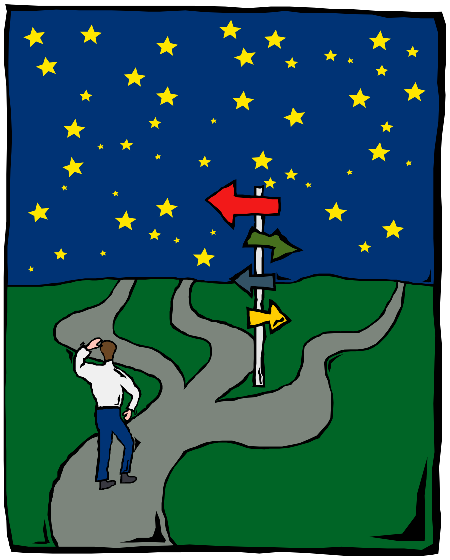
Spokane at the Crossroads: Challenges for the 21st Century
17th Annual Economic and Demographic Forecasting Report



of

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[THANK YOUS AND ACKNOWLEDGMENTS]

We stand at the forefront of a new century, so I thought I'd start today by drawing some parallels between our time and that of 100 years ago. Both were exciting periods and they had much in common:

- Back in 1899, for example, the U.S. declared the Open Door Policy for China, which upheld that nation's national integrity and enabled it to trade in international markets. Just last year, U.S. negotiators worked on behalf of a very different China, arguing for its inclusion in the World Trade Organization.
- In 1899, John Dewey published his classic work, *School and Society*, introducing the concepts of progressive education, which were in the ascendant for most of the 20th century. A hundred years later, however, Dewey's ideas are being widely questioned; and we are searching more diligently than ever to find "best practices" for teaching our children with the skills and knowledge they need to succeed in a competitive world--and get the most out of their lives.

Back in 1900:

- Physicist Max Planck proposed the quantum theory, which changed our views of the sub-atomic world;
- Artist Pablo Picasso entered his Blue Period, poignantly showing us the economic dark side of the world we live in.;
- Sigmund Freud published *The Interpretation of Dreams*, changing views of our inner worlds;

- Carrie Nation started hatcheting taverns, which served many as a refuge from the world; and
- L. Frank Baum published his classic children's book, *The Wonderful Wizard of Oz*, establishing forever that there's no place in the world like home!

Today I'm going to present the demographic and economic indicators of our home here in SpoKansas. I don't know that we'll meet any wizards, but I can promise you a whirlwind of facts designed to provide a baseline for measuring our economy in the coming years.

My presentation has several distinct sections, so I thought I'd share the "road map" to what you'll hear--which, with luck, we'll get through in precisely 45 minutes.

WHAT YOU'LL HEAR TODAY
- Housekeeping and caveats
- Review of Demographics
- 4 Economic Anomalies
- 3 Key Economic Challenges
- The 2000 Forecast
- 10 Steps to the Future
- An Economic Benediction

I may sound some alarms today, but one thing you won't hear is the sentiment expressed in the cover story of this "authoritative economic journal, on sale at your nearest grocery store. I can assure you that things will be much better than THAT!

Section 1: Housekeeping and caveats

As we begin, I must remind you that I am not an economist, but merely an economic handicapper--a long-time student of the people and economy of Spokane who has sometimes guessed right about our future. Also, my comments are my own and do not necessarily reflect those of Cowles Publishing Company, *The Spokesman-Review* or New Media Ventures.

Copies of key facts and recommendations will be available in the form of handouts, which you'll find at the rear of the room and at the book booth in the lobby.

This presentation is possible only with the help, support and input of dozens of people, publications and organizations. These slides give you an idea where I obtain my information and advice and are presented by way of thanks.

Section 2: Review of Demographics

Let's turn now to the demographics of the market. Here is the current picture, based on the annual *Survey of Buying Power*, released in August by *Sales & Marketing Management* magazine.

The latest *Survey* estimated our population at the beginning of 1999 to be 417,300. Frankly, I think that was a bit low at the time and certainly by now. Based on all sources and estimates currently available, it looks like we've entered the 21st century with a population of about 420,000. Our population increased about 16% during the decade of the 90s--and growth here slightly exceeded that of the U.S. as a whole during that period.

The *Survey of Buying Power* now ranks our population as the nation's 121st largest among all Metropolitan Statistical Areas (or MSAs). This is the same ranking we held in the 1998 *Survey*. We should hold at or near this position until the year 2003, when we will make a dramatic leap up in the rankings as Kootenai County is incorporated into the MSA designation.

Currently, the Kootenai County population stands at around 104,000 according to *S&MM*--and population there grew nearly 50% during the decade of the 1990s. Significantly, if the relative growth rates of the two counties continue at the rates of the 1990s, Kootenai County population will surpass Spokane's just prior to the year 2060. The combined metro area would have about 2.1 million people, with 100,000 more people living on the Idaho side of the border than on the Washington side! Lots could happen between now and then to change that picture, but the trend clearly indicates that Kootenai County will continue to grow ever larger as a regional economic force.

Spokane's population is divided into about 163,900 households, ranking us 119th and indicating that our household size remains somewhat smaller than that of an average MSA.

Our median age is 35.6, making us the 134th youngest MSA in the country, but a bit older than might be expected for a city of our size. About 27.3% of us are over age 50; 24% between ages 35 and 49; about 14 percent of us ages 25 to 34; about 9% ages 18 to 24; with the balance, about 26.4%, under age 18. Compared to the nation, we have slightly more people in the older age brackets. The slide indicates that our age is higher because we have somewhat more 35 to 54 year olds and somewhat fewer younger people, rather than having more "old" people than the "average" MSA.

This slide shows the five MSAs that rank just ahead and behind us in terms of population:

POPULATION IN SIMILAR SIZED CITIES

MSA	Estimated Population	Rank
Santa Rosa, CA	445,600	116
Des Moines, IA	440,300	117
Flint, MI	436,900	118
Jackson, MS	434,600	119
Modesto, CA	433,300	120
Spokane	**417,300**	**121**
Fort Myers/Cape Coral FL	414,200	122
Santa Barbara, CA	413,800	123
Madison, WI	412,800	124
Pensacola, FL	411,800	125
Salinas, CA	402,500	126

In terms of racial and ethnic diversity, we have actually become less diverse relative to the nation as whole—even though our minority populations have dramatically increased, as shown here.

We currently have an Asian-Pacific Islander population of 10,300, which ranks us 104th in the nation. But in 1995 our estimated Asian population of 8,600 ranked us No. 100th. So, although we have seen a 17% increase in this population in the past four years, Asian/Pacific Islander population growth in at least four other cities has surpassed us and dropped us out of the Top 100 A/P markets.

We **have** gained a bit in terms of black population, from a rank of 236th in 1995 to 230th today. Black population growth since 1995 is estimated at 16% and stands today at 7,100.

Our Hispanic-Origin population has grown from 8,800 in 1995 to 12,300 today—an increase of 33% in four years; but our rank has dropped from 156th to 157th.

Our Native American population of about 6,600 is not ranked in the *Survey*, but it would certainly rank us in a Top 100 community in terms of that population segment. That's because there are only about 2.2 million Native Americans in the United States, comprising just under 1% of the total population of the nation. Significantly, we have about 3 TENTHS of 1% of all Native Americans living in our MSA, compared to only about 2 ONE-HUNDREDTHS of U.S. black population and about 3 ONE-HUNDREDTHS of Hispanic-Origin population.

I began speaking of the economic importance of diversity to this audience five years ago and have made a point of including it every subsequent address. One of my great joys has been to watch the significance of this information sink into the consciousness of our community's leadership. Recent comments by Mayor Talbott and major business leaders are proof that a critical and broad-based consensus has formed here; and they are to be commended for their cogent remarks and timely leadership on this important issue.

In terms of income, our ranking for wealth does not match our ranking for population, which means household incomes are lower here.

By way of comparison, median after-tax income, or EBI, in Spokane is estimated at $33,024, ranking us 172nd among 317 MSAs in the nation.

This slide shows the five cities that rank just above and just below us in terms of after-tax household income. The good news on income is this: our ranking represents enormous improvement since 1995, when we ranked 214th, or since 1990, when we ranked 255th. In short, our estimated after-tax income growth moved us up 87 places in the ranks during the 1990s--which is something we can be proud of!

U.S. RANKINGS OF MSAs BY MEDIAN AFTER-TAX HH INCOME

MSA	EBI	RANK
Canton-Massillon OH	$33,283	167
Greensboro, NC	$33,168	168
San Luis Obispo, CA	$33,096	169
Sarasota, FL	$33,080	170
Davenport, IA	$33,045	171
Spokane	**$33,023**	**172**
Syracuse, NY	$32,919	173
Colorado Springs, CO	$32,838	174
Jacksonville, NC	$32,791	175
Lake Charles, LA	$32,766	176
Phoenix-Mesa, AZ	$32,748	177

The chart shows clearly that, with after-tax income, as with so many other things, **size doesn't matter**. We are much smaller than Phoenix but have more left over from our paychecks than the average resident of that MSA, which is one of the nation's 50 largest.

While median income is relatively low in Spokane, we have more than our share of wealthy households. Those households, with after-tax incomes of $150,000 or more, give us a relatively high MSA ranking of 112. Despite this, the income gaps between Spokane, the nation, the state and King County remain significant.

The U.S. median household income is $35,377; the median for all MSAs is $37,676. The median for Washington State is $40,334; and for King County, it's $49,107! Put another way, a median Spokane household has about $2,400 less in annual household income, after taxes, than the median U.S. household; about $4,600 less than the nation's median urban household; about $7,300 less than the median Washington State household; and about $16,000 less than the median King County household.

There are several reasons for these gaps: we have an above-average percentage of single-income households because we have an above-average number of people who live alone. Also, as I've already shown, we have gentrified a bit. And, we have an above-average percentage of retirees. But the primary cause of the income differential is that our wage rates are below the national average by 12 to 16%.

How do we spend the money we have? My data is broken down by major retail spending sectors: Groceries, Restaurants, Department Stores, etc. In most categories, we fall pretty much where we'd be expected to fall with one remarkable exception.

When it comes to expenditures on Furniture, Home Furnishings and Appliances, we rank 61st, even though we are only 121st in terms of population. In population terms, we keep company with markets like Jackson, Mississippi; Modesto, California; Pensacola, Florida; and Madison, Wisconsin; however, in terms of furniture and appliance sales, we rank ahead of places like Oklahoma City, Tucson, Louisville, Honolulu and Albuquerque -- and we're closing in on major-league cities like Buffalo and Memphis!

I'd like to complete our look at Spokane demographics by presenting data compiled by CLARITAS Corporation, the national demographic profiling company that specializes in "market cluster analysis" using its well-known PRIZM codes. I'm pleased to be presenting this information for the first time in Spokane and am delighted that CLARITAS not only is helping sponsor today's event, but also has sent a delegation from their new home office in San Diego.

CLARITAS divides our MSA into eight major social groups, giving them the descriptive names shown here--and giving us a way to see ourselves as others see us. I'm going to spend a little time with the three largest clusters--because they are critical to the way we do business and manage public affairs in Spokane (and by extension the Inland Northwest).

The largest of these groups, Downtown Mix, comprises about 20% or 60,000 of the MSA's adult population. The group's title does not mean it members live in Downtown Spokane *per se*, but rather that they and groups like them across the country live near the core of their cities and have an urban lifestyle. The group is a mixture of young and old, singles and couples, with middle to low incomes, high school or college education, living primarily in rental units. The Social Group can be broken down into two smaller units, or clusters, which CLARITAS calls "Smalltown Downtown" and "Southside City."

"Small-town Downtown" folks are likely to be older renters and young families, with lower-middle incomes of about $19,000, living in both single-member and family households. They are likely to have a median age of 35, be employed in blue-collar service work and to have graduated from high school but not to have completed college.

Those in "Southside City" (and remember that's a national designation, not a reference to Spokane's "South Hill") include working and non-working poor who have at most a high-school education. Members of this cluster have median incomes of only $14,900, and they span all age and family designations. If employed, they are most likely to be blue-collar service workers.

If you have ever wondered why Spokane has lower total retail sales (and consequently, lower sales tax revenues) than other cities its size, you can begin to understand the reason when you recognize that our largest Social Grouping is also one of our poorest.

Our second largest Social Group is called Middle Class Empty Nesters, of which there are 56,000, comprising 19% of our adult population. There are three clusters in the Group: Gray Collars, Middleburg Managers and Sunset City Blues (for blue-collar). Incomes in the group range from about $27,000 to about $33,000 a year. Members of all three components are age 55-plus and live in close-in, older neighborhoods. They rank high in their purchases of automobiles, department store spending and are above average in their expenditures at Home Building and Supply stores. They also have a lifestyle trait that makes them particularly significant: they vote at above-average levels and are more likely to have worked as political volunteers than members of the other eight Social Groups. In fact, campaigning is one of their distinguishing lifestyles.

Spokane's third largest Social Group is comprised of Affluent Empty Nesters, who comprise 15% of our population or 44,000 adults. The Group is made up of three cluster components: Pools and Patios (the most affluent), New Empty Nesters and Upstarts and Seniors. Median incomes for the Social Group as a whole range to $52,000 a year. This group is made up of avid newspaper readers and news/talk radio fans, traits they share with Spokane Elders and with a group called Inland Northwest Affluent Families, who are the most Affluent of Spokane's Social Groups. Affluent Empty Nesters have above-average purchasing potential for all products, except used cars (that's because they are the group most likely to buy a NEW car). They like to travel and have a high index for all types of product purchases. It is significant that this group, which has been strongest for retail purchasing in the past, is the group most likely to switch some of its purchasing online.

The three groups I've just described make up 54% of Spokane's population. Except for the Empty Nest status of the second and third groups, our three largest Social Groups have little in common. In fact, they are amazingly UNLIKE in terms of lifestyle. Given a choice of things to do with their leisure time, Downtown Mixers would play with their stamp collections, Middle Class Empty Nesters might go to a Truck or Tractor Pull, and Affluent Empty Nesters would plan their next vacation to Europe. You can bet that each group spends a lot of time sneering at the lifestyles of the others, and this probably contributes to Spokane's internal "identity" problems. Each group wants the city to be its city, but no group is dominate enough to set the city's Social and Lifestyle agenda--it's almost as if we have civic multiple-personality disorder!

This slide also enables us to examine other general aspects of our demographic mix. You'll note that 31% of our adult population (and far too many of our children) fall into our two poorest groups: Downtown Mix and Low-Income Singles & Families. Among the other groups, we have two "affluent" sectors comprising 25% of the population, with the remaining 41% in the middle, mostly lower middle, class. This is indicative of both the income skew in our economy and of the remarkable shrinking of our Middle Class. This phenomenon is not unique to Spokane--it represents a significant change from 20 years ago throughout the United States.

You'll also note that the town is split almost equally in terms of those with "family lifestyles" (meaning homes with children under 18) and those with pre-family, post-family, or single lifestyles. While Spokane is often described as a great place to raise a family, it might be more aptly described as a great place to live after the kids grow up--regardless of whether they grew up here.

Section 3: Anomalies

Forecasters assume that historic data can produce meaningful patterns that are projectable into the future. But often, traditional patterns are disturbed by anomalies--disruptive, unforeseeable events like natural disasters, political upheaval and other "acts of God" or the people. In Spokane we experienced four such anomalies in the past year.

1. The first and most obvious anomaly has been Initiative 695. Its ultimate impacts are not yet known. Certainly, the revenues derived from license fees will decline; and certainly, programs currently being directly funded by these fees have been cut. However, as the funds from license fees decline, it is possible that revenues from sales-tax revenue will rise. No one yet has enough data to successfully model the final outcomes.

2. The second anomaly was the recent vote for changes in City government. For economic forecasters it makes little difference if we have a weak or strong mayor system. What matters economically is that we have structural stability in the institutions that contribute to recruitment and retention of business. When that stability is lost, projections can deviate well outside the normal range of variation. In the case of the recent city elections, we created one of these anomalies in the near term. As the changes roll through, they will create questions as to just who is in charge and for how long. In political terms, Spokane's citizenry has voted for change, but has not yet completed the process of choosing its leaders--in fact, it's just begun that process. Though negative in the short-term, once the changes are consummated, I expect we will find ourselves in a more positive economic position

under a responsive strong-mayor/district-based council than we have been under the previous form of government.

3. The third anomaly involves the impacts of change on some of the state's major employers. We have never before seen a major employer and major source of revenues subject to antitrust violations. Nor have we seen Boeing, the state's largest employer, run as a duarchy. Nor have we experienced a labor dispute in several years that has been as extensive as that of the nearly 15-month strike and lockout at Kaiser.

4. The fourth anomaly: the Internet's impact on local retail and service businesses. Spokane is first and foremost a retail trade and service center, and its prosperity depends in large part on its success as a place where people come to shop, bank and be entertained. The Internet's impacts on these activities has yet to be assessed, but there are indications that Internet merchants are finding customers here faster than our merchants are using the Internet to replace them with Web customers from elsewhere.

To understand the potential impacts of the Internet on local consumption, here are some recent results from the Higgins-Robinson Consumer Confidence Survey, which has been examining Internet and Web usage on a quarterly basis since 1997.

As you can see, we now have 54% of Spokane adults accessing the Internet from home.

They are now accessing the Internet from home more than 4 times a week, and another finding (not shown) indicates they are also accessing it from work more than two days a week.

Like Web users everywhere, ours are accelerating their consumer purchases on line. Last year, U.S. consumers purchased nearly $16 billion worth of consumer goods through the Internet. On a pro rata basis, Spokane's purchases would equal about $24.4 million, with $6.1 million by Kootenai County consumers.

Section 4: Recap of 1999, the 1999 Forecast and the Forecast for 2000

Let's turn now to the economic situation in Spokane and the surrounding region.

1999 was a lackluster year here in terms of economic growth--the worst in the decade.

We witnessed significant slippage in the creation of net new jobs, despite significant recruitment victories by local economic development agencies. To date, through October 1999 (the latest period for which figures are available), we have averaged a gain of only about 210 jobs this year, on a total average annual employment base of about 188,500. That's net job growth of less than a TENTH of a percent--by far the worst one-year gain in the past decade (and far below the national average of 2 percent last year).

> [***UPDATE:*** *Figures for November 1999 came in the day after this address was given. They showed further loss of 1,000 jobs compared to November 1998. That dropped the 11-month average net gain in Wage and Salary Jobs to only about 100 year to date.]*

It seems that the faster we build and attract new jobs, the more quickly we are losing existing ones, resulting in only small net gains and trending in a pattern that would indicate that we'll soon be seeing losses, as we did in early 1980s.

1999 was especially weak for most farm segments--dairy excluded--and it is unlikely that our export picture improved much from its previous decline in 1998.

You can see from this first slide that our exports are small and took a turn downward in 1998, the last year for which we have complete numbers.

And for the curious, here's a look at how our total exports stack up to those of other MSAs to which we are often compared. We do better than most, but just look at Boise!

With that background laid, here's what I projected in January for 1999, the status of that forecast to date, and my forecast for Year 2000.

- Employment. The January 1999 prediction was that we'd be up or down by 500 jobs for the year as a whole—which would make 1999 the slowest growth year of the 1990s in terms of local employment. Currently, we're at 210; but I expect December figures, not yet released, to show some improvement, so I expect the forecast will be on target.

  Some recently published reports have indicated "total" employment being far higher than the numbers I just presented. None of these reports are wrong; but if you don't understand how and why the figures were developed, you won't have a clear picture of things. In my forecasts I have focused, as do most other forecasters, on growth in Non-Agricultural Wage and Salary jobs--people drawing paychecks. There is another indicator, called "Total Employment," which includes the people drawing regular paychecks, but also adds everyone else who is considered willing and able to work but who are drawing neither a regular paycheck nor an unemployment check. Now, as Dennis Miller would say, "I don't want to go into a rant here, but . . ." It is critical that we establish clear metrics for gauging our economy and our job growth. We must not allow figures generated for publicity purposes to blur the facts our community needs for policy purposes.

- Unemployment. Last January I predicted unemployment it would inch up to 5 to 6% for the year. I also said we could expect some months in the 6.5 to 7% range. The average for the year, through November, was just over 5%, with a monthly high in

February of 6.7%. In 1999, we've experienced about 1% greater unemployment than for the same period in 1998. I predicted that local unemployment would drift above state and national averages, and they have. The forecast was a bull's eye.

- Housing and Population. The 1999 forecasts for housing sales and population growth, both low, remain on target. I must confess I'd foreseen slightly fewer unit sales in Spokane and slightly more in Kootenai County, with somewhat stronger prices in both. Overall, however, the combination of the components was on target.

- Precious metals. My forecast for precious metals prices was better than usual--solid on silver, but terrible on gold. I predicted a trading range of $290 to $310 for gold and $4.90 to $5.90 for silver. Silver pretty much stayed within the range; but gold went all over the board -- first dropping to $260, then later rising to its highest levels in years before winding up just under the predicted trading range.

- Retail sales. Final numbers won't be in for several weeks yet, but it looks like I overestimated the growth--and that's one I usually hit. I'd foreseen an increase of 5 to 6%, and the numbers to date indicate we'll come in at only about 3%. One of the reasons this is my final solo forecasting act for Ad Club is because the 1999 forecast was reasonably accurate, and I'd rather not have to quit after a flop.

For the Year 2000, we're looking at *less of the same*:

- Employment: I expect to see minimal, if any, growth, with the employment total coming in at plus or minus 500 Wage and Salary Jobs.

- Unemployment: Year 2000 levels will remain in the 5 to 6% range and will continue to exceed Washington state and national levels by at about 1 percent.

- Population: Up half a percent at most, with no net in-migration.

- Retail Sales: For 2000, I'm optimistically predicting an increase of 4%, assuming little population growth, continuing weakness in local consumer confidence and little job growth. These negatives will be counter-balanced by increases in general net worth and by an inflationary factor of about 3%. I think we will continue to see the loss of some local sales to Internet merchants, but these will be more than offset by the attractions regional shoppers will find in Spokane as a result of the new River Park Square and Northtown developments. Put it all together--retail sales up 4%.

- Housing: Our most recent Consumer Confidence Surveys indicate that unit sales and prices levels on homes in Year 2000 will be about what they were in 1999. Unit sales will rise about 1%; but with little or no in-migration and somewhat more people planning to sell than to buy homes, median home prices are unlikely to exceed the general inflation level--and are more likely to come in below it. This pattern will characterize both Spokane and Kootenai counties.

I am not predicting precious metals prices this year, because--given my record on that item--I didn't want to build in a near certain miss!

Section 5: Looking to the Future

While annual forecasts like this one can be helpful in the short-term, they are merely snapshots of an economy. Such snapshots are the equivalent of examining the single leaf of a very large and leafy tree in the middle of a gigantic, immensely dense forest. Today I want to try to put the local economic tree in the context of the forest and note how well our section of the woods is positioned to remain hardy.

We know, looking at the national economy, that things are good. The stock market has reached historic high levels and most observers still expect it to continue rising, despite recent corrections. A federal tax cut is a certainty and that can only push national consumer confidence--which also has reached record highs--even higher.

Within this forest of prosperity, however, Spokane has been a less prosperous sector--and is even showing some signs of decay. Three factors are contributing to this decline:

- First, we are experiencing declining consumer confidence at a time when national consumer confidence levels are at record high levels.

- Second, our job-growth rate is moribund; wage growth is again starting to slow; and we find ourselves consistently rated low in terms of our business environment, particularly for high-tech industries.

- Third, we continue, fairly or unfairly, to be cast as a place of racial and ethnic intolerance, which handicaps us in our ability to recruit new industries, high-level foreign-educated workers, and outside capital.

The three factors are interlinked. Consumer confidence will start rising again only when wages and jobs start growing again. Wages and jobs will start growing again, when we start focusing our efforts on building industrial clusters, particularly in the high-tech area. Such clusters will be developable only when we have repositioned the region in the mind of the nation as a place where all talent is welcome and where knowledge workers feel at home and fully part of the fabric of our society.

This is not to say that the economy is in bad shape here; but rather that we are not and, for several years now, have not kept pace with the unprecedented growth of the national economy -- and Spokane consumers don't think it will be keeping up in the future either.

These slides, based on the most recent findings from the quarterly Higgins-Robinson Spokane Consumer Confidence Survey, show that while local faith in the national economy has mimicked the national numbers -- as shown on the trend lines on this slide . . . Spokane consumers don't feel the Spokane economy is as strong as the nation's and believe, in fact, that it is weakening in relation to it.

Now let's talk jobs. It is safe to assume that we'd have better-paying jobs and quality high-tech jobs if the national job market thought we merited them. But when our industrial recruiters present our case, we are often found wanting. Rather than blame the recruiters, we need to look seriously at improving the case they have to present.

We learned a lot last year about the uphill road we face in attracting high-tech industries. We learned a little from the much-discussed *Forbes'* magazine report, which ranked the city 161 out of 162 cities in terms of high-tech business environment; but we learned even more from a report prepared by the Millken Institute of Santa Monica, California. Unlike *Forbes*, Millken provided useful insights into why we rank where we do, what that ranking has cost us in terms of community prosperity, and, most important, it suggested things we could do to improve our standing.

Millken explored high-tech location quotients (a measure of the number of high-tech firms in an area) and also looked at levels of employment in high-tech industries. The nation's high-tech leader in Location Quotients was Rochester, New York, with an LQ of 5.6. Boise ranked No. 7 on this factor, with an LQ of 2.7. Spokane ranked No. 79 on this factor and scored only .9 (POINT-9).

In terms of total employment in the high-tech sector, Spokane had 10,000 jobs, while the smaller Tri-Cities, ranked 9th with an LQ of 2.4, had total sector employment of 23,100.

When we adjust high-tech employment for population differences, we find that Seattle, with a national LQ ranking of 11, employs 216,400 in the high-tech sector. The Seattle MSA is 8.3 times as populous as Spokane, but has nearly 22 times as many high-tech workers. That gives Seattle a 3 to 1 edge in proportional employment in the high-sector based on total population. Since the average wage in high-tech businesses is $60,000 a year, you can quickly understand why the income skew between Spokane and King County is so wide.

When Millken looked at overall High-Tech Real Output Growth from 1990 to 998, the Millken Study ranked Spokane 227th among 315 studied MSAs--much lower than we ranked on the *Forbes* list!

Millken analyst Ross DeVol concluded that lack of high-tech growth in Spokane is becoming {QUOTE}"an obstacle to overall economic well-being."[UNQUOTE]

"Spokane's high-tech growth was 20% below the national average in the 1990s, which is why it ranked 227," DeVol said.

Last September DeVol compared high-tech growth between Spokane and Colorado Springs, looking broadly at the two cities since 1980 when their metro areas were approximately the same size. During most of the 80s, DeVol said, the two cities paralleled each other during most of the decade and, upon entering the 90s, Spokane even did a little better. But since 1993, Spokane's high-tech performance has deteriorated relative to Colorado Springs; and it continues to do so. The difference: Colorado Springs aggressively went after high-tech clusters and now has 9 of 14 top high-tech clusters in its midst. In 1980 Spokane employed 20,000 more people than did "the Springs." By 1998, Colorado Springs employed nearly 40,000 more people than does Spokane. In terms of population, Spokane was slightly larger in 1980, but today is significantly smaller.

Income per capita (which is different from the after-tax household figures I showed earlier) has grown substantially in both cities, but is almost four times higher in Colorado Springs today than it was in 1980. In Spokane it is only a bit over 2.5 times higher. DeVol concluded that the per capita income growth rates diverged because high-tech industries pay nearly $60,000 per year compared to $29,000 for the private-sector average.

If we want to build a future in the high-tech industries, it seems obvious that we must be competitive with the places that are landing them. The Millken Report recommends seven actions communities can take. Here they are, along with comments on actions now underway and those we might want to take in the future:

1. **Promote life-long learning programs.** Simply having programs is not enough--people must understand, value and participate in them. In the past, Ad Club has marshaled creative and media forces to create *pro bono* campaigns designed to fight drug abuse, promote AIDS prevention, sponsor citywide cleanups--and promote this speech. Today, I'd like to challenge Ad Club to create a new multi-media campaign to continually ask our populace "Have you sharpened your skills today?" and point out the personal economic advantages of life-long learning.

2. **Keep regulatory burdens and taxes at a minimal level**. Spokane does well on this point--and much better than it often is given credit for. At a time when other communities are increasing regulatory burdens, discussion in Spokane has been on streamlining them, developing one-stop permitting processes and other programs that improve communication, reduce paperwork and speed the permitting process without allowing the public interest to suffer.

3. **Encourage government-industry partnerships in developing high-tech incubation.** "Encouragement" in this case means putting money behind programs that accomplish this. We have started to realize some success from existing incubator programs. We need to continue growing and funding new incubators, including a specific one for the development of Internet businesses.

4. **Foster informal groups to improve communication between the public and private sectors.** *In Spokane,* Forums 'R Us! We have lots of them. But we need to continually examine our communications channels, abandon tired ones when necessary and become adept at setting up new channels as quickly as needs and opportunities develop.

5. **Identify the types of infrastructure that best promote high-tech development.** This involves air transport, labs, campuses, high-speed data transmission and satellite links for sure. The key is to specifically link infrastructure planning to high-tech development needs and, hopefully, develop our information highways faster than we have been able to fix our streets and roads.

6. **Closely monitor high-tech firms in a cluster to spot problems early.** In Spokane, we must ask ourselves who has the ball when it comes to monitoring the future of the keyboard, OEM, bio-tech and telecom industries that comprise our high-tech sector. Who is responsible for looking at international trends relative to job-shifting, technological change and international competition? We need to make sure someone has that job as Job 1. The city and county should consider establishing a Joint Office of Industrial Development to handle this task.

7. **We must develop quality-of-life attributes that are important to attracting and retaining knowledge workers.** Millken says that, as we enter the age of human capital where firms merely lease knowledge assets, firms' location decisions will be increasingly based upon quality-of-life factors that are *important* to attracting and retaining this most vital economic asset. We hear much in Spokane about our quality of life. Too often, however, that phrase relates only to our natural environment. The key in the Millken statement is "important to attracting and retaining" knowledge assets. This is not just a matter of having skiable mountains, clean water and low traffic congestion, but also of having world-class schools, unique and important cultural offerings, and a social environment that are welcoming and attractive to knowledge workers worldwide. Our social environment must be as stunning as our scenery--which means we must not only be tolerant, but also interesting!

With Millken's recommendations in mind, I'd like to close my presentation with 10 suggestions on ways to positively change Spokane's economic outlook -- not in Year 2000, because it will take time to realize them, but certainly in the years beyond.

10 STEPS FOR SPOKANE IN THE DECADE AHEAD

1. **We need to further increase cross-border economic development efforts with Idaho.** We have been making steady progress on this goal, and it is essential that such progress continue. We are looking at a designation in 2003 of the region as a combined Spokane-Kootenai MSA. As the *Wall Street Journal* noted in its October Northwest editions, Spokane is tired of being No. 2 in Washington state and would prefer No. 1 in the Inland Northwest--with a little help from Coeur d'Alene. We have already started cooperation in industry recruitment, tourism promotion and joint advertising campaigns in national media. The more we can hang together, the less likely we are to be hanged apart.

2. **We should work aggressively for Washington Constitutional Reform that would enable tax-increment financing and tax abatement.** We need a 21st century state Constitution to replace the inch-and-a-half thick, 19th century agglomeration of rules and pet peeves we now serve as the state's charter. Faced with similar challenges, other states have called state Constitutional Conventions. In doing so, they not only revitalized their economies, but also created a renewed sense of statewide civic involvement.

3. **We should work aggressively to take advantage of currently legal devices, like port districts, and fight to get them adopted and approved by Spokane voters.** There are currently 76 port districts in Washington State. Spokane is the largest city without one, and that puts us at a competitive disadvantage. Port districts can collect taxes to build infrastructure and facilities to attract businesses. Establishment of a port district has the support not only of EDC and most business leaders, but also Mayor Talbott and Councilman Eugster. A combined effort by elected and private-sector leaders can not only help us achieve unity among our leaders, but also gain parity in our industrial recruitment efforts. It's time for a new push in this area, giving voters adequate time to absorb the advantages they will reap from having a port district here.

4. **We must spend as much time focusing on the "software" of our institutions as on their hardware.** It is not enough to have a world-class museum building, unless it houses a world-class collection. It is not enough to have a world-class symphony, unless that symphony is performing works or interpretations of works that merit recording and are sought out around the world. It is no longer enough to have modern high-tech labs, unless we have a clear, consistent and well-funded plan for the research to be conducted within their walls. And it does little good to have modern libraries, wired for a 24/7 world, if they are only open Monday through Friday! We need to develop a comprehensive, content-focused cultural plan for the city, county and region.

Last fall a representative of the Bill and Melinda Gates Foundation came to Spokane and interviewed several key thinkers and planners about ways Spokane might benefit from the Foundations' desire to aid education through the funding of high-tech initiatives in Washington communities. They found a consensus among those they spoke with that our region might benefit from establishment of a public magnet school devoted to science and technology. But they found little input on the character and content of such a school. What might be taught in it? How would it be taught? What innovative, unique programs might be established in it? Lots of communities have magnet schools, but what could we do with ours that would set it apart and make the use of a major grant as exciting to the donor as to the donee?

To date, we have done a better job determining capital needs than we have in establishing an operational vision. For the future, we must develop a content fetish that matches our fetish for bricks and mortar.

5. **We must continue broadening our definition of high-tech to include both biotechnology and the copyright industries, developing clear strategies for each.** Last year we made major strides. WSU has steadily enhanced its Spokane presence, and the university has broken ground on a new $39-million Health Science Building which will ultimately employ as many as 800 people in lab and research space. The Heart Institute currently has some 430 drug and clinical studies underway. New biotech office parks are being developed, as well, in hopes of luring biotech firms to the region. We still need, however, to develop and fund a strategy for the copyright industries that helps our cultural institutions, young film makers, writers and musicians get their goods to market in this, the third largest export industry in America.

6. **We should establish a publicly funded, joint city-county Office of Economic Statistics to develop an impartial, reliable, ongoing metrics for planning rather than public-relations purposes.** I feel so strongly about this that it is the primary reason this will be the last of my one-person forecasts. We need consensus forecasting sessions, and to that end I am working with Ad Club and others to develop new formats for these annual meetings on the economy. But new presentation formats are not as critical to Spokane's future as is our need for solid planning metrics from impartial, expert sources.

7. **We must take advantage of the recent changes in city government and, as an electorate, establish the highest possible standards for our elected leaders.** This starts with a recognition that, in Spokane, THE issue is "still the economy, stupid!" And because it's the economy, we must have leaders who have an economic vision and can articulate it so that it resonates with the electorate -- leaders who are at ease with economic and high-tech issues; leaders who are positive in outlook, adept at finding unifying themes rather than divisive ones; leaders who can be described with words like "astute," "brainy" and "inclusive." Ideally, we will elect people who believe public education efforts, discussion and analysis should precede and help form public opinion, rather than being used to "sell" decisions already made. If we believe that knowledge is the currency of the

Information Age, we must make knowledge the acid test of electability to public office.

8. **Establish a Strategy 2020 that starts looking now at where we want to be then**. Two months ago I was in Springfield (Illinois) as part of a tour for my Vachel Lindsay book. I found it interesting that in 1999, Springfield was already focused on the Year 2020. Under the leadership of Mayor Karen Hasara, a project entitled "Springfield Strategy 2020" was organized in 1998 -- when most communities were still trying to plan fireworks celebrations for Year 2000. Strategy 2020 culminated with four hour-long televised town meetings from late October to November 1. Members of the program's various committees took phone calls directly from city residents.

   Strategy 2020 features 13 working committees on a broad range of topics: art, leadership, neighborhoods, recreation, public safety, communications, the environment, social services, volunteerism, infrastructure, commerce, education and social services. I was struck by the choice of topics which recognized that a city planning process involves more than economic development -- it also covers spiritual, cultural and social elements. In Spokane we tend to segment planning in these areas; in Springfield they have put them under one umbrella--and provided the broadest possible media mechanisms for gathering input and reporting findings. It is significant that the project was led by a strong mayor with support from both public and private sector, bringing grassroots and establishmentarian elements into the same process.

9. **We must start measuring our K-12 educational achievement against the "best" in the nation, not the averages.** It's great to be above average, but we must set our goals higher. This requires us to strive for the top decile in educational test scores compared to the nation, if not the world. We need to know not only how our average scores compare to other average scores, but also how the scores of our top decile students compare with those of top decile students elsewhere. This will help assure that our best and brightest students are competitive with the best and brightest gifted students in the nation.

10. **Finally, we must expand cooperative, statewide efforts with Seattle**, recognizing that we have a common destiny with the great city to our West, which is now closer to us in terms of travel time than it is to some of its suburbs. Seattle has much to teach us about diversity, high-tech development, tourism development and the ways high-tech clusters develop. We must not think of it as a city located 275 miles away, but as an economic center located only a $50-dollar airfare and 45 minutes away. It now takes less time to fly and drive from Sea-Tac to the Spokane Valley on a weekday than it takes to drive from Bellevue to downtown Seattle during weekday rush hour. Let's capitalize on that!

Doing these things will require fundamental change in the nature and magnitude of our vision and our actions. We *can* make that change and I am confident we *will*.

I'd like to close today, and this 17-year series of presentations, with an economic benediction:

> *May calm deliberation rule our forums; may facts inform our collective analysis; may reason govern all of our decisions; and may we view Spokane's future with energetic hope.*

Thank you for having me here with you today and for the past 16 years--and thanks for all you have done and continue to do to make Spokane a great place in which to live and do business.