FY 2010</i>
Recruitment	\$6,889,880	\$19,295,084	\$6,301,842
Business retention and expansion	\$5,461,489	\$16,744,940	\$14,904,125
Startups	\$1,669,854	\$439,682	\$733,148
Total	\$14,021,223	\$36,479,706	\$21,939,115

Figure 8 shows the relationship between the total amount of state funds used to fund the ADOs and the amount of state tax revenue generated from the services rendered by the ADOs.

² Sales tax equals 6.5 percent of monies spent on an ADO assisted project for construction, planning, engineering, new equipment, etc. and 1.28 percent on purchases of real estate. Property taxes for expansions and start-ups equal \$3.60 per \$1,000 of real estate and equipment purchased or improved. Business retention cases use the same calculation factor but it applies to the value of the company-owned real property that is presently taxed to the company and would cease to be used by the company without ADO retention assistance. In either case, the value is only for one year's worth of taxes. The state leasehold tax of 12.84 percent of annual rental charges applies to property which will be leased to the company involved.

B&O taxes in start-up and expansion cases look at the new company revenue for the first year after the company improvement (e.g., post construction) and figure the B&O receipts by multiplying the state rate for the company's primary product by those first year receipts. In retention cases, the tax is calculated by estimating the amount of business income would have been lost in the coming year without intervention. Multiply that value by the company's predominant B&O rate.

Figure 8: State ADO grant compared to state tax dollars generated and retained



Close-up: ADO promotes cluster development



The Washington Interactive Network (WIN) is an economic development program created and run by King County's ADO, enterpriseSeattle. This program is designed to promote, nurture and grow the video game industry in Washington, which is home to over 150 game-technology companies employing 15,000 people. WIN promotes the region as a global center for game development; educates local government and community leaders about the strength of this industry; works with educational institutions to ensure that the workforce is prepared for industry jobs; and assists local startups with the Game Startup 101 Workshop Series (www.GameStartup101.com).

During 2009, enterpriseSeattle worked with the Workforce Development Council of Seattle and King County to bring education leaders together with executives from the interactive media industry. Together they identified workforce skill sets needed for this fast-expanding industry and helped identify appropriate internships for senior-level students and recent graduates. Career ladders and lattices were developed to assist job seekers understand entry-level jobs as well as how they could progress to higher-level positions. Both Lake Washington Technical College and Shoreline Community College changed, and continue to calibrate, their curricula to address the needs of the interactive media industry.

In 2010 WIN released a study which found that the King County area was the most competitive of 12 U.S. metropolitan areas for the interactive media sector. The results of this study have assisted enterpriseSeattle in its business recruitment efforts. One example where the study was a part of the site location decision-making process was the recent recruitment of the Academy of Interactive Entertainment (AIE), Australia's leading educator for the Computer Game Development and 3D digital industries. The company recently announced that it is planning to bring 125 jobs to the Seattle area within the next four years.

Source: Jeff Marcell, enterpriseSeattle, www.WashingtonInteractiveNetwork.org

ADO PERFORMANCE RESULTS

Meeting contractual obligations

ADOs negotiate their contracts annually to include target levels of input and output activities that reflect the amount of funds received and the needs of the community. These contractual goals are the measures of the ADOs' performance. ADOs self-report their performance measures quarterly. In addition, Commerce reviews each ADO annually to determine that it has accomplished at least 50 percent of the performance targets. Figure 9 shows that all 39 counties successfully completed at least 50 percent of the contractual goals; in fact 85 percent of counties completed 80 percent or more of their contractual goals. For FY 2010 all ADOs were in compliance with their contracts.

Figure 9: Percentage of annual contract goals completed, FY 2010

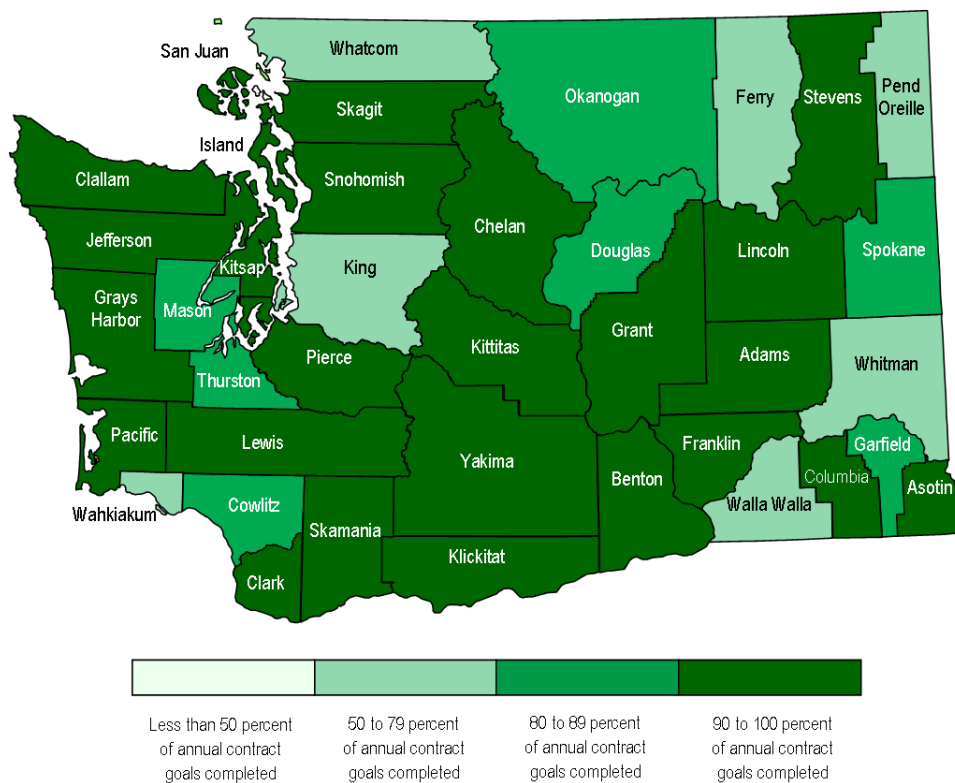


Figure 9 represents the ADOs' work on the wide range of activities in their contracts. Note that ADOs are not given extra credit for significantly exceeding any individual goal. ADO focus may shift as new clients, projects and opportunities become available. Therefore, by responding to the needs of their community, ADOs may do work above and beyond their contract requirements in one area and less in other areas.

This section describes and analyses ADO performance in each of the activity areas: recruitment, retention and expansion, start-ups and community asset and capacity building. Interspersed are a few stories of recent ADO accomplishments that illustrate the services provided by the ADOs.

Business recruitment

ADOs are contractually required to initiate contacts with businesses and site selectors, and attend tradeshow to market Washington state as the ideal place for businesses to locate. As part of this marketing, most ADOs maintain sophisticated websites with business statistics and demographic data. Through these activities, in FY 2010 ADOs sited 46 companies statewide that created 1,771 jobs, 54 percent of which were above the average county annual wage (Table 6).

Table 6: Business recruitment performance results

<i>Metric</i>	<i>FY 2008</i>	<i>FY 2009</i>	<i>FY 2010</i>
Input			
Business contacts initiated	177,287*	245,209*	4,321
Site selectors	4,104	1,433	3,222
Trade shows	92	74	104
Output			
New clients	963	838	671
Inbound visits	161	132	177
Outcome			
Businesses sited	75	62	46
Jobs created	2,456	1,719	1,771
Jobs above county average wage	71%	53%	54%
Private investment	\$403,664,258	\$681,865,500	\$348,264,993
Public investment	\$10,952,046	\$25,189,200	\$21,818,408
Tax dollars generated	\$6,862,640	\$19,295,084	\$6,301,842

* Performance measure changed for FY 2010 to no longer include individual website hits.

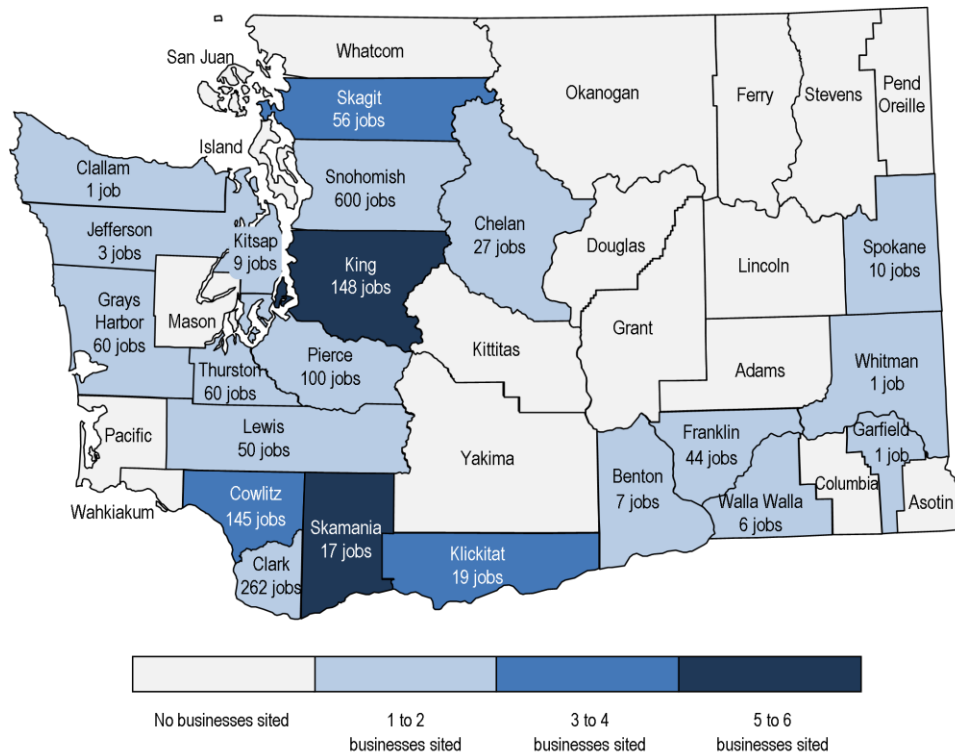
Commerce Business Services research suggests that ADOs are generating about the same number of cases from years past.³ Of the ADOs that generate the most recruitment, the larger ADOs have 40 to 60 cases, while smaller ADOs have 10 to 20 cases per year. The majority of ADOs are getting their leads from their organization's website. Some ADOs have engaged in contracted lead generation, but they find their best marketing tool is the website. The ADOs report that the overall impact of the current economic climate is that it is taking longer to develop leads into projects.

³ Findings based on interviews with six ADOs that have historic recruitment success in the state (Grant, Snohomish, Clark, Grant, Yakima and Spokane).

In addition, ADOs identified their inability to remain competitive against tax incentive programs in their peer states, such as Oregon’s Business Energy Tax Credit program. This program has been responsible for several projects lost to Oregon. In response, many ADOs have tried to provide more customized incentive programs. These have included free energy analysis and developer assistance. Spokane is initiating a program of educating the developer community to realize its role in the recruitment/incentive landscape. Some of the ADOs pointed out that the lack of existing warehouse or factory facilities has been a detriment when it comes to being competitive.

Figure 10 shows the distribution of companies sited throughout the state and the resulting jobs created. The majority of businesses are recruited to more urban areas. Factors influencing a company’s decision to locate in a particular area include available facilities, skilled workforce, and the cost of power.

Figure 10: Companies sited and jobs created, FY 2010



Data do not include the SGL/BMW carbon fiber plant project in Grant County. This was one of the biggest recent recruitment achievements and was finalized after the close of FY 2010.

Close-up: ADO coordinates partners in recruitment effort



SGL Automotive and BMW Inc. recently broke ground on a joint manufacturing venture to produce carbon fiber threads. This recruitment led to construction activity, infrastructure improvements and 80 manufacturing jobs that could more than double in the next six years. Construction will be complete in February of 2011, with a goal of full operation in June 2011.

The Grant County ADO organized the City of Moses Lake, Grant County, the local college, several state agencies, and the Governor to partner in the recruitment. The ADO hosted a site visit and held partner meetings to review the company's workforce, education, hydropower, utility cooperation, cost of living and quality of life criteria. As part of the package, the ADO worked with the Port of Moses Lake to secure a \$500,000 grant and a \$1.5 million loan from Commerce's Community Economic Revitalization Board (CERB) for electrical infrastructure improvements and \$265,000 from the county for electric, water and sewer improvements. The Governor made \$275,000 in strategic reserve funding available for additional infrastructure work. Additionally, the state and various workforce training organizations secured \$400,000 to fund workforce training activities.

Source: John Jonathon Smith, Grant County ADO

Business retention and expansion

ADOs reach out to businesses to create new clients using direct mailings, email and phone calls. Table 7 shows a significant reduction in outreach activities over the past three years. Note that the definition of "outreach" was clarified between FY 2008 and 2009; this accounts for the vast majority of the difference between these two years. However, in FY 2010 ADOs reported 60 percent less outreach than the previous year, signaling increased efficiency by reducing the number of outreach interactions while increasing the number businesses served.

Several possible explanations for this inverse relationship have been reported by the ADOs. First, they may be obtaining more clients through fewer outreach activities because a growing proportion of companies have responded to ADO outreach due to the tougher economic climate. Second, ADOs may be using more effective outreach methods or are building upon positive media coverage from previous years.

Table 7: Business retention and expansion performance results

<i>Metric</i>	<i>FY 2008</i>	<i>FY 2009</i>	<i>FY 2010</i>
Input			
Outreach interactions initiated	7,572	2,582	1,084
Output			
New business cases	438	608	696
Referrals to partner org.	648	755	971
Outcome			
Businesses retained	105	174	113
Businesses expanded	148	131	150
Jobs retained	2,779	2,872	2,657
Jobs created (expansion)	2,785	2,509	1,803
Jobs above county average wage	72%	55%	59%
Private investment	\$272,857,631	\$421,399,810	\$687,218,281
Public investment	\$2,605,665	\$2,343,913	\$39,793,990
Tax dollars generated and retained	\$5,461,489	\$16,744,940	\$14,904,125

Figure 11 on the next page, shows the distribution of businesses and jobs retained throughout the state in FY 2010. The data show that larger counties (King, Pierce, Clark, Spokane, Thurston and Whatcom) generally served fewer businesses but generated the greatest number of retained jobs.

Business retention cases fall into two distinct categories: companies that are threatening to leave the state, and those that may downsize or close. The main difference is between these two categories is the financial health of a given company. A firm relocating facilities to another state is likely to be a healthy enterprise and have sufficient capital to relocate. Alternatively, a company that is downsizing or closing is most likely in a poor economic position. Unfortunately, there are no data at this time to determine what proportion of retained businesses fit into either category.

ADOs attempt to provide services suited to each company's situation. For those that are shrinking or failing, the ADO tries to help them access financing, develop new markets or products, or streamline operations. ADOs take an entirely different approach for companies that are considered leaving the area. They may convene local stakeholders such as city, county, PUD and/or port to discuss, research and formulate options or potential incentives.

Figure 11: Businesses and jobs retained, FY 2010

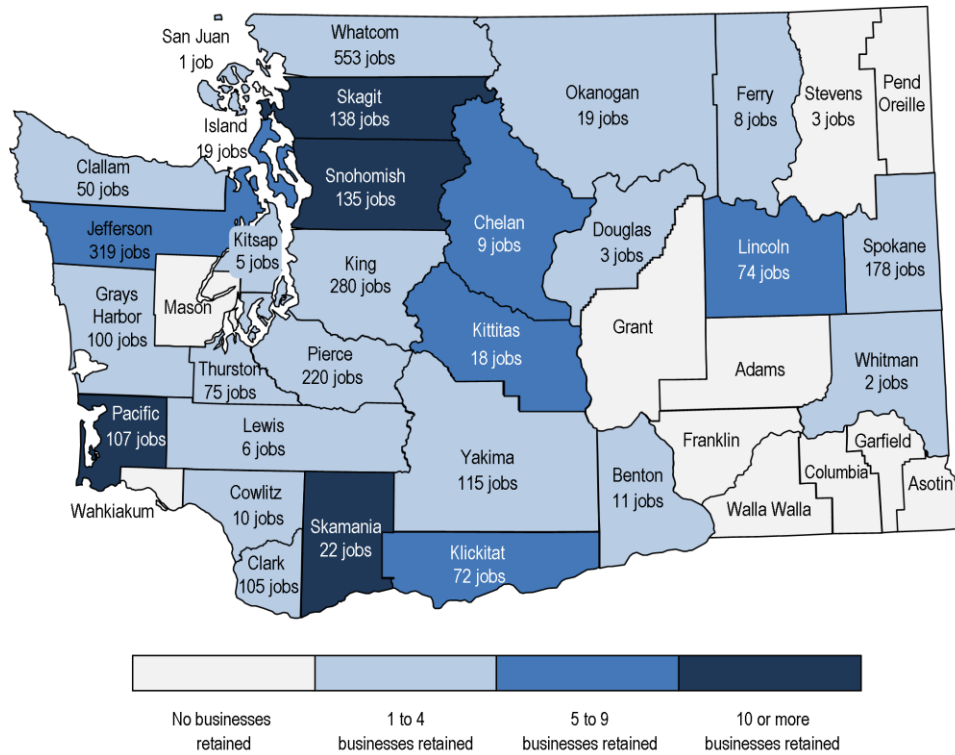


Figure 12: Businesses expanded and jobs created, FY 2010

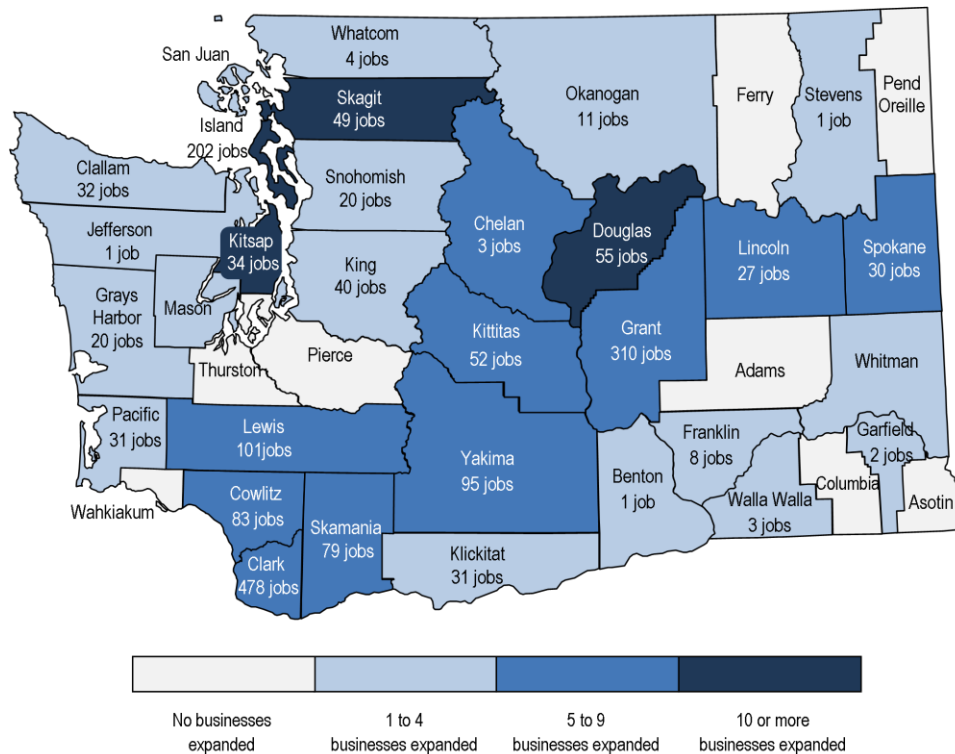


Figure 12 shows the distribution of expanded businesses and jobs created throughout the state in FY 2010. The most activity occurred in a swath of southern and central Washington counties. The expansion of Bellingham's Heath Tecna through workforce training illustrates the impact of the ADO's activities (see Page 23).

Close-up: ADO coordinates expansion



Heath Tecna is an aerospace company specializing in new and retrofit airplane interiors. Heath planned to pursue additional contracts for retrofits of larger aircraft and was planning to hire additional workers but was concerned about recruitment, training and other costs. Beginning in August 2009, the company collaborated with the Whatcom ADO, Commerce and the Bellingham Waterfront Innovation Zone (IPZ) to conduct a series of eight worker pre-hire training sessions taught by Bellevue Technical College and hosted by the IPZ at the Technology Development Center (TDC). The training program received \$75,000 through the Governor's Workforce Investment Act (WIA).

The result was 140 new hires by Heath Tecna at their Bellingham facility. Subsequently Heath won airplane interior retrofit contracts from Qantas, Delta and China Air airlines, in addition to its work for Mitsubishi. With the new contracts, Heath needs incumbent worker training in order to allow existing workers to move up in the organization. The ADO, Commerce, the State Job Skills Program, Impact Washington and Bellingham Technical College have secured an additional \$180,000 in training funds for LEAN technology, CATIA design software and engineering process software training in the coming months.

Source: John Michner of Whatcom County ADO; Sally Harris of Commerce Regional Services

Business start-ups

ADO performance measure data show a 250 percent increase in the number of start-up businesses requesting assistance from ADOs and a 126 percent increase in the number of new businesses started in FY 2010 (Table 8). This finding is in agreement with the idea that small business formation is higher in years marked by slow economic growth found by *Small Business Survival: A Joint Report to the Governor*.⁴

⁴ *Small Business Survival: A Joint Report to the Governor*, Washington State Departments of Employment Security, Labor and Industries, and Revenue, October 2007
<http://www.accountability.wa.gov/reports/economy/20071019/BusinessSurvivalReportOct2007.pdf>

Table 8: Business start-up performance results

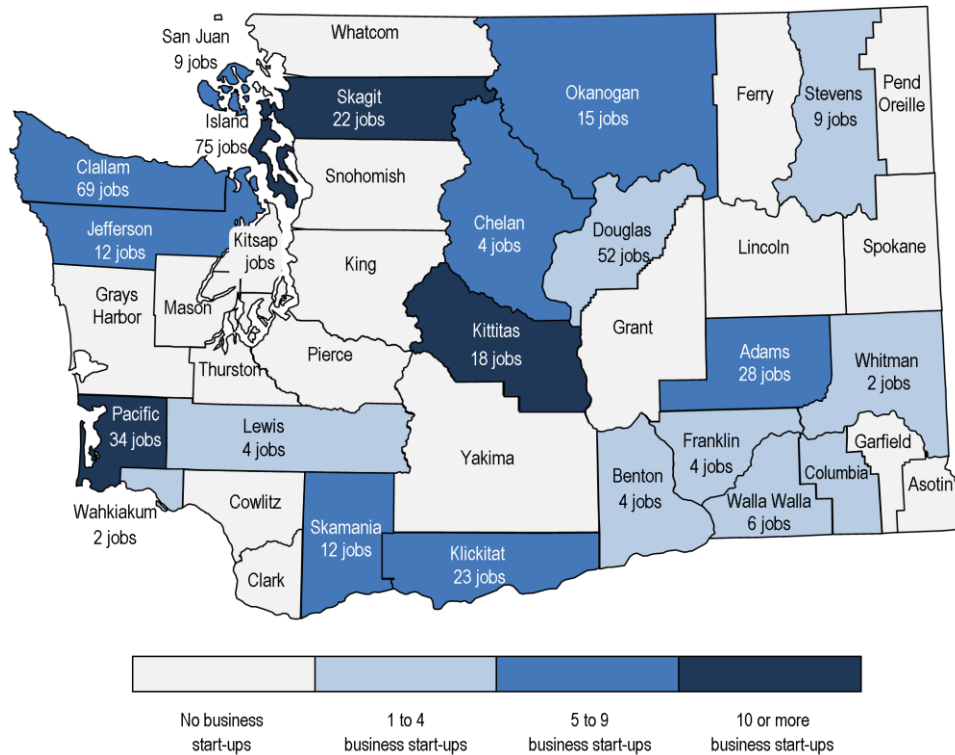
<i>Metric</i>	<i>FY 2008</i>	<i>FY 2009</i>	<i>FY 2010</i>
Input			
Business requesting assistance	678	713	1,822
Start-up business workshops	163	118	160
Output			
Referrals to partner org.	629	1102	647
Outcome			
New businesses started	128	125	158
Jobs created	391	347	404
Jobs above county average wage	25%	25%	47%
Private investment	\$24,412,523	\$23,823,700	\$6,980,430
Public investment	\$1,141,400	\$67,000	\$1,368,000
Tax dollars generated	\$1,669,854	\$439,682	\$733,148

Figure 13 shows the distribution of new businesses and jobs throughout the state. The greatest numbers of business start-ups were located in rural counties in FY 2010. There are several important pieces of information to consider when looking at this data. First, start-ups created the fewest number of jobs per company compared to other ADO activities (see Figure 7 on Page 13). Second, small rural businesses form a larger part of Washington’s rural economy than do their urban counterparts. On average, the gross income generated by small rural businesses represents a larger portion of their county’s economy and is more stable over economic cycles than that of small urban firms.⁵

Many urban ADOs reported zero start-ups. These areas are served by other organizations dedicated to new and small businesses, such as Small Business Development Centers (SBDC) and Service Corps of Retired Executives (SCORE) chapter offices. ADOs in well-served areas refer start-ups to these organizations – and accordingly show little start-up activity. According to recent research by Commerce, ADOs are the only local sources for small business assistance in 14 rural counties.

⁵ *ibid*

Figure 13: Businesses started and jobs created, FY 2010



Data from the federal Small Business Administration indicate that half of all businesses fail within the first five years. However, there is data to suggest that business owners who seek out information and training increase their odds for survival. *Strategic, Administrative, and Operating Problems: The Impact of Outsiders on Small Firm Performance* indicated that small business assistance programs positively affect business survival rates. The study found that the more hours of small business counseling an owner receives, the more likely it is that a business will be successful.⁶ In addition, small business assistance acts as an effective filter to discourage poorly conceived ventures.

Community asset and capacity building

ADOs participate in several activities that increase their communities’ assets and readiness to support economic development activity. ADOs report the number of engagements attended with other organizations and local governments where the purpose is to increase the communities’ ability to grow and prosper economically. ADOs are also responsible for sponsoring or co-sponsoring events, seminars and other structured activities involving the community with a focus on topics other than workforce issues (e.g., transportation, housing and cluster/targeted industry strategies).

⁶ Chrisman, J.J. and Leslie, J. 1989. *Strategic, administrative, and operating problems: the impact of outsiders on small firm performance*. ET&P. Waco: Baylor University.

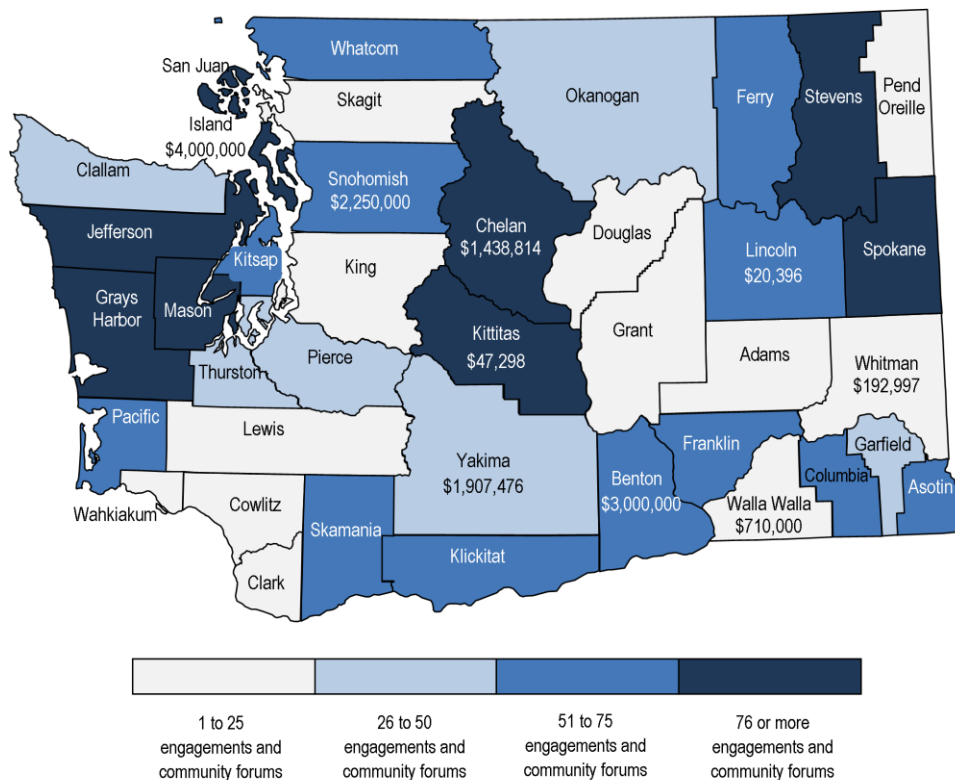
ADOs are required to annually submit evidence of participation with the state Board for Community and Technical Colleges in providing for coordination of job skills training in the region.

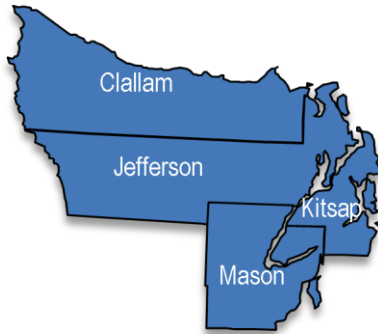
Table 9: Community asset building performance

Metric	FY 2008	FY 2009	FY 2010
Input: Engagements with partners	1,690	2,266	1,756
Output: Community forums	232	297	543
Outcome: Value of infrastructure	\$34,127,923	\$24,104,542	\$13,566,981

Table 9 shows a constant decline in the total value of infrastructure investments by public and/or private entities. The value of the infrastructure includes work by public entities and private contributions of assets to projects that have received ADO assistance. Figure 14 shows the infrastructure investments made in FY 2010 along with the number of engagements and community forums each ADO participated in.

Figure 14: Engagements, community forums, and infrastructure investments, FY 2010





The Olympic Finance Development Authority (OFDA)

is a joint effort by the ADOs for Clallam, Jefferson, Kitsap and Mason counties. It grew from a regional ADO brainstorming meeting in the fall of 2009 organized by Lynn Longan at the Department of Commerce. Representatives of the ADOs looked for common needs and solutions on which they might collaborate. The major identified need was a lack of available financing for small businesses and employers

in the area. Many businesses were losing lines of credit and could not find financing for projects due to tighter lending practices. Providing another loan source for project financing reduces bank-lending ratios and enhances the overall stability of a project.

Kitsap County ADO Director, Bill Stewart, proposed establishment of a finance authority to help solve the problem. A nonprofit finance authority would provide non-bank financing via a revolving loan fund and support for micro-lending programs. OFPA formation occurred in the spring of 2010 and has three goals for the immediate future:

- 1) Capitalization of a risk mitigation revolving fund that will function as a “participation lender” to improve project viability by making targeted loans to projects that are just outside of qualifying for bank lending. Providing another loan source for project financing reduces bank-lending ratios and enhances the overall stability of the project.
- 2) Provide support for portfolio loan management for small loan programs.
- 3) Develop staff capable of assisting in complex financing transactions.

An example of the type of project that would be subject to OFDA assistance is the Peninsula Plywood plant. The plant closed in 2007 with the bankruptcy of its parent corporation. A local bank received many of the plant’s assets and 132 jobs were lost. During the next two years the Clallam County ADO, the port, and the bank negotiated with a group of private financiers to reopen the plant. The plant hired 60 employees at the time of reopening in September of 2009 with a goal of total employment of 172. If the finance authority had existed during this time, the turnaround time could have been shorter than two years.

Source: Bill Stewart with the Kitsap County ADO, Linda Rotmark Clallam county ADO, and the Peninsula Daily News. <http://www.peninsuladailynews.com/article/20090929/news/309299995>

ADO SURVEY FINDINGS

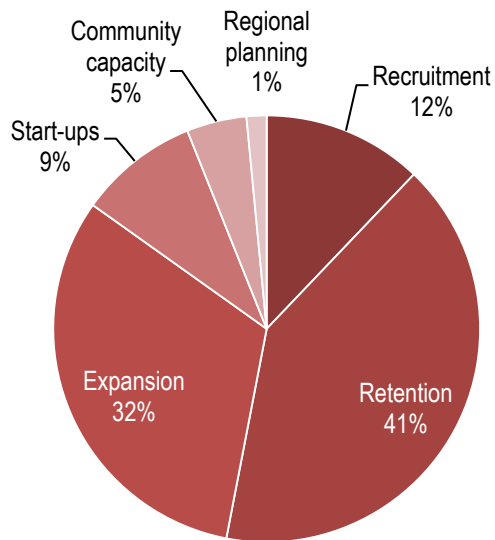
Variation in ADO priorities

ADOs are mandated by statute to provide a broad spectrum of services. These include:

- Recruitment of new businesses
- Retention and expansion of existing businesses
- Business start-up assistance
- Community asset building
- Regional planning and collaboration

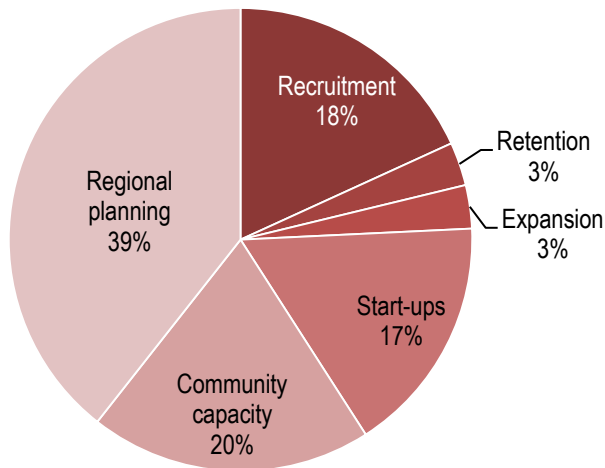
However, ADOs prioritize their activities according to their organization's mission and the needs of their community. The survey indicated that 73 percent of ADOs consider retention and expansion to be their top two priorities (Figure 15).

Figure 15: Top two priority activities of ADOs



ADO's lowest priority areas were more varied, with regional planning falling into the bottom two priorities for 39 percent of respondents and community capacity as one of the lowest priorities for 20 percent (Figure 16).

Figure 16: Lowest-rated priorities of ADOs



However, ADOs cannot confine their projects to any one activity area and many successful projects are a culmination of the ADO's effort on many fronts. The Snake River Boat Builders export project was a combined effort in many aspects of local economic development (see below). The Southeast Washington EDA assisted this project by organizing regional partners, recruiting and providing funding.

Close-up: Regional collaboration on many fronts



The Snake River Boat Builders export project is situated in the towns of Clarkston, Washington and Lewiston, Idaho at the confluence of the Snake and Clearwater rivers. These rivers are navigable in shallow draft specialized boats – which has resulted in a cluster of specialized aluminum jet boat builders. This year the region formed an export project working with the US Commercial Service (USCS) and German boat importers to create new business relationships.

The export project grew from a US Department of Agriculture (USDA) rural development grant delivered to the Clearwater Economic Development group in Lewiston. A consortium of business and economic development organizations provided matching funds for the grant. This included the cities, the ports, counties, the local EDA's, visitor's bureaus, chambers of commerce, a local bank, trade associations, the USCS office in Spokane and P'Chelle International. P'Chelle is an international marketing firm that works with overseas markets and the USCS to promote business.

During summer 2010 training classes were created for boat manufacturers focused on selling to the European Economic Area (EEA) and cultural topics related to developing successful business relationships. The training included classes on obtaining "CE" certification. The CE mark is similar to the Underwriters Laboratory (UL) conformance mark certifying that a product meets EU consumer requirements.

The ADO participated in bringing German boat dealers and distributors to the Snake River region for demonstrations, factory tours and meetings. Publicity and word of mouth communication led to a well-informed community supporting the export effort. The result is solid employment, builder backlogs of six to 12 months and bright prospects for growth. This is happening as boat builders in other regions of the country are facing bankruptcy and long-term plant closings due to low demand.

Source: Snake River boat builder's website, Duane Wollmuth, SEWEDA

ADO activities

ADOs were asked to list the most cost-effective/best use of funds for each activity in an open-ended format. Table 10 shows a considerable amount of consistency among ADOs. They stated that best use of funding for recruitment purposes was for marketing and maintaining a website. Face-to-face interactions with business owners ranked the highest use of resources for retention and expansion. Similarly, resources for start-up assistance were best used for training or counseling to business owners.

Table 10: Most cost-effective use of ADO resources by activity

<i>Activity</i>	<i>Responses</i>
Recruitment	
Marketing, website	11
Contacting businesses directly	6
Site selector	4
Retention and expansion	
Face to face interaction	16
Providing resources/funding	3
Outreach	2
Start-up assistance	
Providing training or counseling	14
Referrals to other organizations	8
Funding coordination/assistance	2
Community assets and capacity	
Collaboration with partners	17
Infrastructure funding	5
Provide technical assistance	2
Regional research and planning	
Regional collaboration/local representation	6
Data collection	3
Workforce development	2

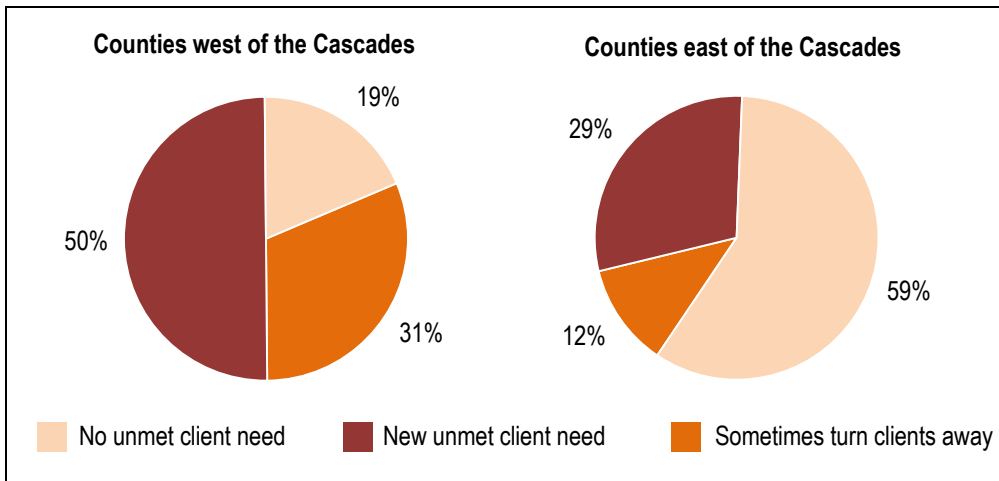
Trends in organizational change

ADOs are adjusting their services, staffing levels, and/or organizational structure as a result of the fluctuations in state funding over the past four years. ADOs received a 162 percent increase in state funding for the 2007-2009 biennium. This additional funding allowed the ADOs to bolster their programs and provide an increased level of service throughout the state. ADO funding was reduced at the beginning of FY 2009 and again in FY 2010, but still remains at twice the level of funding provided to ADOs in the 2005-2007 biennium. These decreases in state funding, along with similar decreases in local funding sources, are forcing ADOs to trim down their organization's structure and services from the bolstered levels of the 2007-2009 biennium.

Reduced staffing and service levels

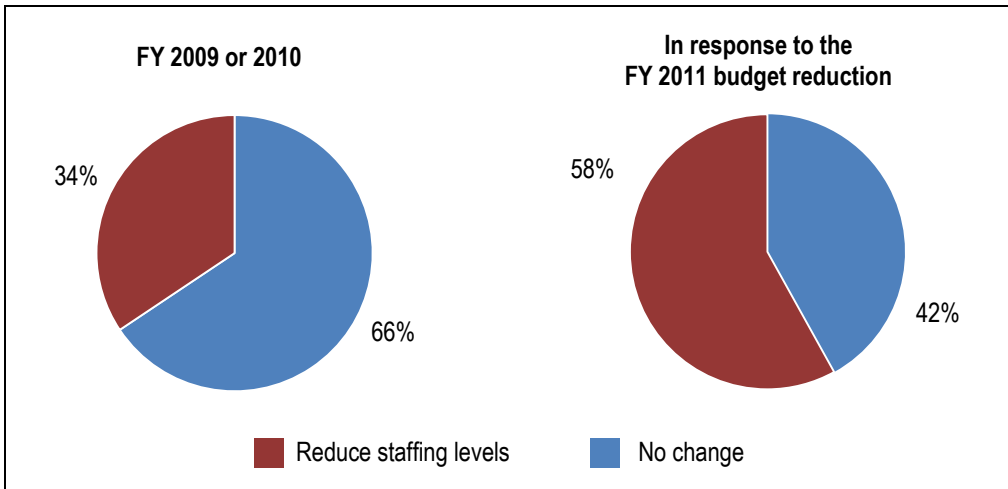
Figure 17 shows the regional difference in the ability of ADOs to meet the needs of their clients. In the western half of the state, 50 percent of ADOs report that they will have to begin turning away clients as a result of the recent across-the-board 6.3 percent budget reduction by the Governor. An additional 30 percent of west-side ADOs report that they already had to turn clients away. In comparison, on the east side of the state 30 percent of ADOs report that they will have to turn clients away as a result of the reduction in addition to the 12 percent that already experienced unmet client need prior to the cut.

Figure 17: Regional differences in unmet client need



The study's survey of ADOs indicated that 58 percent of ADOs are planning or considering reducing their levels of staffing in the near future. This is in addition to the 34 percent of responding ADOs that already reduced staffing levels in FY 2009 or 2010 (Figure 18). Correspondingly, 12 ADOs anecdotally reported that they would have to reduce the level or variety of services provided to their clients.

Figure 18: ADO staff reductions FY 2009 to 2011



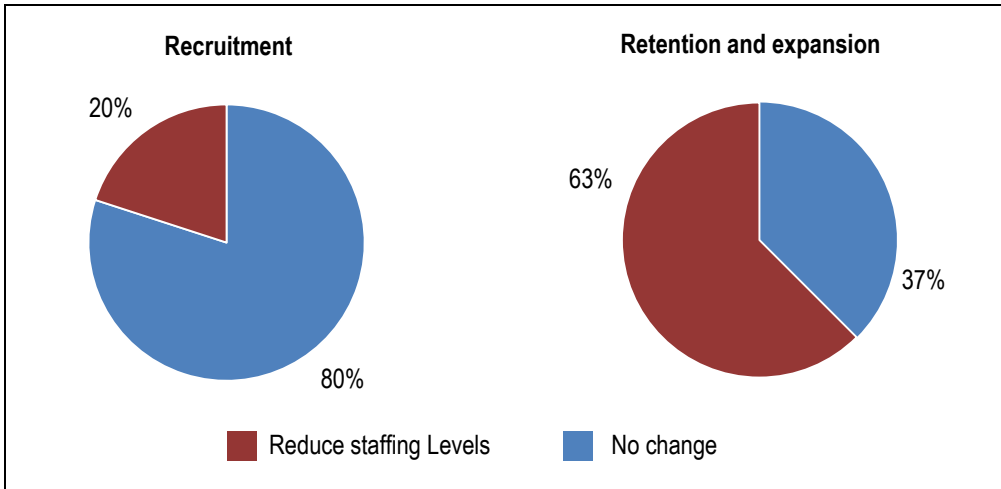
Commerce’s grant and the local match fund certain economic development activities, but these activities are only a portion of the overall goals of many ADO organizations. Many designated organizations have contracts with other agencies, with corresponding responsibilities and deliverables. As such, the proportion of ADO funding compared to the total organizational funding can vary radically. For example, ports that have been designated as ADOs generally have multimillion dollar budgets and the state grant to the ADO is less than 10 percent of its total budget. On the other hand, some organizations are entirely ADO-focused and the state’s grant and required local match make up more than 80 percent of their funding.

ADOs with a greater proportion of their budget used for the ADO-specific activity reported higher rates of potential staff reductions. Approximately 67 percent of respondents with ADO funding greater than one third of their total budget expected to reduce staffing levels in the near future. Alternatively, for ADOs with one third or less ADO-specific funding, only 37 percent expected to reduce staffing levels. The most likely reason for this difference is the ability of an ADO program to share administrative and overhead costs with other programs within the same organization.

This finding was established by combining data from several sources: FY 2010 ADO state funding and required local match compared to the most recent figure available for the organization’s total budget from the Commerce Small Business Assistance Project Survey in September 2010, GuideStar.org (an online repository of IRS 990 filings) and budget information published on organizations’ websites as available.

An individual ADO’s stated top priority correlated to the organization’s need to reduce staff. Four out of five (80 percent) of the ADOs with a top priority of recruitment did not state a need to reduce staffing in the near future. Conversely, 63 percent (15 of 24) of ADOs with a stated top priority other than recruitment identified a need to reduce staffing levels.

Figure 19: ADO staff reductions by top priority

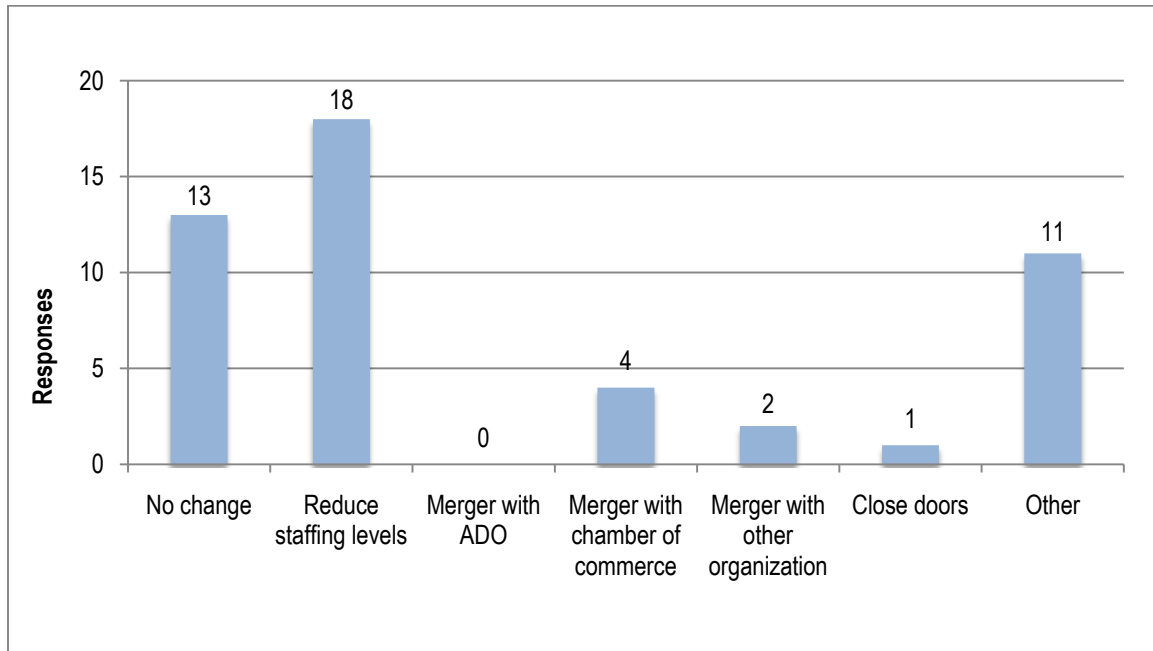


The reasons for this difference are unclear, but several factors might play a role. ADOs with the top-rated priority of recruitment (Clark, Cowlitz, Grant, Mason and Yakima counties) have ADO-specific budgets that range from 20 to 50 percent of their total organizational budgets. This means that these organizations are deriving at least half of their total budget from other sources, such as their local partners or private investors. Recruitment of a new company into the state is generally regarded as a huge success bringing investment, jobs and tax revenue. The event can receive state-wide or even national press coverage. This type of good news could positively influence fundraising and the confidence of an organization's investors.

Major organizational changes

Figure 20 shows that ADOs are considering a variety of organizational changes. In the survey ADOs could select multiple options, such as reduce staffing levels and merge with another organization.

Figure 20: Organizational changes considered in response to the most recent budget cut



The most prevalent change is a reduction in staffing levels, as discussed in the previous section. Most notably however, seven ADOs are considering a merger with another entity – either a chamber of commerce, port, community college or other organization. The main advantage to this type of merger is to achieve administrative efficiencies and lower overhead costs such as rent. ADOs report that a merger can be challenging due to differing missions. In addition, the ADO must be conscious of their relationships with local governments and other private investors to maintain the level of service and representation of their community.

Other changes include an ADO considering closure, and two additional ADOs state that they are considering eliminating their public office space to reduce overhead costs but continuing to operate. Three ADOs identified strategies to obtain funding from alternative sources to offset state cuts.

APPENDIX A: ADO BUDGET DETAIL

<i>ADO Name, alphabetically</i>	<i>County</i>	<i>FY 10 Grant</i>	<i>FY 10 Grant + Local Match</i>	<i>Reported Annual Budget *</i>
Adams County Development Council	Adams	\$41,125	\$49,086	\$152,541
Chelan County, Port of	Chelan	\$65,421	\$97,678	\$5,000,000
Clallam County EDC	Clallam	\$63,315	\$93,466	\$200,000
Columbia River EDC	Clark	\$185,671	\$371,342	\$800,000
Cowlitz County EDC	Cowlitz	\$79,451	\$125,738	\$299,900
Douglas County, Port of	Douglas	\$50,119	\$67,074	\$1,300,000
Economic Alliance, The	Okanogan	\$52,480	\$71,796	\$210,595
EDASC/Skagit EDA	Skagit	\$86,205	\$139,246	\$642,977
EDB for Tacoma-Pierce County	Pierce	\$248,730	\$497,460	\$1,000,000
enterpriseSeattle	King	\$248,730	\$497,460	\$1,100,000
Grant County EDC	Grant	\$71,626	\$110,088	\$450,000
Grays Harbor EDC	Grays Harbor	\$65,786	\$98,408	\$443,232
Greater Spokane Incorporated	Spokane	\$205,419	\$410,838	\$3,200,000
Island County EDC	Island	\$68,099	\$103,034	\$140,000
Kitsap EDA	Kitsap	\$112,001	\$224,002	\$340,000
Kittitas County, EDG	Kittitas	\$48,953	\$64,742	\$150,000
Klickitat County Public EDA	Klickitat	\$42,641	\$52,118	\$700,000
Lewis County EDC	Lewis	\$67,171	\$101,178	\$300,000
Lincoln County EDC	Lincoln	\$37,857	\$42,550	\$97,368
Lower Columbia EDC	Wahkiakum	\$34,982	\$36,800	\$95,000
Mason County EDC	Mason	\$58,358	\$83,552	\$225,060
NW Economic Council- Whatcom Co.	Whatcom	\$117,588	\$202,012	\$392,300
Pacific County EDC	Pacific	\$42,835	\$52,506	\$115,000
Pend Oreille County EDC	Pend Oreille	\$38,904	\$44,644	\$65,786
San Juan County EDC	San Juan	\$40,456	\$47,748	\$108,000
Skamania County EDC	Skamania	\$38,042	\$42,920	\$266,000
Snohomish County EDC	Snohomish	\$248,730	\$497,460	\$1,600,000
Southeast Washington EDA	Asotin, Columbia, Garfield, Whitman	\$164,009	\$195,362	\$240,000
Thurston County EDC	Thurston	\$109,966	\$219,932	\$720,000
Tri-County EDD	Ferry, Stevens	\$89,017	\$111,706	n/a
TRIDEC	Benton, Franklin	\$163,195	\$260,062	\$2,000,000
Walla Walla, Port of	Walla Walla	\$59,846	\$86,528	n/a
Washington State University	Jefferson	\$46,428	\$59,692	\$60,000
Yakima County Development Assoc.	Yakima	\$138,072	\$242,980	\$500,000

* Reported annual budget data sources: Commerce Small Business Assistance Project Survey in September 2010, GuideStar.org and budget information published on organizations' websites as available.

APPENDIX B: ORGANIZATIONAL CHANGES

ADO, by structure	Organizational changes FY 09 & 10	Organizational changes considered by ADOs						Other
		No change	Reduce staffing levels	Merge w/ chamber	Merge w/ other organization	Close doors		
Single-county nonprofit								
Adams Co. Dev. Council	No change (Limited)	-	-	-	-	-	-	-
Clallam County EDC	No change		✓			✓	✓	
Columbia River EDC	No change	✓						
Cowlitz County EDC	No change			✓				
Economic Alliance, The	No change	✓						
EDASC/Skagit EDA	No change		✓					
EDB for Tacoma-Pierce Co.	Reduced staff	✓	✓					
enterpriseSeattle	Reduced staff		✓					Raise more funds
Grant County EDC	Reduced staff	✓						
Grays Harbor EDC	Reduced staff	-	-	-	-	-	-	-
Island County EDC	No change		✓					
Kitsap EDA	Reduced staff	✓	✓					Merge admin
Lewis County EDC	Reduced staff							
Lincoln County EDC	No change		✓					
Lower Columbia EDC	No change			✓				
Mason County EDC	No change	✓						Raise more funds
NW Economic Council	Reduced staff			✓				
Pacific County EDC	No change		✓					
Pend Oreille County EDC	Separated	✓						
San Juan County EDC	No change		✓		✓			Move/close office
Skamania Co. EDC	- (NR)	-	-	-	-	-	-	-
Snohomish County EDC	No change			✓				
Thurston County EDC	No change		✓					Reduce activities
Yakima County Dev. Assoc.	No change	✓						
Greater Spokane Inc.	Reduced staff		✓					
Kittitas County, EDG	Merged w/ chamber							
Multi-county nonprofit								
TRIDEC	Reduced staff		✓					
Tri-County EDD	No change		✓					
Southeast Washington EDA	Reduced staff, merged	✓	✓					
Governmental agency								
Washington State University	No change							Turn non-profit
Klickitat County Public EDA	No change		✓					Raise more funds
Chelan County, Port of	Reduced staff		✓					Reduce activities
Douglas County, Port of	No change	✓						
Walla Walla, Port of	- (NR)	-	-	-	-	-	-	-

✓ Option considered, (NR) No response, (Limited) Limited response