

Racial Equity and Social Justice (RESJ) Impact Statement

BILL 10-21: ECONOMIC DEVELOPMENT-ECONOMIC DEVELOPMENT STRATEGIC PLAN- ECONOMIC DEVELOPMENT CORPORATION-DUTIES

SUMMARY

The Office of Legislative Oversight (OLO) expects that Bill 10-21 will have a negligible impact on racial equity and social justice (RESJ) in the County. OLO posits, however, that Bill 10-21 could favorably impact RESJ if it incorporates amendments that required the inclusion of RESJ goals in the development of future economic development plans.

BACKGROUND

On March 2, 2021, the Council introduced Bill 10-21 to consolidate the County's economic development work. The bill would grant the Montgomery County Economic Development Corporation (MCEDC) the authority to develop the County's economic strategic plan. Towards this end, Bill 10-21 seeks to:

- Transfer the drafting of the County's Economic Development Strategic Plan from the Executive to the County's Economic Development Corporation;
- Require the Executive to provide comments to the Council on each draft Plan by a certain date;
- Require the Council to adopt the Plan by a date certain; and
- Generally amend County law governing the County's economic development.¹

The MCEDC is a private, non-profit corporation that connects current and potential business owners in Montgomery County to "resources, site selection, funding incentives, permitting, and more."² It is a County-funded entity and was established after the Council enacted Bill 25-15, which eliminated the Department of Economic Development as a principal department of the Executive Branch.³ MCEDC's mission is to "accelerate business growth and retention in Montgomery County." MCEDC currently provides the following services:

- Provides information on incentives, tax credits and programs;
 - Helps to conduct business entity searches;
 - Finds business support or loans for specialized minority-owned, women-owned or veteran-owned businesses; and
 - Functions as a resource that connects the local workforce to companies in Montgomery County.⁴
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RACIAL EQUITY AND SOCIAL JUSTICE IN ECONOMIC DEVELOPMENT

Nationally, African Americans and Latinos represent 28 percent of the population compared to 8 percent of the business owners with employees.⁵ If people of color owned businesses at the same rate as White Americans, it would possibly add thousands of businesses and millions of jobs to the economy.⁶

Researchers have found that existing disparities do not reflect differences in desire or talents among entrepreneurs of color, but instead reflect the systems that they navigate.⁷ Systemic factors that adversely impact people of color as they launch businesses include disparities in educational attainment, personal wealth, access to capital, and exposure to entrepreneurship in family and social networks.⁸

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The ultimate goal of Bill 10-21 is to advance economic development in the County. Increasingly researchers recognize that advancing local economic development depends, in great part, on increasing the number and productivity of businesses owned by people of color. Economic development initiatives that remove the barriers that disproportionately impact entrepreneurs of color enhance business “dynamism and productivity,” improving the economy and help narrow the racial wealth gap.⁹ Toward this end, some jurisdictions are pursuing a dual mandate with the goal of creating a more *prosperous* and *equitable* economy.

Fairfax County’s Strategic Plan for Economic Success is an example of a jurisdiction that seeks to create a more prosperous and equitable economy. Advancing equity serves as one of six over-arching goals that inform Fairfax’s economic development plan. More specifically, Fairfax’s plan sets “achieving economic success through education and social equity” as a specific County goal parallel to diversifying its economy, improving its development review process, and creating spaces where people want to be. In advancing the goal of equity, Fairfax County tracks data on the following performance goals:

- Expand access to quality early childcare and Pre-K education for all;
- Ensure adequate resources for Fairfax County Public Schools Career and Technical Education programs;
- Expand opportunities for students with financial need to pursue post-secondary training and education;
- Expand STEM and STEAM training and preparation;
- Explore policy opportunities, strategies or frameworks to address the issue of social equity within the context of economic success;
- Promote and explore creative housing solutions in all county-sponsored projects; and
- Identify a recurring, sustainable funding source which can be reinvested into projects which preserve housing affordability and produce new affordable housing units.¹⁰

Alternatively, as currently structured and proposed under Bill 10-21, Montgomery County’s economic plan does not require the inclusion of equity goals or metrics. As stated under Section 15A-4A (d), Bill 10-21 would require the assessment of metrics to measure the progress on the following measures:

- Creation of jobs;
- Growing wages;
- Identifying and supporting strategic industries;
- Retention and attraction of new companies and employers;
- Growing the tax base;
- Supporting increased entrepreneurial activity; and
- Other actions necessary to promote economic development in the County

A focus on expanding economic development without a parallel focus on narrowing racial and social disparities in entrepreneurship and wealth are unlikely to foster equitable development that narrows economic inequality. Of note, research conducted by the Brookings Institute finds that despite the billions of dollars that have been invested into economic development over the past 25 years, economic disparities between White people, people of color and low-income residents have persisted.¹¹ As such, Brookings researchers state that economic development “strategies should be attached to clear, achievable outcomes that prioritize racial equity and are visible to residents within a reasonable timeframe.”¹² This reinforces the notion that it is important to develop and include equity-focused goals and metrics in local economic development plans.

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LOCAL DEMOGRAPHIC DATA

Understanding the impact of Bill 10-21 on racial equity and social justice also requires reviewing and analyzing available data disaggregated by race and ethnicity describing business owners in the County. Available data on local business owners show that:

- Black, Latinx, Asian, and Other person-owned firms accounted for about half of all Montgomery County businesses in 2012, but only accounted for about 8% of the County's total sales.¹³
- In terms of self-employment, Black and Latinx persons each accounted for 19-20% of Montgomery County residents, but only 11-15% of self-employed residents with incorporated businesses in 2018.
- While representing about 29% of all firms in Montgomery County, Black and Latinx firms combined (1.7% and 1.5% respectively) accounted for less than four percent of the revenue generated by local firms in 2018.

ANTICIPATED RESJ IMPACTS

Understanding how transferring of governance to MCEDC for drafting the County's economic development plan might impact racial equity and social justice under Bill 10-21 hinges on the components of the Plan itself. As currently constructed, there are no metrics in the Plan that explicitly address racial equity and social justice related disparities. As such, Bill 10-21 is unlikely to enhance racial equity or social justice in the County. Moreover, it is possible that the economic development plan required under Bill 10-21 disproportionately benefits White business owners in the County because there are so few businesses of color with significant market share and revenue in the County. If this occurs, Bill 10-21 could widen racial and ethnic disparities among business owners.

If Bill 10-21 required the MCEDC plan to incorporate goals and metrics that focus on racial equity and social justice by improving opportunities for businesses owned by People of Color, it could improve RESJ in the County. Without an amendment requiring the County's economic development plan to include specific racial equity and social justice goals, OLO anticipates that Bill 10-21 will have a negligible impact on racial equity and social justice in the County.

METHODOLOGIES, ASSUMPTIONS AND UNCERTAINTIES

This RESJ impact statement and OLO's analysis relies on several sources of information. They include:

- Racial Equity Profile, Montgomery County, Office of Legislative Oversight
- Montgomery County Economic Development Corporation
- Community-Rooted Economic Inclusion, Brookings Institution
- Economic Success Plan, Fairfax County

OLO also spoke with staff from the PHED Committee, MCEDC and the Fairfax County Economic Success Department for information.¹⁴

RECOMMENDED AMENDMENTS

The County's Racial Equity and Social Justice Act requires OLO to consider whether recommended amendments to bills aimed at narrowing racial and social inequities are warranted in developing RESJ impact statements. As suggested by

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researchers, this RESJ impact statement recommends the amending of Bill 10-21 to require MCEDC to include equity-focused goals and metrics into the County's Economic Development Plan.

CAVEATS

Two caveats to this statement should be noted. First, estimating the impact of legislation on racial and social inequities in Montgomery County is a challenging, analytical endeavor due to data limitations, uncertainty, and other factors. Second, this RESJ statement is intended to inform the legislative process rather than to determine whether the Council should enact legislation. Thus, any conclusion made in this statement does not represent OLO's endorsement of, or objection to, the bill under consideration.

¹ Montgomery County Council, Bill 10-21, Economic Development-Economic Development Strategic Plan-Economic Development Corporation-Duties, Introduced March 2, 2021, Montgomery County, Maryland.

https://apps.montgomerycountymd.gov/ccllms/DownloadFilePage?FileName=2701_1_14253_Bill_10-2021_Introduction_20210302.pdf

² Montgomery County Economic Development Corporation Maryland (MCEDC), Website. <https://thinkmoco.com/how-we-help>

³ Montgomery County Council, Bill 25-15, Economic Development-Reorganization-Montgomery County Economic Development Corporation, Enacted June 30, 2015, Montgomery County, Maryland. [MCEDC is a public-private corporation organized as a 501\(c\)\(3\)](#)

⁴ Ibid

⁵ Brookings analysis of U.S. Annual Survey of Business data cited in Joseph Parilla and Darin Redus, How a Minority Business Accelerator grant program can close the racial entrepreneurship gap. Brookings Institution, December 9, 2020

⁶ Ibid

⁷ Jonathan Rothwell, "No recovery: An analysis of long-term US productivity decline" Washington: Gallop, 2016

⁸ Joyce Klein, "Bridging the Divide: How Business Ownership Can Help Close the Racial Wealth Gap" Washington: The Aspen Institute 2017; Robert Fairlie and Alicia Robb, "Why Are Black-Owned Businesses Less Successful than White-Owned Businesses? The Role of Families, Inheritance, and Business Human Capital," Journal of Labor Economics 25(2) 2017; "Kaufmann Compilation: Research on Race and Entrepreneurship," Kaufmann Foundation, December 2016

⁹ Parilla and Redus

¹⁰ Fairfax County, Economic Success Plan <https://www.fairfaxcounty.gov/economic-success/economic-success-plan>

¹¹ Hanna Love, Jennifer S. Vey, William Taft, and Elizabeth Demetriou, Community-Rooted Economic Inclusion, March 16, 2021, The Brookings Institution. <https://www.brookings.edu/essay/community-rooted-economic-inclusion-a-strategic-action-playbook/>

¹² Ibid

¹³ Jupiter Independent Research Group, Racial Equity Profile Montgomery County, June 15, 2019, Silver Spring, Maryland. <https://www.montgomerycountymd.gov/OLO/Resources/Files/2019%20Reports/RevisedOLO2019-7.pdf>

¹⁴ OLO spoke with County Central Council Analyst, the Assistant Chief Administrative Officer for Economic Development from MCEDC, and Staff from the Department of Economic Initiatives for Fairfax County.