

Chapter 9
**ECONOMIC
DEVELOPMENT**



Welcome sign at ferry

INTRODUCTION

Purpose

The Economic Development Element of the Comprehensive Plan was developed in accordance with Section 36.70A.070(3) of the Growth Management Act (GMA). It is intended to address economic development needs in Friday Harbor and its Urban Growth Area and represents the community's policy plan for the next 20 years.

While not a required component of the comprehensive plan, the Economic Development Element is an optional planning tool supported and promoted by the State of Washington.

The statewide goal for economic development is as follows:

“Encourage economic development throughout the state that is consistent with adopted comprehensive plans, promote economic opportunity for all citizens of this state, especially for unemployed and for disadvantaged persons, and encourage growth in areas experiencing insufficient economic growth, all within the capacities of the state's natural resources, public services, and public facilities.”

Sound economic development seeks to create sustainable wealth by creating jobs that match the workforce or conversely, providing workforce training that qualify locals to fulfill available jobs. Long-term economic development efforts seek to add value to existing industries before creating new ones. Short-term efforts seek to protect existing employers from or help them mitigate detrimental trends or conditions.

Proactive economic development seeks out business development opportunities based on an area's competitive advantages, market characteristics and community values – because those are the foundations of long-range success. Smart economic development recognizes that prosperity both depends on, and drives quality of life. Sustaining the structure, nature, and diversity of our community as we now know it is dependent on maintaining and growing a successful economy.

Relationship to other Comprehensive Plan Elements

The Economic Development Element is just one part of the Town of Friday Harbor Comprehensive Plan. It does not supersede any other element or policy direction set therein. Rather, the Economic Development Element incorporates and builds on or works within policies established in the other Plan elements.

The Economic Development Element assumes that economic development is regional as well as local. Implementation responsibilities should be shared among the Town of Friday Harbor, San Juan County, Port of Friday Harbor and other partners.

Most importantly, strategies, actions and policies presented within the EDE are presented within the context of the overall

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Comprehensive Plan, cognizant of community values and priorities related to land use, population growth, transportation constraints, natural hazard response readiness and many other factors. In short, the EDE is presented as a plan to bring “economic vitality that fits” Friday Harbor and San Juan County.

Historical Economic Context

The area known now as Friday Harbor, Washington was first occupied by Coastal Salish people who harvested shellfish and managed the native grasslands and oak woodlands with fire in order to exploit edible camas bulbs. Traveling to the island by cedar canoes, they also harvested salmon, deer, waterfowl and berries to take back to mainland winter camps.

Friday Harbor was first recognized on maps in 1847, named after the Hudson Bay Company Hawaiian shepherd who tended sheep in this location. The deep harbor and sheltered bay also provided anchorage for a saltery to process and export salmon. With the peaceful settlement of the International Boundary Dispute with Great Britain (The Pig War) and the establishment of San Juan County, Friday Harbor was named the county seat in 1873. It took several years of effort by Town founder Edward D. Warbass to attract American settlers to the bay, but eventually they came.

By the time the Town incorporated in 1909, a population of about 350 supported a significant array of services including a weekly newspaper, bank, general stores, U.S. Customs, drugstore, theatre, livery stable and blacksmith, barber, three hotels, three saloons, a school, several fraternal organizations and churches, a sawmill, a cooperative creamery and large salmon cannery. Agricultural products from the

island such as pears, cherries, apples, peas, cream, eggs, poultry and grain were shipped from Friday Harbor’s waterfront, accommodated by the many steamships of the "Mosquito Fleet." In 1910, Albert Jensen added a boatyard on the south side of Town.

By 1912, the Town realized the need to invest in water and sewer and an ambitious public works project was launched to bring water through a gravity fed wooden pipe from Trout Lake, across the island. During the next 30 years, the economy struggled as transportation improved on the mainland, and new water systems (Columbia River dams) helped Eastern Washington corner the State’s agricultural market.

The Black Ball Line brought a car ferry to Friday Harbor in 1930, and the ferry system continued in private hands until 1951 when the terminal and boats were acquired by the State of Washington. The Port of Friday Harbor, established in 1950, developed a formal marina for the fishing fleet and visitors, and purchased adjacent shoreline properties including a fuel pier, restaurant, passenger ferry landing and a commercial building. Today, the Port hosts an international seaplane base, commercial freight and passenger ferries, pocket cruise ships, and tour boats. Adjacent to the southwestern boundary of Friday Harbor, the Port acquired a privately developed airport in 1979 and completely rebuilt the facility to open with a new terminal and runway in 1986.

By the 1960’s the San Juans had been discovered and the economy became driven as it is today by construction of new residences and commercial properties, and trade and services, especially for seasonal visitors. Friday Harbor remains the only incorporated town in San Juan County, supporting its infrastructure through five

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enterprise funds, property taxes, a 7.8% retail sales tax, a 2% hotel/motel tax for tourist related facilities, and another 2% hotel/motel tax for tourism promotion.

Economic Drivers

It is important to note that sales revenue in Friday Harbor is 30% of the total for the County. If the first priority of an Economic Development Plan is to support the existing economy, then the economic sectors listed in the Economic Development Council Report to the Town (Friday Harbor Comprehensive Plan Economic Development Element September 2008) are where this plan should focus. What are the issues facing these sectors?

Construction

1. Large construction projects (i.e. Roche Harbor expansion, 151 West Street Commercial Bldg project, Senior Care Housing, Lopez Home Trust Senior Housing, San Juan County Administration Building Remodel) seem beyond the capability of local contractors.
2. Home building has slowly increased since 2000 while remaining around 80 units a year.
3. Retail sales revenue related to construction continues to grow but may be the result of rising labor and materials costs, as well as the trend toward larger, more expensive homes.
4. There has been an increasing trend toward construction firms bringing workers to the islands, housing them on-island Monday through Thursday, the result of a lack of local, skilled construction workers.

Accommodations, Restaurants, Food Services

1. A love/hate relationship seems to exist between the community and the Tourist industry. Many local citizens resent the dislocations caused by summer tourism, as well as the stresses they place on infrastructure and community services.
2. The success of the tourist sector is dependent on the health of the area's ecosystems. In particular, commercial and tribal fisheries, shellfish growers, agriculture, forestry, recreation, tourism-related industries, and real estate development benefit from, and even rely upon, the high quality natural environment to succeed.
3. Tourist spending during the shoulder seasons has increased slightly, in part because of Skagit Valley College's Elder Hostel Program and Visitor Bureau promotion programs (weddings, artist studio tours, etc..).
4. Tourism is one of the economic anchors of the Town of Friday Harbor. Tourism generates a little more than 20% of all employment and tax receipts. Tourism generates revenue that offsets the costs of services and provides income for residents.
5. Because of the seasonal nature of the tourist industry and the large proportion of part-time residents, many businesses have a difficult time achieving year around profitability and increasing difficulty finding seasonal workers.

Motor Vehicles and Parts

1. The size and success of this economic sector may be largely

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due to the lower sales tax charged by the Town of Friday Harbor (much of the revenue is generated through yacht and aircraft sales).

Management, Education, and Health Services

1. The school district is experiencing declining enrollment which has significantly decreased educational spending. While students frequent food suppliers (restaurants and stores) 10 months a year, it is questionable whether school related spending has much impact on the Town.
2. Health services organizations, which are a growing segment of the economy, are having increasing difficulty finding skilled workers (nurses in particular).
3. The cost of housing is the major challenge for employers seeking to attract and secure employees.

The above categories reflect the leading generators of Retail Sales within the Town of Friday Harbor. The contributions from Tourism are directly reflected within the Accommodations and “Restaurants / Food Services” categories. However, there are two notes to keep in mind. First, sales in general (merchandise, retailers, wholesale, or real estate) incorporate and reflect visitor spending. Second, the source of residents typically is people who came here as tourists, where they decide to then retire or build their second home. Thus Real Estate and Construction reflect a second tier impact of Tourism.

Income Information

Income by Jurisdiction (2000-2010)

	Median HH Income		
	2000	2005	2010
San Juan Island*	\$45,000	\$50,261	\$57,371
Friday Harbor	\$35,160	\$40,000	\$46,570
San Juan County	\$43,440	\$48,732	\$55,558
State of Washington	\$45,770	\$51,537	\$58,309

Source: ESRI Business Information Solutions

Per Capita Income

	2000	2005	2010
San Juan Island*	\$30,824	\$36,366	\$48,401
Friday Harbor	\$19,792	\$31,070	\$42,351
San Juan County	\$30,603	\$36,802	\$48,680
State of Washington	\$22,973	\$26,412	\$31,511

Source: ESRI Business Information Solutions

Clearly, average income in the town is below that of the County and State generally. That is a significant factor for land use planning, particularly when considering affordable housing and affordable housing construction incentives. It is also very important when the Town Council considers cost of infrastructure services (water, sewer, solid waste, fire, and police protection).

Observations about San Juan County Income

- Sources of Personal Income; investment income is #1 at 46% of the total; wage and salary is only 27% (lowest in any county for which we have compiled data).
- Covered Employment; accommodation, food-services, government, construction and retail account for almost two-thirds (65%) of all jobs. Average pay in all the top sectors (except government) is low or very low. Wages increased by only 3% between 2002 and 2004, well below inflation.

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- Median household and per capita incomes are projected to grow faster than the overall state average between 2005 and 2010. However, household incomes will be merely closing the gap between the local average and a higher state average.
 - San Juan County differs significantly from the rest of the state in many respects. Demographically speaking, the islands amount to one large resort. By and large, the resort dwellers (including retired seniors) do not depend on the economy of the islands for their sustenance. Those who work for a living do so for low to moderate wages with no ability of employers to pay wage premiums for working in what is clearly a high cost-of-living county.
 - Unemployment is relatively low and the average personal income ranks close to the highest in the state. Not having Employment Security Department services available within the county adds an additional burden on the unemployed. This may also distort the actual unemployment rate since discouraged job-seekers can not afford to travel to the mainland to engage services.
- County, and a slightly lower percentage with a bachelor's degree or higher (26.9%).
- Over 71% of Friday Harbor labor force participants work in management, professional, service or sales and office occupations.
 - More than 25% of owners and about 33% of renters spend more than 35% of their household income on home costs (above affordability threshold).

Key Strengths and Challenges**Introduction**

The following description of economic strengths and challenges is derived, in part, from a review of available data, but more importantly and to a larger degree, from contacts made with over 100 community stakeholders. Organizations, businesses, elected officials, community groups and other community opinion leaders contributed their thoughts and ideas related to past, current and future economic development efforts in the Town of Friday Harbor and San Juan County in general. The items listed below reflect topics most often discussed by those individuals.

Key Strengths

Without a doubt, the primary strength of the Town of Friday Harbor is the fact that the San Juan Islands' environment is what brought most people here and why they stay. Whether fourth-generation resident or first-time visitor, the Islands have a way of capturing the imagination and inspiring people to somehow, some way, stay a little longer. In spite of, and probably because there are limited employment opportunities, a strong and long-standing culture of entrepreneurship has evolved in the islands. Many of those who contributed their

US Census 2000 Highlights

Census 2000 figures also provide a few insights into the Town of Friday Harbor:

- While Friday Harbor has about the same percentage of population under age 18 as the County (23.1% to 24%), it has an even higher percentage of population over age 65 (17.6% to 11.3%).
- Friday Harbor has a slightly higher percentage of residents with high school degrees (91.2%) than the

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observations and suggestions during development of this plan report holding multiple jobs, some just to make ends meet, others to supplement income during the “off-season.” To be sure, island residents are quite resourceful in finding ways “to make a buck.”

In recent years, as infrastructure has improved, Friday Harbor has become a comfortable place for many non resource-dependent businesses to set up shop. Industry classification data shows growth in information services, finance and insurance, professional and technical services, educational services, health care and social services. A few of the characteristics of these businesses that have contributed to recent success: they have few employees, require little space, operate year-round, have little environmental impact and, in large part, do not have insurmountable cost-of-business incongruities when compared to off-island competitors.

Moderate growth has also occurred in construction, retail trade, arts and entertainment and accommodations, and food services, although growth is primarily in number of employees rather than employers. Like the small businesses identified above, these industry classifications show continued prospects for employee and wage growth.

Manufacturing and utilities industries have also grown. However, continued growth prospects are less certain here given multiple challenges such as cost of land, lack of space, shipping expenses, and labor cost disadvantages compared to off-island competitors.

Real estate sales and related businesses continue to flourish and have generated a considerable amount of tax revenue for the

Town. Real Estate sales is also the reason that the Land Bank has been able to acquire the funds to acquire and preserve several hundred acres of undeveloped land, much of it irreplaceable shoreline property. The volume of sales may slow in the near future, though prices likely will not. The real estate boom has also spawned sub-industry success for the service trades, specialty contractors and others who serve to build, remodel, stock or otherwise service a growing number of second-home estates. However, it is not clear what percentage of these beneficiaries are locally-based versus off-island contractors that commute to the job site. Retail leakage figures and anecdotal observations suggest there is potential for a larger on-island share of this business sector.

Government employment has grown, adding 48 employees when combining local, state and federal hires from 2002-2004. On average, government wages are among the most solid on the islands.

Key Challenges

The key challenge is that the present economy is heavily dependent upon Construction and Tourism which makes the health of the economy vulnerable to external factors.

The Town of Friday Harbor is the only incorporated Urban Growth Area on San Juan Island. As such, it is required by GMA to be the center for urban development and the main bearer of the infrastructure development burden. It is the transportation hub for the island with the only ferry loading/unloading facility, the airport and the largest marina, and the hub of the existing road network. It is the center for education and most medical, cultural and social activities. Finally, it is the seat for

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County government and the location for the vast majority of County offices.

Land development has not been a socially or politically acceptable strategy upon which to build a Town economy (i.e. manufacturing centers, large housing developments, or large hotel resorts).

Recruiting major employment entities, outside of those providing government- or resort-related activities, will likely remain a challenge for Friday Harbor due to inherent location, transportation and other general cost-of-business disadvantages when compared to the mainland.

An increasingly smaller proportion of island residents depend on island-based wages for their income. Not many year-round jobs will be needed to meet existing employment demand. Seasonal employment to support tourist dependent businesses will continue to challenge the ability of local residents to fill and local housing to accommodate. However, employment related revenue is an essential ingredient to funding infrastructure and services. Trends suggest this gap is going to widen without proactive changes.

The future economy of Friday Harbor will rely heavily on the small business entrepreneur and sole-proprietor. Some reports indicate increased competition within selected business categories (e.g. restaurants) is bringing overall revenue down. Others say there are many “fledgling” businesses that could grow, prosper and take on employees with a little help. In the end, island employment and income is heavily dependent on a diverse range of niche service and product providers.

Tourism currently plays (and has historically played) an important role within the economy. The community conversation

should turn from “do we want tourism or not” to “what role do we want tourism to play in our economy and what benefits and impacts do we need to plan for?” This is true for two reasons in particular. First, quality of life without tourism will be worse than with. Visitor spending supports a vast number of jobs for “regular people” and contributes significantly to municipal revenues. Tourism drives and enables diversification of business types, attracts new investors and residents and creates the need for ferry transport and other essential services enjoyed by visitors and residents alike. Second, visitors are going to come whether people want them to or not. Discussions surrounding ecologically-friendly tourism, circulation management and other visitor-generated challenges are healthy and essential.

Labor force availability, particularly in terms of quantity, is a major challenge for all industries. Even food and accommodation-based businesses have recently reported difficulty finding labor to provide core services. They attribute the challenge primarily to increasing housing costs.

Fewer average wage families are able to afford living on the islands. Some affordable housing efforts have been very successful, but overall, they are not keeping pace with the challenge. This has an impact on schools, future jobs and seasonal workforce.

The future of the Friday Harbor/San Juan County economy looks like it will be evermore dependent on powerful communications networks. To compete with or in the mainland economy, businesses must be able to communicate in real time. Continued investment in broadband and wireless communications is a must.

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Getting to and from the mainland and between one island and another remains a challenge. Increased ferry fares and reduced trip volume/frequency makes travel to and from the mainland even more difficult and has a negative impact on the local cost of living.

Economic Development Vision, Strategies and Actions

Economic Development Vision

Strategic economic development provides a crucial mechanism for maintaining and enhancing community vitality and prosperity for the long-term. Initiatives to strengthen transportation and communications networks benefit both business *and* resident populations. Efforts to secure more family-wage employment are not just about creating “jobs” but also about creating a rich social network of healthy families and active community members. Increasing business sales generates more tax revenue, which in turn reduces the amount residents must pay to maintain high-quality public services. By identifying, facilitating development of new target businesses, we can shape our own growth and foster prosperity that fits with our community goals. By working to close the gap between housing and wages, we help to ensure those that live here can stay, and those that we need to fill positions in our schools, health care facilities and other essential trades can afford to come and/or stay.

Economic Development Framework

The strategies and actions proposed below are founded in a core set of assumptions, as follows:

1. The majority of Town residents do not want economic growth for the sake of growth, but rather as a

controlled means for maintaining economic vitality and a high quality of life. Sub-assumptions are:

- Emphasis should be placed on strengthening existing business before bringing in new ones
 - Physical growth should be directed to identified commercial areas consistent with existing community character
 - While some residents don’t want or need economic development of any kind, many others believe it has become increasingly difficult to successfully operate a business based on a range of issues, including housing affordability and the wages required to support employees
 - Proposed economic development strategies must be based on town realities, and be designed holistically, with an eye toward keeping an island-scale economy.
2. The purpose of an economic development element is to guide municipal policy and decision-making. Therefore, proposed strategies should be designed with the Town of Friday Harbor as the principal audience. Implementation, however, will require participation by many entities and private sector partners in addition to the various jurisdictions.
 3. Resources are far too limited to “try everything all at once;” policies should focus on the most promising and Town appropriate economic emphasis areas. Moreover, some business sectors will continue to thrive on their own for the foreseeable future, and won’t require

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as much proactive support (e.g. real estate, construction, etc.).

Strategies and Actions

With the above economic development framework in mind, we propose a number of policy changes designed to improve the business prospects for the Town. Additionally there are a number of proposals to stimulate specific, significant economic sectors.

Planning for the Future - General

First, since the Comprehensive Plan was adopted, very little island-wide, cooperative (Town, County, and Port) planning or review of existing plans has taken place.

The Town is the economic, educational, cultural, and social center of the island and, as such, everyone on San Juan Island has an interest in the development of the Town. The Town Council and staff should emphasize joint planning participation with the County and Port. Joint cooperation among the Town, the County and Port of Friday Harbor is, important to the long-term sustainability of the Town's economy

Second, the residents of the Town made very clear in their Visioning Report that they want Friday Harbor to retain the structure and "feel" of a village. The definition of village, however, remains somewhat ambiguous in relationship to development, particularly economic development opportunities. Moreover, the economic situation has changed with the escalation of land values and the growing importance of visitor spending. With urban boundary growth limits, high land and lease costs, limited commercial building space, and building and historical district restrictions, it is increasingly difficult for a business

looking for space to overcome the start-up financial costs. More and more businesses are building farther from the village center (sprawl). It is time for the village design to be re-examined, with the focus for how business, affordable housing and the village can coexist to the financial and social benefit of each.

Policies**General Policies**

ED-1 The Town should promote the use of the Joint Planning Policy Agreement process with the County and Port to build a coordinated plan (specifically including economic development, transportation, affordable housing, utility services, and other infrastructure) which meets the needs of the entire island. Financial support commitments should be agreed to which do not leave the Town with an inequitable burden for development costs and infrastructure support and development.

ED-2 Adjust the Town Development Regulations to support and encourage denser mixed-use commercial, professional services and residential uses.

ED-3 The Town Council should work with its citizens to define a "Tourism Plan" which recognizes the financial importance of visitors and directs the expenditure of hotel/motel tax funds to accomplish the Plan.

Workforce Policies

ED-4 The Town Council should encourage a strengthened relationship between local schools, Skagit Valley Community College, and the Northwest Work Force Development Council to ensure that appropriate job training is available.

*Development***Housing Policies**

ED-5 The Town should maintain an inventory of land in the multi-family zone that allows for app. 30% of total residences.

Transportation Policies

ED-6 The Town should consider joining the Regional Transportation Planning Organization to facilitate access to state and federal funding.

Communication Infrastructure Policies

ED-7 The Town should facilitate access to high speed wired and wireless communications infrastructure throughout the town.

Business Support Policies

ED-8 The Town should support the institutionalization of the Economic Development Council on San Juan Island with participation by the Town of Friday Harbor, San Juan County, OPALCO, and other community and non-profit organizations.

ED-9 The Town should support developing a comprehensive Business Resource Center (BRC) in Friday Harbor.

ED-10 The Town should support continued growth in cultural/heritage tourism such as the successful Elderhostel model developed by Skagit Valley College, consistent with Policy ED-3.

ED-11 The Town should support collaboration between the Visitors Bureau, Chambers, Agricultural Resources Committee (ARC) and individual agricultural operators to define, brand and market agri-tourism consistent with Policy ED-3.

ED-12 The Town should support the establishment of a permanent farmers market in Friday Harbor.

ED-13 The Town should maximize the benefits of the Scenic Byway Designation.