The Roadmap for the Washington Region’s Economic Future

Growth Opportunities and Constraints: Perspectives from CEOs and High-Ranking Executives

December 22, 2015

by

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Introduction

Scholars and practitioners have become increasingly interested in metropolitan regions as important economic units.\(^1\) While many still separate the suburbs from their urban cores, much has been written about how traditional suburban/urban lines have become blurred and more permeable, especially in relation to understanding economic performance and growth.\(^2\) Much recent scholarship suggests that regions and their internal dynamics are important in predicting and facilitating economic growth.\(^3\) In this report, we assume that regional circumstances, particularly the local economic development policy landscape, can shape regional economic growth.

This report presents a case study and analysis of major economic development opportunities, themes and challenges across the Washington, DC region. While in the 2000s this region experienced substantial economic growth, since 2010 the area’s growth rate has decelerated. Much of the Washington region’s economic decline has been attributed to decreased federal government procurement spending.\(^4\) Due to the decrease in federal spending, there is great interest in understanding ways, outside of the federal funding domain, to revive the Washington region’s growth trajectory.

To obtain insights into the Washington region’s economic conditions, we interviewed CEOs and high-ranking business executives of firms representing seven of the region’s competitive advantage industrial clusters. These business clusters were determined prior to the interviews and included Advocacy Services; Biological & Health Technology; Business & Leisure Travel; Business & Financial Services; Information & Communication Technology; Media & Information Services; and Science & Security Technology.\(^5\) These clusters were selected based having sufficient preexisting employment levels with high wages compared to other regions around the country. Additionally, it was presumed that these business clusters would have future growth potential despite decreased federal spending.\(^6\) We assumed that business leadership in these industrial clusters would have tacit knowledge concerning regional economic development circumstances that could help inform an important policy discussion of ways to stimulate the future growth of the DC regional economy.

In the summer and fall of 2015, we interviewed 33 Washington area senior business officials in the identified clusters (for list of the firms interviewed see appendix A).\(^7\) Our goal was to interview people who would provide information regarding local factors that might affect these firms’ abilities to increase their respective near-term rates of growth, as defined by employment and gross revenue gains. We sought individuals who could speak to their own business and industry needs but could also provide a broader perspective on advantages and disadvantages of

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\(^1\) Dawkins (2003); Delgado, Porter, and Stern (2010); Knox (2008); Lang and Lefurgy (2007); Orfield (2002); Porter (2003).
\(^2\) Katz and Bradley (2013).
\(^3\) Benner and Pastor (2015); Carruthers and Mulligan (2008); Florida (2012); Lee, Florida and Acs (2004).
\(^4\) Fuller (2015a); Marchio and Berube (2015).
\(^5\) For specific cluster definitions see Werling and Lemieux (2015).
\(^6\) These clusters contained over 800,000 jobs in the DC region with an average 2014 salary of just over $84,000 (Werling and Lemieux 2015).
\(^7\) The authors conducted the interviews.
operating in the Washington region. Accordingly, most of our interviews were with high-level executives including CEOs and founders of select companies.

We initially identified firms by scanning the *Washington Business Journal*’s Book of Lists and the *Washington Post*’s Post 200. Both sources provided us with an assessment of the fastest growing firms (by gross revenue) in the Washington region in each of the identified clusters. We also sought company recommendations from the 13 organizations sponsoring this research initiative. We wanted to obtain firm diversity along the characteristics of size, age and spread across the DC region’s geography. These procedures resulting in a pool of approximately 50 firms, seven companies per industrial clusters. We were not able to access all of the firms on our initial list so we supplemented the original list with a snowball sample of firms recommended by those we interviewed. The 33 firms were distributed fairly equally by industrial clusters (i.e., 4 to 6 per cluster) and major sub-geographic locations in the Washington region (i.e., the District of Columbia, 12; the DC Maryland suburbs, 10; and the DC Northern Virginia suburbs, 11).

We conducted semi-structured interviews with the participating business leaders. We asked a set of 10 core questions: half focused on firm-specific growth factors, such as state and local tax incentives, local infrastructure development and land use, and the other half centered more broadly on business conditions, both facilitators and constraints, in the Washington region (for specific questions see appendix B). We were particularly interested in what business leaders felt state and local policy makers could implement in the next three to five years to help facilitate the growth of their companies and the DC region. Most interviews took place at each firm and lasted 45 minutes. The majority of the interviews were audio taped and transcribed.

We assessed the data by looking for patterns across participant responses. While we asked specific interview questions, we did not have explicit prior hypotheses or propositions concerning what factors would be most important to companies in each cluster or within the three sub-geographic locations. Our investigation was truly exploratory in nature and our intent was to discover economic development themes, patterns and issues that transcended the industrial clusters and the sub-geographic locations in the region. Our research objective was to better understand business leaders’ perceptions of dynamics that facilitated, or inhibited, economic growth in the region. We were also interested in their ideas on state and local policy reforms that might stimulate near term economic prosperity.

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9 Project sponsors include the 2030 Group, George Mason University, the Federal City Council, the Metropolitan Washington Council of Governments, the Fairfax County Chamber of Commerce, the Montgomery County Chamber of Commerce, the Washington Airports Task Force, Adventist HealthCare, the Washington Regional Association of Grantmakers, the Tech Council of Maryland, the Greater Washington Board of Trade, the Urban Land Institute, and the MITRE Corporation.

10 Snowball sampling is a common practice in the social science literature (Weis 1994).

11 A few companies had footprints throughout the region and we located them where the interview took place, which was typically where the company had its largest regional location.

12 Since we had no explicit hypotheses, our research approach to knowledge discovery was largely deductive in nature (Yin 2014; Weiss 1994).
Our results indicated several themes and economic development issues that cut across the industrial clusters and the three major sub-geographic regional locations. We identified eight common themes and grouped them into two overarching categories: “what businesses need to grow” and “constraints on business growth.” Within the first overarching category, we assigned four subthemes: talent attraction and retain, transportation flexibility and adaptability, access to capital, and entrepreneurial culture. Within the “constraints on business growth” category, we ascribed another four subcategories: a lack of a compelling regional brand, (ine)quality-of-life across the region, competition among local jurisdictions, and inefficiency among multiple governments. One of the most interesting findings is that executives as a whole tended to elevate common business elements and amenities as opposed to individual company tax breaks as the key to stimulating regional economic growth. On more than a few occasions we heard “I’m not sure state [tax] breaks are going to make a big difference.” The business leaders we interviewed were more interested in policies they thought would attract talent to the region, such as affordable housing and transportation improvements, than they were in adjustments to corporate tax rates. In the remainder of the report, we unpack these subcategories and highlight policy options mainly based on the testimonies of our business respondents.

Regional Assets

Before assessing the Washington region’s business growth and constraint factors, it is important to highlight some of the region’s unique qualities. We did not explicitly ask those interviewed to discuss regional assets, but many spoke about the merits of the Washington area as a place to conduct business. Despite the region’s economic slowdown, many participants were optimistic about the region and its potential for economic growth based on the federal government presence, its highly educated workforce, its strong primary educational system, its racially and ethnically diverse population, its abundance of livable communities, its three major airports, and its prime quality-of-life location. Many respondents pointed out that the key to the region’s growth was to leverage these existing assets and resources more effectively and efficiently.

Even though the economy has slowed, optimism for the region was exemplified in several quotes from the executives we interviewed. One CEO of a health-related firm explained, “This region, more so than anywhere else I’ve ever lived, has the same ingredients that Silicon Valley has. It’s got military-industrial-technology development. It has actually has better things, right? It has NIH [National Institute of Health]. It has CMS [Centers for Medicare & Medicaid Services]. It has federal spending…and it has great universities.” A CEO of a communications firm spoke about the changing nature of the city and the region. She noted, “It’s become a much more attractive place to live... It is diversified from the government. It’s got lots of smart people, it’s got great school systems, [and] it’s got a lot of nice communities to live in. It’s got some of the nice things about a big city, with cultural sophistication…but it’s manageable like a small city.” Lastly, one CEO of a major health firm noted that due to the federal cutback that it was an

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13 While federal government procurement spending in the Washington region has decreased in recent years, it is still sizable and in 2014 it was just over $70 billion (Fuller 2015b).
14 According to a 2012 Brooking Institution report, in 2010 the Washington region had the highest percent of college-educated adults (Berube 2012).
15 In 2010 the Washington region was the four most racially and ethnically diverse region in the country (Lee, Iceland and Sharp 2012).
16 The Washington region is accessible to the Atlantic Ocean to the east and the Blue Ridge Mountains to the west.
important period in the development of the region and he stated, “We’re in a fortuitous time, because...people now are more interested, and certainly in the last 30 years I’ve been here, in thinking differently...because we need to diversify our economy.”

**What Businesses Need to Grow**

**Talent Attraction and Retention**

“Everything comes down to the talent.”

This illustrative quote from one of our business informant highlights a core dynamic that nearly every interviewee stressed. Almost all of the business leaders across the clusters noted that talent attraction and retention was one of the primary factors in determining the future economic growth prospects of their firms and the region. Within this general theme, two subthemes emerged: the attraction and retention of Millennials and more seasoned senior level executives. There was a sense among many executives that the DC region, for a variety of reasons, was beginning to lose Millennials, who were seen as vital entry- and mid-level employees. Furthermore, many interviewees felt that the region was continually losing senior talent when larger national companies acquired successful local startup- and midsized-companies. One respondent explained, “A lot of the...companies that made it big here were acquired.... You get acquired and you get moved somewhere else, it saps the lifeblood out.” We discuss the Millennial and senior talent quandaries separately.

**Millennial Attraction and Retention**

Between 2009 and 2012, Washington experienced the “March of the Millennials” and the region during this period was the number one destination for people aged 25 to 34. However, as job growth has slowed in the region so too has the addition of Millennials to the region. Many business leaders explained that keeping this young mobile population content and in the region was one of the keys to their companies’ future economic growth. To continue to attract and retain Millennials, those interviewed suggested that affordable housing, high-density live/work/play living environments, and post-secondary education opportunities to build career paths, were critical to a robust regional Millennial presence.

**Affordable Housing.** Affordable housing is a major concern among Washington’s Millennials. A 2015 Urban Land Institute survey of Washington region Millennials found that 58% of renters said to buy a home they would need to move outside of the Beltway due to affordability challenges. This report stated, “The high cost of housing in the District and the close-in suburbs is the most critical factor limiting the potential for Millennials to stay.”

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17 Frey (2013).
18 In 2011 Washington, DC added 10,430 people aged 25-34 to its population total and in 2014 the increased number of Millennials reduced to 2,662 (O’Connell 2015).
19 Lachman and Brett (2015).
20 Lachman and Brett (2015, page 35). Housing affordability is not just a concern for Millennials in the DC region. In 2011 over 250,000 DC region households earning 80% or less of the Area Median Income (which in 2011 was...
Several business leaders noted that Millennials might choose to leave the region if they cannot find affordable housing within a reasonable commute from their place of work.\(^{21}\) One executive explained the regional housing affordability challenge for Millennials in this manner: “When they land a job here in DC, and they show up and they see $1,800, $1,900, $2,000, and $2,100 a month rents for studio apartments, it’s a shock.” While some executives stressed high-cost housing as a serious challenge to attracting and retaining young talent, others noted this was less of a concern when recruiting young employees from places like San Francisco, Boston and New York City where rents and home prices were seen as comparable, if not more. Nonetheless, affordable housing was a primary concern that several executives felt needed to be addressed to keep the region flush with young talent.

*Policy Option.* While decisions about affordable housing are primarily handled at the local municipal level with national, state and local funding, it will be important to consider how to effectively and efficiently supply rental units or homeownership opportunities across the region to meet Millennial housing preferences and budgets. While a greater percentage of Millennials rent compared to other generations, one business leader suggested that affordable homeownership programs, such as down payment assistance within the Beltway, might be one mechanism to assist the Millennial group.\(^{22}\) This executive felt that once Millennials purchase a home they are less likely to leave the region. If we are concerned with attracting and retaining Millennials through housing assistance, a core regional policy consideration must be to produce viable affordable housing options, both rental and homeownership, throughout the region for people who make between 60% and 120% of the metropolitan area median income.\(^{23}\)

*Dense Work/Live/Play Developments.* Many executives spoke about how Millennials have new living preferences for dense developments in close proximity to where they can work, shop and play. One respondent explained, “Millennials,…they think differently than you or I do. They don’t necessarily want to own a car…. [And] younger people who are starting the high growth companies want to be around other younger people…. They want to be in a place that has a lot of other smart people. That has a lot of other attractions that is concentrated instead of spread out.” Another executive stated, “There seems to be a broader prioritization of access to urban-like experiences from a shopping, from a living experience. The up-and-coming generation does not want a big house in Loudoun County. They want access to the conveniences of community.” He continued, “Policies that drive those kinds of improvements, not just in the cities but in the inner and outer suburbs are going to make a big difference at attracting that next generation of knowledge workers.” Another CEO explained, “Restaurants and bars are opening, and there’s a night life. And that’s exciting. That’s what excites my coworkers.” Quotes like these were

\(^{20}\) The Urban Land Institute survey found that the number one priority of DC region Millennials when choosing a place to live was the proximate of the residence to their place of work.

\(^{21}\) As noted by the Urban Land Institute’s 2015 Millennial survey much of the region’s younger workforce believes that homeownership is unattainable without venturing outside of the Beltway to outskirt suburban counties.

\(^{23}\) It is important to note there are several policy mechanisms to supply housing units to those that make 60% and below the area median income, such as Low-Income Housing Tax Credits, inclusionary zoning units, Housing Choice Vouchers, and public housing. However, the need for this truly affordable housing is great and so there will need to be a balance between providing incentives for housing units below 60% area median income and those targeted to those above this income level (see Chapman 2015).
common throughout the interviews and there was consensus that Millennials, on average, prefer dense work/live/play mixed-use living quarters located near public transportation, restaurants, entertainment, and shopping.  

Policy Option. Based on the testimony of business leaders in both suburban and urban companies, local land use policies and incentives for building mixed-use developments should be considered to facilitate the construction of living arrangements that coincide with Millennial preferences. As one executive stated, “What’s happening in Reston [Reston Town Center] is phenomenal. I mean, that place started out as shopping district too, it’s really mixed-use now – shopping, working and living. I think it becomes a foundation… [and] those things make a big difference.” There are several locations throughout the region where dense, mixed-use developments have been created including Clarendon (in Arlington, VA), the Mosaic District (in Fairfax, VA), Reston Town Center (in Reston, VA), Rockville Town Square (in Rockville, MD), National Harbor (in Prince George’s County, MD) and NoMa (North of Massachusetts Avenue in DC). It will be important for real estate developers and policy makers to work together to provide sufficient accommodations that coincide with Millennial housing demand, budgets and preferences.

Post-Secondary Education Opportunities. Many interviewees mentioned that, in addition to housing, continuous educational opportunities were important to retaining Millennials in the region. Several of those interviewed noted that Millennials often initially locate in the region for their undergraduate experience and then locally work for a couple of years after graduation before deciding their next career option. To keep these Millennials engaged in the region, many people felt this group needed ample, appropriate and accessible post-secondary educational opportunities to allow them to advance beyond their early career opportunities. One business leader spoke about the importance of building a career path for young workers so that they advance in the region within their own industry or a related field. She stated, “We are trying to create a career-building and a career-pathing capability…so we can keep people in [a career] track…until they become the CEO.” Some high-tech company executives stressed the important of continual education to advance needed skill sets in an ever-evolving industry. One CEO stated, “One of the things that’s really important to us is continuing education for employees. I would love…to get either reimbursed or get some [tax] credits for education.” He noted that advanced education for his employees would keep his company competitive.

Policy Option. Many business leaders thought that the area’s universities could be important entities that helped Millennials make the career leap to the next level. As one interviewee stated, “If our universities played a lot more, I think we’d be a lot better off.” Several of those interviewed made the recommendation to have higher educational institutions, particularly their business schools, in the region collaborate more effectively and strategically with business leaders so that course offerings aligned better with employer demands. As already indicated some recommended and supported the idea of state or local municipality educational tax credits or reimbursements for educational training that assisted individuals advance in their careers.

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24 While there was consensus that Millennials on the whole had a current preference for dense mixed-use developments, some felt that as this cohort aged their preferences might change.
Attract Senior Executive Talent

While there are talented and engaged business executives in the Washington region, several of those interviewed claimed that there was not enough senior talent, compared to other parts of the country, to stimulate the growth of new companies. One executive explained, “What’s missing [in the region] are senior level executives to build successful companies, time and time again. And by the way, money follows them.... To have the economy where you’ve got a lot new companies being created and exited and grown [again], you need senior executives who are very experienced at doing that.” To tackle the perceived shortage of senior talent, two complementary strategies, a business relocation strategy and a local primary education effort, were mentioned by several of those interviewed.

Policy Options. Some executives noted to advance the regional economy in the near term would require attracting high growing companies with seasoned executives from other regions. One venture capital executive explained, “Could you go to Google, and say you guys ought to open up a research center or a lab, or Apple, or Intel, you guys ought to open up...something in Washington, DC.... I would find five or ten companies that are on the east coast, maybe Boston, maybe in New York, maybe in Baltimore, you know, maybe in Raleigh and I would find companies that are fast growing that are already successful that are not yet public that are probably…100 people, 150 people but have gone from 30 to 100 people in the last year, fast growth companies hiring a lot of people, and I would shower them with riches.” This respondent felt very strongly that state and local government officials should provide deep tax subsidies to facilitate the relocation of high growth firms into the region. Others interviewed agreed and stated that attracting growing anchor institutions with seasoned well-known executives creates momentum that attracts capital investment. Several executives reported that to quickly reignite the Washington region an intense and targeted high growth business relocation strategy was needed. To accomplish this it was suggested that a region business relocation fund be established to target growing companies outside of the region.

To attract high growth companies, maintaining and improving the region’s quality primary public schools was also noted as being critical. As one executive explained, “One of the reasons people come to Montgomery County is the school system. [It’s] one of the best in the country [and]...is a major draw. That is much more important to people than transportation or taxes, because a lot of these people come from places all over the US or around the world, and one of the first things they focus on is the education of their children.” Thus, it was suggested that a regional focus be placed on improving the primary public educational infrastructure to attract high growth companies with senior talent.

Transportation Flexibility and Adaptability

By far the most mentioned factor to stimulate growth across the interviews was transportation improvements. Plenty of evidence shows that the Washington region struggles with transportation challenges. According to a 2015 report, the Washington region is the worst place in the country when it comes to traffic congestion and the length of time the average driver is

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25 A recent quantitative investigation of 286 municipalities in Michigan supports the notion that local service-oriented policies, such as educational improvements, are associated with future economic growth (see Reese 2014).
stuck in traffic per year. Many respondents felt that transportation improvements were important for unlocking the region’s growth potential. Respondents explained that cutting down on commute times could increase worker productivity in a number of ways including allowing employees to be more focused once they arrived at the workplace, facilitating greater interactions among people, which could stimulate greater collaborations, and decreasing worker turnover.

Support for the above assertions come directly from the testimony of regional business leaders. One CEO in the District explained, “I do know that if Metro ran better, I would have a lot less heartburn…as far as just people commuting. It’s just one of these things, I just can’t describe to you what it’s like most mornings, when something’s going wrong, which is a couple times a week, folks coming in stressed out, and not productive.” Another CEO expressed similar sentiments and stated, “I’ve got people coming in and they’re in bad moods because the commute was so bad.” One CEO, located in the Maryland suburbs, stated, “The traffic…is…an impediment to hiring, for sure. We’ve got people who had been in Virginia, who just said, ‘I can’t do this every day.’ And I don’t blame them. I wouldn’t do it.”

Beyond commuting to and from work, some businesses expressed frustration with what we are terming mid-day mobility. The amount of time that must be set aside to attend meetings throughout the region or for other work or personal trips beyond the daily commute is not productive, frequently inconvenient and stressful. This challenge can be especially acute for outer suburbs where driving on congested roads is the only option.

Policy Options. Many solutions were offered to improve transportation in the region. By far the most frequently mentioned transportation improvement was the Metro system. Most thought this system needed to become more reliable. Some suggested management reform while others reported additional resources were needed to improve the Metro system. Others expressed the need for multiple interventions to solve the region’s transportation challenges. One respondent explained, “A strong, multi-use transportation policy is important: roads, buses, metro…[and] light rail…. [We need] to have a progressive view of transportation…” Some business leaders added to this exhaustive list by suggesting that bike infrastructure improvements were needed to encourage another way to commute. Several interviewees also suggested that it was also important to build new or expand existing pathways to accommodate new commuting patterns such as reverse commuting from the city to the suburbs and trips across region. As one CEO noted, “The whole transportation world…is totally dysfunctional…because…the road pattern here was designed…50 years ago around the idea that people worked in DC and lived in the suburbs. And so everything was a hub and spoke system where you basically lived out here [the suburbs] and you got into DC efficiently. Now, if I try to go at the wrong time…across the county, it’s a disaster because the roads aren’t planned for that.” Using information technologies (including apps) that bring together real-time data across multiple modes and jurisdictions is another policy option to help individuals and businesses manage their travel and mitigate the

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27 It is important to mention that there is a host of transportation related policies currently focusing on improving regional commuting. These initiatives target road alterations, such as the recently completed Virginia’s 495/95 Express Lanes; bridge construction, such as DC’s 11th Street Bridge and 16th and Military Bridge projects; rail proposals, such as Maryland’s Purple Line Initiative and Virginia’s Silver Line Expansion; streetcar infrastructure, such as DC’s Streetcar Program; and bike infrastructure, such as the implementation of the Capital Bike Share.
28 For an excellent overview of the DC region bike infrastructure see Buehler and Stowe (2016).
impact of congestion in the near-term. Expanding transportation demand management programs to serve the region instead of individual jurisdictions is another approach. Finally, several interviewees suggested continuing to work to expand telecommuting options. While there were different opinions on how to best improve the local transportation system, there was consensus among business leadership that enhancements in this area are needed to help the region reach its economic growth potential.

Access to Capital

Improving capital access was another economic development theme elevated in many of the interviews. However, there was not consensus on this subject. Some thought there was a capital shortage for early stage and startup companies, while others stated that it was more difficult for second-stage firms to obtain the investments they needed to take their companies to the next level.

Early Stage Seed Capital. Maryland and Virginia have policies that attempt to help with early stage capital but several thought these programs were not sufficient. For instance, one suburban Maryland business leader explained, “TEDCO [Technical Development Corporation, in Maryland] used to have a much more vibrant program for technology commercialization funding, their TCF [Technology Commercialization Fund]. Their fund has decreased significantly over time…. If you look at how that compares with the Ben Franklin program up in Pennsylvania, and some of the more aggressive programs, it’s not competitive. We are not providing enough state-sponsored early stage capital on a per-capita basis.” Along these same lines, a CEO of growing Virginia-based tech firm, explained, “DC [area] thinks that they have a very robust early-stage investment community, and they don’t. There’s less capital being invested here, early stage, than there was…five years ago. A lot of funds have gone away. A number of angel investors I knew who were writing checks have moved.” Thus, several people interviewed suggested that an injection of seed capital was critical for the region to grow.

Second Stage Venture Capital. While there were some executives who thought that limited early stage capital was a major economic development challenge, others argued the region suffered more from insufficient second stage venture capital. A leader in the Northern Virginia financial sector stated, “We [have]…Mach 37, which is a cyber security accelerator… That’s helping to create…lots of small companies…. But the challenge with a Mach 37 is going to be, how do they get these little seedlings that they’re creating to the next level? The structural challenge for our region…is where’s the next [round of] money coming from? You have angels, but you can only go so far in angel money. And you got a very limited number of venture capital firms [in the region]. You actually have a monster-sized one, you have NEA [New Enterprise Associates], which is [one of] the largest in the country, but they’re not really regional investors.” In suburban Maryland similar sentiments were expressed. One business leader explained, “Where we’re really lacking is what I classify as formal venture capital…that are [sic] headquartered in Maryland and invest in Maryland. While there is always a tension between whether to focus policy efforts on seed or second stage capital, one CEO makes his case for second stage capital. He stated, “If you think of where policy or the government could intervene, everyone always says, ‘Oh, we don’t have enough seed capital…. That’s not the problem. You can put as much seed capital in it as you want, but if there aren’t people…writing the next check for a million or
two or three or four or five million dollars it’s going to peter out and your seed capital is going to be a worthless investment at some point in time.”

**Policy Options.** Clearly capital access is a challenge in the Washington region. However, there was not consensus among those interviewed as to whether policy should center on facilitating early or later stage investments. There are already early state sponsored investment funds in Maryland and Virginia but financial leaders in both states suggested that these programs were not meeting the current capital demand and there were calls to strengthen these ongoing financial programs. Others suggested that the more important capital shortcoming was among companies seeking second stage venture capital. Supporting both emergent small and more established medium size companies will be important but if near term economic growth is a primary consideration it might make sense to put forth greater policy efforts on addressing the capital expansion needs of growing mid-sized companies.

**Entrepreneurial Culture**

“We’re not looked at as necessarily having the sizzle of an entrepreneurial hotbed.”

Many interviewees noted that the DC region does not have the entrepreneurial spirit and culture that other parts of the country do. The region is known for the federal government, which brings with it a perception of a certain amount of government dysfunction but also a research ethos, as opposed to an entrepreneurial and risk-taking business minded culture. One executive explained, “[The] Washington moniker both helps us and hurts us. It helps us in that it’s the capital of the world. That’s pretty good. It hurts [because]…Washington to a lot of people signifies government dysfunction.” This participant discussed that even though the federal government has reduced some of its local spending it is still a “big R&D engine” in the region. The local federal R&D spending is an asset but as one interviewee mentioned it makes the Washington region known as having “a research culture” as opposed to “an entrepreneurial culture.” The business leaders of the region suggested that the lack of an entrepreneurial ethos relates to several factors including the presence of the federal government and existing large government contractors (who hire and maintain workers who do not tend to start companies) and a reluctance of repeat investing among business leaders who make money and stay in region.

**Federal Government and Contactors as Inhibitors.** There is a perception that the presence of the federal government and the federal contract industry that services it inhibits innovation. One interviewee noted, “So most of the people you had here worked for the federal government and that is not a culture that is conducive to going out and starting a company. It’s just different. There’s a lot of tech expertise in Navy research labs…and there’s technology there. But it’s not easy to find the right entrepreneurial spirit that says, ‘I want to leave my Navy research job where I have been for 20 years and take all this risk and start a company...’ So yeah, to some extent, the dominant profile in the town are [sic] people who work for the government and those are not people who are going to align themselves with startups.” Another participant who compared a major difference between those working for known high-tech firms and federal contracting companies expressed similar sentiments. He explained, “Someone who spent the last 10 years at Google, Facebook, Yahoo or Yelp, are going to be a lot more attractive to startups than someone who has spent the last 10 years...at Boeing, Northrop Grumman, or XYZ
contractor.” Many local business leaders felt that federal workers and contactors were less entrepreneurial than employees in other regions, where the federal presence was less significant.

**Lack of Repeat Investor.** While it has already been noted that some perceive that there is not enough senior business leaders in the Washington region to direct growing innovative companies, there was also the perception that those who succeed and successfully exit companies tend to be less likely, compared to other regions, to become repeat investors. One financial service business leader explained, “I can think of half a dozen CEOs I know, who are worth a ton of money, that are on their third or forth startup [in another region] because that’s just what they love to do. You don’t see that as much here…. People who make money here…buy a house on the Eastern Shore and they’re kind of done. There’s not a lot of repeat entrepreneurs.” A core regional challenge is how to engage a greater set of successful business people to remain active in investing in emerging local companies.

One executive discussed the need for local business leaders to help create a culture of repeat investing. He stated, “We have a lot of great assets, and then there’s some things we’re going to have to do better. I think creating…that energy around entrepreneurship, where it’s kind of a badge of honor to start something.” He continued, “You’ve got to create that ecosystem and that culture where - hey, I was blessed with whatever success I had because other people supported me. So if you have any form of success, you kind of have this obligation – and also opportunity.”

**Policy Options.** Several recommendations were made to propagate a more entrepreneurial culture in the DC region. One suggestion was to encourage more incubators for innovation throughout the region. One interviewee mentioned, “I think what Evan [Burfield] and Donna [Harris] are doing at 1776 [a local startup incubator] of creating…a place where people can aggregate and cluster, you know, people who are starting companies want to be around other people starting companies, because they feed off of each other. There is energy there…. It’s a great environment.” Others mentioned creating programs to temporarily rotate federal employees into private sector positions. As one CEO suggested, “If you made it easier for people…with certain skill sets that are always in demand to…transition in and out [of the public and private sectors] fairly easily, that would make this whole region stronger.” Another person recommended more frequent convening of scientists and capitalists to facilitate the placement of federal government or academic ideas into the marketplace. On a limited scale this is already occurring but as one executive explained, “What hasn’t happened, is that people have not fund[ed] a way to efficiently work and partner with government to where it can have a greater economic benefit. An example would be our [BioHealth Innovation] E-I-R [Entrepreneur-In-Residence] program at NIH [National Institute of Health]. We have a contract with NIH to provide five entrepreneurs-in-residence…to look for commercially relevant technology that we can marry with companies or new startups. There are significant incentives for every federal agency to do similar programs…. [There’s] a major economic opportunity to foster private/public partnership to a much greater extent, especially with those [federal agencies] that are very research intensive organizations.” All of these policy recommendations might help promote a more entrepreneurial and business minded culture in the DC region.
Business Constraints

In this section of the report, we consider themes that business leaders elevated that limit and constrain the ability of the DC region to reach its full economic potential. These themes included a lack of a compelling regional brand (outside of the federal government), social inequality across the region, regional competition, and inefficiencies among multiple governments. We tackle each of these issues separately and construct some policy recommendations based on interview responses to address these challenges.

A Lack of a Compelling Regional Brand

Branding the region, beyond the federal government, remains a challenge. Many business leaders reported that properly branding the region was important for telling a compelling business narrative about the direction the region is going and its core and emerging business strengths. Numerous business leaders reported that it was going to be more difficult to attract new companies, talent and investment without a defining, comprehensive brand. As one participant reported, “It’s really [about] how you package and position what you want your region to be and this region has had a difficult time in doing that… It is very hard to get people around the same page on these issues.” It’s also a challenge to get beyond the perception of the dysfunction of the federal government. As one CEO explained, “You have got the makings of something much more interesting than just being a federal city…. I would love to have…a shift, if you will from…awe to awe-inspiring. You know, emphasis on inspiring, being what you can be in the nation’s capital and in this region, as a business, as an entrepreneur, as a leader outside of what the federal government represents.” This CEO clearly believes that there is a perception that the federal government, the “awe,” hurts the DC region’s brand as a place with a good business climate. Beyond the federal government, some blamed the local media for being too focused on the real estate sector as opposed to showcasing other business areas in the region. “Local media do not do a good job of reporting on the business community. [It’s] too real estate focused…. So people don’t have a good understanding [of] what’s going on,” stated one executive.

Beyond the federal government stigma, there remains the difficulty of selecting the priority areas and specific regional localities that should be branded and marketed. For instance one high-tech company leader stated, “I would come up with a narrative around…cyber in DC…. There’s a lot going on here, we ought to market it. Cyber city.” Others wanted the region to be known as a biotech hub. The challenge of selecting a unifying brand was noted by one CEO. He explained that almost all local business leaders publicly agree with the idea that the region needs a new brand but “when you talk to them individually, they’re all talking about a different brand.”

Regardless of the industrial domain that is marketed, there is also the difficult decision of whether to brand the city, the DC suburban or both. While the suburban areas tend to dominate the marketing of the region, one suburban CEO explained, “Nobody knows where Fairfax is. And very frankly, nobody knows where Northern Virginia is, or suburban Maryland. But they do identify with Washington, DC. So what can we do to make sure the brand of Washington, DC, is

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a positive brand, and it’s not just a brand about dysfunctional government? Because the world is going to think of us as the Washington, DC region.” A CEO of a DC firm surprisingly stated, “I’m sick of people talking about DC tech. It’s DMV [DC/Maryland/Virginia] tech.” Maybe these CEOs were just being diplomatic as the suburban CEO was making the case for a more DC-centric brand, while the city-based CEO was calling for a more regional brand but the point is that it can be difficult to select a brand that equally encompasses and defines the city and the suburban areas.

*Policy Option.* It is clear that the DC region lacks a definitive brand that defines the region going forward and that this is seen as detrimental to its business growth prospects. The region needs to reinvent its national brand from a place exclusively dominated by the government to an area of innovative private business as well. This will not be an easy task since the region is so diverse economically as well as politically with two formal state jurisdictions, several local city and county municipalities, and a few regional business and planning bodies. There is not a dominant regional entity to formally authorize a comprehensive branding initiative but to accomplish this will take a coordinated inclusive effort among many entities.

**(Ine)quality-of-Life across the Region**

While the Washington region is one of the most affluent areas in the country, it suffers from enormous social and economic disparities.30 Much of the wealth, income and political power resides in the suburbs. Furthermore, there are great disparities among the suburban counties as well as sharp inequalities within the city, much of which are primarily along racial and ethnic lines. Several people noted that for the region to reach its full business potential, social inequities across the region need to be addressed.31

The call for regional equity is exemplified in the following statements. One executive noted, “What is also important are the haves and the have-nots. How do you make the city more equitable?” She continued, “So there’s got to be a commitment to raising all the boats and that includes dealing with the educational infrastructure, the crime infrastructure, educating those in prison – so they can come out and get a job. You can’t have a healthy city if we have incredible pockets of poverty and crime, as we have historically had in the District for generations.”

By both suburban and city business leaders, there was a priority placed on addressing the disparities within DC. As one District CEO explained, “We [need to make sure we] remain as strong as we have been…with our safety in the city, although things are picking up a bit [and]…it doesn’t take much. Look at Baltimore. I am old enough to remember the riots. I just want to make sure we are doing what we need to do with our communities, housing, education, and communication, to safeguard us.” Improving the prospects for District residents was communicated by suburban CEOs as well. One reported, “I don’t think the outer can be strong unless the core is strong…. You don’t want a hole for the doughnut, because if the core’s weak, it ultimately hurts us. Or if the core has a very negative connotation, that hurts us.”

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30 Hyra and Prince (2016).
31 Two investigations advance the notion that improving regional equity might help to stimulate metropolitan level economic growth (Benner and Pastor 2015; Pastor, Benner and Matsuoka 2009).
Several executives also mentioned the importance of creating a more equitable primary educational system across the region. A suburban participant noted, “[Another issue that will be] beneficial to all three jurisdictions [is]…public school education. It’s so important. It’s really important to the folks in each jurisdiction that not only their own schools are good but [also] the schools in the other jurisdictions are good. It’s going elevate employability and benefit the entire area.”

Policy Options. There were several policy recommendations offered by those interviewed to reduce social inequities in the region. Some of these ideas concentrated on policy interventions specifically in the District, while others addressed suburban disparities. To address disparities within the city as well as the city/suburban social divide, some interviewees discussed that DC needed to acquire greater political power. DC’s special “District” status as well as its limited home rule prevents it from having the taxing and federal representation powers as Maryland and Virginia. It was suggested by some interviewees that DC would remain an unequal economic development partner in the region unless it acquired more substantial political power. One executive stressed, “DC will always be the hole in the doughnut, because while it may be the most concentrated and populous and the seat of national and international power in the free world, it will never be what it should be without either full representation or full self-determination.” Another stated, “We don’t have a government in the District that can create those collaborative ventures with Virginia and Maryland…. Muriel Bowser doesn’t control her budget…. And so when you have the mayor of the District talking to the governors of the two adjoining states, [she’s]…not in the same position of being able to say definitively yes we’ll do this…. So…what’s going to bring businesses to our region, it’s a level playing field across the leadership of the three major jurisdictions.”

In addition to bolstering the political power of the District, others mentioned strengthening and balancing the affordable housing infrastructure across the region as well as the educational infrastructure to address regional inequities. One executive recommended creating a regional initiative that highlighted and focused on reducing disparities in primary school outcomes. Others discussed a housing initiative to construct affordable units more evenly across the region as well as locating them near accessible public transportation to give low- and moderate-income people a better chance to access quality employment. It was also noted that placing affordable housing near public transportation might help reduce some of the region’s traffic congestion.

Competition among Local Jurisdictions

“We don’t operate as a region, we don’t think as a region, and I can’t imagine that that isn’t detrimental in some ways. We came together around the Olympics and…wouldn’t it be wonderful if we could come together around…other opportunities.”

Several participants suggested jurisdictional competition for local companies was problematic to the Washington economy. Some did declare that the competition prevented the various jurisdictions from raising taxes. One CEO noted, “The competition…drives each region, hopefully, to be a little bit more business friendly than it might otherwise be. If you didn’t have the competition, you could imagine what tax rates might be.” However, overall the majority of

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those interviewed felt that the fierce regional competition for locally-based companies was harmful to the region’s growth. One suburban CEO explained, “You know, but it’s semi dysfunctional you have got all the poaching going on…. We want this company in Virginia versus one in Maryland…. You got the different county EDAs [Economic Development Agencies] competing with each other…. At the end of the day, I wish we competed as a region against other regions…. Hilton wins when [its] headquarters moves from Maryland to Virginia, but you know, does Maryland win, does Virginia win? You know, neither of them really win.” DC executives also noted the internal competition among regional jurisdictions. One DC business leader stated, “While we will…express a platitude for one another for a stronger region, a stronger DC, a stronger Maryland, [and] a stronger Virginia, the reality is on the ground level, it’s hand-to-hand combat when it comes to this region. And I’ll be honest with you, Maryland and Virginia fight hard to keep these companies out of DC and DC gives them plenty of ammunition in regard to [high] taxes and [poor performing] schools…”

Several interviewees hoped that the energy devoted to within jurisdictional competition would be redirected outward towards acquiring talent and companies from other regions. A Virginia suburb-based CEO stated, “We should just quit the whole intra-jurisdiction [competition]– I mean, if we’re going to compete, let’s go compete outside. Let’s compete jointly…. Let’s try to attract people to the region.” He continued, “We should all care about how we get talent to this region. We really should…. They may start in Montgomery County, but they may end in Fairfax. They may start in Fairfax and end in Montgomery. Who knows? But how do you get talent here? So this kind of internecine warfare between jurisdictions…that’s not the game. The game is how do we create this ecosystem that attracts talent, people and capital?” Some executives discussed that having strong regional companies, even ones that fell outside of their specific industries or local municipality, was important for hiring quality talent. Thus, reducing intra-jurisdictional competition might help the region attract a greater talent pool that all companies can access.

It is well known that facilitating greater collaboration among the region’s municipalities will be difficult. Several planning organizations and business associations are working on this exact issue. When referring to cross-jurisdictional collaboration one executive stated, “There are a lot of entities that have tried. We have the [Greater Washington] Board of Trade and Bob [Buchanan’s] got The 2030 Group, which are good and have done some great work. You have the building industry associations, transportation alliances [and] a lot of [other] entities that have exerted some level of influence... But I haven’t seen those groups be able to bring all of the different regional leaders together where you get everybody nodding their heads.”

Policy Options. Because the region is so diverse and politically fragmented, regional collaboration will be difficult to achieve. However, two recommendations were made to address this challenge. One suggestion was to establish a regional business attraction fund to which each regional municipality contributed. The entity controlling the regional fund would be tasked with bringing in at least one business to the three major sub-regional geographies of suburban Maryland, Northern Virginia, and DC. While a regional fund similar to this was implemented and not very successful, there was renewed interested in trying something like this again. Another suggestion was to create an annual DC regional forum with local Congressional,
municipal and business leaders. This type of forum might cultivate meaningful relationships among regional leaders who rarely come together as well as bring more visibility to the idea of regionalism in the greater Washington area.

**Inefficiency among Multiple Governments**

While many participants spoke about how the perception of federal government dysfunction hurt the Washington regional brand as a place to conduct business, some of those interviewed discussed how local government inefficiencies also contribute to a less than optimal business climate. Most of the comments directed to local governments were aimed at the District. In particular, the length of the permitting process in the city was mentioned quite often as a major business challenge. Others noted a lack of communication and connectivity among the DC government offices and how this can lead to redundant paperwork burdens. A CEO of a DC firm declared, “You know, connectivity within a department, within a division within whether it’s the Department of Employment Services or it’s the Taxation Department, not being asked the same question 50 times. We happen to be a certified business enterprise, you can check all the boxes and then have to be approached by another entity and have to do it all over again. Those kinds of things tend to be onerous and it does wear you down, there is no doubt about it.” Some also noted the higher business tax rates in the District, compare to the more favorable tax rates in Maryland and Virginia, as being a business inhibitor.

Others discussed that sometimes the priorities of the government and the business community did not always align properly. For instance, some of the District’s economic development initiatives are focused on the simultaneous goals of bringing revitalization to certain underserved areas and cultivating new business development. Sometimes it is difficult to address both of these goals at the same time. One DC tech business leader pointed out that it might not be the most effective policy to provide tax incentives to tech firm to locate in underserved areas of the city. This business leader stated that if the city’s goal is to attract and build innovative tech clusters then “give incentives to put people in Metro Center, not in Anacostia.” It is always a challenge for governments to balance equity and growth concerns at the same time and several business leaders felt that often government policies are inefficient because they try to do too many things at once.

While we asked business leaders to describe the state and local policy incentives they used, very few companies accessed these policies. Many company leaders stated that either they were unaware of certain economic development incentives or they did not think it was worth the time and energy to pursue these policy incentives. Several noted that once they moved to an area they sometimes used available tax incentives but that these incentives did not motivate their locational decisions.

**Policy Option:** State and local governments need to better market their incentives and programs and make them easier to use and reduce unduly paperwork. One possibility would be to have the Roadmap sponsors host forums where local policy makers speak to business leaders about the

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34 During the writing of this report, the Fairfax County Chamber of Commerce, the Prince George’s Chamber of Commerce, and the Greater Washington Board of Trade, along with the support of several of the Roadmap sponsors, held on December 8, 2015 their inaugural capital region business forum.
incentives available to firms within the clusters. At the same time, it might be useful to have business leaders suggest ways governments can streamline these incentives to be more efficient and widely used.

Conclusion

More than ever scholars and policy makers agree that regions are important economic units. This analysis of the Washington region suggests several assets make it a viable region poised for future prosperity, if economic development policy can be appropriately coordinated and targeted. This analysis of interviews with business leadership in competitive DC regional industrial clusters points policy makers toward some valuable policy directions. The analysis suggests that rather than providing company specific tax incentives, it might be fruitful for regional policy makers to collaboratively address key policy, programs and amenities that might improve business prospects across the region’s competitive industrial clusters. Based on the testimonies of senior business leaders, promising avenues include policies that attract young and senior talent, improve transportation options, open up early- and second-stage capital access, and advance a regional entrepreneurial culture. Furthermore, policy initiatives that help brand the region as an innovative business center rather than a federal enclave, reduce regional disparities and inequities, encourage regional collaboration, and mitigate government inefficiencies seem to demand further consideration. It is important to note that before policy action is taken it will be critical to assess what state and local policy makers are already doing as well as obtain their viewpoints on actions that need to be taken to stimulate the region’s economy. The hope is that this qualitative analysis provides useful information from which a more informed economic development policy dialogue can take place in the Washington region.
References


## Appendix A
### Firms by Cluster, Interviewee, and Location

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<th>Interviewee</th>
<th>Location</th>
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Firm-specific

1. How did your company come to be located in the DC region? What factors drove your decision?

2. Do you expect your company to grow (in terms of employment or revenue) in this region in the next 5 years?

3. Which state-level factors, if any, will affect your company’s growth potential in the Washington region (if necessary, prompt: tax policy, transportation spending & infrastructure, regulatory factors, capital access, financial incentives)?

4. Which local (county/city/neighborhood) factors, if any, will affect your company’s growth potential (if necessary, prompt: taxes, traffic congestion, land use/development policies, school systems)?

5. What state or local economic development programs has your company used (if necessary, prompt: such as training, grants, investments, tax incentives)? Have they been useful? Effective?

Region-specific

6. Thinking beyond your own company, what factors do you believe will affect business growth in your industry in this region over the next 5 years?

7. What do you see as the top three issues that affect the region’s ability to attract/develop new businesses?

8. What would be your top three policy recommendations to state and local leaders?

9. Do you think that regional policy coordination is necessary in order to accelerate regional economic growth?

10. Do you believe the regional economy has sufficiently moved away from its dependency on federal spending?

Ending

11. Are there any other topics that affect your business in the region that you would like to discuss?

12. Are there other business leaders in the region who you would recommend we speak with?