

MEMORANDUM

March 7, 2013

TO: Planning, Housing, and Economic Development Committee

FROM: Craig Howard, Senior Legislative Analyst
Natalia Carrizosa, Research Associate
Office of Legislative Oversight

SUBJECT: **Worksession on OLO Report 2013-2: Review of Montgomery County's Economic Development Incentive Programs**

On March 11th, the PHED Committee will hold a worksession on OLO Report 2013-2. The Council received and released this report on February 26th.

This report responds to the Council's request to review and offer recommendations on measuring and assessing the impact of Montgomery County's economic development incentive programs.

Representatives expected to attend the Committee worksession include:

- Steve Silverman, Department of Economic Development
- Peter Bang, Department of Economic Development
- Mike Coveyou, Department of Finance
- Holly Sears, Montgomery County Business Development Corporation

A. SUMMARY OF OLO REPORT 2013-2

OLO staff will provide the Committee with an overview of the report, and a four-page executive summary of OLO's major findings and recommendations is attached at ©1. Key findings from the report include:

- Montgomery County provides economic development incentives via an Economic Development Fund and tax credits, and the County's incentive programs fall within the framework of an economic development strategic plan.
- Montgomery County's economic development incentive programs, to a large extent, align with the best practices identified in the research literature for structuring and administering incentive programs.
- The Economic Development Fund has provided over \$34 million in direct financial assistance to companies in Montgomery County through 2012. Most assistance (~75%) is provided through a Grant and Loan program.

- Montgomery County has provided \$34.8 million to businesses in economic development incentive property tax credits through FY12.
- The research literature indicates that measuring the “success” of economic development programs is difficult, and empirical studies do not provide a definitive answer on whether or not incentives create desired economic growth.
- A particular challenge in measuring incentive programs is determining “decisiveness.” Relevant to Montgomery County, some researchers suggest that local incentive programs within large metropolitan areas may be more “decisive.”
- Overall, 40% of the Grant and Loan Program award recipients that have completed monitoring successfully met all performance criteria. Recipients that did not meet all performance criteria were subject to “claw-back” provisions.
- Grant and Loan Program award recipients that have completed monitoring retained or created 23,246 jobs in Montgomery County, or 87% of the required total. However, the total is driven by the subset of companies that successfully met performance requirements.
- DED has approved incentive awards projected to provide a large “return on investment” to the County: \$1.24 billion in private investment and \$38 million in annual net economic benefit. Award outcome data, however, indicate many award recipients may not achieve the presumed level of investment or impact.
- An analysis of long-term retention data on incentive award recipients indicates that the proportion of EDF incentive recipients still in business and located in Montgomery County varies by program, ranging from 68% to 49%.

B. WORKSESSION ON OLO’S RECOMMENDATIONS

OLO’s review of Montgomery County’s economic development incentive programs illustrates opportunities to build upon the current performance monitoring and measurement efforts associated with incentive awards – in particular through enhancing “post-award” data collection and reporting to better assess actual impacts.

OLO has three recommendations for Council action intended to provide both the Council and the Executive Branch with the most complete picture possible when reviewing incentive programs from a programmatic, strategic, and funding perspective.

OLO circulated a draft of this report to the Chief Administrative Officer (CAO). The CAO’s written comments are attached at ©5, and the comments on each recommendations are included below.

Recommendation #1: Request that the County Executive enhance the data collection and reporting procedures for economic development incentives by expanding pre-award and post-award measurement of performance indicators.

The County Government should expand current data collection and/or reporting associated with three key performance outcome measures – private capital investment, the estimated net fiscal impact of awards, and jobs created and retained – as detailed below:

- **Collect and report data on the actual private investment made by award recipients at the completion of the monitoring period for comparison with what was projected.**

Many incentive awards include a specific amount of private investment a recipient company must make as a condition of the award, and DED annually reports on both cumulative and individual planned private investment amounts as an outcome measure. However, DED does not provide a follow-up “post-award” measure that shows how much of the planned investment actually occurs.

Since OLO found that not all award recipients successfully meet performance criteria, it is likely that at least a portion of the planned private investment does not occur. Collecting and reporting this data for each project will allow for a more accurate assessment of how well public incentives are working to leverage important private investment in the County.

- **Revise the estimated fiscal impact for each project at the completion of the monitoring period for comparison with what was projected.**

Similar to planned private investment, DED annually reports on the cumulative and individual projected fiscal impact for each award. The model uses several assumptions in calculating the projected impact, including the amount of private investment, the number of jobs retained, the number of new jobs created, the average wages paid for each job, and the number of new County residents created.

Revising the estimate at the completion of an award recipient’s monitoring period will provide a more accurate assessment of the annual economic impact by using the actual data points on jobs, investment, wages, and residents instead of what was projected when the award was approved.

Additionally, taking this step and comparing the pre-award and post-award projected fiscal impact will allow DED and Finance to test (and revise if necessary) some of the assumptions that are built into the model (for example, that 60% of newly created jobs will be filled by new County residents) and potentially enhance the accuracy of pre-award estimates.

- **Differentiate between jobs retained and jobs created within the data reporting process for program awards.**

DED collects and reports “pre-award” and “post-award” jobs data, allowing for a comparison of projected versus actual data. However, DED combines job retention and job creation data for reporting on individual awards. These data should be separated out for reporting to allow for discrete performance assessment going forward for existing jobs retained and new jobs created; specifically since job retention and job creation have different implications for the net economic impact of any particular project.

CAO Comments: I concur with the recommendation. With the enactment of Bill 14-12, on December 20, 2012, both DED and Finance turned their attention to expanding the pre- and post-award data collection and are currently fine-tuning their work programs to achieve this goal.

Recommendation #2: Request the County Executive track and annually report on the long-term outcomes of businesses that have received incentives (i.e., whether they remain located in Montgomery County or have moved or gone out of business).

For this report, OLO conducted an initial review of long-term retention data and found that the proportion of EDF incentive recipients remaining in the County varied by program. Regularly tracking and reporting data on whether or not businesses that receive incentive awards are staying in Montgomery County will help the Council and the Executive Branch assess the success of these programs over the long-term. These data collection efforts should also track, where possible, the time lag between when program monitoring ends and a company leaves or goes out of business.

CAO Comments: I concur with the recommendation. Our economic development grants and loans are offered with the requirement that each business remain in the County for a certain number of years (this period usually coincides with commercially reasonable lease terms) after the grant/loan is received. Although we size and structure the incentives with the intent to keep the company in the County for the specified length of time, we agree that there is value to tracking longer-term outcomes to the extent possible.

Recommendation #3: As part of the economic development strategic planning process, the Council should discuss with the Executive Branch performance targets or guidelines for actual versus projected jobs, investment, fiscal impact, and long-term retention results.

There are multiple variables that impact the dynamics of business growth and development within a region. As such, it is not unexpected that some incentive recipients will not meet some or all performance criteria – whether that is jobs, level of investment made, or remaining in the County. However, the Council would benefit from being able to review the actual performance data within a set of guidelines or standards for each measure that indicate whether or not the incentives are meeting strategic goals. Example of performance guidelines could include:

- The proportion of businesses expected to remain in Montgomery County five, ten, and fifteen years after receiving an incentive award;
- A desired percent of incentive recipients that successfully meet all performance criteria, both cumulatively and for each industry type (or other award factor); and/or
- A target ratio for actual jobs created and/or fiscal impact achieved versus what was projected.

CAO Comments: I concur with the recommendation. We look forward to participating in the recommended discussion. As OLO acknowledged in the report, the County's economic development incentive programs, to a large extent, align with best practices for structuring and administering incentive programs. We look forward to discussing performance targets or guidelines that can best guide the County's strategic use of local incentives in the future. The Greater Washington area is saturated with affluent and competitive jurisdictions that are similar to one another with respect to many of the characteristics that businesses favor. In this environment, strategic local incentives will continue to play an important role in many business decisions. It is appropriate to include a discussion of performance targets and guidelines in the strategic planning process.

LIST OF ATTACHMENTS

Item	Begins at:
Summary of Report	©1
Written Comments from the County Government's Chief Administrative Officer, dated February 20, 2013.	©5

Review of Montgomery County's Economic Development Incentive Programs

OFFICE OF LEGISLATIVE OVERSIGHT REPORT 2013-2: EXECUTIVE SUMMARY
FEBRUARY 26, 2013

This OLO report responds to the County Council's request to review and offer recommendations on measuring and assessing the impact of Montgomery County's economic development incentive programs.

Economic Development Incentives in Montgomery County

Local governments across the nation provide \$80 billion per year in economic development incentives to businesses. In general, local governments provide incentives as a means to increase local economic growth through business investment and creating new jobs. Montgomery County provides incentives via an Economic Development Fund and tax credits, and within the framework of a strategic plan.

- **Economic Development Fund (EDF).** The EDF is established in the County Code to "aid the economic development of the County by assisting private employers who are located or plan to locate or substantially expand operations in the County." The EDF is a discretionary program administered by the Department of Economic Development (DED).
- **Tax Credits.** The County has four "economic development" tax credits, administered by the Department of Finance, for qualifying businesses to locate or expand in Montgomery County. The tax credit programs are entitlement incentives, meaning a company qualifies for the credit as long as they meet the criteria established for the program in law.

Administration of Incentive Programs

Montgomery County's economic development programs, to a large extent, align with best practices cited in the research literature for structuring and administering incentives to maximize potential effectiveness.

Best Practice #1. Align incentive use with a clearly articulated economic development strategy. The County's current strategic plan includes action items relevant to economic development incentives. The Council's 2012 amendments to the EDF law formalize this link by requiring that financial assistance provided from the EDF must be consistent with the strategic plan.

Best Practice #2. Conduct prospective cost-benefit analyses. DED conducts a multi-year cost-benefit analysis on most potential EDF program incentive awards as part of the standard review process, resulting in the projected net annual fiscal impact of each award on the County.

Best Practice #3. Align incentive design with business needs. The EDF law specifies that assistance provided to private employers can take multiple forms, including: grants or loans; transfers of real or personal property; provision of services by a County agency; or plans, studies, or technical assistance.

Best Practice #4. Include clear performance standards, mechanisms for monitoring performance, and penalties for breach of contract in all agreements with incentive recipients. DED develops an Economic Development Fund Agreement (EDFA) with each incentive recipient that stipulates the specific terms, conditions, and performance requirements the company must meet. Each EDFA also includes a "claw-back" provision to recapture the award if requirements are not met.

Best Practice #5. Evaluate incentive programs regularly. DED annually reports on performance and funding measures, but has not conducted a formal evaluation of incentive programs.

The complete OLO Report 2013-2 is available at: www.montgomerycountymd.gov/olo

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Program Financial Data and Research Summary

Economic Development Fund

Award Data for EDF Programs

The Economic Development Fund has provided over \$34 million in direct financial assistance to companies in Montgomery County through 2012. Most assistance (~75%) is through the Grant and Loan program.

EDF Program	Year Established	Cumulative Assistance Provided	Total Awards Provided
Grant and Loan	FY96	\$25.8 million	161
Technology Growth	FY99	\$3.96 million	71
Small Business Revolving Loan	FY00	\$2.1 million	38
Biotech Supplement	FY12	\$500,000	66
Impact Assistance	FY05	\$478,000	27

Data on the Grant and Loan program show that about two-thirds of program awards were made for business retention projects compared to one-third for business attraction projects. The total funding amounts, however, were nearly equal for retention and attraction projects. Additionally, DED targets Grant and Loan program awards to companies in industry types identified by the County's strategic plan. Three industry types - Technology/IT, Biotechnology, and Business Services - account for 82% of grant and loan awards and 46% of total program funding.

Tax Credits

Tax Credit Summary Data

Montgomery County has provided \$34.8 million to businesses in economic development incentive property tax credits through FY12. By offering these tax credits, the County foregoes the collection of some property tax revenue that otherwise would have gone to the General Fund. The Department of Finance annually reviews and certifies that each recipient remains compliant with the terms and conditions of the credit, but does not compile or report any performance or outcome data associated with the tax credit programs.

Tax Credit Program	Year Established	Value of Credits Issued	Total Credits Issued
Enterprise Zone	FY99	\$15.5 million	840
Enhanced New Jobs	FY00	\$12.9 million	11
New Jobs	FY00	\$6.4 million	76
Arts & Entertainment District	FY05	\$25,000	25

Research Literature on Performance Outcomes

The research literature on evaluating economic development incentives includes three key themes:

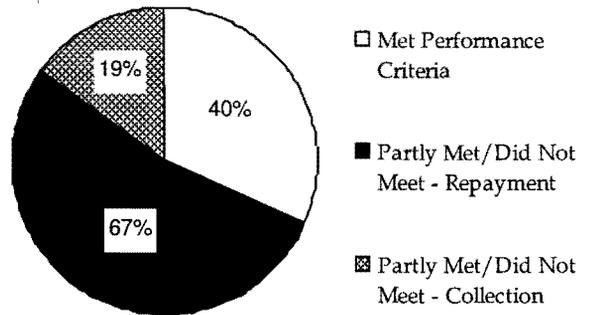
- Measuring the "success" of economic development programs is difficult, and empirical studies do not provide a definitive answer on whether or not incentives create desired economic growth.
- A particular challenge in measuring incentive programs is determining "decisiveness" (i.e., the degree to which an incentive actually plays a role in a business's decision-making process). Relevant to Montgomery County, some researchers suggest that local incentive programs within large metropolitan areas may be more "decisive."
- Since incentive programs are difficult to definitively link to economic growth, many jurisdictions assess the impact of incentives by measuring and reporting various program outcome data. The most typical performance data on incentives reported by state and local jurisdictions are job creation, investment, and cost data.

Grant and Loan Program Performance Outcomes

Compliance with Performance Requirements

Each Grant and Loan program award recipient must comply with certain performance criteria for a set period of time. As shown by the graph, 40% of the Grant and Loan Program award recipients that have completed monitoring successfully met all performance criteria. Recipients that did not meet all performance criteria were subject to "claw-back" provisions and required to repay some or all of the award. 67% made the required "claw-back" repayment, while 19% did not and those cases were sent for collection.

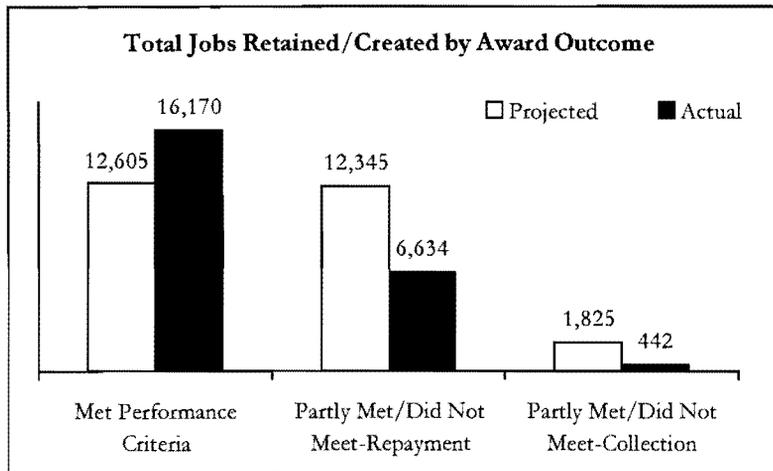
Grant and Loan Program Award Outcomes*



*As of December 2012

Job Retention/Creation Outcomes

DED tracks and reports annually on compliance with jobs requirements, allowing for a comparison of the projected jobs "pre-award" versus the actual results "post-award." Grant and Loan Program award recipients that have completed monitoring retained or created 23,246 jobs in Montgomery County, or 87% of the required total.



The chart shows projected versus actual job performance sorted by award outcome. Award recipients that successfully met all performance criteria actually exceeded job requirements and thus "drove" the cumulative jobs total. For measuring and reporting purposes, DED combines data on existing jobs retained and new jobs created.

Investment and Fiscal Impact Outcomes

DED has approved incentive awards projected to provide a large "return on investment" to the County: \$1.24 billion in private investment and \$38 million in annual net economic benefit. These data, however, are only "pre-award" measures and do not assess the extent to which the projections are met.

Planned Private Capital Investment and Projected Fiscal Impact

Grant and Loan Program Awards	Planned Private Investment	Projected Annual Fiscal Impact
Met Performance Criteria	\$575 million	\$13.4 million
Partially Met/Did Not Meet: Repayment	\$354 million	\$15.6 million
Partially Met/Did Not Meet: Collection	\$25 million	\$3.1 million
Under Monitoring	\$285 million	\$5.8 million
Total	\$1.24 billion	\$38.0 million

Award outcome data indicate that many recipients may not achieve the presumed level of investment or impact. Award recipients that met all performance criteria are the most likely to have achieved the forecasted investment and impact (and in some cases may have exceeded the projections). On the other hand, it is also likely that award recipients did not achieve the planned level of private investment and/or economic impact if they partially met or did not meet the performance criteria.

Retention Data and OLO Recommendations

Long-Term Retention of Incentive Recipients

To assess whether companies that receive incentive awards are staying in Montgomery County for the long-term (i.e., after the monitoring period ends), OLO analyzed data from the Maryland State Department of Assessment and Taxation. OLO's review found that the proportion of EDF incentive recipients still in business and located in Montgomery County (as of December 2012) varies by program. Specifically:

- 68% of the 154 unique Grant and Loan award recipients remain located in Montgomery County, while 32% have moved out of the County or gone out of business.
- 49% of the 71 Technology Growth award recipients remain located in Montgomery County, while 51% have moved out of the County or gone out of business.
- 58% of the 38 Small Business Revolving Loan award recipients remain located in Montgomery County, while 42% have moved out of the County or gone out of business.

There are multiple factors that influence the long-term success and location of a business, so the fact that a company has moved or gone out of business does not mean it was unsuccessful in creating economic benefits or in meeting performance targets while in the County. At the same time, incentive recipients that remain in the County are more likely to provide a longer lasting economic impact.

Recommendations for Council Action

The Office of Legislative Oversight's review of Montgomery County's economic development incentive programs illustrates opportunities to build upon the current performance monitoring and measurement efforts. OLO has three recommendations for Council action, intended to provide both the Council and the Executive Branch with the most complete picture possible when reviewing incentive programs from a programmatic, strategic, and funding perspective.

Recommendation #1. Request that the County Executive enhance the data collection and reporting procedures for economic development incentives by expanding pre-award and post-award measurement of performance indicators. The County Government should expand current data collection and/or reporting associated with three key performance outcome measures - private capital investment, the estimated net fiscal impact of awards, and jobs created and retained - as detailed below:

- Collect and report data on the actual private investment made by award recipients at the completion of the monitoring period for comparison with what was projected.
- Revise the estimated fiscal impact for each project at the completion of the monitoring period for comparison with what was projected.
- Differentiate between jobs retained and jobs created within data reporting for program awards.

Recommendation #2. Request the County Executive track and annually report on the long-term outcomes of businesses that have received incentives (i.e., whether they remain located in Montgomery County or have moved or gone out of business). Regularly tracking and reporting data on whether or not businesses that receive incentive awards are staying in Montgomery County will help the Council and the Executive Branch assess the success of these programs over the long-term.

Recommendation #3. As part of the economic development strategic planning process, the Council should discuss with the Executive Branch performance targets or guidelines for actual versus projected jobs, investment, fiscal impact, and long-term retention results. There are multiple variables that impact the dynamics of business growth and development within a region, and it is not unexpected that some incentive recipients will not meet some or all performance criteria. However, the Council would benefit from being able to review actual performance data within a set of guidelines or standards for each measure that indicate whether or not the incentives are meeting strategic goals.



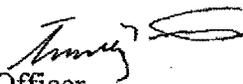
OFFICES OF THE COUNTY EXECUTIVE

Isiah Leggett
County Executive

Timothy L. Firestine
Chief Administrative Officer

February 20, 2013

TO: Chris Cihlar, Director
Office of Legislative Oversight

FROM: Timothy L. Firestine 
Chief Administrative Officer

Subject: Draft OLO Report 2013-02, County's Economic Development Incentive Programs

This memorandum is to provide the Executive Branch's comments on the above referenced report. I want to thank the Office of Legislative Oversight (OLO) for its comprehensive and objective review of the County's economic development incentive programs, which are administered by the Department of Economic Development (DED) and the Department of Finance (Finance), and recognize the thorough and collaborative work done by OLO staff members Craig Howard and Natalia Carrizosa.

DED and Finance staff worked closely with OLO to ensure the accuracy of this report. We concur with OLO's findings and recommendations and offer the following comments.

Recommendation 1: Request that the County Executive enhance the data collection and reporting procedures for economic development incentives by expanding pre-award and post-award measurement of performance indicators.

- Collect and report data on the actual private investment made by award recipients at the completion of the monitoring period for comparison with what was projected.
- Revise the estimated fiscal impact for each project at the completion of the monitoring period for comparison with what was projected.
- Differentiate between jobs retained and jobs created within the data reporting process for program awards.

I concur with the recommendation. With the enactment of Bill 14-12, on December 20, 2012, both DED and Finance turned their attention to expanding the pre- and post-award data collection and are currently fine-tuning their work programs to achieve this goal.

Chris Cihlar, Director
Office of Legislative Oversight
February 20, 2013
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Recommendation 2: Request the County Executive to track and annually report on the long-term outcomes of businesses that have received incentives (i.e., whether they remain located in Montgomery County, have moved, or have gone out of business).

I concur with the recommendation. Our economic development grants and loans are offered with the requirement that each business remain in the County for a certain number of years (this period usually coincides with commercially reasonable lease terms) after the grant/loan is received. Although we size and structure the incentives with the intent to keep the company in the County for the specified length of time, we agree that there is value to tracking longer-term outcomes to the extent possible.

Recommendation 3: As part of the economic development strategic planning process, the Council should discuss with the Executive Branch performance targets or guidelines for actual versus projected jobs, investment, fiscal impact, and long-term retention results.

I concur with the recommendation. We look forward to participating in the recommended discussion. As OLO acknowledged in its report, the County's economic development incentive programs, to a large extent, align with best practices for structuring and administering incentive programs. We look forward to discussing performance targets or guidelines that can best guide the County's strategic use of local incentives in the future. The Greater Washington area is saturated with affluent and competitive jurisdictions that are similar to one another with respect to many of the characteristics that businesses favor. In this environment, strategic local incentives will continue to play an important role in many business decisions. It is appropriate to include a discussion of performance targets and guidelines in the strategic planning process.

TLF:pb

cc: Joseph Beach, Director, Department of Finance
Kathleen Boucher, Assistant Chief Administrative Officer
Jennifer Hughes, Director, Office of Management and Budget
Steve Silverman, Director, Department of Economic Development