

**The Economic Impacts of the Proposed
Washington Adventist Hospital at White Oak
And Reuse of the Existing Takoma Park Campus**

Prepared for

Adventist HealthCare

By

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Executive Summary

The relocation of Washington Adventist Hospital to a new campus in White Oak will generate a range of positive impacts to the benefit of the surrounding Montgomery and Prince George's counties' economies. These will include economic impacts generated during the construction phase followed by increased operating outlays that will generate economic benefits on an annually recurring basis. Beyond these construction and increased post-construction impacts will be additional local economic benefits resulting from the renovation and repositioning of Adventist Health Care's Takoma Park Campus (to be called the "Village of Education, Health and Wellbeing") including the provision of new outpatient services and wellness facilities and the expansion of the educational capacity and programs offered by Washington Adventist University at this location.

The economic impacts associated with construction and operation of the proposed WAH at White Oak and related spending at the Takoma Park Campus are as follows:

- Construction outlays totaling \$255 million will contribute a total of \$475.5 million and \$553.2 million respectively to the regional and state economies during the construction period;
- These construction outlays will generate a total of \$115.4 million in new personal earnings that will accrue to workers residing within Montgomery and Prince George's Counties and earnings totaling \$167.8 million for workers residing within the State of Maryland supporting a total of 2,933 and 4,131 jobs of which approximately 70 percent are estimated to be residents of the region and/or state.
- The regional impacts of post-construction spending by Adventist Health Care to operate WAH at White Oak and its outpatient and wellness services at Takoma Park will involve \$299.9 million annual expenditures in 2015, a 22 percent increase from 2010 expenditure levels, generating an overall

contribution to the regional economy totaling \$553.2 million, supporting a total of 5,278 jobs of which an estimated 2,847 would be held by local residents with personal earnings totaling \$156.6 million.

- The statewide economic impacts of post-construction operating outlays by Adventist Health Care would contribute a total of \$630.8 million to the state's economy in 2015 reflecting a 22 percent gain from current levels and would support a total of 7,377 jobs of which an estimated 4,698 would be held by state residents with annual earnings totaling \$211.4 million.

Additionally, WAH's economic importance as a catalyst for further economic development within the Science Corridor centered on the FDA White Oak Campus can generate significant and continuing economic benefits to the local and state economies. The location of WAH at White Oak has the potential of rationalizing and magnifying the economic and market forces that can be focused within the Science Corridor thereby contributing to a development process that ultimately will represent new private investment totaling more than \$5 billion, providing work space for more than 8,000 workers beyond those employed on the FDA campus and creating a live-work community housing 7,500 workers. These developmental benefits will strengthen the economic base and enhance the quality of life for the residents and businesses within the surrounding region, an area that has long underperformed its inherent growth potential.

The economic futures of Montgomery and Prince George's Counties are closely tied to their success in attracting and accommodating a growing science and technology-intensive business base. Forecasts for these counties' economic growth during the current decade identify the growth of professional and business services and educational and health services as the principal sources of future job growth. In order to achieve this economic potential local and state public officials need to recognize the synergies and resulting economic benefits that can be achieved by concentrating and linking the health sciences and supporting professional and business services with a high quality living and working environment.

These synergies can be achieved within the Science Corridor centered on White Oak. With the proposed campus of WAH at White Oak anchoring the future development of the East County Center for Science and Technology and the LifeSci Village, the potential for enlarging and extending the impacts from FDA's White Oak Campus to the benefit of the surrounding economy will be greatly improved. This concentration of interdependent health sciences, professional and business services, research facilities, with supporting residential and retail services and amenities will result in the creation of a vital and growing health sciences-based economic center that will enlarge the economies of both Montgomery and Prince George's counties' and strengthen the State's competitive position in the national economy.

Washington Adventist Hospital as a Source of Economic Growth

The relocation of Washington Adventist Hospital to a new campus in White Oak will generate a range of positive impacts on the surrounding Montgomery and Prince George's counties' economies. These will include economic impacts generated during the construction phase followed by increased operating outlays that will generate economic benefits on an annually recurring basis. Beyond these construction and post-construction impacts on the surrounding economies will be additional local economic benefits resulting from the renovation and repositioning of Adventist Health Care's Takoma Park Campus (to be called the Village of Education, Health and Wellbeing") including the provision of new outpatient services and wellness facilities and the expansion of the educational capacity and programs offered by Washington Adventist University at this location.

These economic impacts—both flowing from construction and renovation spending within the local economies and subsequently involving operating outlays associated with providing healthcare and related services on an on-going basis—will directly generate and support new jobs and continuing employment as well as generate business opportunities for locally based vendors. These expenditures by Washington Adventist Hospital will also generate and support local job and income growth as the direct outlays, either in the form of payroll or purchases of services from local vendors, are recycled and re-spent within the regional economy in support of a broad range of consumer goods and services. These indirect and induced benefits will be a multiple of the initial outlays and extend these benefits across the breadth of the regional economy.

Additional economic benefits will flow to the local economy once the new hospital is fully operational and the outpatient and supporting health and wellness services and expanded educational capacity are in place on the Takoma Park Campus in the form of spending by patients, visitors and students that would not have occurred in the absence of the initial Washington Adventist Hospital expenditures to build the White Oak Hospital and renovate and expand the health and wellness services located at the Takoma Park Campus. All of these economic impacts are a function of the magnitude of construction outlays and operating expenditures and can be identified and measured.

As important as these direct and indirect economic benefits are that would flow to the Montgomery and Prince George's Counties' and State of Maryland's economies from the construction outlays of Adventist Health Care for new and expanded health and wellness facilities at White Oak and Takoma Park, these new facilities will generate another level of economic benefits—agglomeration impacts—that will be more important in the long run as a result of the potential interdependencies that can be achieved as a result of the adjacency of multiple reinforcing investments at the White Oak Campus.

These economic benefits will accrue from the increased efficiencies and competitive advantages that can be achieved from: (1) co-location of complementary activities; (2) the enlarged market potential that may be generated by the massing of complementary land uses in proximity to other services and directly or indirectly related business activities; (3) the market and locational identity and credibility that may result from the massing of similar types of activities resulting in “place making” and value creation; and (4) capacity building—the creation of a competitive location that can attract and accommodate investment (private sector growth) that otherwise would have been lost to the local or regional economies.

These additional economic impacts have been realized elsewhere in the Washington metropolitan area as a result of purposefully establishing favorable conditions supportive of generating and capturing these agglomeration benefits. The pursuit of these extra benefits resulting from the strategic grouping of interdependent economic activities underlies the composition of many different types of complexes. The popularity of “mixed use” development embodies and seeks to achieve these types of economic benefits.

The redevelopment plan for White Flint bordering the Rockville Pike is predicated on these principles as they were for the Ballston Corridor in Arlington and the Town Centers in Rockville, MD and Reston, VA. The newly adopted Master Plan for Tysons Corner combines a wide range of land uses, public and private, and uses density and design to magnify the economic benefits associated with this concentration of interdependent investments. These same principles can be applied to the proposed Science Corridor centered on the Federal Research Center at White Oak with FDA as its principal tenant in combination with complementary and reinforcing investments on contiguous parcels designed to achieve the development potentials of this Corridor to the benefit of the surrounding local, regional and state economies.

The full measure of the economic impacts that may flow to the local, regional and state economies that can be realized with the construction of the proposed Washington Adventist Hospital at White Oak starts with the construction outlays for the new hospital and the outlays associated with repositioning the facilities on the Takoma Park Campus and extends to the recurring operating benefits that will accrue annually to the local economies following the completion of construction. The agglomeration impacts that can be realized within the White Oak Science Corridor with its accumulation of investments and the location and interaction of complementary activities will extend and magnify the economic benefits of individual uses.

This concentration of interdependent economic activity will result in an aggregate benefit with a value substantially greater than the sum of the values of each component part. The establishment of this economic synergy, building on the presence of FDA at White Oak and extending and magnifying the individual economic benefits that can be achieved at this location, will be a major economic

achievement making it possible for the regional economy to achieve its projected potentials and realize the benefits of its competitive advantages. These economic impacts will be analyzed in the following sections.

**The Primary Economic Benefits of Construction and Post-Construction
of the Proposed Washington Adventist Hospital At White Oak**

The construction of the proposed Washington Adventist Hospital (WAH) at White Oak will generate significant impacts on the regional and statewide economies that can be measured in terms of the total contribution to the respective economies (their gross regional and gross state products), the generation of new personal earnings to be captured by workers residing within the region and/or the state and the number of jobs supported by the construction expenditures directly and indirectly locally and through the state and national economies. The magnitude of these impacts is governed by the total value of construction spending and the geographic scale of the analysis. A larger geographic scale is more inclusive of the workforce, suppliers of materials, and the markets for the re-spending of payroll and supplier earnings and therefore has a larger economic impact. The duration of these construction benefits is limited to the period of construction.

WAH will also generate post-construction benefits as a result of the payroll and non-payroll operating expenditures that will be paid out annually by Adventist Health-Care. These outlays will support workers directly employed by Adventist Health-Care, employees of contractors and suppliers to Adventist HealthCare and workers supported by the spending of the direct payments made by Adventist HealthCare to its employees and vendors.

The analysis of economic impacts presented in Table 1 reflects the first phase of WAH's hospital construction (249 beds) at White Oak and the initial construction expenditures associated inclusive of outlays to reposition the health and wellness services provided from facilities at Takoma Park. These construction outlays will total \$255 million over a three-year period. With the potential for further expansion on WAH's White Oak Campus additional economic impacts from construction spending would increase WAH's contributions to the regional and statewide economy well into the future.

The post-construction benefits reported in Table 1 reflect projected first phase operating hospital expenses. These operating outlays would increase with any further development on the WAH's White Oak Campus. Economic impacts associated with the proposed expansion of Washington Adventist University that will be accommodated on the Takoma Park Campus following the relocation of WAH to White Oak are not reflected in these totals.

Table 1

The Economic Impact of Proposed Construction and Operating Outlays
by Adventist Health Care at White Oak and Takoma Park Campuses
on the Surrounding Region and the State of Maryland
(in millions of 2011 dollars)

Location And Type*	Direct Outlays (1)	Total Output (2)	Personal Earnings (3)	Jobs Supported (4)
Regional				
Construction				
White Oak	\$210.0	\$391.6	\$95.0	2,415
Takoma Park	45.0	83.9	20.4	518
Totals	\$255.0	\$475.5	\$115.4	2,933
Operations**				
White Oak	\$292.3	\$556.1	\$152.6	5,144
Takoma Park	7.6	14.5	4.0	134
Totals	\$299.9	\$570.6	\$156.6	5,278
State Level				
Construction				
White Oak	\$210.0	\$455.6	\$138.2	3,402
Takoma Park	45.0	97.6	29.6	729
Totals	\$255.0	\$553.2	\$167.8	4,131
Operations**				
White Oak	\$292.3	\$614.8	\$206.0	7,190
Takoma Park	7.6	16.0	5.4	187
Totals	\$299.9	\$630.8	\$211.4	7,377

Sources: Adventist HealthCare; GMU Center for Regional Analysis

Notes: (1) direct outlays by Adventist Health Care; (2) the total value of goods and services generated directly and indirectly as a result of the initial construction and annual operating outlays; (3) the additional earnings generated within the region and the State of Maryland from the new economic activities supported by the construction and operating outlays; (4) the additional new local and non-local jobs supported by the spending and re-spending of the new construction and operating expenditures.

*initial construction for 249 beds, one structured parking deck and supporting infrastructure and facilities; excludes capital equipment and fixtures and furniture. **these outlays and impacts recur annually beginning in 2015.

The economic impacts associated with construction and operation of the proposed WAH at White Oak and related spending at the Takoma Park Campus can be summarized as follows:

- Construction outlays totaling \$255 million will contribute a total of \$475.5 million and \$553.2 million respectively to the regional and state economies during the construction period;
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It should be noted that the projected operating benefits associated with WAH's relocation to White Oak and the redevelopment of the Takoma Park Campus for outpatient and wellness services does represent a net gain in regional and statewide economic benefits. The difference between WAH's operating outlays in 2010 and those projected for 2015 is 22 percent. And, as WAH's operating outlays grow in future years, reflecting increases in health and wellness services at both the White Oak and Takoma Park Campuses, the magnitude of these economic benefits and their contributions to the regional and statewide economy will also increase.

These project-specific economic impacts have been shown to generate substantial benefits within the regional and state economies. Yet these stand alone economic impacts do not represent the full range of benefits that would accrue to the region and state when the WAH White Oak Campus is built out and its Takoma Park Campus is fully repositioned to offer outpatient and wellness services to the residents of its service area and accommodate the expanding demands for higher education with increased university services, payroll and operating outlays and

associated increases in visitor and student spending commensurate with this larger scope of educational services.

Additionally, beyond these directly related benefits that will accrue to the local, regional and statewide economies, there is a more strategic opportunity that the location of WAH at White Oak can further, that if realized, will result in strengthening the region's competitive position and economic outlook over its long-run future. Realizing this economic future for Montgomery and Prince George's Counties and the State of Maryland is fully consistent with local and state policies and plans that have framed the future economic directions for this region but have not as yet succeeded in realizing the anticipated potentials inherent in the White Oak Science Corridor.

The Local Economy's Economic Outlook

Both Montgomery and Prince George's counties are projected to experience strong economic expansion during the current decade. This growth will generate new jobs and higher incomes as the mix of the region's economic activities continues its shift to activities involving a higher proportion of knowledge-based and technology-intensive workers building on the region's competitive advantages, both nationally and locally within the greater Washington metropolitan area. The economic forecasts for Montgomery and Prince George's Counties, while different in magnitude, both describe a growth potential that will challenge the local and state governments' capacities to accommodate this potential growth and to achieve the economic benefits that this growth potential offers. These growth potentials point to the need for providing the supporting facilities and infrastructure prerequisite to attracting the private investment to generate the jobs and income growth associated with these development potentials.

The job growth projected for Montgomery County and Prince County during the current decade is shown in Table 2. The projected 17.7 percent increase in total net job gain is being driven by substantial growth in professional and business services and in educational and health services with the employment base of these two sectors projected to increase by 26.6 percent. In contrast, the two-counties' federal employment base is projected to decline by 1.0 percent.

In comparison to this projected job growth, the combined gross county product (GCP) of these two counties, that is the value of goods and services produced within their economies, is projected to grow by 32.8 percent in inflation adjusted dollars. That GCP is growing substantially faster than job growth reflects the continuing shift in the counties' employment bases to higher value added occupations and business activities as reflected in the strong growth projected for professional and business services and educational and health services.

It is interesting to note that household growth in these two counties is only projected to increase by 8.2 percent over the decade. This slow household growth

(relative to employment growth) raises a key question regarding the source of new workers to fill the jobs that these counties' economies have the potential to generate and suggests that the availability of housing will be a major determinant of the counties' abilities to realize their inherent economic growth potentials going forward.

Table 2

Employment Outlook for Montgomery and Prince George's Counties, 2010-2020

County	Total Job Change	Professional & Business Services	Education & Health Services	Federal Gov't
Montgomery	90,444	31,791	18,549	335
Prince George's	47,835	8,240	5,994	- 1,068
Totals	138,279	40,031	24,543	- 733
% Change	17.7	26.8	26.1	-1.0

Source: IHS Global Insight, March 2011.

The economic forecast for Montgomery County indicates that its economy has the potential to generate a total of 90,444 net new jobs during the current decade, or approximately 9,000 jobs annually for ten years. To date, the County has realized only a small percentage of its annual potential job growth, but as the expansion accelerates over the decade it must be ready to accommodate faster job growth. With an estimated 46 percent of these new jobs requiring office-type space, the new office space capacity that would be required to house these new jobs would total approximately 7.8 million square feet.

Currently, Montgomery County does not have an adequate supply of new office space in development to meet this demand. While this office space demand will be fulfilled in many employment centers through the County, no one center has this magnitude of available capacity that could be brought on line this decade. However, the Science Corridor with its proposed LifeSci Village and East County Center for Science and Technology has the planned capacity to accommodate a substantial portion of this commercial space requirement.

The projected 18,500 new education and health services jobs that could be achieved in Montgomery County represent another major requirement for new building capacity. These new jobs do not include positions in the federal government (i.e., NIH and FDA). These are net new jobs in the private and non-profit sectors. While some of these new jobs include those being proposed by WAH as it expands its capacity in the County, many of these jobs may look like office jobs as the County attracts a growing number of bioscience and pharmaceutical companies with

administrative functions complementing their research and manufacturing operations as targeted in the County's Biosciences Strategy (December 2009).

Where will these new workers and their employers be housed? Some will find the Science Corridor location attractive due to its adjacency with the FDA Campus and the combination of supporting professional and business services located within a mixed-use, high-amenity residential community. The demand for this new space presently exceeds Montgomery County's approved development capacity. Unless this capacity comes online over the coming decade, the County's growth potential in its most competitively advantageous sector—health sciences—will be constrained and will not be fully realized.

The growth potentials projected for Montgomery County and Prince George's County over the 2010-2020 period illustrate the magnitudes of the challenges facing local public officials and economic development professionals in the short term. The regional economy has significant growth potential but this potential is in danger of being lost to other jurisdictions within the Washington metropolitan area or to competitors elsewhere in the U.S. due to the shortage of available development capacity. This private investment and the future employers associated with the forecasted job growth potential are not guaranteed. Success in competing for this new investment requires the presence of economic generators, the capacity to accommodate growth in a high quality work-live environment, ready access to an educated workforce, the presence of amenities and multi-modal transportation access, and a supportive business environment.

Capturing the Region's Growth Potentials

The Science Corridor centered on the FDA at White Oak offers the opportunity to establish the conditions favorable to attracting significant economic activity to the benefit of the surrounding region. The FDA Campus at White Oak, with its projected 10,000 employees and \$1.5 billion investment in new laboratory and office facilities, represents a unique asset to the local economy but it has yet to fulfill its economic development promise.

The presence of the FDA Campus, like so many other federal enclaves (e.g., National Institute of Standards and Technology, NOAA, Census, NASA Goddard Space Flight Center, the National Agricultural Research Center, Nuclear Regulatory Commission, the National Institutes of Health, and the Bethesda Naval Medical Center) does not automatically generate the co-location and concentrated growth of complementary private sector investments. These federal employment centers remain isolated within their local economies for a variety of good reasons: they occupy large land parcels in self-contained and often remote locations, their security requirements restrict access, and they are introverted in their operational behavior.

In order to extend the economic benefits of the FDA Campus to its surrounding region, the functions that FDA perform must be connected to suppliers, partners,

and customers. FDA is not likely to reach out and establish these functional and operational linkages on its own initiative. Additionally, proximity to FDA can represent an important locational consideration for some organizations or businesses that may not benefit from direct contact but are attracted by the indirect benefits (real and imaginary) of adjacency.

The FDA Campus is largely complete but has not generated any directly related investment in the Corridor. However, the adjacency of the proposed East County Center for Science and Technology, LifeSci Village, and Washington Adventist Hospital offer to create a place and capacity to accommodate the location of complementary health and other related professional and business service functions, supporting office space, residential and retail uses, and locations for vendors and other supporting functions that will multiple the agglomeration economies that can be realized within the a surrounding region that is currently underutilized and underachieving its future economic potential.

Extending the economic benefits represented by the presence of the FDA Campus at White Oak and capturing these benefits within the surrounding regional economy will be achieved only with the complementary development of compatible land uses in proximity to the Federal Research Center site. The building blocks for a successful Science Corridor include location, land availability, infrastructure, amenities, sense of place and image, and the presence of interdependent economic and non-economic functions. Plans are in place to develop 5,000 housing units and 4 million square feet of office and retail space at the LifeSci Village (LSV) and East County Center for Science and Technology (ECCST). This development would draw its market potential from its adjacency to the FDA Campus to the south and from employment centers to the west and north.

WAH as the Linchpin for Regional Economic Development

The location of Washington Adventist Hospital (WAH) adjacent to and north of ECCST and LSV will establish a major employment center as well as a major economic magnet at the northern side of the Science Corridor. This strategic position will establish WAH as the primary anchor for adjacent commercial and residential investment. The presence of WAH in its role as a major employer and service provider will help define and focus the commercial and residential markets that to date have not been evident in this portion of Montgomery County or Prince George's County.

The presence of WAH at White Oak has the potential to reverse the surrounding area's economic trends, not just because of the 3,000 jobs that will ultimately be associated with WAH and its \$300 million annual operating budget, but because of what else will result from its presence at that location: the investor confidence it will generate within the surrounding area, the market demand that its employees and visitors will generate to the benefit of local businesses, the residential market

benefits that WAH will bring to the community, the sense of place that its presence will create.

Beyond these ancillary benefits from co-location that will accrue to adjacent property owners and businesses will be the opportunities that exist between WAH and FDA (as defined in their existing MOU) to extend the locational presence of FDA outside its enclave to its immediate surroundings. Due to its isolation and disconnection from the immediate economy the presence of the FDA Campus has not had any appreciable local economic impact. However, as the linkages and interactions between FDA and WAH increase, as FDA and WAH employees opt to reside closer to their places of employment, and as the retail and business base in the surrounding area grows in quality and becomes more diversified, organizations doing business with FDA and with each other will find co-locating in proximity to the FDA Campus will become increasingly attractive in comparison to more distant locations in the Washington area and elsewhere nationally. The East County Center for Science and Technology will become a preferred location, as will office space and the residential communities planned as part of the LifeSci Village. These benefits will extend north and south throughout the Corridor.

While WAH at White Oak is just one building block in this complex mix of interdependent activities whose co-location will contribute to positioning the surrounding region for significant future economic growth, WAH is the critical next component in creating the necessary conditions within the Science Corridor to achieve its full development potential. WAH's position in this development sequence is unique: WAH can help extend FDA's economic benefits from its activities housed at White Oak into the local economy; WAH can be a major economic generator unto itself that will strengthen the surrounding markets for supporting land uses; WAH can generate investors' confidence within the Science Corridor that to date has not materialized in spite of the presence of the FDA investment at White Oak; WAH can be a place maker enhancing the Corridor's name and business reputation; and WAH can stimulate significant new investment on adjacent properties.

Summary of WAH's Economic Impacts

Washington Adventist Hospital's economic impacts are important as a stand-alone institution with its large job base and annual payroll totaling \$130 million (2015). Its overall post-construction annual economic impacts have been shown to total \$571 million and \$630.8 million respectively within the Montgomery County and Prince George's County region and statewide. Additionally, WAH's economic importance as a catalyst for further economic development within the Science Corridor centered on the FDA White Oak Campus can generate significant and continuing economic benefits to the local and state economies.

The location of WAH at White Oak has the potential of rationalizing and magnifying the economic and market forces that can be focused within the Science Corridor

thereby starting a development process that ultimately will represent new private investment totaling more than \$5 billion, providing work space for more than 8,000 workers beyond those employed on the FDA campus and creating a live-work community housing 7,500 residents. These developmental benefits will enhance the economic base and quality of life for the residents and businesses within the surrounding region, an area that has long underperformed its growth potential.

The construction and operation of Washington Adventist Hospital at White Oak and the ultimate buildout of its Campus will solidify the development forces that will shape the future of this Corridor and significantly contribute to the region's economic vitality. It is unlikely that an alternative economic force with the same qualities and connectivity could be found to fill this function within the future development of the Science Corridor. WAH's established relationship with FDA, its role as service provider and catalyst within the community, its employment and economic impacts, and impacts as a market maker are relatively unique to a single organization.

In the absence of WAH at White Oak the promise of the Science Corridor is likely to go unrealized over the coming decade. As a consequence, the economic potentials that might have been captured to the benefit of the surrounding region with their employment and income implications will be lost to other more competitive jurisdictions that have invested in the preconditions necessary to capitalize on the their inherent growth potentials. Once lost, regaining this competitive position will be unlikely.

The economic futures of both Montgomery County and Prince George's County are closely tied to their success in attracting and accommodating a growing science and technology-intensive business base. Forecasts for these counties' economic growth during the current decade identify the growth of professional and business services and educational and health services as the principal sources of future job growth. In order to achieve this economic potential local and state public officials need to recognize the synergies and resulting economic benefits that can be achieved by concentrating and linking the health sciences and supporting professional and business services with a high quality living and working environment.

These synergies can be achieved within the White Oak Science Corridor. With the proposed campus of WAH at White Oak anchoring the future development of the East County Center for Science and Technology and the LifeSci Village, the potential for enlarging and extending the impacts from FDA's White Oak Campus to the benefit of the surrounding economy will be greatly improved. This concentration of interdependent health sciences, professional and business services, and research facilities with supporting residential and retail services and amenities will result in the creation of a vital and growing health sciences-based economic center that will enlarge the economies of both Montgomery County and Prince George's County and strengthen the State's competitive position within the national economy.

