

ECONOMY FORWARD

COG's call to action for a more
competitive metropolitan Washington

FINAL DRAFT



Metropolitan Washington Council of Governments
September 2012

ECONOMY FORWARD

COG's call to action for a more
competitive metropolitan Washington

TABLE OF CONTENTS

- 1 Executive Summary
- 5 Overview
- 7 New Reality
- 9 Competitive Advantages
- 11 Expanding Industries
- 13 Priorities for Growth
- 21 Recommendations
- 29 What are other regions doing?

THE METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS (COG) is an independent, nonprofit organization comprised of elected officials from 22 local governments, members of the Maryland and Virginia legislatures, and members of the U.S. Congress. For over 50 years, COG has helped develop solutions to issues of regional importance.

Region Forward is COG's vision for a more accessible, sustainable, prosperous and livable metropolitan Washington. This report, *Economy Forward*, is an offshoot of the vision that focuses on the region's key economic needs and specific actions to strengthen economic competitiveness and spur and sustain job growth.



EXECUTIVE SUMMARY

A fundamental shift is underway in metropolitan Washington's economy requiring urgent action to maintain and improve the region's competitiveness and create a prosperous future for all area residents.

Recent data shows slow job growth. The region ranked 13th of 15 in terms of growth among major metro areas from December 2010 to December 2011. And while federal government spending was once the driving force of the region's economy, today the combination of decreased federal spending, automatic spending cuts of \$1.2 trillion (sequestration), and ongoing budget uncertainty is pushing metropolitan Washington dangerously close to a fiscal cliff.

In this time of change and uncertainty, leaders on the Metropolitan Washington Council of Governments (COG) Board of Directors are concerned about the region's readiness for this shift. They know the region's competitors, other metro areas throughout the country and world, are examining and implementing a variety of strategies to spur

economic growth. To maintain global economic competitiveness, this region must act or risk being outperformed.

For these reasons, the COG Board of Directors launched an economic growth and competitiveness initiative in February 2012. The Board convened public, private, nonprofit and academic leaders to discuss what more could be done regionally to enhance the economy

“The federal government has provided a solid foundation for decades and will undoubtedly continue to play a major role in the region's economy. However, a plan for economic growth and competitiveness will help put the region on even more solid footing, and COG is leading the way in its development.”

- Frank Principi, COG Board Chair

and COG's role in making it happen. Many included area economic development directors and officials from some of the region's expanding industries, such as biotech, hospitality, information technology, shipping/cargo, cybersecurity and professional services.

Findings

The region must further develop its private sector by building on its competitive advantages, including an educated workforce, entrepreneurial climate, international connections, vibrant, transit-oriented Activity Centers, and access to the federal government. In addition, metropolitan Washington has significant challenges where greater regional collaboration is required. The region needs:

- Improved coordination with the federal government
- Strong Activity Centers with the right mix of housing, jobs and transit
- A workforce that is more prepared for jobs in high growth industries
- A new image that better reflects its assets
- Greater investment in transportation infrastructure

While other regions have created new organizations and separate initiatives to spur their economies, regional officials believe COG has the capacity and relationships to effectively lead this effort. The following actions will address the region's urgent economic needs and help meet several of its Region Forward goals. The report recommends that area leaders at COG:

(1) Work with senior Administration officials to identify an official to serve as a federal-regional liaison to improve partnership.

While the region has benefited from a close relationship with the Congressional delegation, COG needs to build a strong and ongoing relationship with presidential Administrations that has simply not existed in the past. Such a partnership would help regional leaders better understand and mitigate the impact of federal cuts and plan future federal investments when opportunities present themselves.

(2) Implement a plan that will guide more efficient investments in the region's Activity Centers so that more of them have the right mix of housing, jobs and access to transit.

The Region Forward vision recommends focusing the majority of metropolitan Washington's growth in Activity Centers, but the region is falling short of its targets. In 2010, Activity Centers only captured 46 percent of new commercial construction and 31 percent of household growth. However, as the traditional suburban office park becomes an outdated location for economic development, mixed-use Activity Centers can increasingly help attract and retain businesses and workers. COG's Region Forward Coalition will develop an investment plan for use by local governments, developers, transit agencies, philanthropists, and other groups to guide their planning and investment decisions in the region's Activity Centers.

METROPOLITAN WASHINGTON

(3) Undertake an industry and labor market analysis to ensure that workforce development programs are training people for current and future growth sectors. & (4) Use this data to inform the development of a new brand that promotes the region's economic diversity.

As the region continues to redefine itself in light of the significant growth in the private sector, an analysis of those trends, the location and types of jobs and skill sets required, is needed. This report calls for the Region Forward Coalition to lead the data collection for the purpose of better aligning workforce and economic development efforts and beginning the process of creating a new regional image or brand that moves metropolitan Washington beyond being considered just a "government town."

(5) Implement a transportation priorities plan to garner broad-based public support and produce sustainable funding strategies.

Metropolitan Washington ranks among the most congested regions in the nation, and forecasts show steep increases in highway and transit congestion without additional capacity expansion. Current revenue streams cannot keep pace with the region's needs. As part of its Priorities Plan, the Transportation Planning Board at COG will develop, with strong input from stakeholders and the public, a list of 10-15 top priority strategies and identify specific funding sources to make the strategies a reality.

While these recommendations call for different actions, they are interrelated priorities that must be addressed as a whole. Failure in any one area is not an option and will hold the region back from its full economic potential.

These actions focus on what COG does best—bringing stakeholders together, sharing essential data with decision-makers, and developing regional solutions. Understanding the high stakes, the COG Board will work with its partners to aggressively promote and advocate these projects among area leaders, stakeholders, and the public. They also provide an excellent opportunity for COG officials to demonstrate leadership and tackle some of the region's largest challenges.

Population: 5.2 million

Seventh largest in the U.S.

Gross Regional Product: \$445 billion

Fifth largest in the U.S.

Unemployment rate: 5.3%

National: 7.9%

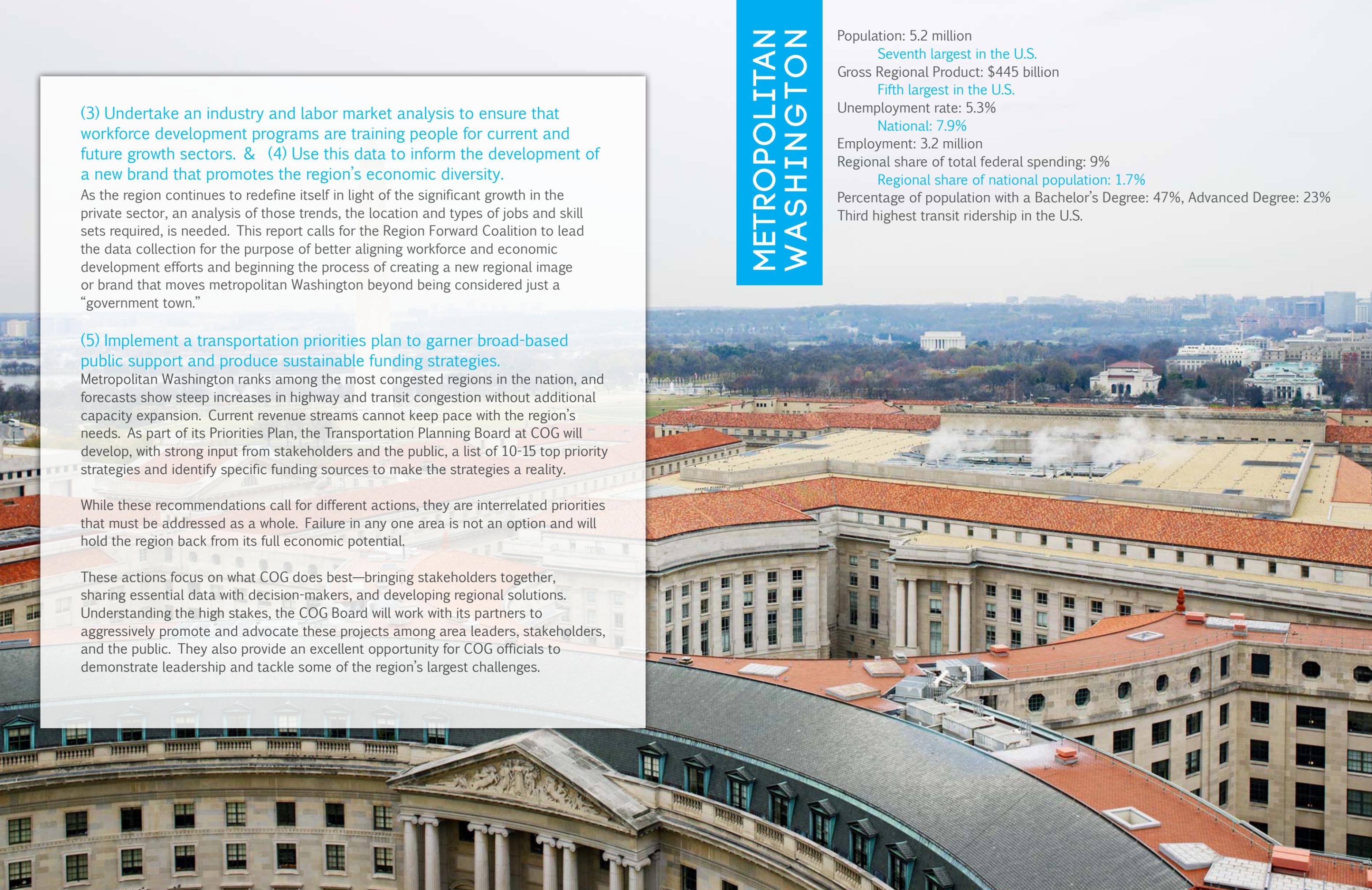
Employment: 3.2 million

Regional share of total federal spending: 9%

Regional share of national population: 1.7%

Percentage of population with a Bachelor's Degree: 47%, Advanced Degree: 23%

Third highest transit ridership in the U.S.



OVERVIEW

THE ISSUE

The federal government has been the driving force behind metropolitan Washington's economy for decades. Most recently, it insulated the region from some of the more severe impacts of the Great Recession. But major changes appear to be on the horizon. Recent Bureau of Labor Statistics data shows job growth in the region falling behind many other major metro areas, and the combination of political gridlock and anticipated cuts to federal government spending and employment could slow its economy even further. Given this new reality, there is growing concern that the region is not ready for the economic changes that may result from a significant decrease in federal spending.

THE OPPORTUNITY

In this time of uncertainty, leaders who serve on the Metropolitan Washington Council of Governments Board of Directors saw a need to bring together area officials and stakeholders to think about ways to enhance the region's economic growth and competitiveness. It was also an opportunity to advance Region Forward, the long-range vision plan for metropolitan Washington, because long-term economic success is closely tied to the region's quality of life and other goals.

13

Metropolitan Washington ranked 13th of 15 in terms of job growth among major metro areas from December 2010 to December 2011.

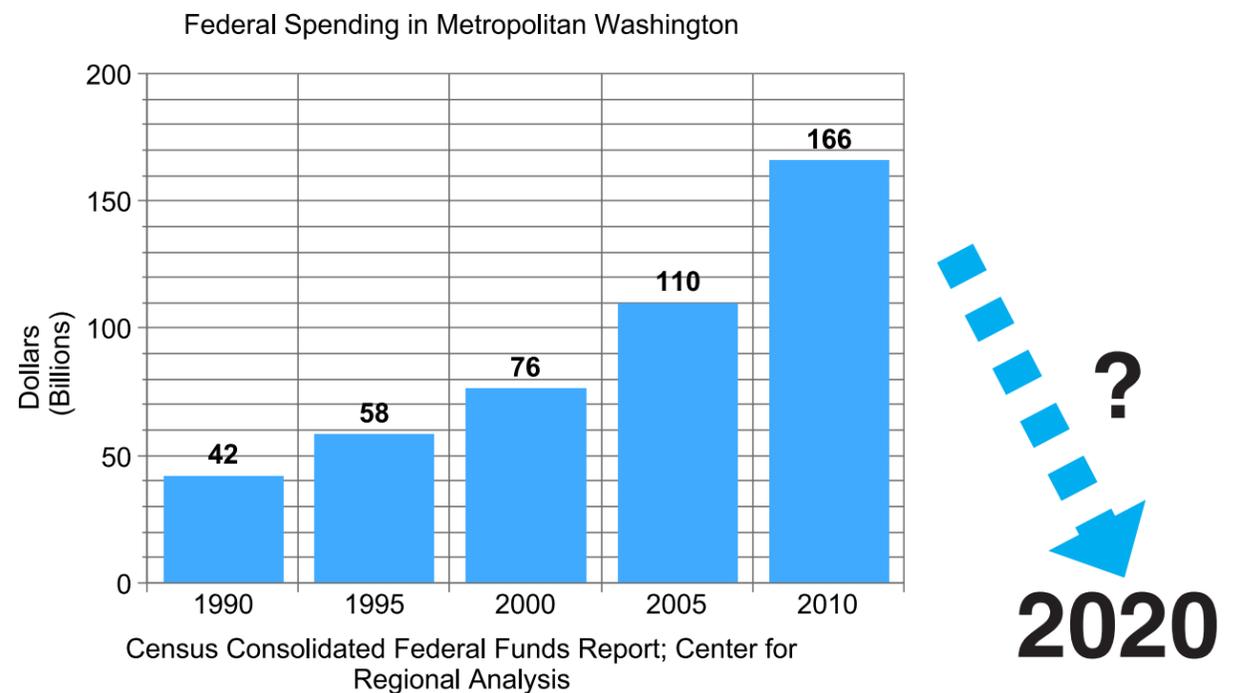
While economic development is not a traditional topic at the Council of Governments, COG deals with a number of issues—land use, transportation and housing—related directly to economic growth and competitiveness. For example, creating more activity centers with housing, jobs, and transit nearby is a major component of the Region Forward vision and a focus of area leaders on COG's Region Forward Coalition. COG has also brought stakeholders together on specific economic topics, such as a workforce development effort in 2010.

Metropolitan Washington is not alone in considering ways to improve its future competitiveness. Other regions throughout the country are examining or have implemented a variety of

economic strategies—from reinventing themselves through metropolitan business plans to promoting their regional assets through public-private marketing campaigns to making new investments in infrastructure to reduce traffic congestion.

In February 2012, the COG Board voted to make economic growth and competitiveness its principal focus for the year. From March through July, the Board held five learning sessions at its monthly public meetings, inviting input from public, private, nonprofit and academic leaders. It also held a webinar with local economic development directors as well as a session at COG's annual leadership retreat.

'Can we do more regionally on economic development?' was a key question asked of all participants throughout this initiative. The Board also used the sessions to turn the mirror on itself and ask how COG's work can enhance the economy and move the region closer to meeting the goals in Region Forward. During the sessions, participants discussed the region's economic outlook, competitive advantages, barriers to success, and opportunities for future growth—all of which informed this Call to Action Report.



SCALED BACK UNCLE SAM

The Region Forward plan envisions a diversified, stable and competitive economy for metropolitan Washington. For decades, the federal government provided the region's economic stability. Over the past 30 years, increases in spending totaled over \$120 billion, and federal procurements totaled over \$850 billion. From 2000 to 2010, federal spending more than doubled. In 2010, Virginia, Maryland, and Washington D.C., were first, fourth and fifth among all states in receiving federal procurements. But big changes are coming.

Metropolitan Washington's Fiscal Cliff:

- *Slowing federal spending*
- *Sequestration of \$1.2 trillion*
- *Ongoing budget uncertainty*

Today, the combination of slowing federal spending, automatic spending cuts of \$1.2 trillion (sequestration), and ongoing budget uncertainty is pushing metropolitan Washington dangerously close to a fiscal cliff. With Bush era tax cuts set to expire and new programs like the Affordable Care Act just beginning, lawmakers on Capitol Hill continue to disagree on the federal budget. As of the writing of this report, sequestration will occur if a budget agreement is not reached.

For a region with such a high level of federal investment, these cuts would have an enormous ripple effect throughout the entire economy.

Federal spending has also begun to slow down and experts foresee a smaller role for the federal government in the coming years. In 2011, for example, federal employment declined for 8 months. Between 2010 and 2015, the share of metropolitan Washington's gross regional product derived from federal government spending is forecast to decline by 3.5 percent—which would greatly impact the federal workforce, federal contractors, and area businesses that work with the government.

This daunting forecast was relayed to the COG Board by Dr. Stephen Fuller of the Center for Regional Analysis at George Mason University during the kickoff meeting of the economic growth and competitiveness initiative. Metropolitan Washington no longer leads, but follows the national economy, ranking 13th out of 15 major metropolitan areas in terms of job growth from December 2010 to December 2011.

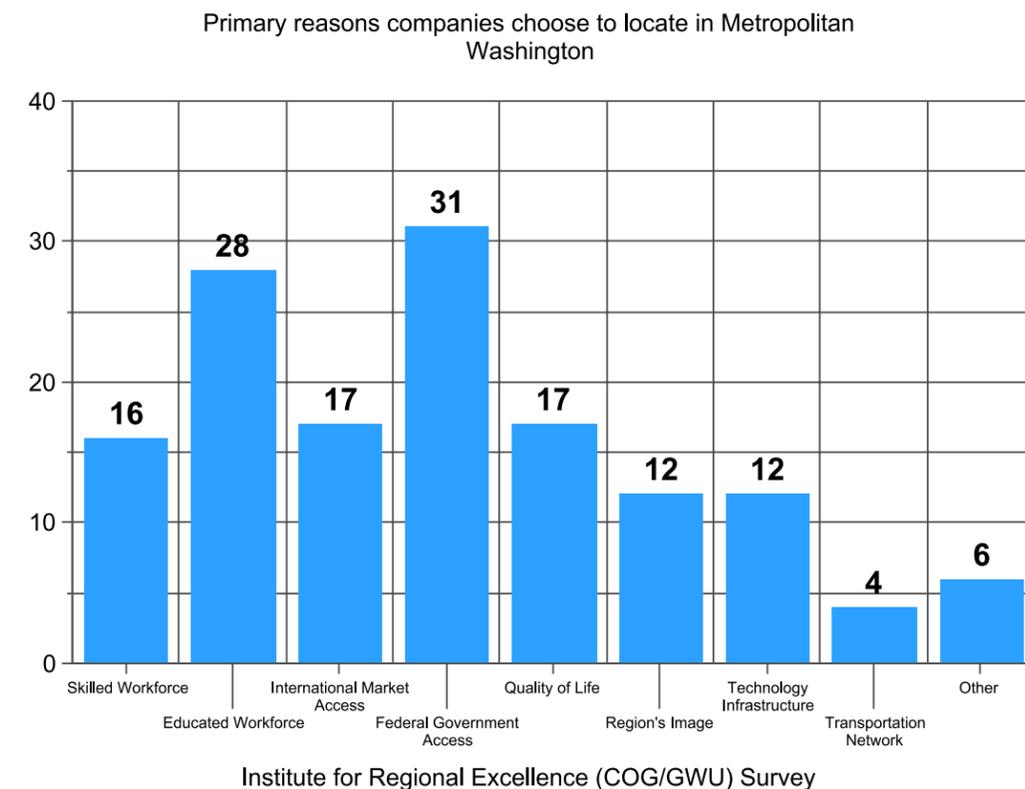
GROWING THE PRIVATE SECTOR

Despite expectations that federal spending will decrease, it will remain an important part of the region's economy. But for metropolitan Washington to advance its economic goals in Region Forward and combat the projections of slower growth, the region must build on its strengths and further develop its private sector.

While the region continues to be widely known as the nation's capital and a "government town," it is also home to a wide variety of expanding industries, including biotech and life sciences, information technology, professional services, and hospitality. To understand why businesses choose this region, a major part of COG's initiative focused on the region's many competitive advantages.

Participants at the COG sessions identified the region's educated workforce, entrepreneurial climate, international connections, and vibrant, transit oriented centers as some of its key competitive advantages. Several of these advantages were supported through a survey of area economic development officials and other stakeholders undertaken as part of the initiative by COG's Institute for Regional Excellence. In addition to the educated workforce, access to international markets, and quality of life, the survey emphasized that access to the federal government is another primary reason companies

choose to locate in metropolitan Washington.



As a sign of its attractiveness to businesses, the region has recently captured a third of all major corporate headquarter relocations in the country, according to Jim Dinegar of the Board of Trade.

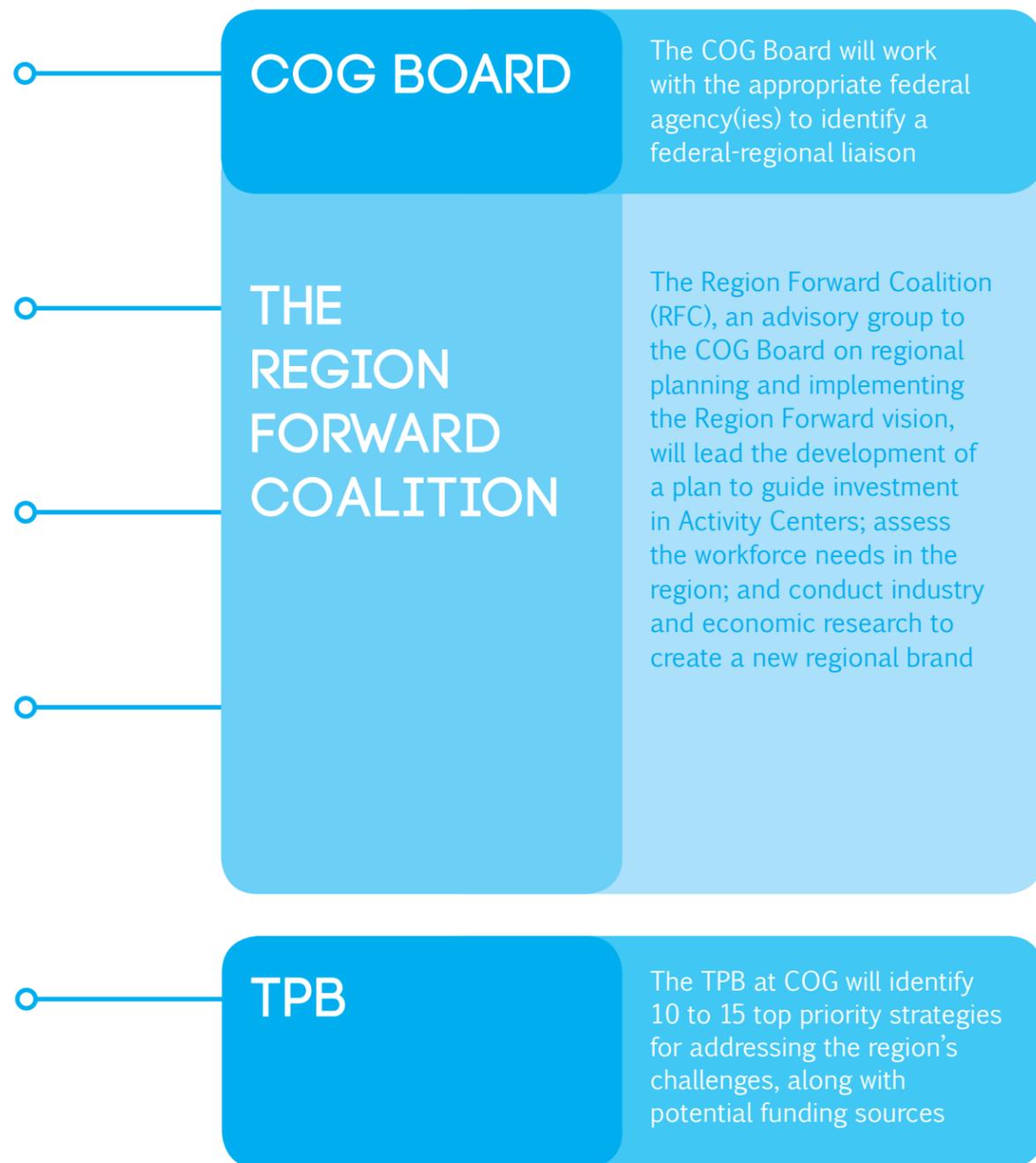
**IRE is an executive management program by COG and GWU that trains local government managers to advance regional cooperation and increases their exposure to innovation*

OBSERVATION: COG must refocus its current and upcoming projects with the goal of improving regional economic growth and competitiveness.

THE REGION NEEDS

- Federal-Regional Partnership:**
 As federal procurement and employment in the region declines, a stronger relationship between federal and regional officials is critical
- Strong Centers:**
 Metropolitan Washington needs Activity Centers with the right mix of housing, jobs, and access to transit
- Workforce Development:**
 There is a mismatch between available jobs and a skilled workforce that is forcing employers to look outside of the region for new employees
- A New Image:**
 Further economic growth requires moving beyond the image of being a “government town”
- Transportation Investment:**
 Greater investment in transportation infrastructure is essential to the region’s economic competitiveness

HOW COG WILL MAKE IT HAPPEN



WHAT WILL BE THE RESULT?

