
The Economy of the Olympic Peninsula and Potential Impacts of the Draft Congressional Watershed Conservation Proposal



Executive Summary

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This report describes the changing demographics and economics of the four counties on the Olympic Peninsula, explores details on timber-related industries as well as travel and tourism industries and the broader amenity economy on the Peninsula, and examines the potential impacts of the draft congressional watershed conservation proposal issued by Congressman Norm Dicks and Senator Patty Murray in November 2011. Report findings are summarized below.

Olympic Peninsula

The economy on the Olympic Peninsula experienced strong growth during the last four decades—at rates faster than the non-metro portion of Washington State and the nation as a whole. The region also has gone through several significant downturns associated with business cycles and in particular with declines in timber-related sectors in the 1980s. After each of these timber-related contractions, the overall Peninsula economy grew again, fueled by the expansion of a range of services sectors.

This fundamental shift indicates that the broader economy of the Peninsula no longer relies on goods producing sectors to grow. In effect, the regional economy has decoupled from historic sectors and is now trading on a new competitive position and set of industries. These include the full range of services sectors—such as health care, tourism, and professional and business services—and the growing importance of non-labor sources of income. This shift also resulted in lower average earnings per job and in higher per capita income for the region.

Not all places on the Peninsula are faring the same economically. Some counties, like Jefferson County, are successfully competing in today's modern economy, while others, like Grays Harbor, have struggled to absorb timber-related losses and to develop new competitive strengths.

Timber-Related Industries

Timber-related industries—growing and harvesting, sawmills and paper mills, and wood products manufacturing—pay higher than average annual wages on the Peninsula. However, timber employment shrank by 2,321 jobs during the last decade and the timber-related share of total private wage and salary employment fell from 14.2 percent to 8.8 percent.

During the same time period, non-timber private wage and salary employment on the Peninsula grew by 5,043 jobs, showing that the region's broader economy has decoupled from timber-related sectors. Wages on the Peninsula also have stabilized, reflecting the relative size of today's timber-related employment and the growth of higher paying services industries such as professional and business services.

The transformation of the timber industry has been caused by the interplay of many variables over time, including supply but also a number of other equally important factors such as demand, distance to market,

productivity, capitalization, public policy, and international competition. New and more efficient milling and manufacturing technologies, for example, have led to a decline in both mills and employment.

During the last decade, the long-term pattern of timber employment decline did not respond to federal timber supply changes. Even when Olympic National Forest harvest increased in the early 2000s, industry employment trends continued downward.

Travel and Tourism Industries and the Amenity Economy

Travel and tourism sectors play a substantial role in the regional economy. In 2009 on the Peninsula there were approximately 9,330 private wage and salary jobs related to travel and tourism, or roughly 19 percent of total private wage and salary employment in the region.

The Olympic National Forest had 707,000 total visits in 2010. The Forest Service estimates that each person visiting the Forest on a day trip spent \$51 per day while overnight visitors spent \$167 on average per day—and that an average visitor spent \$92 per day. At Olympic National Park, there were 2,961,302 visitors in 2011, a 4.1 percent increase over 2010. For 2010, the 2.84 million visitors that year spent more than \$106 million, supporting nearly 1,400 jobs.

While travel and tourism activities are important in their own right, research increasingly shows that these activities are only one part of a larger amenity economy that is an important driver of economic growth in both the rural West and on the Olympic Peninsula.

More than one third of population growth on the Peninsula in the last decade came from net in-migration. And today the economy is primarily a service-providing economy. The largest services sectors on the Peninsula in 2009 were: trade, transportation and utilities constituted 17 percent, education and health services 11 percent, and leisure and hospitality services 10 percent of total private wage and salary employment.

The powerful attraction of natural amenities—such as dramatic mountains, clean water, free-flowing rivers with vital fisheries, and old growth rainforests—has helped to draw new people to the region and transform the structure of the economy. This shift in competitive strength also has contributed to above average rates of economic growth and rising per capita income.

While the region as a whole is benefiting from travel and tourism business and trading on natural assets as business assets, not all communities are competing as successfully in this newer economy. Grays Harbor County in particular has struggled to redefine its economy as the broader economy has shifted from goods production to service provision.

Potential Impacts of the Draft Congressional Watershed Conservation Proposal

The draft watershed conservation proposal issued by Congressman Norm Dicks and Senator Patty Murray in November 2011 has three main components: Wilderness designation of a portion of the Olympic National Forest, Wild and Scenic River designation along major rivers, and a willing buyer-willing seller provision that would authorize landowners to sell select areas to Olympic National Park along its boundaries.

The Wilderness component could affect approximately 4,292 proposal acres, or 2.2 percent of the total timber base on the Olympic National Forest potentially available for ground base and cable logging. If the underlying economics supported more expensive helicopter logging, this figure could expand to 8,411 acres, or 3.7 percent of the total timber base on the Forest. Because the Olympic National Forest has averaged approximately 1,500 acres of commercial thinning per year (or less than 1% of the available

timber base annually) since the adoption of the Northwest Forest Plan, it is unlikely the draft Wilderness proposal would affect the current timber volume coming off the forest.

The Wild and Scenic River component would add portions of 19 rivers that are surrounded by federal and state land totaling approximately 464 river miles on the Olympic Peninsula under the terms of the Wild and Scenic Rivers Act. Because the management of forest resources on Olympic National Forest lands within the Wild and Scenic River corridor would for all practical purposes remain the same, this designation should have no material impact on timbering. The same holds for Washington Department of Natural Resources lands where the Wild and Scenic Rivers Act has no regulatory authority, and Washington State through its Forest Practices Habitat Conservation Plan already recognizes and has a management plan to protect the outstanding values for candidate rivers that is consistent with its trust fiduciary responsibility.

The willing seller-willing buyer component would allow property owners in three areas—Lake Crescent, Lake Ozette, and Queets Corridor—to sell as much as 20,026 acres to Olympic National Park at their discretion. Because of the contingencies of whether landowners would sell their land and whether there would be funds to acquire lands, it is impossible to determine with any certainty whether land sales would take place, on what scale they would occur, over what time frame they might take place, and if they would hamper or bolster the economy on the Peninsula.

One or more of the draft proposal components could have a fiscal impact on local county governments. Total federal land and timber-related revenue from all sources for Peninsula counties in FY 2010 was \$8 million, or 5.4 percent of total county government revenue. The potential fiscal impact of proposed Wilderness would be very small (less than \$10,000 annually), while the Wild and Scenic River provision would be revenue neutral. The National Park additions component is more difficult to calculate but would likely have a small negative impact on net revenue.

Much more important than the draft watershed conservation proposal for Peninsula county governments is the future authorization and funding levels for Secure Rural Schools and Payment in Lieu of Taxes programs. The good news is that even if Congress does not reauthorize SRS, PILT would rise in response to lower Forest Service payments, increasing to \$3 million (a tripling of the current PILT payment of \$1 million) and offsetting the difference between SRS and the 25% payment directed to county governments. However, as with SRS, PILT faces its own contingencies. If Congress does not fully fund PILT after FY 2012, federal land revenues would decrease significantly.

Conclusion

A productive approach to economic development would focus less on the potential loss of a small number of future timber jobs and more on how the draft watershed conservation proposal could build on natural amenities—through benefits such as increased recreation, quality of life, or water quality—that attract people and business to the region and further strengthen services sectors that already are growing and represent a current competitive strength. It also would pay close attention to community qualities, transportation connectivity, and workforce skills that are more likely to attract and retain higher-paying services sectors.

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