A Study of the Economic Impact of the Walla Walla Regional Wine Cluster as a Basis for Development of an Economic Development Plan for the Walla Walla IPZ

by

Walla Walla Community College

in cooperation with

The City of Walla Walla

July 7, 2011
Progress Report
Cluster Grant Program

Contractor: Walla Walla Community College

Contract Number: S11-74106-327

Time Period Covered by this Report: April 1, 2011 thru June 30, 2011-FINAL

Please review the contract Scope of Work and briefly describe the progress made to date.

Progress on Outputs/Deliverables:

Introduction

Throughout the 1990s, the Walla Walla Valley regional economy experienced a significant economic decline. What once was a robust agricultural economy suffered from waning prices, escalating production costs, and deteriorating markets. Wheat, the region’s primary crop, brought prices at or below the cost of production. Food processing plants closed due to America’s increased dependence on less expensive imported fruits and vegetables. Timber and milling activities dwindled. Unemployment rates soared and the region’s tax base decreased significantly. There was a need for the region to “reinvent itself” by diversifying its economy and identifying and marketing higher valued products.

While the agricultural-based economy was languishing, the region had several bright spots, including a growing health care industry, emerging alternative energy production (wind farms) and a strong education system (three colleges in the Valley). Community leaders realized the need for a new economic driver to create family-wage jobs and fuel economic growth and development. A mix of natural resource endowments, creativity, and the luck of earning national accolades early on put Walla Walla on the map as a world class wine producing region. As the area’s temperate climate, rich terroir, and rolling hills were identified as excellent components that provided the right conditions for the production of premium wines, local entrepreneurs saw an opportunity and took the risk to invest in Walla Walla’s emerging wine industry.

Though the wine industry in the Walla Walla Valley is comparatively young, it has experienced significant growth since the Valley’s first present-day winery was founded in 1977. In the past 35 years, the Walla Walla Valley wine industry has grown from just
one winery and several acres of wine grapes to over 130 wineries and approximately 2,000 planted acres of wine grapes. Growth in the wine industry has been accompanied by growth in the local tourism, and arts sectors. The businesses comprising these sectors, combined with the wine industry, make up the Walla Walla wine cluster (Figure 1). Industry clusters are groups of similar or related industries that are geographically concentrated and may achieve collective efficiencies and increasing returns to scale through transactions, shared labor pools, infrastructure, knowledge and technology spillovers, and other complementarities. For this project we defined the cluster region as the functional economy centered in Walla Walla. The region includes all but the westernmost edge of Walla Walla County, all of Columbia County, and the northernmost portion of Umatilla County, Oregon. The Greater Walla Walla area has seen increased economic development and quality of life due to the emergence and growth of the wine industry cluster.

**Figure 1: Walla Walla Valley Wine Cluster**

Based on research by Michael E. Porter, Harvard Business School
The purpose of this project is to revisit and track the growth and development of the wine cluster five years after completing the first cluster study in 2006. This is especially timely given the recession and its impacts on national employment growth and investment over the past several years. Since 2007, Walla Walla has been designated an Innovation Partnership Zone (IPZ). The Walla Walla IPZ includes the Port of Walla Walla’s business park along with two “centers of innovation”: The Port of Walla Walla and the Walla Walla Community College campus, which includes the William A. Grant Water and Environmental Center (Water Center) and the Center for Enology and Viticulture (Wine Center). Though we focus on the IPZ, the scope of our analysis extends beyond the IPZ boundaries to account for geography of the functional economy of the wine cluster.

The current study is framed by the following questions:

- How has this regional economy changed over the past five years?
- How has the wine cluster changed over the past five years?
- What are the effects of the economic downturn on the region and the wine cluster?
- How do indicators of economic progress compare in 2011 with the 2006 benchmarks?
- What are the priority initiatives for growing the regional economy and what central role can the IPZ continue to play?
- What are other potential clusters the IPZ can promote?

**The Walla Walla Wine Cluster: Then and Now**

Based on the research our partnership team conducted five years ago, it was decisively clear that without the burgeoning wine industry, the Walla Walla regional economy would have been stagnant, if not in a state of contraction over the previous decade. In fact, our study projected the wine economy would play an increasingly significant role in driving economic growth and job creation into the future. In 2006, wine related jobs accounted for 8.6% of all jobs in the regional economy. Our current research shows that wine cluster jobs amount to 14.4% of total regional employment and are projected to increase to approximately 20% by 2020.

We also find that investment and growth in wine production (e.g. wineries and vineyards) drives expansion in the arts, tourism, culinary sectors. In other words, the interdependencies between wine, arts, and hospitality are important to understand because they experience growth in tandem with one another. However it is also important to note that wine quality is a key factor underpinning the success and sustainability of wine tourism. While there is attention to quality among Walla Walla wineries, the Wine Center plays a critical role in providing opportunities for present and future winemakers and entrepreneurs to pursue a formal education in enology and viticulture or build their competencies through continuing education opportunities. It has also been demonstrated that the Wine Center’s emphasis on quality through its education and training programs play a key role in shaping the strategic advantage of the wine sector which also positively impact the economic development of the broader Walla
Recently, the Umpqua Community College in Roseburg, Oregon took note of the impact of the Wine Center on the regional economy and is seeking to emulate those innovations by importing the WWCC model to the Umpqua Valley (Lang 2010). (See Appendix A)

Our current research on the wine industry cluster shows that while the national and Washington economy was in a state of contraction, the Walla Walla regional economy withstood the recession as demonstrated by economic growth and job increases. Employment growth was largely concentrated in the primary cluster sectors of vineyards and wineries, which drove expansion in arts and hospitality and multiplied throughout the region. Our study demonstrates that without the presence of the Walla Walla wine cluster, the region would be undergoing economic stagnation and potentially contraction. In other words, the successful growth of the Walla Walla wine cluster has not only diversified the regional economy, but also contributed to its resilience and ability to withstand external shocks. Basing an explanation of Walla Walla’s resilience solely on the wine cluster would be misleading, as it is also important to account for the concentration of higher education institutions, public agencies, as well as the recent surge in agricultural commodity prices on the global market. Nevertheless, our findings decisively demonstrate the increasingly important role of the wine cluster in contributing to economic development in Walla Walla over the past several years.

We provide a comprehensive account for growth and change in the Walla Walla regional economy with special attention given to the wine cluster. We set out to examine the relationships within the wine cluster and determine the extent to which these industries have impacted the local community and economy. One of our key findings demonstrates the need to re-examine and adjust the boundaries of the IPZ to reflect the spatial composition and extent of the wine cluster, and the functional economy. Therefore, we use the terms “functional economy” or “functional IPZ” throughout our report, which captures all related economic activity inside and outside the current IPZ.

Our results show that the functional IPZ has grown by 9% since 2007. Our report provides a skills gap analysis for occupations concentrated in the functional IPZ. That analysis provides us with an entry point to drill deeper into those areas that we identify as having strategic value and growth potential. Based on our preliminary analysis we have identified a series of occupational fields where the Walla Walla Community College has already or is seeking to establish programs to address occupational demand. Those programs include:

- Culinary arts
- Energy systems and technical maintenance
- Accounting
- Marketing
- Small business development and entrepreneurship, and
- Robotics
We also provide a strategic planning framework and sample initiatives for the Walla Walla IPZ that emphasizes the foundational and interdependent roles of talent, investment and entrepreneurship, and infrastructure to sustainable regional economic development. Examples of those are listed below and laid out in more detail in the IPZ Strategic Plan.

**Talent Initiatives**
- High School Skills Center design
- Establish partnership with Western Governor’s University, Washington
- Provide professional development workshops for hospitality industry

**Investment and Entrepreneurship Initiatives**
- Expand supply chain for alternative energy and industry
- Establish Salmon Recovery Research Center
- Expand vineyard acreage

**Infrastructure Initiatives**
- Establish Economic Development District
- Establish Water Quality Lab
- Expand IPZ infrastructure to Wallowa Resources

In conclusion, the IPZ has proven to be a very helpful in expanding prosperity in the Walla Walla region. It has also helped create an environment that is useful to facilitating and coordinating workforce and economic development decision making among diverse actors and organizations.
- List of the newly formed IPZ Partnership Team members, their respective roles, and the activities from January 24, 2011 to June 30, 2011

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<thead>
<tr>
<th>Partnership Team Member</th>
<th>Background Information</th>
<th>Team Member Role</th>
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<tr>
<td>Mark Anderson: Owner, Walla Walla Foundry and Foundry Vineyards</td>
<td>Whitman College graduate; opened Walla Walla Foundry in 1980, which provides casting services for contemporary artists; opened a gallery in Walla Walla in 1990; started a three-acre vineyard in 1998 and launched Foundry Vineyards; his first wine was released in 2006.</td>
<td>Serves as representative of the Walla Walla artistic community; provides input on artistic ventures, such as “Shakespeare Uncorked” and the “Powerhouse Theatre”; advisor regarding effects of wine tourism on the local art industry.</td>
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<td>Myles Anderson: Co-owner, Walla Walla Vintners</td>
<td>Retired Founding Director of the WWCC Institute of Enology &amp; Viticulture; responsible for establishing College Cellars – the first community college teaching/commercial winery in the U.S.; doctorate degree from University of Wyoming.</td>
<td>Representative of the Walla Walla wine industry and member of the Walla Walla Valley Wine Alliance.</td>
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<td>Christopher Burton Lake: Director, Southern Oregon Wine Institute, Umpqua Community College</td>
<td>A graduate of California State University, Fresno with a bachelor's degree in Plant Science; served as an Assistant Winemaker at the Santa Barbara Winery, a Viticulture Research Assistant at the Viticulture and Enology Research Center at California State University, Fresno, a Horticulture Department Graduate Research Assistant at the University of Arkansas, a Viticulturist and Assistant Winemaker at Wiederkehr Wine Cellars, Inc. Wiederkehr Village Arkansas, and at Stone Bluff Cellars in Haskett, Oklahoma.</td>
<td>Representative of Umpqua Community College, providing data to EMSI during the study process on impact of the Walla Walla Wine Cluster projection model on the Umpqua wine region.</td>
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<td>Kjell Christopherson: President and Senior Economist, Economic Modeling Specialists, Inc. (EMSI)</td>
<td>Senior economist; 30+ years international and domestic experience; co-founder of EMSI, a company specializing in economic impact analysis, labor market/workforce development forecasting, and economic growth analysis; Ph.D. in Agricultural and Natural Resource Economics from Washington State University.</td>
<td>Responsible for preparation of Comprehensive Economic Report of the Walla Walla Valley.</td>
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<td>Michael Davidson:</td>
<td>Michael Davidson: President and CEO, Tourism Walla Walla 25+ years of private/public sector management, business development and marketing experience; past Executive Director of Glen Cove, New York and Mantauk, New York Chambers of Commerce; past President of the Long Island Convention &amp; Visitors Bureau; current president of Walla Walla Exchange Club; founding member of Partnership Walla Walla: MSW, Yeshiva University.</td>
<td>Representative from and liaison to Walla Walla tourism industry; facilitates information and data collection from Walla Walla area businesses during the study process.</td>
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<td>Jennie Dickinson:</td>
<td>Jennie Dickinson: Manager, Port of Columbia Manager of the Port of Columbia since 2007; previous Executive Director of the Dayton Chamber of Commerce; currently President of the Citizens for Economic Diversity, immediate past president of the Dayton Development Task Force; serves on the Board of the Columbia Regional Economic Development Trust, the Southeast Washington Economic Development Association, and the Dayton Historic Depot Society; graduate of Washington.</td>
<td>Representative from Columbia County; liaison to Dayton, WA business community and Chamber of Commerce.</td>
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<td>Paul Gerola:</td>
<td>Paul Gerola: Economic Development Director, Port of Walla Walla Served as the Economic Development Director at the Port of Walla Walla since November 1996; responsible for implementing Walla Walla County’s comprehensive economic development plan; bachelor’s degree in Urban Planning from California State University, Fullerton; has experience specializing in economic development, redevelopment, and municipal finance in both private and public sectors.</td>
<td>Serves as liaison between Partnership Team and Port of Walla Walla staff; facilitates participation in study with Port of Walla Walla tenants.</td>
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<td>Tim McCarty:</td>
<td>Tim McCarty: Administrator IPZ Administrator and Director of Support Services for the City of Walla Walla; directs the City’s finance, technology services, human resources, City Clerk, and facilities maintenance divisions; a member of the Government Finance Officers Association, the Washington Finance Officers Association, the WWCC General Workforce Advisory Committee, and member of the Board of Directors of Walla Walla United Way; Master of Arts in Education from College of St. Thomas, St. Paul, Minnesota.</td>
<td>Primary contact and liaison with Walla Walla IPZ and City of Walla Walla personnel; leads partnership activities between the Walla Walla IPZ and the City of Snohomish.</td>
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<td>M. Henry Robison: Chief Economist, Economic Modeling Specialists, Inc. (EMSI)</td>
<td>Founder and Chief Economist of EMSI; Ph.D. in Economics from the University of Utah and over 20 years of experience and significant publications in regional economic impact modeling and analysis; recognized for theoretical work blending regional input-output and spatial trade theory, and for development of community-level input-output modeling and analysis; served 10 years as faculty member and consultant to the University of Idaho; completed multiple consulting projects, including U.S. Department of Commerce Economic Development Administration, the Federal Highway Administration, and the U.S. Forest Service.</td>
<td>Responsible for preparation of Comprehensive Economic Report of the Walla Walla Valley.</td>
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<td>Steve VanAusdle: President, Walla Walla Community College</td>
<td>President of WWCC since 1984; doctoral degree in Education from The Ohio State University and master’s degree in Agricultural Economics from Washington State University; provides educational and economic leadership for the College, the community and various boards, organizations, and institutions throughout the Pacific Northwest and the U.S.; currently Vice Chair of the Washington Economic Development Commission; member of the National Council on Competitiveness, the Pacific Power Regional Advisory Board, the Port of Walla Walla Economic Development Advisory Committee, the American Association of Wine Economists, the Washington Wine Education Consortium, the Executive Alliance, and numerous other regional, state, and national organizations.</td>
<td>Leader of the IPZ Partnership Team.</td>
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<td>Nicholas Velluzzi: Director of Institutional Planning and Assessment, Walla Walla Community College</td>
<td>Research Director for 2007 Walla Walla Wine Cluster Regional Economic Development Project; past Visiting Scholar, Dept.of Social and Cultural Analysis of NYU and International Representative for the International Union, United Automobiles, Aerospace, and Ag. Implement Workers of America; past Visiting Ass’t. Professor, Dept. of Political Science and Director; Urban and Regional Planning Graduate Certificate Program for the College of Charleston, Charleston, SC; Ph.D. in Geography, with specializations in Economic Geography, Labor Geography, and Urban and Regional Development from the University of Washington and master’s degree in Urban Planning from UCLA.</td>
<td>Lead researcher for current IPZ Commerce Grant study.</td>
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<td>Duane Wollmuth: Executive Director, Walla Walla Valley Wine Alliance and Co-owner, Biscuit Ridge Vineyard</td>
<td>Current member, Board of Directors, Washington State Tourism Commission; past Executive Director, Southeast Washington Economic Development Association; past Board of Directors, Inland Northwest Economic Alliance Advisory, Washington Wine Institute, Washington Wine Country, Washington State Tourism Advisory Committee; co-founder and past managing partner of Three Rivers Winery; past senior v-p of sales and marketing and other management positions; Cellular One; MBA, University of Washington.</td>
<td>Liaison with member wineries and growers; advisor regarding marketing and promotion of wine and related industries.</td>
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<tr>
<td>David Woolson, President &amp; CEO, Walla Walla Valley Chamber of Commerce</td>
<td>20+ years of experience in senior management positions; past Chief Executive Officer, Metropolitan Exposition Recreation Commission, Portland, Oregon; past President, Big Catch, a talent and business affairs company; past Executive Director, Oregon Film and Video Commission; senior executive and attorney with various Hollywood studios, including Paramount Pictures, Orion Pictures, and Dick Clark Productions; law degree, Gonzaga University; undergraduate degree, Television Management, Eastern Washington University.</td>
<td>Representative of Walla Walla Valley Chamber of Commerce and its member businesses. Chamber was a member of the initial IPZ Steering Committee (under previous leadership).</td>
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Description of the planned partnership activities of the IPZ and the City of Snohomish for marketing of wine and specialty foods

The Walla Walla Innovation Partnership Zone (WWIPZ) and the City of Snohomish have formed a partnership to stimulate and contribute to the economic base of their respective cities and counties by supporting the growth of wine and specialty foods industries through cooperative marketing and information-sharing efforts. To meet those goals, the WWIPZ and Snohomish have plans to host various related activities in their respective communities. Partnership representatives met in Walla Walla in May of this year to initiate those plans and, while together, toured wine incubators; visited the Walla Walla Community College Enology and Viticulture Center; and met with Walla Walla Tourism and downtown leadership, as well as Dayton’s Blue Mountain Station Director.

Future plans include a familiarity event hosted by the City of Snohomish featuring wineries in the WWIPZ that do not yet have a presence in the Puget Sound Region. As a part of this event, the City will invite representatives of their local distributors, restaurants, wine shops and other potential winery customers to become acquainted with the wineries of the IPZ. Following the private business portion of the event, a public wine tasting will be held, pairing the wines produced in the Walla Walla IPZ with complimentary food products produced in the Snohomish area and nearby, such as artisan cheeses, meats, and chocolates. The City will sell tickets to the event with proceeds benefiting a local nonprofit organization.

Walla Walla IPZ will host a visit by representatives of wineries and other interested parties from the Snohomish area to meet with vineyard owners in the Walla Walla Valley to familiarize them with the grapes produced there and to develop potential sources of fruit for wines produced in the Snohomish area. The WWIPZ and the City of Snohomish will also mutually facilitate the sharing of information on the marketing of specialty foods in both areas.

The City of Snohomish will host a quarterly or monthly educational series featuring experts identified by the WWIPZ with topics related to the wine industry and promoting wine as a part of the American lifestyle. The WWIPZ will provide information to the City of Snohomish related to the creation of a winery incubator, including the necessary business support services. Other pertinent and valuable information could also be provided by the Walla Walla Community College Enology and Viticulture Center.
Appendix A

Editorial: Lang’s gift can help area emulate Walla Walla’s success
Umpqua Valley wine industry
The News-Review

There is a rural community in the Pacific Northwest where the unemployment rate in January was higher than normal at 6.7 percent; where taxable retail sales rose during the period from 2000 to 2008 by 50 percent; where the nominal average wage grew from $25,995 in the year 2000 to almost $35,000 in 2008.

Sound good? There’s more.

This same community saw its labor force grow by more than 20 percent during the last 10 years. The number of arts establishments grew rapidly. Direct tourism spending in the community rose from $57 million in 2001 to more than $91 million in 2008 — nearly 60 percent growth. Even the on-time high school graduation rates significantly improved.

With numbers like these it is little wonder that many community leaders are enthused about emulating the success Walla Walla, Wash., has found with its explosive growth in wines and tourism. That growth started with an academic program in enology and viticulture at the city’s community college.

Last week, local attorney Danny Lang made the first large down payment on a better future for our community by donating $800,000 to set dreams of the Southern Oregon Wine Institute at Umpqua Community College on the path to reality.

His contribution is an essential component of an ambitious $8 million project that includes vineyards, a comprehensive teaching winery, wine laboratory, event center, commercial-scale winemaking facility, and wine incubator to help jump-start new wine entrepreneurs.

UCC Foundation President and former Roseburg Schools Superintendent Lee Paterson calls “SOWI a catalyst that accelerates the growth of an exciting industry capable of transforming the economic fortunes of communities throughout Southern Oregon.”

Those close to the project regularly point to the natural advantages Southern Oregon has that Walla Walla does not. Chief among them is our proximity to the Interstate 5 corridor and the spectacular beauty that already draws rave comments from tourists.

Not to mention climate, soils and water that make this a fabulous area for vineyards. The wine cluster in the Umpqua Valley is already rated among the top destination winery areas in the country and it has been quietly, but rapidly growing.

Many award-winning small wineries opened during the past decade. Major wineries have purchased, or seek to purchase, vineyard land in our valleys. There is activity as you read this.

UCC President Blaine Nisson, after visiting Walla Walla with local wine celebrity Scott Henry, has led the charge on this endeavor.

Vineyards at UCC were planted last year, the wine education program launched, architectural drawings developed, donors contacted and a broad outline of the future shared.

“Supporting the SOWI teaching, learning and event center capital campaign is much more than just supporting the construction of the building,” Nisson said. “It is about supporting the people of Southern Oregon and our economic future.”