

**ISLAND COUNTY
SAN JUAN COUNTY
BUSINESS RETENTION & EXPANSION**

**2007
BUSINESS CLIMATE REPORT
AN UPDATE OF THE 1999 & 2000 SURVEYS**

Prepared by

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Introduction

During 1999 and 2000, the Island County Economic Development Council participated in a Washington State Department of Community, Trade and Economic Development (CTED) pilot business survey program. Over 150 businesses participated in Island and San Juan Counties during this pilot. In 2006, CTED offered the opportunity to update the results of the prior BRE Survey Program to EDCs. This survey has allowed the EDCs to take the pulse of the local business communities.

At the end of the pilot survey program, the EDC created task force committees of Board members and business leaders who focused on existing business conditions and which issues could be addressed locally to foster a healthier business climate.

Local strategic plans were influenced from the resulting data in an attempt to address business concerns. Resolution at the local level has shown some progress.

This phase of update surveys was conducted within a smaller sampling area to examine our current economic climate and business attitudes. The interviews confirm the positive and negative conditions which exist for businesses in our areas, and substantiate what improvements could be made to both Counties' economic plans to assist our local businesses.

After using the current survey tool provided by Washington State's Department of Community, Trade and Economic Development, we learned that the questions as developed may work well at the state level and for larger businesses, but don't totally allow for the diversity of business climate in smaller isolated counties. A more complete view of the local climate could occur if the local economic development organizations were allowed to choose, add or tailor questions that may be more pertinent to their region.

This updated summary will be distributed to government officials, business organizations, and local businesses in an effort to influence the dialogue of true economic development conditions in the region and the effect of public policy issues.

We take this opportunity to thank the many businesses who participated and made this project a priority, the San Juan EDC for their partnership, our survey project staff and consultants, and the Washington State Department of Community, Trade and Economic Development for their support in this project.

ISLAND COUNTY SURVEY

SURVEY RESULTS

The 1999 surveys used a scale of 1 through 5 with 1 being low and 5 being high. The surveys completed in 2007 use a scale of 1 through 7 with 1 being low and 7 being high.

QUALITY OF LIFE

Quality of Life: In the prior report, the question of Quality of Life was explored with most local businesses rating the quality of life on Island County as high. Quality of life is a difficult and subjective issue. Although this question wasn't explored in depth during this survey period, the feelings about quality of life remains very high. The only negative comments about quality of life was the perception that the cost of living is much higher in Island County and that it does impact business costs.

PUBLIC SERVICES

Police, Fire and Ambulance: In any business community, these three services are very important. In 1999, all three were rated very high and businesses had a very positive attitude. In the 2007 surveys, these services again rated very high, but somewhat lower than in 1999. This could be a result of the change in the survey scale used. It appears from the survey that satisfaction is still very high, but using a wider scale reduced percentages overall. Ratings varied to some degree in each community on the Island, but overall Public Services receive high marks.

Public Transportation: In 1999, the business community ranked transportation at 80% with a 4 or better. In 2007, the comparable rating was 68.75%. In review of the surveys, there doesn't seem to be an explanation for why this category was rated lower; again it may be related to the change in scale of measurement. Public Transportation is very important to the business community as it makes it easier for customers to access the business and for employees to get to and from the work place. In 1999, the urban sectors ranked public transportation a higher rating and the ranking remained consistent in 2007.

WORKFORCE ISSUES

Work Force Availability: Work force availability ranked low in the 2007 survey with almost 70% of the response average and below; 50% of respondents ranked it 3 or lower. The State views Island County as an urban county, yet much of the County's economic environment is rural in nature. Island County struggles with the same issues as most rural counties concerning work force availability. The area is unique in the influence of Naval Air Station Whidbey Island on the workforce pool. That potential employee pool does pose some issues as military personnel and their dependants are transferred on a regular basis, thus a possible hazard of uncertainty in a long term employee is a consideration.

The quality of work force continues to experience low ratings as 50% ranked it below average. From comments received, a lack of skilled workers and professionals was the biggest concern. This related to the available workers in the area and is an issue that continually needs to be addressed. Activities such as working with the local high school PrepWork Consortium will encourage student internships to assist in creating an interest in local jobs and opportunities. Work will continue to focus in this area and expand where possible.

Quality of Workforce: Businesses surveyed rated the quality of the workforce fairly low with 50% at 3 and below on the scale, with only 31.25% rating them above average. Much of this has to do with a perceived skilled workforce shortage and overall workforce shortages in general. Interestingly, the productivity rating was fairly high with almost a 70% rating from average to high. Average overall was only 6.25%. We think it important to note that the workforce quality issue isn't the pool of applicants, but is really an issue of lack of specific skills in the workforce. The productivity rating bears this out. Most remote counties wrestle with this issue on an ongoing basis, and the EDC and its education partners continue to work together for improvement.

Work Force Training: In the 2000 report, the EDC committed to continue and enhance relationships between businesses and schools. Since that time, the EDC has developed partnerships with the Northwest Workforce Development Council, WorkSource Whidbey, Skagit-Island PrepWork Consortium, School to Work committees, and COE Skill Centers. Workforce development and training has become a critical issue for the State of Washington. The County's local EDC has taken a very proactive role in developing relationships in this area. We recognize the importance of workforce training for the enhancement of business retention, expansion and even recruitment. Community colleges are another very important part of work force training and play a very important role in this partnership, especially for dislocated workers, adults wanting to enhance their education, and high school graduates.

TECHNOLOGY INFRASTRUCTURE / UTILIZATION

In the 2000 report, many businesses were overwhelmed with advancements in the technology field and the large amount of information being made available. Many said they would be interested in knowing more about technology and its advantages. In 2007, a substantial number of businesses are relying on technology, especially the web, for marketing and sales. Use of cell phones is another piece that has become very important in doing business and has increased in usage since 1999.

Technology infrastructure is becoming increasingly important, not only to larger businesses, but even more importantly to the locally owned business or sole proprietor. With internet sales and marketing, the sole proprietor is relying more and more on a web site for marketing and in many cases using the web site for sales. Many businesses expressed the importance of internet and using technologies to compete, maintain, and grow their business.

In Island County, the infrastructure for these services was rated fairly high. Many mentioned Whidbey Telephone as a source of good service and reliability for internet service. They were not as favorable towards the larger companies that are not headquartered in Island County when it came to high speed internet service. Internet speed was rated very high satisfaction and only 12.5% rating it average or lower, if they are covered by locally owned Whidbey Telecom. Helping businesses expand use of technologies will require significant investment by major suppliers such as Verizon.

REGULATORY ISSUES

It was interesting to note that the questionnaire presented from CTED didn't specifically survey this issue; however, it came up numerous times during responses to other questions.

Many small sole proprietors expressed frustration with inconsistent regulatory enforcement. Almost 50% rated this area below average. They felt there were conflicting regulations and the enforcement of those regulations was very difficult. They expressed concern that regulatory issues make it very difficult for them to survive as a business; and because they don't have the staff or sufficient resources, business owners can't always address the problems identified by federal, state and local authorities.

Some owners expressed a concern about federal and state regulations that made no sense at the local level and did not consider the diversity of our Island area. The EDCs and the State need to partner and work with the Legislature to pass legislation that can accommodate the needs of sole proprietors and small locally owned business. Comparing the 1999 surveys to the 2007 surveys, we find this issue hasn't improved.

Zoning changes and building permits received a rating from the business community with 100% average or above. Local community planning received a lower rating of 50% or below. There seems to be a perception in the business community that good planning and zoning would enhance business certainty and future development.

UTILITY SERVICES

Water and sewer received very satisfactory ratings from most businesses. Electricity received the lowest ratings; the concern was dependability. Puget Sound Energy has made progress on this issue as these services are critical to business development.

OTHER SERVICES

Airline Passenger Service and Air Cargo service received some interesting results on the survey. Almost 70% had no opinion or didn't answer the question. The ones who do utilize these services rated Airline passenger service fairly well with just 6.25% rating it below average. For those using Air Cargo, almost 20% rated it below average while the other 12% rated it very high. Our perception is educating

businesses would improve the rating. Our EDC has been working in partnership with our air service carrier in trying to make these services more visible and viable. Considering that in 2000 the service was lost to the area, major strides have been made in this category.

Businesses that depend on trucking had a 50% respond to this survey question. The 50% that did respond registered a 37.5% above average rating.

County Services received a mixed review with the business community. 18.75% gave the County services a lower than average rate; however, 25% gave the highest rate of 7.

The EDC received a rating of average to high, with a 56% response.

SUMMARY

When the sets of surveys were compared, much improvement has been made, especially regarding use of technology.

Businesses were asked about future investments in their company, and reported very encouraging numbers. Overall, totals of projected investment will be \$4.2 million and the creation of 109 new jobs.

SAN JUAN COUNTY SURVEY

SURVEY RESULTS

The 2001 surveys used a scale of 1 through 5 with 1 being low and 5 being high. The surveys completed in 2007 use a scale of 1 through 7 with 1 being low and 7 being high.

PUBLIC SERVICES

Police, Fire and Ambulance Services: All three rated fairly high in San Juan County. Police in 2000 had 7% below average; in this year's survey, almost 10% rated Police below average, but maintained a 77% rating above average. Some of the below average respondents' comments were: "Protection has been spotty" "Matter of scheduling officers" and "Important issues don't get enough attention." For Fire and Ambulance, there were no ratings below average.

Public Transportation: The 2000 surveys showed Public transportation (land transportation, not ferry) received overall poor marks as a community service. Fifty-six percent of business owners ranked it 3 or less and 33% felt the question did not apply because there was no public transportation. The 2007 surveys show that only 18% rated public transportation below average, with 34% rating it average and 48% having no opinion. Some suggested that there should be a bus service, some mentioned the lack of bus service, and a few mentioned that the ferries are over priced and inadequate. This should be discussed with the community to more fully to determine the potential for improvement in public transportation.

WORKFORCE ISSUES

Work Force Availability: Workforce availability was rated low in 2000 and continues to receive a low rating. In 2000, 70% rated this issue below average and in 2007 only 57% rated below average. There didn't seem to be any outstanding explanation for a drop in the below average rating by the business community. The common theme was lack of skilled workers; and in some businesses, they couldn't find enough employees. As a remote island region, transportation issues for commuters is a contributing factor for workforce availability, and limits the worker pool mainly to those who live on the islands.

Marine industry businesses commented that all marine related skills including mechanics for diesel outdrives and carpenters for boats, finish carpentry, and specific technicians were hard to find. Applicants with technology based skills were also limited, and the lack of population base made it difficult to find the right employee. In retail and service positions, a number of staff come from the other locations and drivers were hard to find. Recruitment problems for all positions and skills continues to be an issue.

Quality of Workforce: Business attitudes towards the quality of the local workforce actually improved from 2000 to 2007. In 2000, businesses ranked quality of workforce above average by 40% and in the 2007 survey that increased to 57%. In evaluating the work force availability, we are careful not to confuse availability with quality of workforce. When a business can fill a job, they seem pleased with the quality of the worker, including their dependability and productivity.

Work Force Training: San Juan County is a more remote location, thus 76% of the businesses surveyed conduct their own training programs. Historically, companies training their own employees usually benefited both the worker and the company. During the 2000 surveys, business owners rated their local employee training options very poorly. Sixty percent of interviewees ranked training as 2 or less in a scale of 1 to 5. Skagit Community College has a presence on San Juan Island and is strengthening that partnership with the Northwest Workforce Development Council.

Technology Infrastructure / Utilization

The 2000 survey produced the following awareness of technology issues. In conjunction with training, many business owners are interested in leveraging the advances in technology today as a way to improve and better market their business.

When asked, "Would you like more information on technology?", 58% said yes. While interest in technology ranged from film processing to inventory, the majority of respondents indicated a strong interest in improving their ability to access it to make use of the Internet for marketing, e-commerce, training and customer relations.

The 2007 surveys show a surprising response of 29% below average in the number of businesses using technology for sales and inventory management. For marketing only, the rating was also 29% below average.

Comments from businesses included "Too many new products and methods to accomplish tasks", "There will always be new technology emerging such as new products and electronically approve loans as well as streamlining processes, The internet is becoming a preferred "screening" process for shopping so we are developing a website to keep up with this change", and "The Internet is changing how we market and reach potential guests."

From these comments, the businesses recognize the importance of technology and many are moving in the direction of using more technology, especially the internet, and the newer technology makes their business easier to track and utilize. From 2000 to 2007, technology has had more recognition as a business tool. Technology seminars or workshops for the local business community could be considered.

The local infrastructure received mixed ratings. Cell phone service was particularly cited as not having enough coverage. While internet speed and access was rated 48% higher than average, there was still concerns about available options. For cellular service, comments were made about poor coverage, spotty service, and a

lack of coverage. Those who rated internet speed below average felt the speed was inadequate.

In Telecom (voice), over 14% were concerned about poor service, overcharging, and poor customer service in addressing customer problems. Activities need to center on working with local government and the business community to improve these infrastructure issues.

REGULATORY ISSUES

In the 2000 BRE report, it was noted that 39% expressed problems with building codes and 18% experienced problems with zoning. The issues of building permits and zoning were combined in the 2007 surveys. In sum, 24% ranked it less than average, 14% rated it average, 38% rated these two issues above average, and 24% did not respond to the question. These resulting rankings may have been affected by the merger of the two questions.

The businesses rated regulatory enforcement at 43% below average, 29% rated it average and only 19% rated it above average. Regulatory enforcement presents a difficult issue for local businesses. Comments were made regarding inconsistency and enforcement; this was consistently highlighted as the most important problem.

UTILITY SERVICES

Water ratings in 2000 averaged 3.29; in 2007 that rating basically stayed the same. Comments from some of those rating water below average were: "Local community water system rates are high", "Water tastes terrible and is expensive", and "Costs are a hindrance to doing business."

Sewer: The 2007 business survey shows a little under 10% rating sewer services below average, while 48% rated it above average.

Water and sewer are two critical services to local businesses and are important to any retention, expansion or recruitment effort.

Electricity received a 14% rating of below average, with 57% rating it above average. The only concerns noted were excessive charges and inconsistency in electrical reliability.

OTHER SERVICES

There are many other services that impact business success, including shipping, air service, roads, schools and health care. There were no survey questions on these topics in the 1999 or 2000 BRE projects.

Airline Passenger Service received an above average rating of 52%, 19% rated it at average and 29% did not respond. There were no below average ratings for this

service. Air Cargo Services, however, received 14% below average, 10% rated it at average, and 43% rated it above average, with 33% not responding.

Trucking Services received 10% rating it below average, 5% rated it average, and 67% rated services above average, with 18% not responding.

In Health Care Services, 14% rated it below average, 5% rated average, 62% rated above average, and 19% chose not to respond. The rating in 2007 is very good; it is unfortunate that the earlier survey did not provide a comparison.

Schools (K-12) received consistently high ratings. 67% rated schools above average, with only 5% below average and 28% did not respond. There is a very positive attitude to the school system overall.

Community College Services are offered in a branch campus setting. 24% of those aware of these services ranked them above average. Respondents were equal in their overall average rating and below average rating in these services. Due to lack of exposure to the campus, 66% chose not to respond.

It appears from the survey that most businesses are satisfied with these services if they are aware of the branch campus. However, a large percentage do not have an opinion about the local community college. This may indicate a lack of information on what the community college offers and shows the need for an improved informational flow.

SUMMARY

Overall, business owners seemed happy living in San Juan County both for personal and business reasons. Interviewees have a loyalty that appears strong enough to keep them here indefinitely. With that said, there are some common threads in the concerns and frustrations that are highlighted in this report.

Comments such as "We survived" represent the large number of changes in our continually growing population here in San Juan County, but also the adjustments made in County Government and Community Planning. Across all Islands, the number one issue seems to be zoning changes and building permits. Comments such as "Very restrictive", "Disorganized and Under-Managed" create an uncertainty in the business community. Issues that scored second and third on poorly rated items were regulatory enforcement and community planning. Businesses feel there is a lack of leadership in these areas. Of all ratings of community services provided, those located on Orcas Island gave the lowest satisfaction rating.

In conclusion, the BRE process had a positive effect by bringing awareness to business concerns that require an action plan to be addressed. It is recommended that future survey projects and action plan development be conducted between October and April when the local business community is less busy and more apt to devote time to these efforts.

APPENDIX A

PARTICIPATING BUSINESSES

Industries included in the interviews:

Construction
Accommodations & Food Services
Finance & Insurance
Health
Manufacturing
Professional & Technical Services
Real Estate
Retail & Wholesale
Services
Transportation

ISLAND COUNTY

Cenex of Freeland
Coupeville Dental Clinic
Eagles Nest Inn
Gary A. Leake, Woodworking
Harbour Inn Motel
Interstate Label Company
Jones Accounting Associates
Lincoln Computers, Inc.
Morrison Company
Nichols Brothers Boat Builders
Prairie Center Red Apple Market
Sally's Garden & Gifts
Saucy's Pizza
Star Store
Webb's Department Store
Whidbey General Hospital
Whidbey Island Ice Cream Company
Whidbey Island Soap Company
Whidbey Marketplace & Community Journal
Whidbey Printers
Whidbey-SeaTac Shuttle

SAN JUAN COUNTY

Albert Jensen & Sons Shipyard
Ashcraft Homes Inc.
Bailer Hill Construction
COCQ'S Outdoor Services
Galley Restaurant & Lounge
Home123
Island House Realtors
Islanders Insurance
John L. Scott
Law Offices of Diana G. Hancock
Lopez Village Properties
Marine Design
Outlook Inn on Orcas Island
Roses Bakery Café
Sand Pebble
Security First Mortgage
Shaw Landing Grocery Store
Sunshine Dry Cleaners & Laundry Services
Tucker House B & B
Washington Federal Savings
Window Craft, Inc.

APPENDIX B

SURVEY TOOL

During the 2005-2007 Business Retention and Expansion survey program, the Island County EDC utilized the Synchronist Business Information System® developed by Blane, Canada Ltd.

The Washington State Department of Community, Trade and Economic Development (CTED) contracted with Blane, Canada Ltd. and authorized use of the program for associated development organizations conducting local BRE programs. Synchronist® was also used for all survey programs conducted under the direction of CTED in Washington State during 1999 and 2001.

As noted in this report, changes to the rating scale, question additions, and question modifications were detected and may have affected some category comparisons.

Copies of the surveys used are attached.

CONSULTANTS

The Island County EDC is indebted to those who assisted in conducting surveys and assisting in writing the report.

We thank Loretta Martin and Sharon Hart for completion of the 21 interviews in Island County. Our appreciation to our San Juan EDC partners and especially to consultant Alisa Schoultz who completed the 21 interviews in San Juan County and for drafting a short summary.

Our gratitude to James Lowery, Lowery Professional Services PLLC, for an unbiased review, compilation of the data and draft report in a brief period of time.