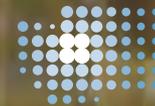


Regional Economic Strategy for the Central Puget Sound Region — SUMMARY



Prosperity  
PARTNERSHIP



## Regional Economic Strategy for the Central Puget Sound Region, Summary

October 2005

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*John Ladenburg  
Pierce County Executive  
President, Puget Sound Regional Council*



*Bob Drewel  
Executive Director  
Puget Sound Regional Council*

## Dear Colleague:

For more than a century, the Puget Sound region has grown and prospered. Our region has emerged in recent decades as a leading center of trade, high-tech industries and commerce. Talented and energetic people have flocked here for opportunities to work and live in a place of stunning natural beauty and cultural abundance. But our prosperity in an increasingly connected global economy is not assured—in fact, it has never been more tenuous.

The reason is fundamental: The key factor in the global economy is no longer simply natural resources or political boundaries; it's also the supply of smart and diverse people. The ability to attract people is a dynamic and sensitive process. New centers of the global creative economy can emerge quickly; established players can lose position just as easily.

New economic centers are rapidly emerging throughout the world as leaders recognize these dynamics and take the initiatives needed to adapt to them. In addition to education, leaders in the newly successful regions are also investing in the infrastructure needed to support their economies and making their governments more business friendly.

Consider some dramatic recent examples:

- Over the past 15 years, one of the smallest countries in Europe—Ireland—has emerged as a world technology powerhouse. The country's gross domestic product has nearly doubled. Now Ireland's leaders are building on the success—investing more in education with an emphasis on science. One example is the creation of Science Foundation Ireland, which will build new universities and research centers to train the people needed to keep and attract technology companies.
- In China, Shanghai's transformation is breathtaking. Visitors see a new airport, a maglev train to downtown, 14 new commuter rail lines, and universities producing tens of thousands of engineering students. Approximately 1,500 high-rise buildings have been constructed since 1975.
- India has announced plans to leverage its information technology success into biotechnology. The government's Department of Biotechnology aims to create and support at least ten biotech parks with incubator units by 2010. "India wants to be as successful in life sciences as it has been in software and information technology," says the *Financial Times*.





Worldwide competition is not focused on countries, but on large metropolitan areas that function as single economic units. Companies don't just choose between the United States and England, or Sweden and Canada. They think of Silicon Valley versus Mumbai, or Vancouver versus Stockholm.

Metropolitan regions have emerged as the basis for global competition. Around the world, regions are pooling their public and private talent and resources to pursue economic goals. The central Puget Sound region is well positioned to do the same. We have the building blocks to create a strong, globally oriented and sustainable economic agenda that contributes to regional prosperity while sustaining the resources and the quality of life on which our regional identity and reputation depend.

Hundreds of people from every sector of the economy and community have contributed to this strategy. They've identified both short term and long term actions that are needed in dozens of different areas.

Education, transportation and taxes, not surprisingly, emerged as the three critical themes affecting our region's future prosperity. Improvements in education and transportation, and changes in the tax structure, cut across all segments of the economy. We have to address those issues for the other initiatives to be successful. The challenge is to develop consensus on the solution. Our aim is to develop consensus on a major transportation improvement package in 2006, followed by higher education and tax reform measures in 2007.

The Prosperity Partnership is the vehicle to move the central Puget Sound region in this direction. The vision of a unified economic agenda for the Puget Sound region, set in motion less than a year ago, has come to fruition. Now the real work of moving our economy forward begins.

With the willpower to make the necessary changes and investments, and your help, we will succeed.

Sincerely,

A handwritten signature in black ink that reads "John Ladenburg".

The Honorable John Ladenburg  
Pierce County Executive  
President, Puget Sound Regional Council

A handwritten signature in black ink that reads "Bob Drewel".

Bob Drewel  
Executive Director  
Puget Sound Regional Council

# The Prosperity Partnership

## A Regional Economic Strategy for Puget Sound

An extraordinary economic development effort is underway in the central Puget Sound region. Hundreds of government, business, labor and nonprofit leaders in King, Kitsap, Pierce, and Snohomish counties have organized a coalition called Prosperity Partnership.

The coalition created Prosperity Partnership because economic conditions in the region, combined with dramatic changes in the global economy, create a critical need for a regional strategy and action. To address this need, coalition members are working together toward a common goal: long term economic prosperity for the entire region. Prosperity Partnership envisions a region where residents have good jobs and earn family-wage incomes, where globally competitive businesses thrive, where diversity is embraced because it is good for business; a region with vibrant, connected communities and a high quality of life built upon our outstanding natural environment and cultural dynamism.

*Microsoft is trying to hire every great college graduate who has basic computer-science skills and [who we think is] highly talented...I'm certainly very worried about [the shortage]...It really is gating the speed at which we do things."*

— Bill Gates III, quoted in *Seattle Times*, 7/19/05

## A Regional Economy with Promise—and Challenges

Many of the building blocks for regional prosperity are in place. Mature industries stand beside new and emerging enterprises. The area boasts a number of industry clusters—concentrated sets of competing



See-Tac International Airport



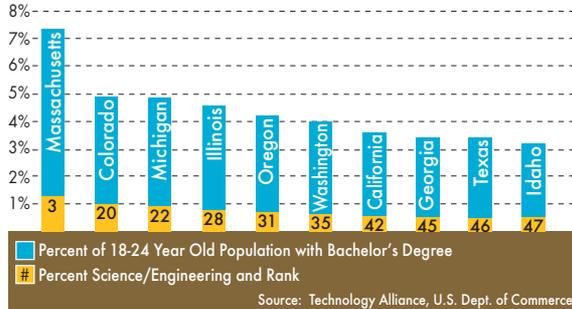
and complementary enterprises. Clusters—concentrations of industries that export goods and services and import wealth into the region—drive the economy. The region also has many good schools, strong and diverse communities, and a beautiful natural environment.

But there are ominous signs as well. The concentration of employment in most of the region's industrial clusters is not much stronger than in the typical

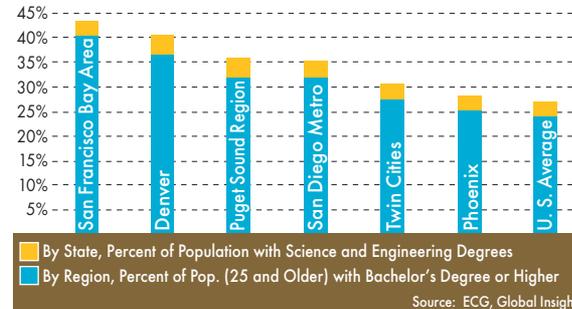
U.S. region. Parts of the region's economic foundation—such as workforce education, physical infrastructure, and business climate—served us well in the past but must adapt to a new economic environment.

Too few students are graduating from our public schools with the technical, analytical and creative skills that companies need now and will need into the future. The public school dropout rate—30 percent—is far too high. Universities don't have enough openings for undergraduates and aren't producing enough bachelor's degrees, especially in science and engineering.

**Bachelor's Degrees Granted as Percent of 18-24 Year Old Population, 2001**



**Percent of Population Holding Bachelor's Degrees, 2003**



*The region has a high concentration of workers in knowledge industries/clusters, but is weak in providing the sort of education needed for jobs in this sector.*

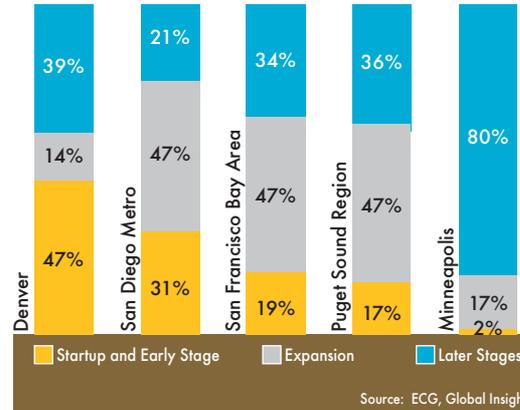


City of Seattle

Barriers prevent too many innovations developed in our outstanding research institutions from reaching the commercial marketplace.

While Washington has the highest rate of new company formation in the U.S., the state is near the top in business failures. Contrast that with Colorado, which barely trails our state in company creation, but leads the nation in survival. The B&O tax, levied on gross receipts, is hard on small businesses and startups. We dedicate less of our venture capital to businesses in their earliest stages than our peer regions do.

Breakdown of Venture Capital by Stage Invested, 2004



*The region attracts its share of investment capital, but a smaller share is dedicated to early stage businesses than in peer regions.*

Washington also lags in making the transportation improvements needed to support a competitive economy. Although the 2005 Legislature authorized a significant increase in transportation investment, that funding is threatened, and more is needed. The region and state must act on a long term strategy for sustained transportation funding from a mix of sources to support identified improvements for the efficient movement of people and goods.

These troubling signs loom at a time when the economic environment is undergoing dramatic change. The global economy is becoming increasingly connected. Multinational regions are forming

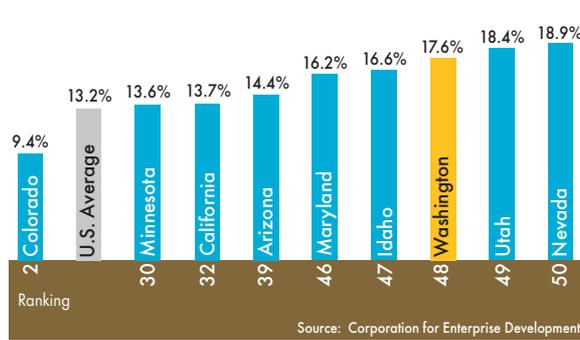
huge trading blocs, and foreign businesses are improving their competitive positions as trade barriers fall. The marketplace is demanding profound technological innovation and development of advanced consumer products. These forces put

pressure on our regional economy to adapt and meet new challenges.

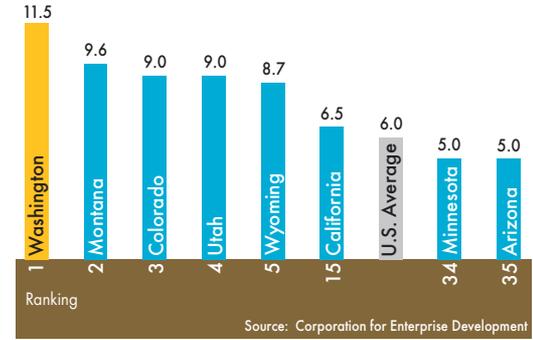
If the Puget Sound region is to retain and attract job-creating businesses in this environment, it must make changes in such areas as

education, taxation, transportation and quality of life. We cannot trust our region's future to luck.

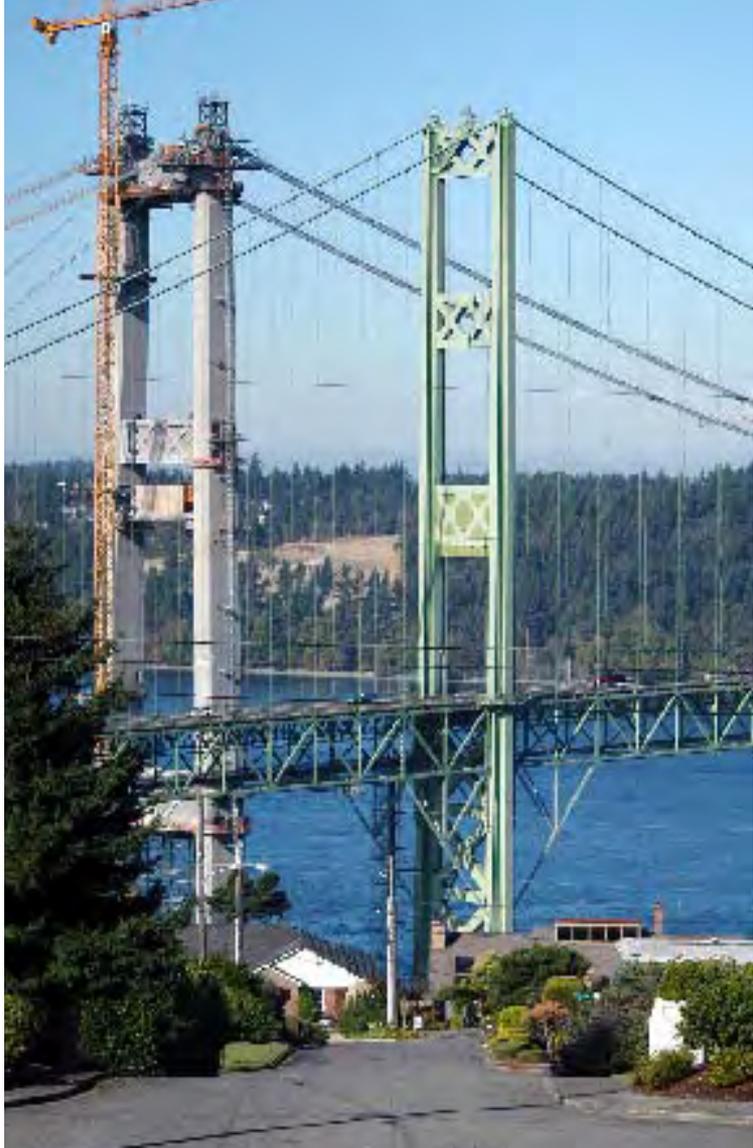
Percentage Rate of Firm Terminations, 2004  
- Bottom Five plus Peer States (Measure and Ranking)



Number of Companies Applying for New Employment Identification Numbers per 1,000 Workers, 2004  
- Top Five plus Peer States (Measure and Ranking)

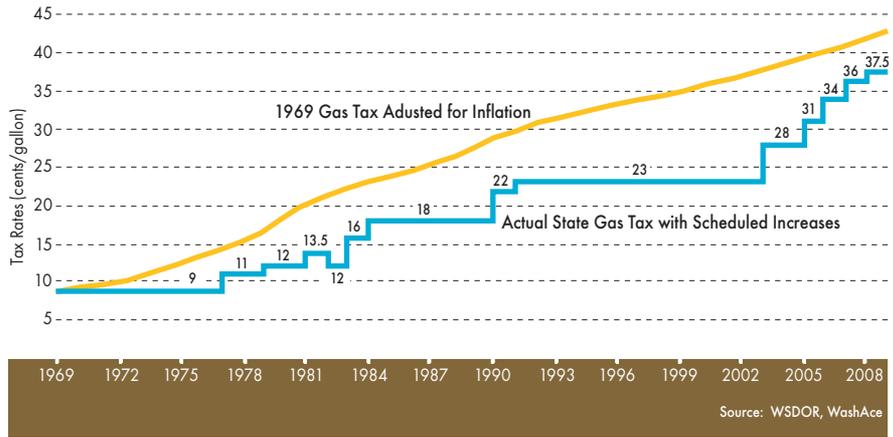


*Washington is best in the nation at starting companies, but nearly worst at keeping them open.*



Tacoma Narrows Bridge

1969 Gas Tax Adjusted for Inflation vs. Actual State Gas Tax with Scheduled Increases



Washington has underinvested in the region's transportation infrastructure for over 30 years, but the 2005 Legislature made serious investments to begin catching up.

*“We’re setting a course and we’re taking action.”*  
— Bob Drewel, Executive Director, PSRC and EDD

## A Regional Response

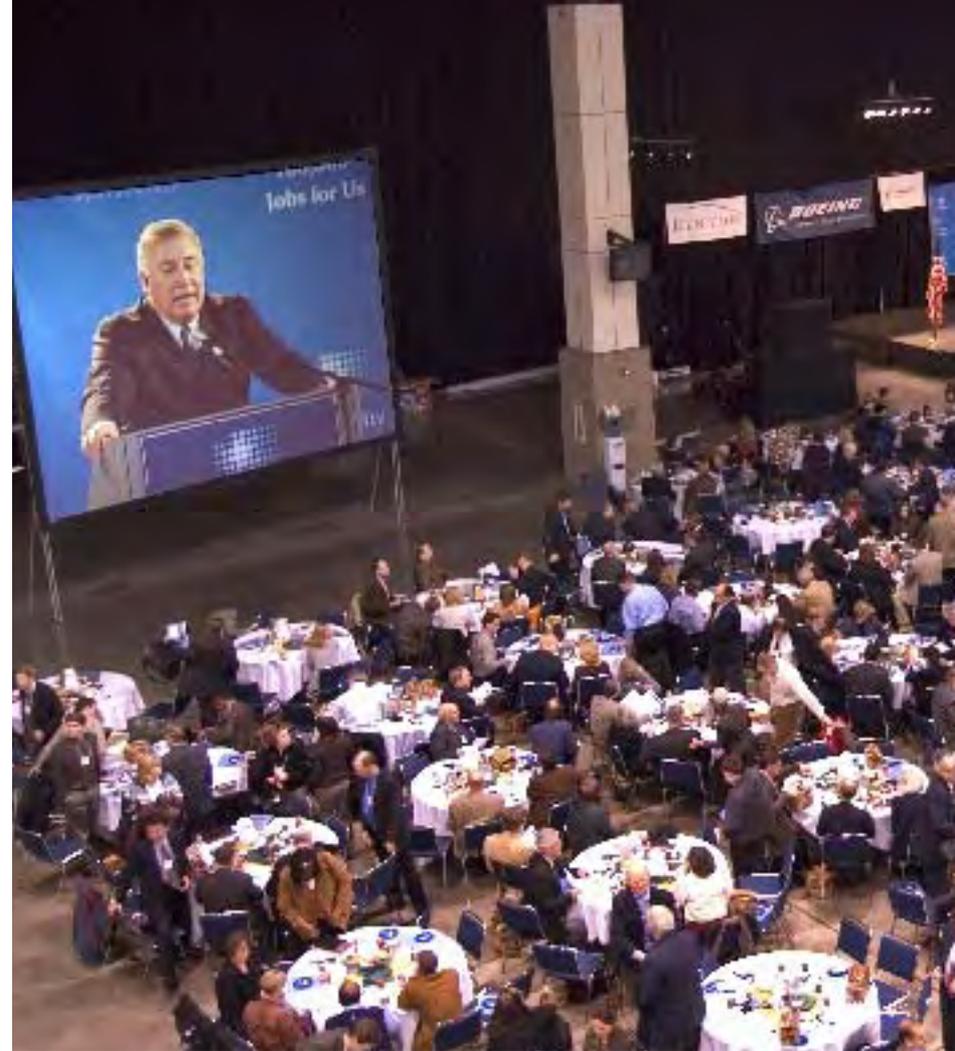
Recognizing that the region’s economic well-being is at risk, the Puget Sound Regional Council (PSRC) launched Prosperity Partnership in November 2004 to develop and take action on a four-county economic strategy.

The response to PSRC’s invitation to join the Prosperity Partnership has been impressive: Over 150 organizations, representing thousands of people with a stake in our future, committed to develop and carry out the strategy. Members include businesses, port districts, nonprofit organizations, local governments, workforce development councils, chambers of commerce, economic development councils, educational institutions and others. The coalition continues to grow.

The coalition recognizes that multicultural involvement is a key part of smart economic development. When everyone is invited to participate and becomes engaged in the solutions, we make a true investment in long term success.

## Commitment to Action

The coalition’s strategy development began with a regionwide economic analysis. Then, in November 2004, the Partnership convened a first-ever economic summit. Over 1,100 individuals attended.



Regional Economic Summit, November 2004



A theme emerged: The Puget Sound region tends to talk about problems and not act on them, participants said, but the time for talk is over. The people at the Summit made a strong commitment to action, and the Partnership followed through by asking the 2005 Legislature for policy changes and infrastructure funding even as the regional strategy was being crafted (See “Early Progress” section for details about legislative action.).

### **A Two-Pronged Approach**

Following the summit, leaders from five strategic industry clusters went to work. For the first year’s strategy work, the Partnership chose five pilot clusters: aerospace, clean technology, information technology, life sciences, and logistics and international trade. These were chosen on the basis of an economic analysis that ranked clusters by their ability to sustain and grow jobs. Additional clusters will be selected for similar analysis in future years.

Each cluster working group identified actions, investments, and public policy changes that would strengthen their ability to grow and compete.

In addition to focusing on cluster-specific needs, the working groups identified concerns shared by all industry sectors about the foundations





## Early Progress

The 2005 Washington Legislature approved several key initiatives identified by Prosperity Partnership as critical to our region's economic future. Progress was made on others to set the stage for 2006.

### The Success Stories

Prosperity Partnership led the call for increased investment in Washington's deteriorating transportation system. The state took a significant step forward with legislative approval of an \$8.5 billion statewide Transportation Partnership Package that funds safety, freight, efficiency and capacity projects throughout the central Puget Sound region

and the state. Major funding hurdles remain for many priority improvements—including a companion regional investment package—but Prosperity Partnership helped bring the region together around approval of priority transportation investments.

The Life Sciences working group advocated for the establishment of a Life Sciences Discovery Fund. The fund was approved and will boost life sciences research funding in Washington by \$350 million. Battelle Institute



estimates that the Discovery Fund will produce approximately 6,300 direct jobs and 20,000 total jobs over a 13-year period—a significant return on the state’s investment.

Another priority of the life sciences working group was also approved. A revision of state ethics laws will make it easier for researchers to translate their findings into successful commercial products.

The clean technology working group supported two bills approved by the Legislature that will help grow the emerging alternative energy industry. The legislation will build demand for solar products—with a preference for those manufactured

in Washington—by providing tax incentives and encouraging renewable energy businesses to locate here. By tying tax incentives to power produced rather than the cost of the plant, the legislation aligns the incentives with the desired outcome: more productive, not more expensive, plants.

The aerospace working group endorsed measures that would fill gaps in previous legislation by ensuring that aerospace employers at all levels of the supply chain have incentives to locate in the region. One bill was approved in the 2005 session. The Partnership hopes to secure passage of the other bill in 2006.

## Foundation Initiatives

Prosperity Partnership has identified six foundations of the region's economic competitiveness across all sectors, and developed initiatives to strengthen them.

### 1. Education: Ensure a vibrant, well-educated and adaptable workforce with an entrepreneurial spirit.

#### Goals:

- Increase the number of bachelor and advanced degrees awarded in Washington, with emphasis on applied sciences and engineering.
- Increase the percentage of the region's students graduating from high school within four years.
- Strengthen the workforce training system and improve integration of education and the workplace.

edge of science and technology, ability to think critically and to adapt as the marketplace changes, and familiarity with different cultures and languages will be increasingly important.

Quality education for all residents is essential in sustaining the Puget Sound region's prosperity. With a well-educated populace, companies will be able to find qualified employees locally. Residents will be prepared to compete for good jobs.

The region will need well-educated workers to replace retiring baby boomers and to meet the demands of the new economy. Knowl-



The Prosperity Partnership will work with others to find solutions to challenges facing the region's education system. These include inadequate school funding, insufficient Bachelors and advanced degrees being awarded (especially in sciences and engineering), an unacceptably high dropout rate, a need for workforce training delivery systems, and a lack of awareness among students, parents and educators about the educational requirements for future employment opportunities.

The Partnership will focus its attention first on higher education, working to build consensus on steps that must be taken to increase our state's output of four-year degrees. The Partnership will present a higher-education reform bill to the legislature in the 2007 session. Additional actions are described in the Regional Economic Strategy.

## 2. Technology Commercialization: Improve the movement of technological innovations from research institutions to the marketplace.



### Goals:

- Improve commercialization culture within research institutes.
- Strengthen connections between researchers and the marketplace.
- Improve the climate for startups and entrepreneurship.

and helping startup companies develop business expertise that improves their ability to market innovative products.

The most competitive regions of tomorrow are likely to be those places where researchers discover new ideas and technologies, and then collaborate effectively with investors and businesses to transform their discoveries into innovative products and services that consumers want.

The Prosperity Partnership will work to improve the movement of technological innovations from laboratories into the marketplace.

Specific actions will include creating networking opportunities and shared-learning experiences for researchers and local business people, supporting laws and policies that enable public university researchers to commercialize their discoveries,

## 3. New and Small Business Support: Nurture entrepreneurs and small businesses.

The benefit that startup companies bring to the Puget Sound economy is obvious: New companies create new jobs. Small businesses are clearly important to regional

### Goals:

- Improve the region's business climate.
- Strengthen the region's new and small business support system and celebrate entrepreneurship.

prosperity as well: Companies with fewer than 100 employees make up 96 percent of all businesses in the area, and 60 percent of private sector employment is in small businesses.

The Prosperity Partnership will work to nurture the new and small businesses that are drivers of



City of Tacoma

the regional economy. The Partnership will also collaborate with successful associations and agencies that work with small, minority and women-owned businesses to improve small business retention.



Evidence shows that the local environment for new and small businesses must be improved. In the past several years, Washington had the highest rate of new company formation in the U.S., but at the same time, too many businesses were closing up shop. The Prosperity Partnership wants to find out why so many local companies are going under, and take action to reverse the situation.

Actions the coalition expects to take include developing consensus on improvements to our state and region's business climate, encouraging increased capital investment in growing local enterprises, helping to further develop entrepreneurship in communities of color, and providing greater support and recognition to entrepreneurs.

#### 4. Tax Structure: Implement balanced, pro-competitive tax reforms.

Washington's current tax structure burdens fledgling companies with a business tax levied on gross receipts, fails to sufficiently fund transportation and education, and vexes businesses with its complexity.

The Prosperity Partnership will develop a balanced, pro-competitive tax structure bill for consideration by the Legislature in 2007, and will educate the public about the importance of tax reform to the region's economic health.

##### Goal:

- Reform our tax system to increase our economic competitiveness while providing sufficient revenues to fund important services and infrastructure.



Northbound I-5, Tukwila

## 5. Transportation: Build an effective transportation system to support a world-class region.

The transportation problems plaguing the Puget Sound area are well known and widely perceived to be the region's most urgent challenge. When the Prosperity Partnership surveyed local leaders, transportation and congestion were cited as the top constraints to doing business in the region. Transportation improvements for roads, rail and air must be made to support a competitive economy.

### Goals:

- Make significant improvements to regional mobility and safety through additional regional transportation funding resources to augment state funding.
- Ensure that ongoing regional transportation programs best support the regional economic strategy.
- Provide sound financial footing for transportation investment for the long term future.

Reflecting the importance of this foundation area, the Prosperity Partnership is taking a number of steps toward easing the movement of people and freight to, from and around the region. The coalition will support funding for roads and transit, including a ballot measure to provide funding for regional projects, including high capacity transit expansions. Transportation infrastructure that serves communities with high concentrations of low-income people and people of color—easing travel to and from education

and employment centers—is a high priority for the Partnership. Particular projects are needed to enable freight to move more reliably and safely, and to serve our region's ports, and the coalition will work on identifying and funding freight mobility improvements. The coalition also will advocate for an approach to prioritizing regional projects that compares benefits and costs, and looks specifically at the transportation needs of the pilot clusters as well as the overall economy.

## 6. Social Capital and Quality of Life: Secure broad-based prosperity in all parts of the region through a strong civic and nonprofit community.

Communities with strong nonprofit sectors and high levels of social capital are invested in the quality of life of the whole community, future oriented, and characterized by significant civic engagement and philanthropy. These communities are an attractive place for companies and employees to locate, an essential component of economic prosperity.

Nonprofit service organizations, arts and cultural resources, philanthropic foundations, environmental and other organizations that enable a region to develop social capital and strong social infrastructure are essential

to a region's economic health. These organizations uniquely provide goods and services that promote the quality of life needed to attract and retain competitive businesses and individuals.

The Prosperity Partnership has prioritized a quality workforce, quality communities, preserving and enhancing the environment, and sustaining a robust nonprofit sector as goals of the coalition. The Prosperity Partnership will pursue the resources and regulatory changes necessary to provide adequate, affordable housing, childcare and workforce training and employment programs close to jobs for workers at all wage levels; identify nonprofit resources and services that can directly contribute to solving regional public policy issues and link them with the agencies tasked with focusing on these issues; identify and remove regulatory barriers to effective functioning and growth of nonprofit organizations; and develop a strategy to celebrate and promote arts and culture as a strategic economic advantage for our region.

### Goals:

- Assure businesses a quality, flexible and available workforce trained for emerging needs.
- Promote a society that invests in the greater good and the individual.
- Preserve and enhance the environment for current and future generations.
- Support vibrant cities and thriving communities through communitywide planning.

adequate, affordable housing, childcare and workforce training and employment programs close to jobs for workers at all wage levels; identify nonprofit resources and services that can directly contribute to solving regional public policy issues and link them with the agencies tasked with focusing on these issues; identify and remove regulatory barriers to effective functioning and growth of nonprofit organizations; and develop a strategy to celebrate and promote arts and culture as a strategic economic advantage for our region.

YWCA Opportunity Place — William Wright





## Cluster Action Initiatives

The initiatives summarized below were proposed to strengthen five strategic industry clusters that were chosen for attention in the first year of the Prosperity Partnership. Detailed implementation plans are included in the Comprehensive Regional Economic Strategy.

In addition to the action initiatives below, and fundamental to the success of these clusters and the high quality jobs they provide, is the ability to recruit new firms into the market. Client based economic development includes specific, targeted recruitment initiatives. Key ingredients in recruitment include sector focused strategies and tactics directed at specific businesses.

Client based economic development is working one on one with specific businesses to retain and expand their local operations, or recruit a new company into the region. Active case files for each client company are opened to provide it with the access to individuals and information required to make an informed business decision.

Various elements of this work are performed by a number of entities throughout the region, including economic development organizations, city



City of Bremerton



City of Everett



City of Seattle

and county governments, the State of Washington and chambers of commerce. The recruitment and retention of primary businesses is principally the function of the Economic Development Councils/Board (EDCs/EDB) for the four central Puget Sound counties.

### **Aerospace**

The vision for the aerospace cluster is to leverage the region's position as the world leader in commercial aerospace and to become a world leader in military and space components of the industry. To do so the region will create institutions at the cutting edge of research and new technology; attract and retain leading firms in the industry; and educate, attract and retain a world-class workforce. The Prosperity Partnership will build on the success of the 787 experience to continue making Washington competitive in the aerospace sector. Finally, the coalition will help the region's smaller and midsize companies adjust to the changing supply chain model of the industry.

#### *Actions:*

- Recommend short and long term legislative action that supports the aerospace cluster. Doing so will build on the success of the 787 package and the progress made recently in the Legislature.
- Create an aerospace enterprise consortium for small and medium-sized businesses, enabling these businesses to bid on large projects within the aerospace sector worldwide.

- Craft an aggressive workforce development initiative.
- Form Centers of Innovation in the Technology of Aerospace (CITAs) that will gather creative minds to advance technology capability in the region—and create new aerospace jobs.
- Implement aerospace suppliers incentive program.

### **Clean Technology**

The vision for the clean technology cluster is that the Puget Sound region will become a global leader in the clean technology products and services industry. Companies in this cluster manufacture products and provide services in areas such as green buildings and clean energy. This emerging industry's most critical need is increasing markets for its services and products—locally, nationally and internationally. The cluster's success also depends upon the region's ability to achieve and maintain cutting-edge research, development, and commercialization capability.

#### *Actions:*

- Determine the need for and feasibility of creating a clean technology cluster organization. The organization will seek to implement many of the activities identified by the cluster working group, including legislative and financial advocacy, showcasing the most promising subsectors (e.g. green buildings, clean energy) in local and broad markets, developing innovative financing to build showcase projects and overseeing branding and marketing efforts.

- Increase clean technology demonstration projects. Relevant projects are underway, including an Institute for Innovation and Sustainable Development, a Center for Coatings and Materials in Energy Systems, an Urban Waters Center of Excellence for Applied Marine Research and Development, and a Kitsap SEED project that would develop and promote commercially and environmentally sound technologies and services. Branding and marketing will be part of this effort as well.

### Information Technology (IT)

The IT cluster envisions the Puget Sound region being one of a handful of advanced software centers in the world, and the nexus for innovation and new company launches. A highly educated and adaptable workforce, stronger research institutions, the presence of the world's premier software company, and a supportive business climate are key to the IT cluster's growth. As with Life Sciences, the most important changes we can make to improve our IT position are long term—in education, tax structure, technology commercialization, and startup and small business support initiatives. But there are also immediate steps we can take to make our region more conducive to IT growth, even while working on long term issues.

#### *Actions:*

- Broaden and strengthen research and development to increase our region's intellectual capital.
- Conduct an external marketing campaign that showcases the IT cluster.



City of Tacoma

- Conduct a communications/economic literacy campaign that underscores the benefits of the IT cluster to the region.
- Map the industries and occupations that make up the IT cluster as the basis for a strategy for developing and recruiting companies and encouraging collaboration.

### Life Sciences

The vision of the life sciences cluster is to be a scientific community with the resources and the will to become the center of activities to improve world health. To achieve that vision the region must have a well-educated and adaptable workforce, research institutions that are able to transfer innovations to industry, better access to capital, and public understanding of the cluster and the positive impact it can have on the lives of people in the region. Along with IT, the most important changes we can make to

improve our life sciences position are long term—they are in our education, tax structure, technology commercialization and new and small business support initiatives. But there are also immediate steps we can take to make our region more conducive to life sciences growth, even while working on the important, long term issues we face.

*Actions:*

- Develop and enact a vision for the Life Sciences cluster.
- Create an economic ecosystem that can mix companies at different stages of development with available technical and financial resources.
- Support, improve and build on current life sciences curricula and education programs in K-12.
- Develop a concrete inventory of skills and needs to guide decisions by education and training institutions.
- Support joint use facilities to encourage collaboration among multiple life science companies and organizations.

### Logistics and International Trade

The Puget Sound region's strategic location, deep-water ports, and long experience in international trade have made it one of the leading trade hubs on the west coast of North America. But it is urgent that we find ways to streamline day-to-day operations at our ports and other intermodal hubs,

and at the same time finance critically needed infrastructure preservation and capacity for our entire system. These improvements will support all of our business clusters as well as other regions dependent upon West Coast gateways.

*Actions:*

- Communicate a jointly developed logistics and international trade message to inform regional political leadership and citizens of the logistics crisis facing the Pacific Rim gateway region and impacted communities.
- Develop a small business and entrepreneurial support network to better connect our region's small businesses to international trade opportunities.
- Enhance freight mobility through securing sustained funding and developing transportation chokepoint solutions.
- Create a domestic logistics mission to build support beyond the Puget Sound region for investments in freight mobility infrastructure in our gateway region.
- Attract Foreign Direct Investment, especially to create new jobs here, rather than to acquire existing businesses.
- Stage an export promotion symposium series for small and medium-sized businesses, to help them learn how to export their products.
- Link with the Seattle 2010 action plan, which calls for marketing regional products in connection with the 2010 Winter Olympic Games in Vancouver.



Harbor Island, City of Seattle



## PARTNER ORGANIZATIONS

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The Economic Competitiveness Group (ECG) of Berkeley, CA, and Global Insight, Inc. from the Toronto office, provided consulting support to the Puget Sound Regional Council. ECG has been largely responsible for the design and implementation of the first year of this effort.

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Vacant  
Suquamish Tribe (1)  
Vacant

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