PHED Committee #1
July 23, 2012
Discussion

Please bring your hard copy of the IEDC Report.

MEMORANDUM

July 19, 2012

TO: Planning, Housing and Economic Development Committee

FROM: Jacob Sesker, Senior Legislative Analyst

SUBJECT: Report—Economic development organizational assessment and comparative analysis

This memorandum includes a summary of the organizational assessment report, as well as a discussion regarding the significance of the report's finding that Montgomery County spends less than its regional peers on marketing and business recruitment. DED Director Steve Silverman will be joined by Jeff Finkle, President and CEO of the International Economic Development Council (IEDC).

Background

DED performs a number of varied functions. In addition to the DED functions that are typically found in lead economic development organizations (marketing and business recruitment, business retention and expansion, business/entrepreneurial development), DED also performs other functions that are less commonly found in such organizations. For example, incubators and incubator programs are often managed by academic or regional institutions, and it is unusual for lead economic development organizations to also manage agricultural services—including agricultural land preservation easements, weed control and deer management—as is the case in Montgomery County.

DED contracted with IEDC to assess the County's economic development organizational structure.[1] The purpose of this assessment is to provide research and options to improve the economic development delivery system for Montgomery County.

[1] IEDC is the largest membership organization serving the economic development profession.

The report provides research on six peer county economic development delivery systems, focusing on the lead county economic development organization for each county (in some jurisdictions there is more than one organization). For each lead county economic development organization, the report addresses governance, organizational structure, primary funding, budget, performance measurement, and programmatic components. The report also identifies and describes programmatic components for other key county EDOs.

The six peer jurisdictions include four counties within the region (Fairfax County, VA; Prince William County, VA; Baltimore County, MD; Howard County, MD), and two counties outside the region (Miami-Dade County, FL; St. Louis County, MO). The four regional peers were selected because they often compete with Montgomery County for business. The two counties outside the region were selected because they are examples of strong organizations that are structured very differently from DED. IEDC presents possible strengths and weaknesses of each model.

As part of that comparative analysis, IEDC compared the manner in which key economic development functions were delivered. IEDC identified the main functions of economic development organizations: marketing and business recruitment (MBR); business retention and expansion (BRE); technology-led development; small and minority/women/disadvantaged (MWD) business development/finance; real estate development and reuse; the Workforce Investment Board (WIB). Comparative analysis of the jurisdictions illustrates that key functions can be performed by organizations with different models, though IEDC does observe that some functions are more likely than others to be performed by private sector economic development organizations or state/regional/academic institutions.

IEDC also addressed strategic planning and performance measurement in economic development organizations. The report includes a discussion regarding the strategic planning efforts of Montgomery County's peers, and the efforts of those peers to develop performance measures that reflect the efforts of the organization rather than merely economic trends.[2]

IEDC report summary

The IEDC report includes numerous observations and conclusions, some of which are summarized below. Staff notes that some of the observations and conclusions in the report are well-substantiated and others are not. The most thoroughly analyzed conclusion, and also the most compelling one, is that Montgomery County spends significantly less than its peers on two key functions (MBR and BRE)—that conclusion is addressed in greater detail in the next section of this report.

Lead economic development organizations can operate effectively as public, public/private, or private organizations. Success is based on strong leadership, a clear, well-communicated mission, and the relationships, resources, and staff skills to carry out the mission.

[2] Economic development as a field is often criticized for a "shoot anything that flies, claim anything that falls" approach. Criticism hurts most when there is some truth in it, and in this case there is—economic development organizations often claim responsibility for events (e.g., the relocation of an outside firm or the expansion of a local firm) that cannot be proven to be related in any way to the actions of the economic development organization.

Most organizations have a formal strategic plan and tie performance measures to the strategic plan.[3] Performance measures should be based on outcomes that can be affected by the economic development organization, rather than on measures that merely reflect the state of the economy. Three of Montgomery County's peers (Baltimore, Howard, Prince William) are currently re-vamping their performance evaluation measures.

Many metro areas have private sector-led organizations that market the region and recruit businesses. In some cases, such groups are also involved in tech-led development or other entrepreneurial development activities. Baltimore has the Economic Alliance of Greater Baltimore. However, the DC area has no analog organization. IEDC noted that peers tend to have greater private sector participation in economic development efforts than Montgomery County does.

Montgomery County lags behind peer jurisdictions in expenditures on marketing and business recruitment (MBR) and business retention and expansion (BRE). Of the six peer jurisdictions in this study, two peers (Fairfax County and Howard County) are most comparable to Montgomery County and most frequently in direct competition with Montgomery County. Both of those jurisdictions spend significantly more per capita than Montgomery County on these critical economic development functions.

User-friendly websites loaded with research and valuable links send a pro-business message. DED's new website represents a step forward. Baltimore County is examining alternative, business-friendly website formats that clearly distinguish it from the county government's website.

Most organizations have one or two staff members dedicated to research; Fairfax has six. However, St. Louis County, Baltimore County, and Howard County benefit from research provided by regional marketing organizations, and as a result the in-house research staff numbers understate the organizational research capacity.

Montgomery County differs from its peers in that it has represented employees and employees who have tenure and do not serve at will. Employees in Fairfax, Howard, and Baltimore County serve at will. None of Montgomery County's peers have represented employees.

Fairfax County has aligned compensation with outcomes. Each year, FCEDA staff set aside 10% of their salary as "at risk." Staff is then evaluated according to its success in key metrics: job creation (50%), expansion (20%), foreign-owned company growth (10%), minority-owned company growth (10%) and articles that provide a desired economic message about the county (10%). Staff members who perform at a lower level lose the 10% that was set aside. Staff members who match the median do not lose any of the 10%. Staff members who exceed expectations receive a 10% bonus. The performance evaluation system has been very effective.

Marketing and business recruitment expenditures

The most compelling finding from the IEDC study is that Montgomery County lags behind peer jurisdictions in expenditures on marketing and business recruitment (MBR) and business

[3] Pending legislation (Bill 14-12) would require the Executive to propose and update an economic development strategic plan for the County, subject to Council approval.

retention and expansion (BRE). According to the report, Montgomery County spent less (per capita) on this function than any of its peers.

MBR (attracting new employers) and BRE (keeping and growing existing employers) are not the only economic development functions; however, they are the highest profile economic development functions. MBR and BRE are particularly important functions during this current jobless recovery. Many employers have downsized or closed their doors, and many office employers require less space per employee than they did several years ago. Backfilling vacant office space has been a challenge throughout the metropolitan area—in Montgomery County, office market absorption has been negative for 17 of the last 18 months through June of 2012. It is not just property owners that are forced to step up with increased lease concessions and decreased rents—local governments are also being asked to pay out ever larger incentives to attract or retain employers.

In this context, the IEDC report findings regarding the MBR and BRE budget in Montgomery County, in contrast to its regional competition, are particularly salient. Montgomery County's operating budget expenditure for BRE is significantly smaller than Fairfax County's operating budget expenditure for MBR. Put differently, Fairfax County spends more money trying to attract employers to Fairfax County than Montgomery County spends trying to keep its current employers.

Of the six peer jurisdictions in this study, two peers (Fairfax County and Howard County) are most comparable to Montgomery County and most frequently in direct competition with Montgomery County. Both of those jurisdictions spend significantly more than Montgomery County on these critical economic development functions.

	MBR & BRE Budget[4]	Per Capita Expenditure	MBR & BRE as % of Total Non-education Operating Budget	MBR & BRE Staff
Montgomery	$1,599,889	$1.65	0.09%	7
Fairfax	$6,609,753	$6.11	0.41%	41
Prince William	$1,777,254	$4.42	0.38%	13
Baltimore County	$1,790,187	$2.22	0.15%	11
Howard	$2,113,853	$7.36	0.29%	12
Miami-Dade	$5,338,756	$2.16	0.08%	28
St. Louis County	$2,948,037	$2.95	0.54%	8

Based on these figures, Montgomery County expenditures on these two functions would need to increase by more than $4.3 million annually to match Fairfax County's per capita expenditures on MBR & BRE functions.

[4] For three of the peers, a portion of the MBR & BRE budget actually represents an allocation of the expenditure of the regional economic development organization. The Economic Alliance of Greater Baltimore works with the local lead organizations in both Baltimore County and Howard County on marketing and recruitment. The Regional Chamber and Growth Association supports the MBR functions of the lead economic development organization in St. Louis County.

According to the report, Montgomery County also has a smaller staff assigned to MBR and BRE. This significant difference in staffing level for these functions is reflected in other metrics cited in the report. For example, the Fairfax County Economic Development Authority reported 1,500 annual retention calls; in contrast, Montgomery County Department of Economic Development reported 236 annual retention calls.

Montgomery County and three of its peers focus more than 75% of their business development time on business retention and expansion (BRE) rather than on marketing and business recruitment (MBR). The three peers (Howard, Baltimore County, and St. Louis County) that also focus on BRE all have a regional economic development organization that is heavily involved in marketing and business recruitment. On the other hand, Fairfax does not have such an organization and focuses its efforts on MBR.[5]

In addition, the report notes that the BRE function is more frequently performed by government economic development organizations. This could suggest that there may be reasons for keeping this function within County government, and that MBR represents an area where the MBDC structure can be most effectively leveraged.

In light of these findings, the Committee should consider the following. First, should Montgomery County allocate additional resources to MBR and BRE? Second, assuming that there are no net new resources available to allocate to economic development, from where should those new resources come? Presumably, those resources will need to come from both additional private sector funding for economic development and a re-allocation of economic development resources from other functions.

F:\Sesker\Word\Economic Development\strategic planning\PHED DED organizational assessment 072312.doc

[5] This suggests that Montgomery Business Development Corporation (MBDC) could play a complementary role in enhancing the County's marketing and business recruitment functions.