

District of Columbia
Bladensburg*
Bowie
Charles County
College Park
Frederick
Frederick County
Gaithersburg
Greenbelt
Montgomery County
Prince George's County
Rockville
Takoma Park
Alexandria
Arlington County
Fairfax
Fairfax County
Falls Church
Loudoun County
Manassas
Manassas Park
Prince William County

*Adjunct Member

To: COG Board of Directors
From: Chuck Bean
Date: March 4, 2015
Re: Proposed Board Focus for 2015

On behalf of the Executive Committee, I am conveying this proposal to the COG Board of Directors to focus on regional economic competitiveness in 2015.

A regional challenge: The region and its member jurisdictions are experiencing the impact of federal sequestration. Sequestration and the declining federal presence in the Washington region are showing up in various forms:

- 1) Since 2011 the region has experienced a \$13 billion drop in federal procurement – equivalent to three percent of the gross regional product (GRP).ⁱ
- 2) Federal employment in the region is declining by over 5,000 jobs per year.ⁱⁱ
- 3) Office vacancy rates in the region have increased from 8.9% in 2006 to 14.6% in 2014.ⁱⁱⁱ

As noted by the COG Board in 2012 in *Economy Forward*, the region needs to accelerate the diversification of the economy from the federal government. While diversification *has* occurred (e.g., federal jobs as a proportion of regional employment decreased from 19% [in 1980] to 13% [in 2010]), the pace must accelerate if an annual growth rate of two to four percent in total GRP is to be sustained in the face of headwinds of declining federal procurement in the region.

The opportunity of “The Human Capital”: This region has tremendous comparative advantages, including the nation’s most highly-educated workforce and world-class universities.^{iv} The region also contains a concentration of federal laboratories – eight in the District, 73 in Maryland, and 22 in Virginia – according to the Federal Laboratory Consortium for Technology Transfer.

Board Focus: The Executive Committee recommends that the Board explore the possibilities of a more coordinated regional economic strategy, potentially including:

- 1) Better leverage of current economic clusters including cybersecurity and other information technologies, health and life sciences, and green development.^v
- 2) More effective regional networking to convene these assets (i.e., connecting entrepreneurs to regulators and venture capital) and social capital for collaboration (i.e., between public sector leaders and private, university, philanthropic, and nonprofit leaders).^{vi}
- 3) Enhanced connection to federal laboratories to accelerate the commercialization of research and development and support of a “regional innovation ecosystem.”^{vii}
- 4) The development and promotion of new markets (e.g., transition cybersecurity from a focus on government clients to “business-to-business” = for example, Sony Pictures).

The COG Context: A Board focus on regional economic competitiveness should be embedded in COG’s broader work to promote strong activity centers with the optimal mix of housing, jobs, and transportation options; the TPB’s *Regional Transportation Priorities Plan*; COG’s work on

One Region Moving Forward

regional infrastructure and quality of life issues; and, previous work (*Region Forward, Economy Forward, Closing the Gap, 2015 Regional Infrastructure Report*).

ⁱ Sources: Stephen Fuller of George Mason University’s Center for Regional Analysis notes that federal procurement outlays declined \$13.3 billion (or 16.1%) between FY10 and FY13. Fuller cites the US Census Consolidated Federal Funds Report and USAspending.gov. The GRP comparative figure comes from the Bureau of Economic Analysis for 2013 – the Washington metropolitan region is at \$463 billion dollars.

ⁱⁱ Fuller notes that federal employment in the region has declined since peaking in July 2010, losing 21,800 jobs or 5.6%. Fuller cites the Bureau of Labor Statistics.

ⁱⁱⁱ Source is COG analysis of the CoStar real estate database. Since 2006, vacancy rates in the regional office market increased by almost two-thirds (64%), while only increasing nationwide by a quarter (25%). In Q3 2014, 14.8% of office space was vacant in the region, the highest rate since Q2 1993. According to *The CoStar Office Report, Year-End 2014: National Office Market*, there are only five markets with higher rates of vacant office space: Dayton, Detroit, Las Vegas, Palm Beach and Phoenix.

^{iv} The region ranks first nationally in educational attainment of adults aged 25 years or older with 48% possessing a bachelor’s or graduate degree -- more than the Boston, San Francisco or Seattle metropolitan areas.

^v Data within a February 2015 report by the Brookings Institution entitled *America’s Advanced Industries* highlights the following four industries as possessing over 80% of the Washington region’s “advanced industry” jobs: Computer Systems Design (199,100 jobs), Management Consulting (114,280), Architecture & Engineering (60,750), and R&D Services (49,730). [Note: industry segments are based on four-digit North American Industry Classification System (NAICS) codes].

^{vi} A helpful framework presented in Brookings’ “Innovation Districts” outlines the synergistic combination of three types of assets -- economic, physical (infrastructure & placemaking), and networking assets – that support innovation.

^{vii} Emblematic of this commercialization of R&D, Gaithersburg-based molecular diagnostics company OpGen became the third Greater Washington company this year to issue an IPO along with Bowie-based health tech company Inovalon Holdings which raised \$600 million in February 2015.