CLALLAM COUNTY ECONOMIC DEVELOPMENT COUNCIL

White Paper: State Programs and Policies that Negatively Impact Rural Communities

September 15, 2022

Background: Several state government processes create systemic issues that negatively impact rural economies due to their lower populations and number and types of businesses that create inequity across the state.

1. Data Issues:
   a. Occupational In Demand List published by ESD [1] that establish funding for occupational training are egregiously inaccurate in rural counties, yet these lists are critically important drivers for funding of rural professional training and career tech education through colleges, school districts and WorkSource. ESD defines which occupations are In-demand and which are considered balanced or In-decline. ESD's Methodology [2] considers & favors occupations in demand at the state level or in the Workforce Development Area – not locally. Our WDA includes Kitsap County which has 129K employees – Clallam has 29K and Jefferson 13K. Clallam and Jefferson only represent 12% of total. Kitsap's needs form our demand, exacerbating the rural issue of "our greatest export is our children".
   b. Lack of access to NAICS (North American Industry Classification System) Code data in rural counties prevents accurate understanding of wages paid and # of businesses for important industry sectors such as maritime and forestry. Those example industries fall into multiple NAICS codes (E.g., Manufacturing, Transportation, Wholesale trade, Retail trade, and Agriculture, forestry, fishing, and hunting). The data is not public if there are not 4 or more companies represented in the subset of NAICS Code data. In these cases the ESD Covered Payroll and Employment data for the County [3] is "starred out". This lack of publicly available information forces rural communities to have to hire consultants to gather the prerequisite data needed to apply for a grant.
   c. Rural counties and cities are unable to access aggregate business data for their jurisdiction from the following state agencies: DOR, ESD, LNI and DOL. This prevents these rural jurisdictions from competing for competitive grants.

2. Training Issues:
   a. Rural counties typically cannot meet the enrollment thresholds required for an Apprentice Program, thus this exceptional type of hands-on training that supports higher wage employment is unobtainable in rural counties.
   b. This lack of union apprentices, means a lack of union journeymen and a lack of union businesses in rural communities.
   c. Skill Center's mandated minimums don't work for rural communities:
      i. WAC 392-600-050 establishes a threshold student enrollment requirement to be eligible to receive capital funding for Skill Centers. For OSPI to award capital funding to a school district that school district *must serve a minimum of one hundred fifty full-time equivalent students in a minimum of three different programs*. If a community cannot meet this threshold there is no pro rata amount awarded. Additionally, in rural communities there is

never a need to create a great number of students with the same skillset on an annual basis. Instead, the inherent need is a need for a handful of people needing multiple skillsets. When a community economy is solely small business without large employers the aggregated needs always remain small. Thus, rural school districts do not fit the model to receive any capital funding to host one of these critical hands-on training centers that support local businesses.

ii. A "rural satellite skill center" can only be created if the center is located at least thirty miles from a core campus or other satellite program and *enrolls students from a minimum of two school districts*. Our experience has been that the travel time for students (frequently two hours daily) creates a significant disincentive for students to attend skill centers programs, thus causing low enrollment and a failure for the programs to meet their intended purpose.

3. Procurement Issues:

a. Bonding costs for small businesses are significantly greater than for large businesses: 7% of cost vs. 1.5%. This means *small* businesses construction estimates begin with 5.5% more in costs relative to large contractors. Typically, there are no large General Contractors in rural communities. These greater bonding costs decrease rural communities from competing on projects in their own communities funded often with local sales and property taxes such as school bonds.

b. In 2018 L&I began setting prevailing wage rates that unions and the Associated General Contractors (AGC) established in collective bargaining agreements (CBAs). These CBAs establish the hourly wage, benefits and overtime for a trade and occupation that local governments must pay to contractors. For a trade and occupation with more than one CBA in a county, L&I adopts the higher rate. These CBAs are primarily negotiated in King County and AGC has little to no membership in rural counties.

c. These CBAs set rural counties' prevailing wages at an artificially high rate, rather than a true "prevailing rate". (See example from spreadsheet [4] which shows Clallam & King County prevailing wages being virtually identical). This system creates incentive for large urban corporations and union employees living in urban centers to travel to rural counties to perform the work. (This also increases carbon emissions through distant mobilization). This policy in turn limits small rural companies from successfully competing for and accessing procurement projects in their own backyard. This policy does not take into account that the median household income is only half of that in King County 2021 OFM household median income [5]. The 2022 ESD Occupational Estimates and Wage Report [6] data already provides wage data by county which could be used instead of surveys or CBAs.

d. The lack of union apprentices becoming union journeymen means there is no conduit for union businesses to be created in rural communities.

e. Once a business becomes a union contractor, that business can only take jobs that pay union wages. Only the public procurement sector that pays the high union wages in rural counties. There is not enough work for small contracting businesses to rely on only government procurement jobs.

f. This leakage of local tax dollars awarded to urban companies and urban union employees is outlined in the 2018 Commerce Rural Procurement Report. [7] It states that if only the highest ten contracts that had been awarded to companies located in urban counties had been awarded locally it would have created $667M annually in economic activity in rural communities.

g. This imported King County wage rate increases rural local governments cost to complete public works projects, but the greatest harm comes from the fact that over 90% of the project funding is leaked to businesses and people that live in urban centers. Only rural hotels benefit from this system.
h. Port Authorities' mission is to support their local economies, but they can only charge lease rates that the market will bear. When a Port undertakes a capital project their cost is easily two to three times higher than a similar project undertaken by local contractors. The Port Authority cannot generate a return on a capital project based on the cost of capital, thus the rural ports frequently have unused properties that generate no income and no economic development. It makes them wholly reliant on grant funds for capital projects.
i. The new formal apprenticeship requirement for electrical contractors [8] to work on commercial projects beginning Jul 2023 mean that the 188 identified 01-Trainees in Clallam and Jefferson County will need to travel the closest apprenticeship training facility throughout their 6 year apprenticeship which is in Puyallup offered by the only non-union approved Apprenticeship Training provider, CITC.

4. State Programs whose metrics assess total support delivered or population without regard to equitable distribution and financial inclusivity:
   a. Procurement Technical Assistance Centers (federal)
   b. Competitive state funding frequently lacks financial inclusiveness and funding allocation does not assess need relative to available economic data.

Recommendations to resolve existing systemic barriers:

Start with Knowledge and Transparency:

1. Recommend the Legislature direct all Collective Bargaining Agreements that set Prevailing Wage Rates for counties be posted on the L&I website.
2. Recommend the Legislature direct L&I to post a "heatmap" illustrating where formal Apprentices live across the state relative to the population of the county on the Apprenticeship Registration and Tracking System (ARTS) [9] section of the L&I website.

Direct more data coordination between state agencies and counties:

3. Recommend the Legislature direct data sharing between Commerce and state agencies (DOR, LNI, ESD and DOL).
4. Recommend the Legislature direct Commerce to contract with each ADO to have access on a secured server to business proprietary and licensing data (revenues, # of employees, NAICS Code, Occupations) within their respective counties. Direct each ADO to provide only aggregated data to local governments and organizations applying for grant funding using the same protections that each of the agencies use. Data can be aggregated while still meeting the needs of grant requirements.

Use a DEI lens to address Financial Inclusivity: View State Funding Distributions from a poverty lens.

5. Recommend the Legislature fund a Financial Inclusiveness Program for the state similar to the EDA Economic Recovery Corps program [10] that funds recruitment and placement of Fellows in economic development organizations in underserved counties so they can more readily compete for IIJA funding and pursuit of private investment opportunities. (Thriving communities have larger local government staff teams which are ready to respond to funding opportunities whereas local governments in economically distressed do not).
6. When awarding competitive and allocated state funding, direct Commerce to consider not only factors such as shovel ready, the persuasiveness of the application and population size, but also poverty rates and median income levels of the communities and/or the UW Housing Affordability Index.

Sever urban school construction from timber harvests:

7. Follow recommendations from the Superintendent of Public Instruction's letter dated July 13, 2022).

Require Public Works Contractors hire local qualified subcontractors and employees when available:

8. Ensure communities that are impacted by projects and that are paying for projects enjoy financial benefit of the projects as well, especially when they are economically distressed communities. Require half of all subcontracted work to be sourced locally.

Create a new "Rural Small Skill Center" definition:

9. Recommend the Legislature direct OSPI to allow rural high schools to create a skills center that will draw students only from within their own student population. Establish an allowed pro rata amount of capital funding for skill centers in rural school districts. Challenge the school districts to obtain local funding for the match amount through levies or bonds.

Extend the (.09) Sales and use tax for public facilities in rural counties to 2048 (HB 1333)

10. Consider inclusion based on OFM county median household income [5] and/or the Housing Affordability Index from UW [11] to target the counties with the greatest need rather than just based on rural population.