



Brad Owen
Lieutenant Governor

December 17, 2012

Dear Members of the Legislature, Staff and Other Interested Parties:

I am proud to share with you the Legislative Committee on Economic Development and International Relations' summary and recommendations report for 2012. This report will provide you with an overview of the key recommendations made to our committee by the presenters. Our hearings covered the following topics:

- ***“Tourism in Washington State during a Budget Crisis Era: How the Private Sector and Local Communities are Innovating and Coordinating their Tourism Strategies”***
- ***“Creating New Economic Possibilities through the Development of Innovative Composite Materials”***

If you want additional information about our hearings, we have posted the presentations provided at each hearing to our web site at: <http://www.ltgov.wa.gov/>.

Thank you for your interest in this legislative committee.

Sincerely,

A handwritten signature in black ink that reads "Brad Owen".

Brad Owen
Lieutenant Governor

**LEGISLATIVE COMMITTEE ON ECONOMIC
DEVELOPMENT AND INTERNATIONAL RELATIONS**



LIEUTENANT GOVERNOR BRAD OWEN, CHAIR

**2012 COMMITTEE MEETINGS SUMMARY &
RECOMMENDATIONS**

“Developing Partnerships for Building Tomorrow’s Economy”

2012 MEMBERS

Senators: Jerome Delvin, Tracey Eide, Mike Hewitt, Jim Kastama, Derek Kilmer, Cheryl Pflug, Paull Shin (a)

Representatives: Richard DeBolt, Bob Hasegawa, Phyllis Gutierrez Kenney, Tim Probst, Norma Smith and J.T. Wilcox

Introduction

While Washington's economic outlook improved slightly in 2012, the Legislative Committee on Economic Development and International Relations (LCEDIR) continued its mission of examining economic sectors that show promise of growth and jobs.

The committee's June session focused on tourism, a major industry given the state's many scenic wonders but one that suffered the loss of the state's tourism promotion office in 2011. The committee wanted to take a look at the industry a year after this cut to determine the successes and challenges after local communities and private industry coalitions voluntarily stepped forward to accept the responsibility for local, regional and statewide tourism development.

The LCEDIR's session in September examined a rapidly emerging industry, that of new materials and composites that are seeing widespread use not only in aerospace but in the manufacture of boats, automobiles and even guitars. For this meeting the committee teamed up with the state's Department of Commerce, which is making efforts to organize the industry into its own economic sector.

Luncheon sessions were added to provide quick overviews of additional topics. Following are more detailed reports from each meeting, along with the specific recommendations for the Legislature and other state policymakers to consider.

Tourism in Washington State During a Budget Crisis Era: How the Private Sector and Local Communities are Innovating and Coordinating their Tourism Strategies – June 26 in Walla Walla

During its work session, the committee reviewed how Washington's local private sector tourism industry is rising to the challenge of promoting the state after having lost the state's tourism office to budget cuts a year before. Testimony to the committee stressed how fortunate we are to live in a state with an abundance of natural assets in our mountains and waterways, and many remarkable man-made attractions. Local communities, regional entities, and private organizations outlined their tourism strategies and how new joint private sector partnerships were formed to generate tourism in our state. There was in-depth discussion regarding plans being made to coordinate private sector and local government efforts to bring visitors to our state and how we could encourage our own residents to vacation here.

The committee heard from tourism officials representing several Washington communities that have taken innovative approaches to drawing tourists, such as Leavenworth, the Kitsap Peninsula, San Juan Islands, Walla Walla, Seattle and Spokane. It also learned about regional and statewide efforts from groups such as the Washington Tourism Alliance, the Washington

Lodging Association and the Washington State Destination Marketing Association, which now coordinates and brands state marketing and promotion efforts in lieu of a state-funded program.

Over lunch, oil industry consultant Russell McCurdy outlined potential economic development opportunities for Washington being created by the current boom in oil production in North Dakota. He reported that North Dakota is literally building new towns from the bottom up created by the need to build an energy development infrastructure that will support an enormous workforce and round-the-clock oil production for many years to come. His presentation outlined how Washington, with its strategic ports and many businesses, can benefit from this opportunity.

Presenter Recommendations

- Planned cooperation - Washington's tourism industry needs to work together to take full advantage of marketing opportunities that will enhance the overall industry in our state and attract new tourists.
- Support for Washington Tourism Alliance - It is essential that support be secured for the efforts of the Washington Tourism Alliance so that it can keep a statewide coordinated tourism effort up to date and as effective as can be under current economic conditions. The current membership funding model is not sustainable.
- Lodging Taxes - The state needs strong policies that guarantee lodging tax funds are used for its original and primary purpose: to provide marketing support to lodging businesses and for tourism marketing. These funds should be allocated each year instead of being held in fund reserves except for a specific designated use. The type of information and forms used to collect lodging tax data for evaluation should be modified. State and local officials need to become advocates for this sustainable, growing tax revenue resource before it is too late.
- International tourism - The state needs to take advantage of an exploding market in tourist travel from Asia and other foreign markets. International marketing efforts at the state level will result in more international tourists who stay longer and bring more money to our state.
- Destination Marketing Organization - Every town, city, county, state and needs a Destination Marketing Organization (DMO) because tourism has become big business and is quite competitive. We need a DMO for Washington – to serve as our marketing machine and as a funnel to our diverse regions.
- Washington tourism office and tourism outreach - Washington state needs to have a tourism office. It is crucial to Washington's economic health. Tourism does not just happen in a void. There must be a coordinated effort to get out the message that Washington welcomes tourists.
- Tourism matters - Legislators should be better educated about the power of tourism and be shown that tourism matters because it provides a return on investment to states, counties and communities.

- Washington's comparative funding - Washington's funding should at least meet or exceed Oregon's \$10 million annual budget.
- Local and regional advocacy - It is important to recognize the critical role of local and regional tourism efforts and create an environment that will support and enhance their ability to conduct their brand of tourism advocacy.
- Local tourism funding - There needs to be an effort to preserve local tourism funding.
- Financing tourism - The tourism industry and local communities must find ways to finance research and provide services that will promote new tourism, show policy makers that tourism creates jobs and that sustainable marketing and recruitment requires predictable funding. The state should determine the funding collection methodology with the industry sectors by including, trade associations, industry groups and legislators in a common discussion.
- Tourism website - In order for the state to remain competitive, it is imperative to have a reliable, accurate website to showcase the state's tourism assets globally, and maintain continual visitor access.
- Support infrastructure development - Quality road and air transportation options are required to transport tourists to the Walla Walla Valley and other rural tourist destinations from population centers in Washington, as well as from outside of the state and from abroad.
- Continue supporting the Highway 12 capital funding - Legislators should be reminded that the expansion of Highway 12 to four lanes is important to transport tourists to the Walla Walla Valley.
- Support a tourism industry self-assessment - A funding source is necessary to drive tourism promotion at the state level and funds should be identified and allocated to conduct an industry self-assessment.
- Support broadband internet development in all areas - The state should develop a plan to have high-speed network internet available statewide. This would support the growing use of smart phones and mobile device applications used by tourists.
- Support small business - The tourism industry is dominated by small businesses in need of less red tape, more financial incentives, and more trained workers to survive in today's increasingly competitive and ever-changing marketplace.
- Support training programs that anticipate market needs - Policymakers must recognize that talent is a key component of economic development and that the rural manufacturers' B&O tax credit is important for survival of Walla Walla's wine industry.
- Continue supporting the lodging tax - The Tourism Promotion Area (TPA) lodging tax is critical for local tourism promotion.
- Maintain appropriate water policies - The ability to transfer and preserve water rights is necessary for successful vineyards, as well as other agricultural crops.
- Continue support of the wine incubator program at the Port of Walla Walla – The state should continue its support of this program, which provides necessary support for small start-up wineries.

- Keep funding for the Office of Superintendent of Public Instruction’s Career and Technical Skills Centers - Workforce training is essential for the wine industry and for high schools in region.

Lunch Session: Washington state business opportunities in the Bakken oil development project

A working lunch session was conducted regarding opportunities in the Bakken oil development project for Washington businesses. The information session was conducted by Russell McCurdy, a business development consultant who is focusing on business opportunities in the Bakken region. This presentation revealed that the opportunities for Washington to take advantage of North Dakota’s oil windfall are only limited to our ability to identify those opportunities. Our ports far along the Columbia River are ready to help move any supplies and equipment from Asian or Washington suppliers that can be put to use in the Bakken oil project. As most businesses have little or no knowledge of what the Bakken oil project is and no concept of the magnitude of the project and its phenomenal economic potential, an information dissemination strategy should be implemented.

“Creating New Economic Possibilities Through the Development of Innovative Composite Materials” – Sept. 21 in Tacoma.

This meeting focused on advanced composite materials research and manufacturing. Composite materials are derived from carbon fiber, wood-based composites and other materials. Testimony from faculty representing the Composites and Engineering Center at Washington State University, leading industry representatives, and the Department of Commerce reported the greater production of lighter, more durable, and stronger state-of-the-art products from these new materials. Examples include planes, boats, electric cars, guitars and building materials. Washington’s university-based research is some of the most advanced in the nation. The universities are pushing the creative applications of these new materials every day, and bringing talent to our state to enhance this economic sector.

The panel of experts testified that composites are quickly becoming a new and important emerging economic sector of its own in Washington. The presenters not only reported on the prospect of this industry, but also provided the committee with some direction on how the state might be able to better organize this industry into its own viable and separate economic sector to help further develop composites business and research.

For the working lunch session, the lieutenant governor’s office and the Commerce Department invited legislators, business members and government officials to participate in a composites and advanced materials business roundtable summit. This allowed the public and private sectors to

share information and shape the environment that will ensure this industry flourishes for generations to come. Businesses were encouraged to share their company's stories, highlight issues they face and suggest ways in which the state can foster the sector's development.

Presenter Recommendations

- Clustering the cluster - The state should help spearhead a Statewide Composites Industry Association that will enable issues to be distilled into sector-supportive groups, rather than company or product specific issues. This will help the state focus resources for maximum impact, and potentially fund Association initiatives.
- Materials Genome Initiative - Efforts should be made to promote the federal government's Materials Genome Initiative to speed understanding of the fundamentals of material science and provide practical information which entrepreneurs and innovators in our state will be able to use to develop new products and processes.
- Need to invest in public-private partnerships - Washington Technology Center (WTC) should be offered some form of state funding to allow the organization to help small companies and startups with advanced materials product development, testing and code listings.
- By-product synergy in the Pacific Northwest - The state should promote the development of a waste-to-profit coalition that allows for national organization. Members would consist of industry, government, NGOs, environmental groups, green consultants, recycled material handling, and academia.
- Promoting recycling - The state needs to develop and fund projects that will promote a community-based recycling culture that will allow for the maximum amount of recyclable materials to be utilized, develop cleaning and sorting technologies, and create local markets and resources for recycled products.
- Sales tax exemption - The state should promote growth of capital-intensive companies by continuing the sales tax exemption for manufacturing.
- Workforce development - A system for insuring streamlining and coordination of workforce development programs should be implemented across all educational institutions.
- K-20 resource allocation - There should be a reallocation of the dollars currently spent on administration to teachers and classrooms for K-20 and used for technical training programs in the composite and other high tech sectors.
- Tax credits - Businesses could be encouraged to conduct more research and development if more tax credits were offered by the state.
- Regulatory adjustments - There needs to be more common sense used by regulatory agencies in the way they conduct their audits and inspections so businesses can plan for change and participate actively in meaningful and logical enforcement.
- Washington state the "Silicon Valley" of composites - It is an achievable goal to make Washington the "Silicon Valley" of composites by continuing to work to bring together a

collaborative team. The team would include major industry players, universities, community colleges, state and local governments, port authorities, local tribal council leaders, innovative small and medium companies, and elected officials.

- Composite apprenticeship programs - A statewide composites manufacturing apprenticeship program should be integrated with veterans (including disabled) training, tribal participation and opportunities, community college and university development of qualified personnel, and incorporated into other already developed apprenticeship programs.
- K-12 STEM and community college support - The state should develop policies that allow K-12 STEM and community college support for critical education initiatives in advanced composites with aerospace, materials, and manufacturing thrusts.
- Bidding privileges - The state should develop a mechanism in the project bidding process that allows Washington State composite companies that have made significant technological advancements to have the opportunity to gain bidding privileges to future state-funded infrastructure procurement opportunities.
- Utah and Michigan initiatives - Washington state should examine Utah and Michigan initiatives in advanced composites and develop policies to enable a similar way in which we can attract new business development opportunities.
- Federal procurements - The governor should take a leadership role in efforts in federal procurements for manufacturing demonstration facilities.
- Hub for offshore energy manufacturing - The state should work with the composites industry to become the hub for offshore energy manufacturing and support services from Northern California to Alaska.
- Success factors for Washington Composites Leadership - In order for Washington state to be a leader in the field of composites research and product manufacturing we need to implement a well-developed collaboration scheme among those working in this industry. There must be a unifying vision, focused strategy, and supporting government policies.
- Industry coordination - A proactive effort is needed to close the gaps between what is done on the composites manufacturing side and what is being developed through research and development efforts. This effort should focus on the small and medium-sized businesses.
- Workforce preparedness - Every effort should be made by our state to implement a focused workforce preparedness plan.
- Advanced Composites Center -The state should develop an advanced composites center and investigate funding this through some form of state or federal grant proposal.

Lunch Session: Composites and advanced materials business roundtable summit

Moderated by James Palmer, an economic development manager with the Department of Commerce, the lunch discussion demonstrated that the advanced materials and composites industry has grown to become one of the key economic drivers of our region, and the time has come to develop a formal working group of industry leaders to help develop this industry

into a separate organized economic sector. The goal is to increase Washington's competitive position in this industry through a strategy of uniform and focused statewide workforce training, research and development, technical transfer, export promotion and strategy for maintaining stable energy prices. Speakers explained that the more than forty companies in Washington in this industry are diverse and integrated, with major companies specializing in all aspects of production and design. These include R&D, non-destructive testing, structural and non-structural uses of composites and tooling. They showed that aggregate gross business revenue for Washington's composite companies increased by over 11 percent from 2009 to 2010, from \$2.98 billion to \$3.32 billion.

Conclusion

The 2012 LCEDIR meetings proved to be both comprehensive and informative. Tourism policies that focus on coordination and funding issues were identified as key to helping this economic sector in both the long and short term. Local communities and the private sector are introducing new and innovative programs and ideas and continue to attract tourists from other regions and nations. However, for this progress to be sustainable, the state may need to consider playing a more central role. The composites sector meeting revealed the tremendous growth and strength of this industry in the state. Presentations highlighted the need for some form of industry-wide coordination so composite businesses can be identified and nurtured independent of the aerospace industry.

For questions concerning this report contact: Antonio Sanchez Ph.D., Director of Economic Development and International Relations, Office of Lieutenant Governor. (360) 786-7786 or sanchez.antonio@leg.wa.gov