

RETHINKING THE COMMUTER ECONOMY IN FEDERAL WAY

A Sustainability Report



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A LIVING HERE, WORKING THERE ECONOMY



*Rebecca Martin, CCE, IOM
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Federal Way serves as a significant residential hub in South King County, with a distinct economic profile characterized by substantial labor outflow and employment inflow patterns.

The city demonstrates a net job outflow of 10,655 positions, indicating that Federal Way functions primarily as a bedroom community where residents commute to employment opportunities elsewhere in

the region while attracting workers from surrounding areas to fill local positions.

Key Findings:

- **Massive Outflow:** 91.3% of Federal Way residents (31,794 workers) commute elsewhere for work
- **Heavy Inflow Dependence:** 87.5% of local jobs (21,139 positions) are filled by outside commuters
- **Limited Interior Flow:** Only 8.7% of residents (3,018 workers) both live and work locally
- **Net Job Deficit:** 10,655 more residents than local jobs, indicating Federal Way's role as a bedroom community

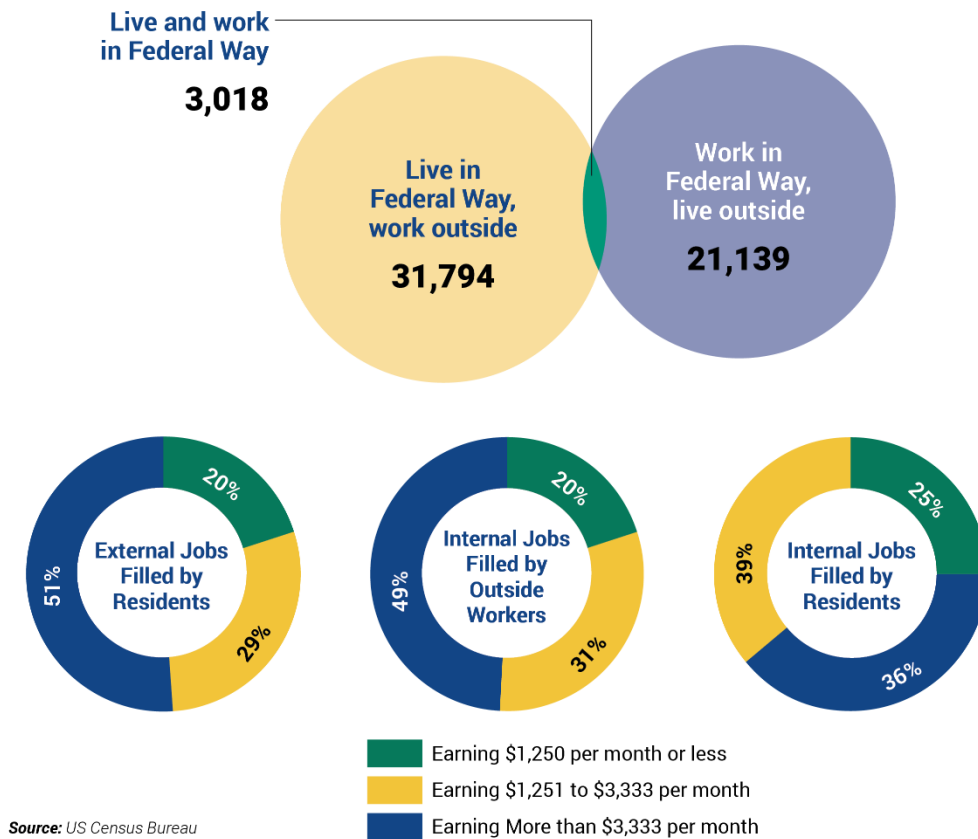
Analyzing the income distributions for each group shows that outflow workers (Federal Way residents working elsewhere) tend to earn the highest wages, while local jobs attract a mix of income levels but fewer top earners. This suggests residents commute to access better paying opportunities not available locally.

Since 2018, the Greater Federal Way Chamber has been tracking economic inflow and outflow and the pattern is consistent. Our main export is talent. It needn't be.

As the Chamber looks to sustainability in a diversified business base, this report includes strategic recommendations for economic development to help balance these flows and strengthen the local economy. With thoughtful, inclusive planning, we can *Take the Federal Way* to economic prosperity in our shared future.



Federal Way Earnings Analysis



ECONOMIC FLOW DEFINITIONS

Economic Inflow refers to workers who live outside Federal Way but commute into the city for employment. These individuals contribute to the local economy through their workplace spending, business patronage, and economic activity during work hours, though they typically return to their home communities for evening and weekend consumption.

Economic Outflow represents Federal Way residents who work outside the city limits. While these workers contribute to household income within Federal Way and support local residential services, their daily economic activity and workplace spending occurs in other communities.

Interior Flow encompasses residents who both live and work within Federal Way, representing the most economically integrated segment of the workforce that contributes to both residential and commercial economic activity locally.

LABOR MARKET OVERVIEW

Federal Way's labor market reveals a fundamental imbalance between residential population and local employment opportunities. The city supports 34,812 working residents but provides only 24,157 jobs, creating a net outflow of 10,655 positions. This disparity reflects Federal Way's role as a residential community within the broader regional economy.

Key Labor Force Metrics:

- Total Federal Way residents in workforce: 34,812
- Total jobs located in Federal Way: 24,157
- Net job outflow: -10,655 positions
- Local employment rate: Only 8.7% of residents work locally
- Outside worker dependency: 87.5% of local jobs filled by non-residents

OUTFLOW: FEDERAL WAY RESIDENTS WORKING ELSEWHERE

The overwhelming majority of Federal Way's workforce commutes outside the city for employment. Of the 34,812 working residents, 31,794 (91.3%) travel to jobs in other communities, representing a massive daily economic outflow that impacts local business activity and tax revenue.

Demographic Profile of Outflow Workers:

- Workers aged 30-54: 16,611 (52.3%), Prime working-age professionals
- Workers aged 29 or younger: 7,648 (24.1%), Early career workers
- Workers aged 55 or older: 7,535 (23.7%), Experienced workforce

Income Level Breakdown:

- High income (>\$3,333/month): 16,341 workers (51.4%)
- Mid-range income (\$1,251-\$3,333/month): 9,221 workers (29.0%)
- Lower income (≤\$1,250/month): 6,232 workers (19.6%)

The income distribution reveals that Federal Way residents working elsewhere tend to earn higher wages, with over half earning more than \$3,333 monthly. This suggests that many residents commute to access better-paying opportunities not available locally,

contributing to the city's role as an affordable residential base for higher-earning regional workers.

INFLOW: OUTSIDE WORKERS IN FEDERAL WAY

Federal Way's local economy depends heavily on workers from other communities, with 21,139 people (87.5% of all local jobs) commuting into the city daily. This substantial inflow provides essential workforce capacity but also indicates limited local labor force utilization.

Demographic Profile of Inflow Workers:

- Workers aged 30-54: 11,079 (52.4%), Experienced professionals
- Workers aged 29 or younger: 5,137 (24.3%), Entry-level workforce
- Workers aged 55 or older: 4,923 (23.3%), Senior workers

Income Level Breakdown:

- High income (>\$3,333/month): 10,306 workers (48.8%)
- Mid-range income (\$1,251-\$3,333/month): 6,501 workers (30.8%)
- Lower income (≤\$1,250/month): 4,332 workers (20.5%)

Notably, inflow workers show a slightly lower proportion of high earners (48.8%) compared to outflow workers (51.4%), suggesting that while Federal Way attracts skilled workers, the highest-paying opportunities may be located elsewhere in the region.

INTERIOR FLOW: LOCAL WORKERS IN LOCAL JOBS

The smallest segment of Federal Way's workforce consists of the 3,018 residents (8.7% of the local workforce) who both live and work within the city. This group represents the most economically integrated population, contributing to both residential and commercial economic activity.

Demographic Profile of Interior Flow Workers:

- Workers aged 30-54: 1,350 (44.7%), Mid-career professionals
- Workers aged 55 or older: 855 (28.3%), Mature workforce
- Workers aged 29 or younger: 813 (26.9%), Young professionals

Income Level Breakdown:

- Mid-range income (\$1,251-\$3,333/month): 1,163 workers (38.5%)
- High income (>\$3,333/month): 1,090 workers (36.1%)
- Lower income (≤\$1,250/month): 765 workers (25.4%)

The interior flow workforce shows a more balanced income distribution, with fewer high earners compared to outflow workers but a higher proportion of middle-income positions. This suggests that local employment opportunities may offer stability and convenience but potentially limited advancement to the highest income levels.

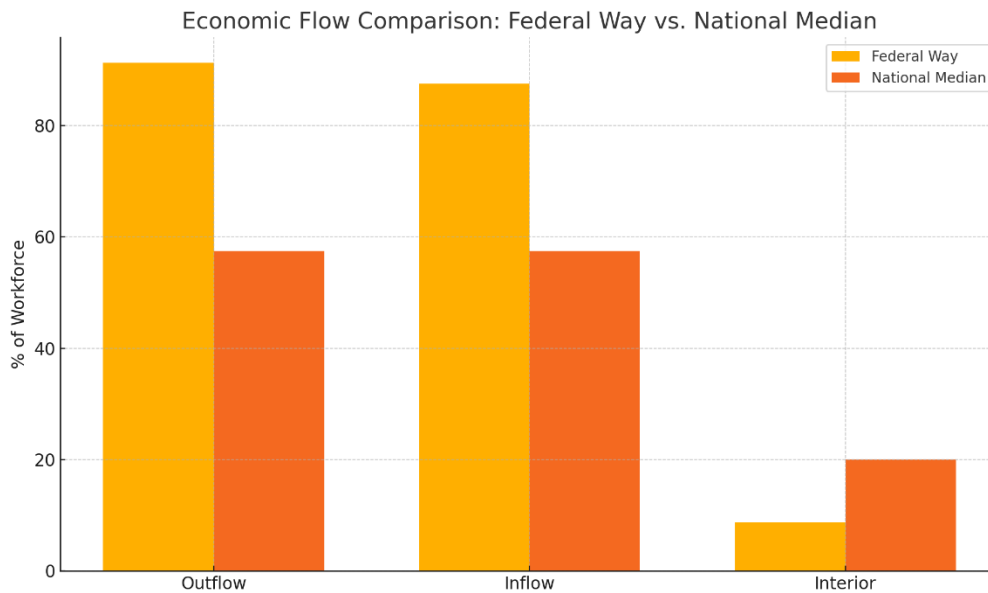
NATIONAL BENCHMARK COMPARISON

Federal Way's economic flow patterns reveal significant divergence from national medians for cities of similar size, highlighting the extreme nature of its bedroom community characteristics. When compared to national benchmarks for cities with approximately 100,000 population, Federal Way exhibits labor flow patterns that place it among the most commuter-dependent communities in the United States.

According to national datasets typical cities of Federal Way's size demonstrate more balanced economic flows.

Expected Flow Distributions

- **Outflow:** 50-65% of residents typically commute outside their city for work
- **Inflow:** 50-65% of local jobs are typically filled by outside commuters
- **Interior Flow:** 15-25% of residents typically both live and work locally



U.S. Census LEHD LODES, Brookings Metro Monitor, and Urban Institute's Commuter Flow Analyses

These national median trends are estimates, offering a contextual baseline for evaluating commuter and employment trends. In contrast, Federal Way's current labor flow structure deviates substantially from these medians, highlighting its identity as a commuter-centric, bedroom community.

DRAMATIC DEVIATION FROM NATIONAL NORMS

Federal Way's labor flow patterns represent extreme outliers when measured against national benchmarks.

Outflow Analysis: Critically High:

- Federal Way: 91.3% of residents work elsewhere
- National median range: 50-65%
- **Deviation:** Federal Way exceeds national norms by over 25 percentage points

This extreme outflow reflects Federal Way's role as primarily a residential base for regional workers, with housing affordability attracting residents but limited high-wage local employment opportunities driving them to seek work elsewhere.

Inflow Analysis: Excessive Dependency:

- Federal Way: 87.5% of local jobs filled by outside workers
- National median range: 50-65%
- **Deviation:** Federal Way exceeds typical dependency by 20+ percentage points

This high inflow dependency suggests a fundamental mismatch between resident skills and available local job types, creating economic vulnerability to external regional disruptions.

Interior Flow Analysis: Critically Deficient:

- Federal Way: 8.7% of residents work locally
- National median range: 15-25%
- **Deviation:** Federal Way operates at less than half the national standard

This deficiency severely weakens daytime economic activity, reduces small business vibrancy, and undermines local tax base stability.

INCOME DISTRIBUTION COMPARISONS

Federal Way's income patterns also diverge from national norms, indicating regional talent export with high-income worker distribution at income levels greater than \$3,333 per month.

- Federal Way outflow workers: 51.4% (above national average of 40-50%)
- Federal Way inflow workers: 48.8% (above national average of 35-45%)
- Federal Way interior workers: 36.1% (within national average of 30-40%)

The concentration of high earners among outflow workers demonstrates that Federal Way serves as an affordable residential base for well-compensated regional professionals who contribute their economic activity elsewhere.

NATIONAL BENCHMARK ANALYSIS

Federal Way's extreme deviation from national benchmarks indicates systemic economic structural problems that require comprehensive intervention. Critical performance gaps include the following:

- **Economic Self-Containment:** Critically low compared to resilient cities
- **Diversified Job Base:** Weak concentration in retail and services versus balanced economies
- **Local Tax Base Sustainability:** Vulnerable due to excessive commuter-tax leakage
- **Community Economic Resilience:** Low capacity to weather regional economic disruptions

National Context for Urgency

The benchmark analysis underscores that Federal Way's current economic model places it among the most commuter-dependent cities nationally, creating exceptional vulnerability and limiting long-term growth potential. Cities with similar extreme patterns have historically struggled with economic stagnation, infrastructure deterioration, and reduced municipal service capacity.

ECONOMIC IMPLICATIONS AND OPPORTUNITIES

Strengths:

- Strong residential base with high workforce participation
- Significant attraction of outside workers indicating business viability
- Diverse age distribution across all worker categories
- Substantial high-income resident population

Challenges:

- Heavy dependence on outside workers (87.5% of local jobs)
- Massive outflow of resident workers (91.3% work elsewhere)
- Limited local employment opportunities relative to resident workforce
- Potential vulnerability to regional economic disruptions

Strategic Opportunities:

- Develop local employment opportunities to retain resident workforce
- Enhance commercial and retail sectors to capture more economic activity from inflow workers
- Focus on industries that can provide competitive wages to reduce outflow pressure
- Strengthen local business ecosystem to support interior flow expansion

Federal Way's economic profile reflects its position as a regional residential hub with significant commuter flows in both directions. While this creates challenges in terms of local economic capture and workforce retention, it also demonstrates the city's attractiveness as both a place to live and work. However, the current economic structure presents significant long-term sustainability risks that require strategic intervention.

THE IMPERATIVE FOR BUSINESS BASE DIVERSIFICATION

Federal Way's heavy reliance on its bedroom community status creates multiple vulnerabilities that threaten long-term municipal sustainability. The current model, where 91.3% of residents work elsewhere and 87.5% of local jobs depend on outside workers, exposes the city to several critical risks that necessitate immediate diversification efforts.

Economic Vulnerability Factors:

- **Revenue Instability:** Limited local business tax base constrains municipal revenue growth and service capacity
- **Regional Dependency:** Economic downturns affecting Seattle, Tacoma, or other employment centers directly impact Federal Way through reduced resident income and spending
- **Infrastructure Strain:** High commuter volumes stress transportation systems without proportional local economic benefit
- **Commercial Stagnation:** Lack of daytime population limits retail and service sector viability, creating a cycle of limited local business opportunities

DOLLAR-BASED ECONOMIC FLOW ANALYSIS

The financial implications of worker movement into, out of, and within Federal Way translate into wage-based economic impact. Categorizing total earnings by flow type shows how income is distributed across municipal borders provides insight into Federal Way's local economic retention, revenue leakage, and development opportunities. A dollar based flow analysis defines contributions to local spending and economic circulation based on where wages are earned and likely spent.

Definitions of Dollar-Based Flow Types

Inflow: Represents the total wages earned by non-resident workers who commute into Federal Way. These wages contribute to the local economy through limited work-related spending (e.g., meals, fuel, services) and employer-based tax contributions, but the majority of income is repatriated to their home communities.

Outflow: Refers to the total wages earned by Federal Way residents who work outside city boundaries. These earnings support household income within Federal Way but are largely spent and taxed in other jurisdictions, resulting in local economic leakage.

Interior Flow: Captures the income earned and spent entirely within Federal Way by residents who both live and work locally. This segment provides the most sustainable and continuous contribution to both commercial and residential sectors within the city.

ESTIMATED ANNUAL FINANCIAL FLOWS

Outflow

- Approximate Income Base: **\$1.21 billion**
- Estimated Local Capture: **Low (10–15%)**

The vast majority of earnings are spent and taxed in surrounding employment centers, leading to a significant leakage of economic value from Federal Way.

Inflow

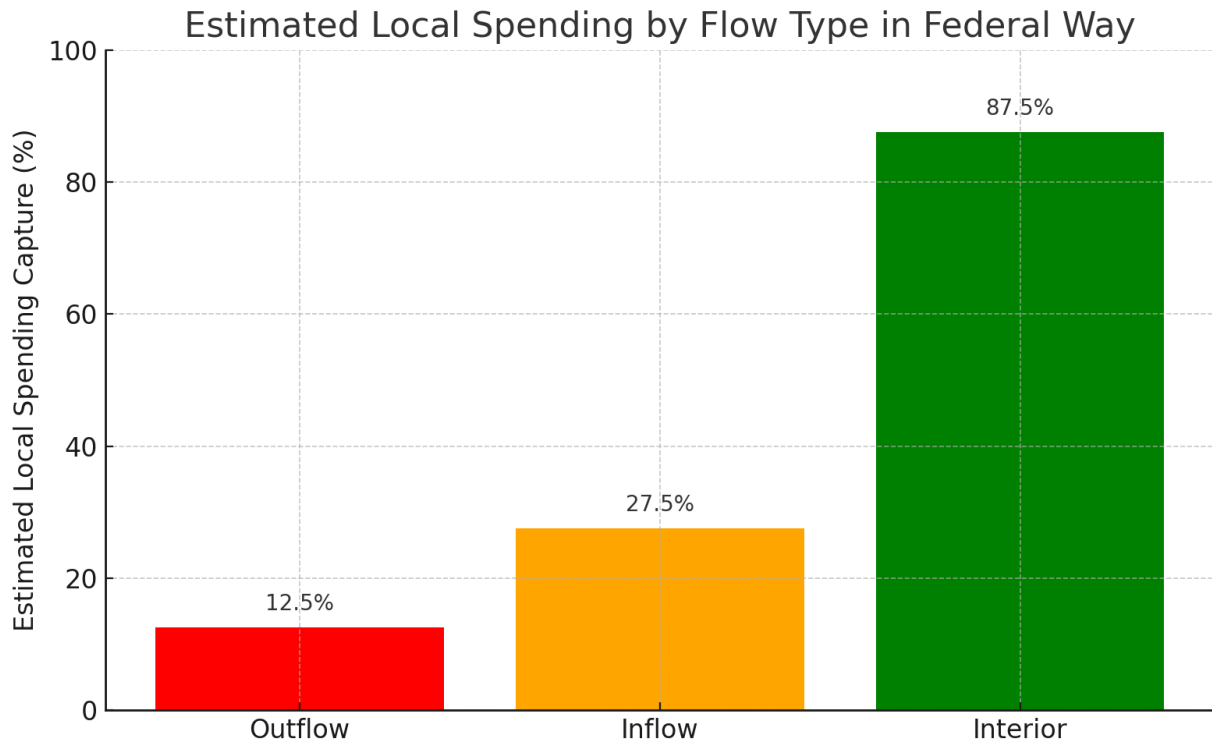
- Approximate Income Base: **\$787.9 million**
- Estimated Local Capture: **Medium (25–30%)**

While these workers earn their wages in Federal Way, most leave the city after work hours, limiting their economic contribution to incidental spending.

Interior

- Approximate Income Base: **\$100.2 million**
- Estimated Local Capture: **High (85–90%)**

This flow reflects wages that circulate entirely within the local economy, making it the most economically beneficial in terms of both residential and commercial value.



Federal Way experiences a high level of wage outflow, with the majority of resident earnings generated outside the city and only a small portion returning through local spending. Inflow wages brought in by non-resident workers account for a significant share of total earnings but have limited local economic retention.

Interior flow remains the smallest segment, with relatively few residents both living and working in the city, though this group contributes the highest share of locally retained income. Overall, the city captures only a fraction of the total earnings generated by its workforce, reflecting a structural imbalance in economic self-containment.

ECONOMIC LEAKAGE OF WORKFORCE FLOWS

Economic Leakage: Federal Way residents earn over \$1.2 billion annually from external employment, much of which is spent outside the city. This reduces Federal Way's ability to capture the full economic benefit of its own workforce.

Undercapture of Inflow: With approximately 21,000 inbound workers contributing nearly \$788 million in earnings, the city captures only a modest share through limited workday spending and business taxes. The rest is economically repatriated to other jurisdictions.

Interior Flow Underperformance: Only about 8.7% of total labor value is fully local, underscoring a key vulnerability in economic sustainability. Strengthening this segment is essential for building a resilient and self-sufficient economy.

Strategic Recommendations

- **Target High-Retention Jobs**
Invest in professional services, healthcare, and technology sectors that support both local employment and wage spending within Federal Way.
- **Convert Inflow to Local Activity**
Expand the city's retail, dining, and service offerings to encourage inbound workers to engage in non-work-related spending while in Federal Way.
- **Grow Interior Employment**
Support business development and entrepreneurship that align with resident skills, helping to shift the economic balance from outflow to interior flow and increasing full-cycle income retention

DIVERSIFICATION NECESSITIES FOR MUNICIPAL SUSTAINABILITY

Professional Services Hub Development: Federal Way must cultivate a robust professional services sector including technology, healthcare administration, financial services, and consulting firms. The city's educated workforce (evidenced by high outflow worker income levels) represents untapped local talent that could support knowledge-based industries if proper infrastructure and incentives were established.

Manufacturing and Distribution Advantages: The city's strategic location and transportation access provide natural advantages for light manufacturing, warehousing, and distribution operations. Developing these sectors would create middle-income jobs suitable for residents currently commuting elsewhere while generating substantial business tax revenue.

Healthcare and Education Cluster: Expanding healthcare services and educational institutions beyond basic community needs could transform Federal Way into a regional destination for these essential services, creating high-skill local employment while serving the broader South Sound region.

Retail and Entertainment Destination: Converting from a pass-through community to a regional destination requires developing entertainment, dining, and specialty retail that attracts visitors and captures spending from the 21,139 daily inflow workers who currently contribute minimal economic activity beyond their workplace requirements.

Innovation and Entrepreneurship Ecosystem: Supporting local business incubation, co-working spaces, and small business development programs could nurture homegrown enterprises that naturally employ local residents and reinvest profits within the community.

LONG-TERM SUSTAINABILITY FRAMEWORK

Successful transformation from bedroom community to economically sustainable city requires coordinated action across multiple fronts. The city must leverage its residential stability and workforce quality as assets for business recruitment while addressing infrastructure needs that support both commuter flows and local economic activity.

Critical Success Factors

- **Zoning Reform:** Mixed-use development that integrates residential, commercial, and light industrial uses
- **Transportation Enhancement:** Public transit improvements that serve both commuters and local circulation
- **Business Incentive Programs:** Tax increment financing and development incentives targeted at businesses providing living-wage employment
- **Educational Partnerships:** Workforce development programs aligned with target industry needs
- **Quality of Life Investments:** Parks, cultural amenities, and community spaces that attract both residents and businesses

Benchmark-Based Development Targets

To achieve national sustainability standards, Federal Way should establish measurable targets in its economic development planning.

- Reduce outflow below 75%, from current 91.3%
- Increase interior flow to at least 20%, from current 8.7%
- Develop wage-competitive local industries in professional services, healthcare, and advanced logistics
- Implement comprehensive zoning and business incentive reforms to support mixed-use economic development

OUTLOOK: DATA-DRIVEN SOLUTIONS

Without proactive diversification, Federal Way risks continued economic stagnation, infrastructure deterioration, and reduced competitiveness within the regional economy. The current data reveals both the urgency of this challenge and the substantial human and locational assets available for transformation.

Strategic economic development focused on creating a balanced, diversified local economy is not merely an opportunity for growth—it is an essential requirement for Federal Way's long-term viability as a thriving, sustainable community rather than simply a residential waystation in the regional economy.

With the support of our District 30 Legislative delegation, the Federal Way Chamber of Commerce has contracted with the Department of Commerce to produce full range of reports and online data, identifying economic opportunities in South King County as well as strategic diversification and growth potential of industry sectors. Studies, Reports and a range of Economic Dashboards are available online at fedwaychamber.com.

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