

January 24, 2014

## Background

In 2007, the Legislature passed Substitute House Bill 1091, directing the Economic Development Commission and the Workforce Board to jointly convene a working group to:

1. Specify the process and criteria for identification of industry clusters.
2. Establish criteria for identifying strategic clusters which are important to economic prosperity in the state, considering cluster size, growth rate, and wage levels among other factors. (SHB 1091 Sec.2(2) and RCW 43.330.280(2))

The Workforce Training and Education Coordinating Board and the Economic Development Commission initially convened the Cluster Workgroup in August 2007 and work was completed in April 2008. Members included representatives from:

- Office of Financial Management
- Employment Security Department
- State Board for Community and Technical Colleges
- Department of Community, Trade and Economic Development
- Higher Education Coordinating Board
- Washington Technology Center

**Step 1: Quantitative Analysis:** The group recommended a process beginning with a quantitative analysis to identify clusters in each Workforce Development Area of the state. The analysis would also include data for each cluster on a series of characteristics that might be considered to be of strategic significance. Through a competitive process the Workforce Board contracted with research economists from Seattle University and University of Washington to conduct this quantitative analysis.

- Analyze industry location quotients for each workforce development area—including out-of-state border areas;
- Examine further those industries with a high location quotient;
- Identify linkages using an input-output model; and
- Map by county where cluster firms are located. For the location quotient, test four variables initially, some may drop out as not important: employment, wages, revenue, and number of firms.

**Step 2: Strategic Clusters:** The next step is for policy leaders to identify which clusters are strategic given their particular policy goals. The workgroup decided that different policy bodies may have different goals and that therefore, the strategic clusters may vary somewhat from one body to another.

**Step 3: Local Conversations:** After this step, local workforce and economic development leaders, business and labor will review the clusters and strategic clusters identified by the state for their region. Local partners may identify clusters that are missing from the state analysis and will contribute their own view of which clusters are strategic for their area. Thus, when the state directs grants to strategic clusters, the clusters on the state list will not be the only ones considered. Locally identified clusters as evidenced by hard data will also be targeted.

## Policy for Using Strategic Clusters for Workforce Investments

Adopted by the Workforce Board March 12, 2009

### Purpose

This policy explains the Workforce Training and Education Coordinating Board's (Workforce Board) policy on using *strategic* industry clusters for workforce development.<sup>1</sup> Focusing on strategic clusters helps assure that workforce investments are prioritized for clusters that have the best outlook for employment and wages.

### Policy

It is the policy of the Workforce Board that:

- 1) Strategic industry clusters shall be identified for the purpose of guiding and informing policy and investment decisions for workforce education and training, such as the awarding of discretionary funds for cluster-based workforce development initiatives.
- 2) Rankings of strategic clusters shall be used to steer investments toward those clusters that are most strategic for workforce development. The Board will guide investments toward clusters that are at the higher rather than the lower end of the strategic rankings.

**High Skills, High Wages 2008-2018**, the state's comprehensive plan for workforce development directs the workforce development system to focus on strategic industry clusters:

**Industry Objective 2:** The workforce development system strengthens Washington's economy, focusing on strategic industry clusters as a central organizing principle.

No later than 2018:

- Washington's workforce and economic development programs have established track records of effective services to the state's strategic industry clusters.
- Washington's workforce development system prepares the number of workers needed to fill jobs openings in strategic industry clusters.

### Guiding Principles

- Methodologies for identifying strategic clusters inform and guide investment decisions by basing them on evidence-based, quantitative data.
- Workforce and economic development partner agencies, such as Community, Trade and Economic Development, may work from different lists of strategic clusters because investment strategies vary.
- In the interest of consistency, the Workforce Board encourages partner agencies to use a shared set of cluster source data and indexing processes to identify strategic clusters.
- Clusters are but one of many strategies for workforce and economic development.
- Local areas may provide supplemental data and supporting evidence that the Workforce Board can use to improve lists of strategic clusters.
- *Potential* (or "emerging") clusters are not identified in the scope of the 2008-09 analysis of clusters and strategic clusters. They do, however, have a role in other workforce and economic development initiatives.
- The geographic locus of strategic clusters is regional, not statewide.
- Strategic cluster lists shall be updated periodically to keep pace with changing economic conditions.

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<sup>1</sup> **Industry Cluster:** A geographic concentration of interdependent competitive firms that do business with each other, including firms that sell inside and outside of the geographic region as well as support firms that supply new materials, components, business services, and other institutions including government and education.

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**Criteria for Identifying Strategic Industry Clusters  
for Workforce Development,  
Adopted by the Workforce Board March 12, 2009**

Strategic clusters for workforce development shall be identified by creating an index of the 12 variables provided in Sommers et al (2008) plus output per employee and weighting three workforce variables to count twice, as shown below.<sup>2</sup>

**Rationale:** Of all the characteristics examined in the cluster study, **employment** and the **percent of middle- and high-wage occupations (jobs)** are the variables that offer the most direct indicators of a cluster’s potential to offer good and plentiful employment opportunities to the state’s workforce.

The second phase consisted of exchanging data and holding discussions with Workforce Development Councils in order to reconcile and improve the state and local lists of strategic clusters. In most cases, WDCs already had identified the industry clusters that they considered to be strategic for their local area. In each case, the local list and the state list for that area were either identical or mostly overlapping. By

working together and by considering supplemental data and supporting evidence, state and local partners were be able to add or expand, remove, narrow, refine and/or reprioritize clusters on the cluster lists.

Cluster Analysis Variables	Workforce Index
Location Quotient	✓
<b>Employment</b>	<b>Count twice</b>
Output	✓
Earnings/ Worker	✓
<b>Percent of Occs. in Middle Wage Range</b>	<b>Count twice</b>
<b>Percent of Occs. in High Wage Range</b>	<b>Count twice</b>
Change in Establishments 2001-07	✓
Change in Employment 2001-07	✓
Change in Wages 2001-07	✓
Projected Empl. Increase 2006-16	✓
R & D Occupations as a Percent of Total Empl.	✓
Exports as a Percent of Output	✓
Output/Employment	✓

Strategic clusters by WDC are listed at: <http://www.wtb.wa.gov/ClusterRankingsAllRegions.asp>.

<sup>2</sup> Sommers et al, *Industry Cluster Analysis for Washington State Workforce Development Areas*, November 2008. <http://www.wtb.wa.gov/ClusterAnalysis.asp>