



**State of Washington
Legislative Budget Committee**

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**Community
Diversification
Program Sunset Review**

Report 95-13

November 8, 1995

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for persons with disabilities.*

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COMMUNITY DIVERSIFICATION PROGRAM SUNSET REVIEW

Summary

The Community Diversification Program (CDP) was created in 1990 to assist military dependent communities and businesses to diversify their economies and to plan for shifts in military expenditures.

This sunset review found that the program has generally complied with legislative intent and is making progress toward meeting its statutory goals. Because the program was not fully operational until 1993, there is scant data available on the effects CDP has had on diversifying military dependent economies. The program has not established outcome measures or collected data that might provide a better assessment of program effectiveness.

CDP customers rate the program highly and urge that it be retained. Continued need for the program is also illustrated by the dependence some communities, particularly Kitsap and Island counties, have on military-related expenditures.

This report recommends that CDP be continued and that it maintain statistics on how successful it is meeting its goal of diversifying sales and employment for the industries and businesses assisted. The CDP should also develop a mechanism whereby these measures can be tracked and reported, on an ongoing basis, beginning with its 1996 annual report to the Governor and the legislature.¹ The legislature could use these statistics as a basis for the future direction of the program.

Overview

¹ RCW 143.63A.450 directs the CDP to report annually to the Governor and the legislature on its activities. The next report is due November 1996.

Evaluation Criteria

Consistent with the Sunset Act of 1977, the CDP was evaluated based on whether the program: 1) has complied with legislative intent; 2) is operating in the public interest; and 3) is duplicative of other public or private programs. Further, we evaluated the CDP by determining the extent to which it has implemented the recommendations of the Community Diversification Advisory Committee, whether the program has impacted the sales and employment of businesses and communities assisted, and the degree of customer satisfaction of those assisted by the program.

An evaluation of the continuing need of the CDP was also conducted by assessing the extent to which communities continue to be dependent on the military.

SUMMARY OF FINDINGS

Program Performance

We found that the program has generally complied with the intent of the legislature in identifying areas of the state which are dependent on military expenditures and assisting businesses and communities to develop plans to mitigate the impact of potential reductions in military spending. However, we found that the program has not actively monitored shifts in military spending. Program staff acknowledges this and has agreed to place more emphasis in this area.

Also, the program has implemented most of the recommendations of the Community Diversification Advisory Committee, which was formed to develop strategies and recommendations on ways to address the state's dependence on the military.

We further found that the program is making progress toward accomplishing its goal of assisting businesses and communities. These intermediate accomplishments include:

- The formation of business networks that would not have occurred without the CDP's assistance
- Administrative cost savings as a result of the economies involved in networks
- Increased indirect sales resulting from participation in networks.

Shifts in
military
spending
not actively
monitored

Although it is premature at this point of program implementation to expect the program to have many tangible measures indicating its impact on non-military sales and employment, we found that the program has not maintained the statistics that would be needed to track its impact on the sales and the employment of the communities and businesses assisted. Thus the report makes a recommendation in this area.

Our survey of CDP customers revealed that they were very satisfied with the quality of services received. Several benefits of the CDP were consistently cited by the respondents. These include: its ability to leverage state funds with other funding; its assistance to start-up networks; staff knowledge and expertise; and program creativity in forming networks and assisting businesses.

Program Need and Duplication

We found that some areas of the state remain fairly heavily dependent on the military. This is particularly the case in three counties: Island County (which includes Whidbey Island Naval Air Station), Kitsap County (which includes the Puget Sound Naval Shipyard, the Naval Submarine Base at Bangor, the Naval Undersea Warfare Center at Keyport, and the Naval Hospital at Bremerton), and Pierce County (Fort Lewis, McChord Air Force Base, and Madigan Hospital). Approximately 15 percent of the total workforce in these three counties are made up of active duty personnel, and military contracts represent about 30 percent of their local payrolls.

Thus, the need for the CDP continues to exist as these communities are still vulnerable to potential reductions in military spending.

This report further finds that the CDP is the only state program which focuses its services to small- and medium-sized businesses within the aerospace and shipbuilding industries, the two industries most vulnerable to military spending reductions.

RECOMMENDATIONS

Based on these findings, the report makes two recommendations. First, the CDP should develop and track measures of program success, and it should report on these in its annual report. Second, the legislature should continue CDP by repealing the appropriate sunset provisions from the law.

Customers
very
satisfied

Continued
need for the
program

AGENCY RESPONSE

Responses to this report from the Department of Community, Trade and Economic Development (DCTED) and the Office of Financial Management (OFM) are included in Appendix 2.

ACKNOWLEDGMENTS

We acknowledge the assistance provided by the staff of CDP and the Department of Community, Trade and Economic Development, especially Paul Knox, CDP Program Manager, and Sharon Brackney, Manager of Washington Manufacturing Networks. We also thank the many CDP customers, including the small- to medium-sized businesses, community representatives, program contractors, and federal grantors whom we interviewed for this review.

Debbie Evick and Martin Chaw conducted this sunset review. Ron Perry was project supervisor.

Cheryle A. Broom
Legislative Auditor

On November 8, 1995, this report was approved as amended by the Legislative Budget Committee and its distribution authorized.

*Senator Al Bauer
Chair*

RECOMMENDATIONS*

Summary

Recommendation 1

~~2~~ 1. The legislature should continue the CDP by repealing the current sunset provisions contained in RCW 43.131.367 and 43.131.368. The legislature should allow the enabling legislation for the Community Diversification Program to terminate on June 30, 1996, according to provisions of the Sunset Act.

Legislation required:	Yes <u>No</u>
Fiscal impact:	None <u>\$0</u>
Completion date:	June 30, 1996

Recommendation 2

~~1~~ 2. The CDP should maintain statistics on how successfully it is at meeting its goal of diversifying sales and employment for the businesses assisted, including tracking measures that demonstrate continued need for the program. Further, the CDP should develop a mechanism whereby these measures can be tracked and reported, on an ongoing basis, beginning with its 1996 annual report to the Governor and the legislature. The Department of Community, Trade and Economic Development should prioritize the use of its resources and, if appropriate, assist communities and industries that are dependent on military spending.

Legislation required:	No
Fiscal impact:	None <u>\$0</u>
Completion date:	November 1996. <u>After termination and repeal of the CDP enabling legislation.</u>

*Staff recommendations were modified by action of the Legislative Budget Committee on November 8, 1995. A discussion of the rationale for the revised recommendations is included in the addendum.

Addendum

Summary of Revised Recommendations

This addendum summarizes alternative recommendations which were adopted by the Legislative Budget Committee (LBC) on November 8, 1995.

On October 16, 1995, following discussion of the preliminary report by the LBC, staff was directed to develop alternative recommendations to: 1) sunset the program, and 2) direct the Department of Community, Trade and Economic Development (DCTED) to prioritize its resources and, if appropriate, to assist communities and industries dependent on military spending.

When the staff report concluded that the Community Diversification Program (CDP) should be continued, it did not consider whether DCTED could continue to provide diversification assistance within its general statutory mandate. Because one of the primary goals of the DCTED is to help diversify local economies and improve the competitiveness of targeted industry sectors (RCW 43.63A.450), the LBC concluded that there was no need for CDP to be specifically authorized in statute. The committee expressed its belief that the department could provide diversification assistance in the context of the agency deciding which program priorities would effectively meet statutory mandates.

The intended fiscal impact of the committee recommendations is to allow the DCTED to maintain the 1995-97 resources for continued support of diversifying local economies and general state economic development efforts.

The LBC unanimously voted to adopt the revised recommendations. The original staff recommendations (which are struck) and the committee's recommendations (which are underlined) are both included for the reader's review.

BACKGROUND

Chapter One

The Community Diversification Program (CDP) was created in 1990 to assist military dependent communities and businesses to diversify their economies and to plan for shifts in military expenditures.

To assist with the design and implementation of the program, the Department of Community, Trade and Economic Development (DCTED) created an advisory committee. Utilizing the diversification strategies recommended by the committee, the program became fully operational about a year ago.

The program's state General Fund appropriation for the 1995-97 Biennium is just over \$400,000.

BACKGROUND

In 1988, the legislature found that the combined effects of the increasing federal budget deficit and the trade deficit may cause variations in military spending. These variations resulted in major economic consequences for the state, especially in the aerospace sector. In response to these findings, the legislature directed the Washington State Institute for Public Policy (WSIPP) to investigate the state's dependence on military expenditures and to investigate the state's role in diversifying the state's economy away from military dependence.

The WSIPP study found that the state ranked twelfth in the nation in per capita defense spending. Further, the military expenditures represented about 6 to 9 percent of the state's gross state product, and military expenditures on payrolls accounted for about 7.3 percent of the state's civilian labor force.

Overview

Diversify the economy

The WSIPP study recommended that the state build a diversified economy less susceptible to military expenditure reductions by promoting international trade, monitoring federal military expenditures, and providing for a mechanism by which advanced notification of base closures would occur. This would enable state agencies to respond more effectively to potential military spending reductions.¹

LEGISLATIVE INTENT

With the information provided by the WSIPP study, the legislature in 1990 created the CDP to assist communities and businesses to plan for economic change, to develop a broader economic base, and to prepare for shifts and reductions in military expenditures.

The program was charged with five statutory directives:

1. To monitor and forecast shifts in military expenditures
2. To identify cities, counties, and regions dependent on military contracts
3. To assist communities and industries to broaden their economic base through technical assistance
4. To formulate a state plan for diversifying the economies of defense dependent communities
5. To identify diversification efforts conducted by other jurisdictions.

ACTIVITIES/INITIATIVES

To advise the agency on the planning and implementation of the program, DCTED formed the Community Diversification Advisory Committee consisting of representatives from local and state government, business, community, and employee/labor organizations.

¹Impact of Military Expenditures on the Washington State Economy, Washington State Institute of Public Policy, June 1989.

The committee reviewed the state's geographic and industrial dependence on military spending and developed a series of strategies and recommendations designed to assist the state become more diversified in the future. These strategies included: coordinating local, state, and federal assistance services; promoting awareness of the importance of economic diversification; facilitating community diversification planning and implementation; targeting diversification efforts to small- to medium-sized businesses; and providing an effective response to base closures and military contract cutbacks.

Strategies:
diversification
and
business
networks

Based upon these strategies and the committee's recommendations, implementation of the CDP was designed to reduce the vulnerability of industry, communities, and workers to military spending reductions. According to the advisory committee, the ultimate goal of the CDP is for Washington State's military communities and businesses to become more diversified in the future.² The CDP is considered to be preventative in nature because it seeks to take action before the negative impacts of reduced military spending occur.

Some of CDP's services are centered around the formation of business networks. Business networks typically involve small- to medium-sized firms joining together as a group to achieve economies of scale that would not otherwise be achievable on the individual firm level. Networks can be formed on the basis of cost economies, specialized skills, and/or market niches.

Although the CDP was created in 1990, many of its initiatives have only begun in the past two years. For example, the formation of networks have only recently occurred in the past 12 to 18 months. The period prior to the creation of networks was spent primarily in planning and ensuring that the program would be customer focused. Efforts to educate communities and businesses of the benefits of networks and how networks can be created were also conducted during the early stages of program implementation.

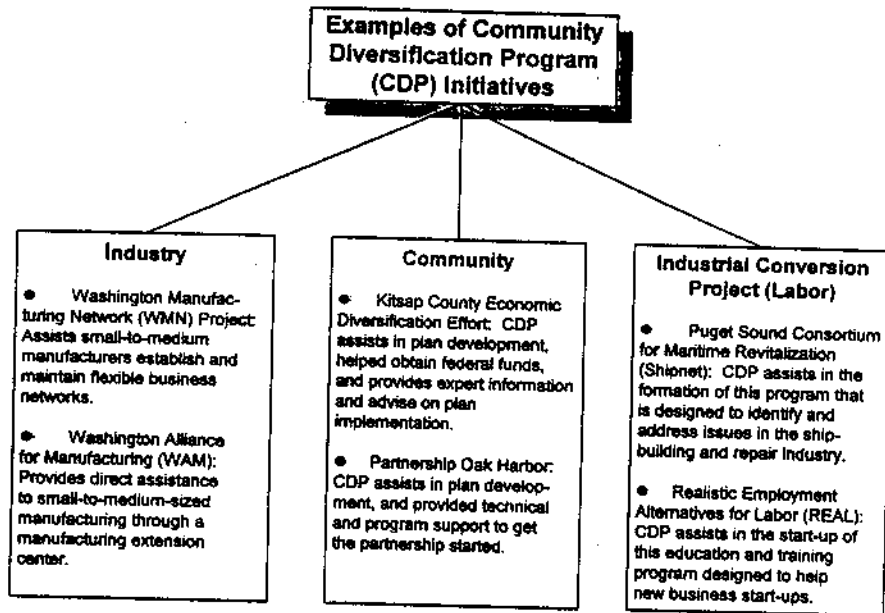
Targeted
areas:
industry,
community,
and labor

The program's initiatives are categorized into three primary areas: industry, community, and industrial conversion (labor). Examples of these three initiatives are briefly described in Exhibit 1. A more detailed description of each of the CDP's initiatives is included in Appendix 3.

² Diversification: Strategies for Military-Dependent Communities, Firms, and Workers in Washington State, Washington State Department of Community, Trade and Economic Development (DCTED), 1991.

Exhibit 1

Community Diversification Program Initiatives



BUDGET

CDP is a program within the Local Development Assistance Service Area of DCTED. The budgets for two biennia are summarized in the following exhibit.

Exhibit 2

**Community Diversification Program
Funding Sources
1993-95 and 1995-97**

Budget Category	1993-95 Budgeted	1995-97 Budgeted
State General Fund	\$464,406	\$414,406
FTEs	2.0	2.0
Federal	\$1,694,000	TBD
Local/private	\$585,000	TBD

As shown in Exhibit 2, the CDP has been instrumental in using state funds to leverage federal funds for both the state and local private non-profit organizations. In the 1993-95 Biennium, the CDP was able to leverage about \$3.70 in federal funds for every state dollar expended and about \$1.30 in local funds for every state dollar expended.

PROGRAM PERFORMANCE

Chapter Two

This chapter assesses the extent to which the CDP has complied with legislative intent, how the program has assisted businesses and communities to diversify their economies, and the degree of satisfaction the customers have had with the program.

This report found that the CDP has generally complied with legislative intent and has implemented most of the recommendations of the Community Diversification Advisory Committee. We also found that the program has intermediate accomplishments which indicate that it is making progress toward achieving its overall goals.¹ Although it may be premature to expect tangible outcome measures at this point in the program's implementation, we found that the CDP has not identified outcome measures nor has it maintained statistics on the effect the program has had on diversifying business sales and adding or retaining jobs for the state.

This review also found that the CDP's customers are satisfied with the services received. Many CDP customers credit the program for its ability to leverage federal and non-state funds and for the technical and program expertise of its staff.

This report recommends that the CDP establish a mechanism whereby these measures can be tracked and reported, on an ongoing basis, beginning with the program's 1996 report to the legislature.

Overview

Complied
with
legislative
intent

¹ Please see page 10 for a discussion of examples of intermediate measures.

ASSESSMENT CRITERIA

In order to assess the performance of the CDP, we evaluated the program based upon the sunset criteria as outlined in the sunset act as well as its effect on businesses and communities, including overall customer satisfaction.

The criteria we used were:

- The program's compliance with legislative intent
- The degree to which the program has implemented the Community Diversification Advisory Committee's recommendations
- The extent to which the program has intermediate accomplishments demonstrating its progress toward achievement of its goal
- The trend in the dollar value and percentage of non-military sales for businesses assisted
- The number of jobs created or retained as a result of the program's assistance
- The level of satisfaction of businesses and communities receiving services from the program.

The CDP has established three general measures by which its program can be assessed: the number of firms assisted, the number of network member firms, and the number of community diversification efforts. Although these measure the relative activity level of the CDP, they do not convey a sense of how effectively or efficiently the program is meeting its goals.

FINDINGS

Compliance with Legislative Intent

Our review of CDP's activities and initiatives showed that the program has generally complied with the legislature's intent.²

² See Chapter 1 for a list of CDP's legislative directives.

However, we found that staff for the CDP could be more proactive in monitoring and forecasting shifts in military expenditures. For example, the program does not maintain a current data base on military subcontractors nor does it maintain a data base of military spending impacts on Washington businesses and communities.

The program has not developed approaches for monitoring and forecasting shifts in military spending. However, we found no negative impact in terms of the type and distribution of services provided by the CDP as a result of this finding. According to the CDP program manager, the lack of data collection and forecasting is due to the uncertainty as to where, when, and how reductions in military spending will occur. The CDP staff has agreed to take a more proactive approach in tracking this information on a broad basis using, in part, data from the federal Defense Budget Project.³

Implementation of the Advisory Committee's Recommendations

Through our interviews and document review, the CDP staff demonstrated that the program has implemented about 95 percent of the recommendations of the committee. These include recommended actions such as: 1) coordinating local, state, and federal assistance; 2) promoting awareness of the importance of economic diversification; and 3) facilitating community diversification planning and implementation. Staff for the CDP has stated that the reasons for not implementing the remaining recommendations are because the need no longer exists, or the recommendation can be implemented more effectively by another state agency.

**Implemented
most of the
recom-
mendations**

Demonstrated Progress Toward Achievement of its Overall Goal

The CDP has achieved "intermediate accomplishments" which demonstrate its progress toward achieving its overall goals. Examples include the formation of start-up networks that otherwise

³ The Defense Budget Project maintains information on military spending based on data from the Department of Defense and the Department of Labor.

⁴ According to *Monitoring the Outcome of Economic Development Programs*, Harry P. Hatry, Mark Fall, Thomas O. Singer, and E. Blaine Liner, 1990, both intermediate (short-term) and long-term outcomes measures should be tracked as indicators of the program's success. Intermediate outcomes are defined as actions that are accepted as being significant steps toward achievement of the longer-term end results.

would not have occurred without the assistance of the CDP; administrative cost savings as a result of the economies involved in networks; and increased indirect sales resulting from participation in CDP activities (one business owner stated that contacts made through the CDP has resulted in a \$10,000 increase in monthly sales).

Sales or Employment

Premature
to expect
tangible
outcomes

The CDP does not maintain a record of trends in non-military sales by businesses assisted nor the number of jobs created or retained. However, given that the CDP has been fully operational for about a year, it may be premature to expect trends in the data to emerge. Since one of the goals of the CDP is to assist businesses to diversify their economies, the absence of these statistics makes it more difficult to assess the relative success of the program. Thus, this report recommends that the CDP develop a mechanism for tracking and reporting these statistics.

The Level of Client Satisfaction

Customers
very
satisfied

Our survey of CDP customers revealed that they were very satisfied with the quality of services received. Several benefits of the CDP were consistently cited by the respondents. These include its ability to leverage state funds with other funding. For example, approximately 50 percent of the cost of administering the program is from federal grants and local and private contributions. Other program benefits cited were the program's assistance to start-up networks, staff knowledge and expertise, and program creativity in forming networks and assisting businesses.

CONCLUSIONS

This report concludes that the CDP has generally complied with the intent of the legislature and has begun to implement most of the Advisory Committee's recommendations. Further, the CDP has intermediate accomplishments which demonstrate that it is making progress toward achieving its overall goals, and program customers are very satisfied with the services they received.

However, the CDP does not maintain a record of how its efforts are affecting the sales and employment of businesses it assists. A record and reporting of these statistics is important as it will give policy makers the ability to assess the long-term success and impact of the program.

Recommendation 1

~~2 1. The legislature should continue the CDP by repealing the current sunset provisions contained in RCW 43.131.367 and 43.131.368. The legislature should allow the enabling legislation for the Community Diversification Program to terminate on June 30, 1996, according to provisions of the Sunset Act.⁵~~

Identify and
track
outcomes

⁵ This recommendation was modified by action of the Legislative Budget Committee. Please see the discussion on page vi.

PROGRAM NEED & CONCLUSIONS

Chapter Three

This chapter concludes that there is a continued need for the CDP. Benchmarks which measure the relative dependence of communities on military personnel and spending indicate that some areas of the state (especially Kitsap and Island County) remain as dependent on the military as they did four years ago.

Overview

Further, the CDP does not duplicate any other governmental or private programs. Many businesses assisted by the program state that the program is still needed to assist small communities and businesses in their diversification activities.

This report recommends that the legislature continue the CDP by repealing the termination provisions of the sunset act relating to the CDP.

PROGRAM NEED

Community dependency on military spending can be measured by comparing the relative impact of military spending or employment on the local economy. There are two common benchmarks used to measure dependence.

Active duty employment relative to the total local employment base. This measure highlights the impact of active duty personnel on the local economy.

Military spending relative to personal income. This illustrates the relative weight of these expenditures on the local payroll.

Generally, if these measures exceed five percent for any community, that community is considered dependent on the military.¹

Continued need for the program

Most of the military presence in this state is centered around three counties: Island County (which includes Whidbey Island Naval Air Station), Kitsap County (which includes the Puget Sound Naval Shipyard, the Naval Submarine Base at Bangor, the Naval Undersea Warfare Center at Keyport, and the Naval Hospital at Bremerton), and Pierce County (Fort Lewis, McChord Air Force Base, and Madigan Hospital).

In 1994, active duty personnel accounted for 15 percent of the employment base in these three counties while military spending as a percentage of personal income averaged about 30 percent to 37 percent.

Military Personnel

Currently, 95 percent of the state's active military personnel force is located in six of the state's thirty-nine counties. Most of these personnel are located in Island and Kitsap County. The exhibit below shows active duty military personnel in these counties:

Exhibit 3

Active Duty Military Employment Six Most Dependent Counties 1990 vs 1994

County	Employment [1]		Active Duty Prsl. [2]		Active Duty Prsl. as a % of Employment	
	1990	1994	1990	1994	1990	1994
Island	20,990	23,440	5,500	7,528	26.2%	32.1%
King	841,900	858,000	4,992	2,351	0.6%	0.3%
Kitsap	79,700	85,500	7,998	9,716	10.0%	11.4%
Pierce	243,200	282,000	26,949	21,926	11.1%	7.8%
Spokane	161,400	178,000	4,170	3,830	2.6%	2.2%
Thurston	79,300	85,100	1,155	1,955	1.5%	1.5%
All Other Counties	954,300	992,990	2,504	2,767	0.3%	0.3%
Statewide Total	2,380,790	2,505,030	53,268	50,073	2.2%	2.0%
6 County Total	1,426,490	1,512,040	50,764	47,306	--	--
Percent of Statewide Total	60%	60%	95%	94%	--	--

Notes: 1) Resident Labor Force and Employment in Washington State and Labor Areas, Employment Security Department, December 1990 and 1994.

2) Resident Armed Forces by County, OFM Forecasting.

¹ House bill report, ESHB 2706, February 9, 1990.

Although the total number of active duty personnel in the state decreased between 1990 and 1994, the counties of Island and Kitsap increased their share of active duty military personnel during this same period. Clearly, the dependence of some communities on military personnel remains as significant as it was four years ago.

Military Procurement

Similar to the employment impact of the military's presence, Island and Kitsap counties are also heavily dependent upon military procurement contracts. As shown in the exhibit below, in 1992, procurement contracts represented 30 percent and 37 percent respectively of the personal income for Island and Kitsap counties.

Exhibit 4

Military Spending as a Percentage of Personal Income 1988 vs. 1992

County	1988	1992
Island	36%	30%
King	8%	4%
Kitsap	37%	37%
Pierce	13%	8%
Spokane	4%	4%

Source: DCTED staff research, OFM forecasting

In recent years, the impact of the reductions in military procurement, has been compounded because of the downturn of the commercial side of both the aerospace and shipbuilding industries. The aerospace and shipbuilding industries represent a considerable presence in the state's economy. For example, in this state, aerospace companies include the Boeing Company along with many small- to medium-sized companies that may subcontract many services to Boeing. These companies include machine shops and other suppliers. It is estimated that the aerospace industry accounts for at least one-quarter of all of Washington State's manufacturing employment.² Reductions in military contracts for the Boeing company often have a ripple effect, impacting the sales of its subcontractors.

Island and
Kitsap
counties
remain
heavily
dependent

² Moving Washington Forward: An Assessment of Critical Factors for Success in Key Industries, A Report by Forward Washington for the Washington Department of Community, Trade and Economic Development, January 1995.

Further Federal Reductions

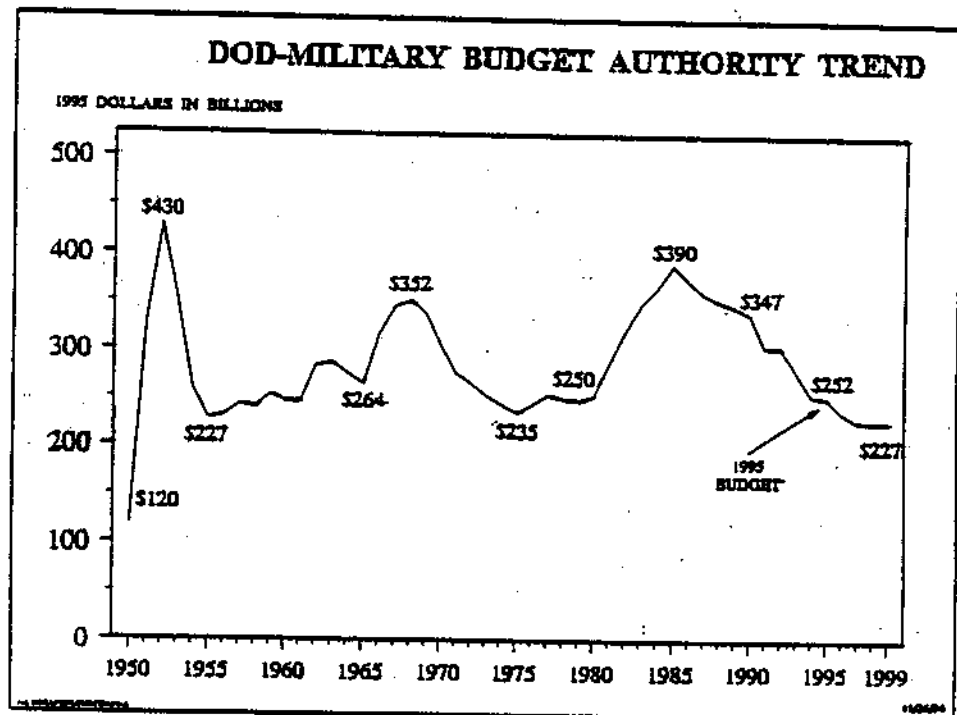
CDP needed to mitigate future reductions

According to federal officials, the reductions in defense spending that began in the late 1980s are expected to continue. However, exactly when and where these cuts will be made remains uncertain. Exhibit 5 below shows military spending trends. An official from the Office of Economic Adjustment within the Department of Defense (DOD) stated that Washington State continues to be among one of the states that are most impacted by reductions in DOD spending.³

According to this official, the CDP continues to be needed in order to help mitigate the potential impact of base closures and the impact on the aerospace and shipbuilding industries from military procurement reductions.

Exhibit 5

Historical Federal Military Budget Trends



Source: 1995 Congressional Budget Request

³ The Office of Economic Adjustment (OEA) is the federal program, housed within the Department of Defense, that is established to help communities and industry resolve problems caused by changes in defense spending.

Cyclic Nature of Military: the Procurement Process

Many of the CDP customers and federal officials that we interviewed stated that the CDP is needed because of the effect the cyclic nature of military spending has on small- to medium-sized aerospace and shipbuilding subcontractors. As noted in the background section, part of the CDP program initiatives are designed to assist small- to medium-sized businesses diversify away from dependence on military subcontracts. Federal and state economic development officials stressed that as a result of their size, small- to medium-sized businesses are more susceptible to military spending downturns. By diversifying their sources of revenues and encouraging businesses to form networks, improvements to their sales as well as improved competitiveness can be realized.

PROGRAM DUPLICATION AND COORDINATION

We found that the CDP does not duplicate the activities of other government agencies or the private sector.⁴ Our review of programs in other states found that, nationally, the CDP is considered a model program. At the state level, we did not find any other Washington State government program that targets small- to medium-sized aerospace or shipbuilding manufacturers.

No
duplication
of efforts

The CDP also coordinates with other programs, acting as a leader in maintaining and organizing the start-up of business networking efforts. This can be seen in the program's ability to develop partnerships between small- to medium-sized businesses, communities, and federal grantors (see Appendix 3).

IMPACT OF PROGRAM TERMINATION

The CDP program is the only state economic development program that focuses its services on small- to medium-sized firms within the aerospace and shipbuilding industries. Given the continued influence on these industries from the military, especially in Island and Kitsap counties, there appears to be a compelling reason for continuing the CDP program.

⁴ One of the sunset criterion is to examine the extent to which the program is duplicating the activities of other state agencies or private sector activities, see page ii.

Further, all the CDP customers interviewed stated that there would be a negative impact if the CDP program were allowed to sunset. Reasons cited include: 1) the need to have a state effort to assist the small- to medium-sized aerospace and shipbuilding businesses; 2) the need for small communities, who are dependent on military spending, to have planning and technical support from the state; and 3) the need to have a state program to help industry workers convert their skills to other uses. Most stated that valuable expertise and knowledge would be lost as a result. Two individuals stated that their organizations would view the sunset of the CDP as an "abandonment" on the part of the state.

CONCLUSIONS

This report concludes that there is a continuing need for the CDP. Areas of the state which continue to be dependent upon military spending are Island, Kitsap, and Pierce Counties along with the shipbuilding and aerospace industries. Further, the CDP does not duplicate any state or federal programs and many businesses state that the program is needed to assist small communities and businesses plan for the potential impact of military expenditure reductions.

Recommendation 2

~~1 2. The CDP should maintain statistics on how successfully it is at meeting its goal of diversifying sales and employment for the businesses assisted, including tracking measures that demonstrate continued need for the program. Further, the CDP should develop a mechanism whereby these measures can be tracked and reported, on an ongoing basis, beginning with its 1996 annual report to the Governor and the legislature. The Department of Community, Trade and Economic Development should prioritize the use of its resources and, if appropriate, assist communities and industries that are dependent on military spending.⁶~~

⁶This recommendation was modified by action of the Legislative Budget Committee. Please see the discussion on page vi.

Continue
program

SCOPE AND OBJECTIVES

Appendix 1

SCOPE

The scope of this mandated sunset review includes, but may not be limited to, an assessment of the effectiveness of the Community Diversification Program (CDP) in identifying, assisting, and diversifying defense-dependent communities and businesses.

OBJECTIVES

1. Evaluate the state plan for diversifying defense-dependent communities.
2. Evaluate the department's business, training, and economic diversification assistance efforts for defense dependent communities.
3. Determine the extent to which the CDP has complied with legislative intent.
4. Determine the extent to which the CDP is operating in an efficient and economical manner.
5. Determine the extent to which the CDP is operating in the public interest by effectively providing a needed service that should be continued rather than modified, consolidated, or eliminated.
6. Determine the extent to which the termination or modification of the CDP would adversely affect the public health, safety, or welfare.
7. Develop recommendations to terminate, modify, or continue the entire, or parts of, the program.

AGENCY RESPONSE

Appendix 2

- **Department of Community, Trade and Economic Development**
- **Office of Financial Management**

NOV - 7 1995
LEGISLATIVE
BUDGET COMM

STATE OF WASHINGTON

DEPARTMENT OF COMMUNITY, TRADE AND ECONOMIC DEVELOPMENT

906 Columbia St. SW • PO Box 48300 • Olympia, Washington 98504-8300 • (206) 753-2200

November 3, 1995

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The Honorable Al Bauer, Chair
Legislative Budget Committee
Post Office Box 40910
Olympia, Washington 98501-2323

Dear Senator Bauer:

I am writing to provide the Legislative Budget Committee my comments on the draft proposed recommendations for the sunset review of the Community Diversification Program.

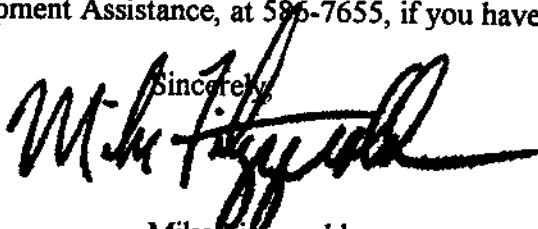
First, I want to emphasize that the Department of Community, Trade and Economic Development (CTED) is comfortable with the recommendation to sunset the statute which created the Community Diversification Program in 1990. I believe, as does the Committee, the statute is somewhat outdated and unnecessary given the present and future focus of program activities as well as the mandate given CTED by the Legislature in the merger statute. As was documented by the Committee's report, we are proud of the successes of the Community Diversification Program and believe that these efforts should be continued under the Department's development services.

The Department's merger statute, RCW 43.63A.450, requires CTED to support development of manufacturing networks, help diversify local economies, and improve the competitiveness of targeted industry sectors. Program projects working with the shipbuilding, aerospace and related industries, as well as communities like Kitsap County, directly fit under CTED's legislative mandate. For the Committee's information, I have enclosed a list of program benefits and successes.

I am concerned that the fiscal impact statement may open the door to cutting the program's budget despite the fact that during the Committee discussion on October 16, 1995, a connection between the sunset of the statute and the current program budget was not part of the Committee deliberation. I need to emphasize the very successful track record the program has had in raising federal and private funds to do its work. Over the past three years, \$440,000 in state funds has leveraged over \$2.2 million to support eight distinct community and industry ventures. State funds play a critical role in this investment equation. CTED is the only state entity working specifically to help strengthen hard-hit aerospace suppliers and shipbuilding businesses and its continued success requires an ongoing state funding commitment. It is important to note that the industries typically pay what are being referred to as "family" or "living" wage jobs.

The Honorable Al Bauer, Chair
November 3, 1995
Page Two

I appreciate having the opportunity to provide you my comments. Please call Jeff Robinson, Assistant Director, Local Development Assistance, at 586-7655, if you have any questions.

Sincerely,


Mike Fitzgerald
Director

Enclosure

cc: Cheryle Broom
Laura Porter

RECEIVED

SEP 27 1995

LEGISLATIVE
BUDGET COMM



STATE OF WASHINGTON

DEPARTMENT OF COMMUNITY, TRADE AND ECONOMIC DEVELOPMENT

906 Columbia St. SW • PO Box 48300 • Olympia, Washington 98504-8300 • (206) 753-2200

September 27th, 1995

Ms. Cheryle A. Broom, Legislative Auditor
State of Washington
Legislative Budget Committee
506 16th Avenue SE
Olympia, WA 98504-0910

Dear Ms. Broom:

Washington State Community, Trade and Economic Development (CTED) agrees with the Legislative Budget Committee Sunset Review Report regarding the Community Diversification Program. The program has performed an outstanding job with modest state funds by helping initiate and support diversification activities within and among both defense-dependent communities and industries.

The Community Diversification Program has used \$440,000 in state funds over the past three years to leverage over \$2.2 million dollars in federal, local and private investment to support eight distinct community and industry diversification projects. Each of these projects involved partnerships between industry, CTED and local organizations. Specific outcomes for these activities include completion and initial implementation of economic diversification strategies in Kitsap County and greater Oak Harbor, increased sales for machining and tooling businesses who are members of the Pacific Manufacturing Group, saving 24 firms \$8,000 - \$15,000 each for the cost of ISO-9000 standards execution, and formation of the Washington Aerospace Alliance and ShipNet industry networks.

The program has evolved over the past two years to focus mainly on promoting diversification and improved competitiveness within defense-oriented manufacturing industries in Washington State. Although program staff and resources have supported broader community economic diversification activities in military base-dependent areas such as Kitsap County and northern Whidbey Island, the greater need has evolved toward small manufacturing firms. The following core program functions and approaches are both innovative and valuable:

- Focus on strengthening shipbuilding/repair and aerospace supplier industry sectors;
- Promotion and support for creation of a statewide manufacturing extension service;

- Initiation and support for business development and diversification projects led by labor organizations;
- Promotion and development of manufacturing networks and other forms of collaboration between businesses;
- Aggressive and successful pursuit of private, local and federal funds to match modest state funds;
- Support and technical assistance for advance planning and diversification activities by defense-dependent communities; and
- Utilization of private expertise for service provision.

CTED concurs with the LBC recommendation that the program maintain statistics on the success of its performance measures with regard to the firms it has assisted. Improved benchmarking and tracking of outcomes is already a priority for CTED for all its services.

CTED also concurs with the recommendation to repeal the current sunset provision for the program. This Sunset Review process has been helpful in clarifying the value of the program to its customers as well as assessing where the program should be heading in the future.

Thank you for the opportunity to review the Sunset Review Report. If you desire more detailed information, please contact Paul Knox, Community Diversification Program Manager, at (360) 586-8973.

Sincerely,



Jeff Robinson, Assistant Director
Local Development Assistance



RECEIVED

SEP 26 1995

LEGISLATIVE
BUDGET COMM

STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

Insurance Building, M.S. AQ-44 • Olympia, Washington 98504 • (206) 753-5450

DATE: September 26, 1995

TO: The Honorable Al Bauer, Chair
Legislative Budget Committee

Cheryle A. Broom
Legislative Auditor

FROM: Ruta Fanning, Director *RF*

SUBJECT: SUNSET REVIEW: COMMUNITY DIVERSIFICATION PROGRAM

In accordance with RCW 43.131.050, the Office of Financial Management (OFM) has reviewed the operations of the Community Diversification Program and the Legislative Budget Committee's (LBC) preliminary sunset review of that program. Based on that review OFM is in substantial agreement with the analysis and recommendations of the LBC that the Community Diversification Program, operated by the Department of Community, Trade, and Economic Development, should be allowed to continue and the sunset provisions should be repealed.

The Community Diversification Program was initiated by the Legislature in response to the dependence of certain communities and industries on federal defense spending at the end of the Cold War. Earlier legislatively-authorized studies had revealed the nature and extent of defense spending in the state. The Legislature was concerned that substantial defense cutbacks would leave communities without a real future. These were communities that had helped meet America's defense needs for many years.

The Community Diversification Program focused initially on bringing defense-dependent communities together to develop community plans to diversify their economic bases and on implementing those plans. Much of this work was concentrated in Kitsap and Spokane counties, and in the Oak Harbor and Lakewood areas. Work with Oak Harbor residents also involved assisting them to organize to retain the Naval Air Station on Whidbey Island during the base closure process.

The program also worked with firms in defense-related industries to help them explore ways to diversify their markets. A key effort involved helping these firms to work together in support networks to identify new markets, develop new products, provide common support services, and to increase quality control. Efforts thus far have included: establishment of the Pacific Manufacturing group, composed of aerospace subcontractors and the larger Aerospace Alliance; creation of ShipNet, a group of shipbuilders making joint bids for new work; helping firms to establish two networks for quality control; and helping firms to become certified under ISO-9000, an international quality improvement standard.

An important strength of the Community Diversification Program is its emphasis on helping defense-dependent communities and defense-related firms help themselves. The program assists communities in the development of plans to respond to defense reductions through diversification efforts and helps them to implement these plans. The program helps firms in defense industries work together to assess new markets, develop quality improvement programs, and develop new products and services. This is a low-cost, high return role for the state, which should be useful in other state efforts.

OFM believes that the program provides valuable services. While defense reductions have slowed, the pressure of balancing the federal budget is expected to result in additional reductions in the next few years. The state can help avoid some of the dislocation of defense reductions by working with communities to help them diversify their economies and by working with defense-related firms to help them develop new markets and products.

OFM agrees with the recommendation of the Legislative Budget Committee that the program should maintain statistics on how successful it is in meeting its goal of diversifying sales and employment for the firms it assists. We believe that this effort at increasing accountability is entirely appropriate and consistent with other efforts by the Legislature and the executive branch to track progress and measure outcomes to increase the effectiveness of state expenditures.

OFM also agrees with the recommendation of the Committee that current sunset provisions should be repealed. We believe that this sunset review process has been a helpful one, providing a useful opportunity to assess the quality and value of the Community Diversification program.

SUMMARY OF COMMUNITY DIVERSIFICATION INITIATIVES

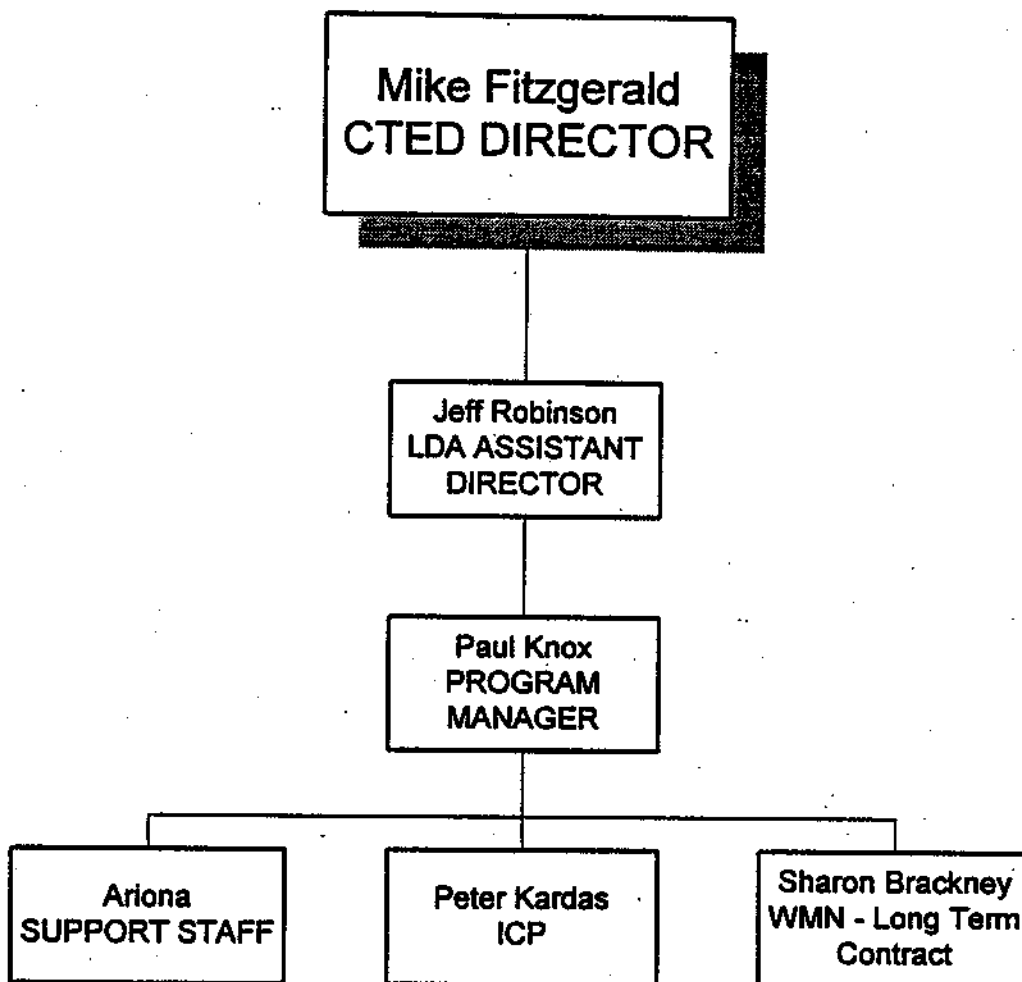
Appendix 3

Initiatives	Description
<p>Washington Manufacturing Network (WMN) Project.</p> <ul style="list-style-type: none"> • Pacific Manufacturing Group (PMG) • Washington Alliance for Manufacturing (WAM) 	<p style="text-align: center;">Industry</p> <p>The CDP received a \$387,000 federal defense conversion grant to expand the state's involvement in initiating flexible manufacturing networks. Its goal is to develop at least five networks.</p> <p>The PMG is a completed network which the CDP helped develop in 1992. This network is now operating with a full-time marketing coordinator, although the CDP still provides some support.</p> <p>The CDP participated in a proposal to obtain a \$1.5 million federal Technology Reinvestment Project grant to establish WAM. WAM is an industry-driven, private-public partnership, manufacturing extension center. It operates like an consulting group providing affordable and direct assistance to small- to medium-sized firms.</p>
<ul style="list-style-type: none"> • Kitsap County • Island County/Oak Harbor 	<p style="text-align: center;">Community</p> <p>The CDP is assisting this county with a comprehensive diversification strategy. It has hired a director and has been awarded a \$100,000 federal grant that is matched with state CDP funds.</p> <p>The CDP has awarded Partnership Oak Harbor with a \$25,000 grant to match its federal grant of \$57,000.</p>
<p>ShipNet</p> <ul style="list-style-type: none"> • Martech Proposal • Todds Shipyard • REAL 	<p style="text-align: center;">Labor: Industrial Conversion Project</p> <p>ShipNet was created with a federal grant from the Office of Economic Adjustment and state matching funds. This is an industry consortium designed to identify and address competitiveness issues in the shipbuilding industry.</p> <p>This is a program designed to assist the shipbuilding industry. This program consists of DOD, the Maritime Administration, and the Office of Naval Research. Its purpose is to assist the shipbuilding industry in finding ways to use excess capacity and employees.</p> <p>In concert with the WA State Labor Council, this program provided a \$16,000 feasibility study grant to investigate building a ship capable of hauling value-added timber products.</p> <p>Realistic Employment Alternative for Labor (REAL) supported a community development corporation to assist shipyard workers to develop business opportunities.</p>

Source: Washington State Community Diversification Program report, January 1993 to May 1994.

COMMUNITY DIVERSIFICATION PROGRAM (CDP) ORGANIZATIONAL CHART

Appendix 4



Source: Department of Community, Trade and Economic Development.

Defense Conversion and Diversification

Community Diversification Program staff, technical and financial resources have fostered the following active initiatives:

- **The Pacific Manufacturing Group**, a network of eight aerospace machining and tooling firms, has hired a Marketing Director, produced over \$1 million in joint sales, and collaborated on ISO-9000 audit preparation.
- Industry CEOs and CTED have launched the **Washington Aerospace Alliance**, a non-profit corporation whose missions are to assist aerospace supplier companies in business collaborations and to serve as a catalyst for their success. WAA benefits include reducing members' health care and raw materials costs and fostering small select alliances to pursue larger market opportunities.
- **Five ISO-9000 Implementation Networks** have been formed saving 42 firms \$8,000 - \$15,000 each while helping them become ISO certified. Additional ISO networks are being marketed.
- Shipbuilding and repair industry firms and maritime unions in the Puget Sound area have created **ShipNet**, a consortium dedicated to revitalizing the industry through modernization and new marketing strategies.
- **The Northwest Rail Project** is a labor-led venture to form a consortium of Washington State companies capable of producing rail car components for the passenger train market. This venture is driven by planned State and Amtrak purchases of new train sets for the northwest rail corridor.
- **The International Association of Machinists** in Bremerton are managing an enterprise to start-up and/or expand commercial manufacturing opportunities on the Kitsap Peninsula. The project has trained 15 Puget Sound Shipyard workers in business development skills, performed business opportunity feasibility studies, and is negotiating manufacturing licensing agreements with two international ferry building firms.
- CTED and the Spokane Intercollegiate Research and Technology Institute have helped develop the **Agile Manufacturing Network** to advance specialized CAD/CAM technology usage among small manufacturers and their suppliers.
- **Kitsap Economic Development Council** has received CTED assistance in moving an aggressive diversification strategy which has included establishing a business park, successfully recruiting high-tech firms, forming the Electronic Commerce Center and streamlining business siting regulations.
- **Partnership Oak Harbor** is now implementing its economic diversification strategy completed in July 1995, to expand the high wage job base on North Whidbey Island.

For More Information: Contact Paul Knox, CDP Manager at (360) 586-8973.