

February 24, 2009

Action**MEMORANDUM**

February 20, 2009

TO: County Council

VIA: Mike Knapp, Chair 
Planning, Housing, and Economic Development Committee

FROM: Karen Orlansky^{KO} Director
Sarah Downie^{SD} Research Associate
Sue Richards^{SR} Senior Legislative Analyst
Office of Legislative Oversight

SUBJECT: **Recommendations for Council Action on OLO Report 2009-8:
*Department of Economic Development: Review of Budget and Strategies***

On February 9, 2009, the PHED Committee held a worksession on OLO Report 2009-8, *The Department of Economic Development: Review of Budget and Strategies*. The Committee received an overview of the report from OLO staff; heard from Executive Branch representatives; and held a discussion on Committee member's questions and OLO's recommendations. For reference, attached is a copy of the Committee's worksession packet.

The PHED Committee recommends the Council endorse OLO's recommendations, and in particular, promptly act to request information directly related to the Council's upcoming decisions on the FY10 budget. The Committee's recommended requests to the Executive Branch for data and analysis are outlined below. In order for the Council to use this information during FY10 operating budget worksessions, the Committee recommends the Council ask for a response from the Executive Branch by **March 20, 2009**.

1. A companion document to the *Vision for Economic Development* that provides the costs of the recommended action items and places them in priority order.

To enhance the value of the *Vision* as a tool for fiscal decision-making, the PHED Committee recommends asking the Executive Branch to prepare a companion document to the *Vision* that:

- Provides cost data on the action items listed in the *Vision*, including estimates of future year fiscal impacts;
- Clarifies which recommended action items could be accomplished within DED's current allocation of resources and which require new funding; and

- Places the goals and specific action items in order of funding priority, with an explanation to the Council on the criteria used for establishing the priority order.

The Chief Administrative Officer's written comments on the OLO report indicated that the Executive welcomes the Council's review of the *Vision* and any "input or recommendations arising out of that review" (See ©6). The CAO's proposal is that the *Vision* be accompanied by an annual work program which details departmental priorities, with corresponding budgetary and staffing requirements. At the February 9th worksession, the Director of DED confirmed the Executive Branch's intent to provide such information in time for the Council's FY10 operating budget worksessions.

2. A report on the County's economic development tax credits.

As reviewed in OLO's report, the County currently has four tax credits that are used as incentives for qualifying businesses to locate or expand in Montgomery County: Enterprise Zone Tax Credit, New Jobs Tax Credit, Enhanced New Jobs Tax Credit, and Arts and Entertainment District Tax Credit. For FY09, the tax expenditures associated with these four tax credits totaled \$3.4 million.

The PHED Committee recommends asking the Executive Branch for a report that provides the following information on each of these four tax credits:

- a. The legislative and local implementation history.
- b. The annual (and cumulative) cost of the credit since it was first implemented.
- c. An explanation of how the tax credit was or is currently used by DED staff to encourage businesses to locate or expand in Montgomery County.
- d. The accountability process in place for ensuring that the criteria (e.g., new jobs created) for receiving the tax credit are met each year and an explanation of the consequences for not meeting these criteria.
- e. The Executive's general assessment of the tax credit as a tool for economic development in Montgomery County and any recommendations for improving its effectiveness.

3. Further information and analysis on several DED programs.

OLO report 2009-8 provided an overview of DED's programs and activities. The Committee concurred with OLO's recommendation to learn more about four DED programs/activities: the Business Innovation Network, the Economic Development Fund, contracts funded by local revenue, and DED's marketing and outreach activities.

To supplement the information provided in the OLO report, the Committee recommends the Council formally request written responses to the following questions for these four programs/activities.

Follow-up Questions – Major DED Programs

A. Business Innovation Network

- 1) **Measuring Results.** DED’s headline measures use the number of jobs created by incubator tenants and several other outcomes to measure the success of the incubator program. What do the data collected to date suggest about the strengths and weaknesses of the County’s incubators? In addition:
 - What did DED learn from the recent survey of incubator network tenants?
 - What is the success/failure rate of graduate businesses?
- 2) **Selection Process.** What is DED’s process for selecting businesses to participate in each of the incubators, to include:
 - How does DED decide the type of business (e.g., professional services, biotech) and mix of locally/internationally-based firms to target for each incubator?
 - What are the main criteria used to decide whether a business is accepted into the program and how are the terms of the arrangement determined? What are the criteria for entrance into the virtual incubator program (to receive only support services)?
- 3) **Incubator Finances:** How does DED determine the level of county funding for the incubator program each year? And related to this:
 - How is the rent for each tenant determined? How are annual rent increases calculated? Do participants pay to be part of the virtual incubator program?
 - Does the County always absorb unanticipated cost increases, (e.g., increases in utility costs)?
 - What are the projected costs of the Business Innovation Network program for the next three fiscal years, FY10-FY12?
- 4) **Recommendations for changes to improve efficiency or effectiveness.** Does DED have any specific recommendations for changes to the Business Innovation Network to improve the efficiency or effectiveness of the program?

B. Economic Development Fund (EDF)

- 1) **Measuring Results.** How does DED define “success” and measure the results of the Economic Development Fund? What do the data collected suggest about the strengths and weaknesses of the EDF?
- 2) **Recipient Selection and Terms.** How does DED determine which companies receive a loan or a grant, and how are the terms and conditions of the financial assistance decided? What information does the company have to provide during the application process?

- 3) **Accountability and monitoring of loan/grant conditions.** How does DED ensure that the conditions of a loan/grant from the EDF are met (e.g., creation of a certain number of jobs, remaining in the County for a certain period of time)? If the conditions are not met, how does DED ensure repayment? Has the County ever waived the conditions of an agreement?

Examples: Since the County created the EDF in 1995, 12 companies have received assistance of \$200,000 or more (see table below). For these EDF transactions, provide the following information (in greater detail than provided in the EDF Annual Report):

- a. The fiscal year that the transaction occurred;
- b. The details of all conditions placed on the grant or loan;
- c. Whether the company met all the conditions; and
- d. If any of the cases involve conditions not being met, what consequences were imposed by the County.

EDF Transactions over \$200,000 (from 1995-2008)

Recipient	Industry	Transaction Amount
Wheaton Plaza Regional Shopping Center	Retail	\$6,000,000
Marriott International, Inc.	Hospitality	\$3,000,000
Bethesda Cultural Alliance, Inc.	Performing Arts	\$1,875,000
Qiagen Sciences, Inc.	Bio-Tech	\$1,100,000
Acterna LLC	Technology	\$1,100,000
Choice Hotels International, Inc.	Hospitality	\$500,000
MedImmune	Bio-Tech	\$500,000
Sodexo Marriott	Hospitality	\$250,000
Acacia	Business Service	\$200,000
BioReliance Corporation	Bio-Tech	\$200,000
NASD	Business Service	\$200,000
World Space, Inc.	Info-Tech	\$200,000

Source: EDF Annual Report, March 2008

- 4) **Finances.** Please provide a table with projected FY10 data including the beginning fund balance, revenue from each source, and the appropriation/expenditure. (This would be the same data provided on page 43 of OLO Report 2009-8 for FY09).
- 5) **Recommendations for changes to improve efficiency or effectiveness.** Does DED have any specific recommendations for changes to the Business Innovation Network to improve the efficiency or effectiveness of the program?

C. Marketing and Outreach

- 1) **Measuring Results.** How does DED define “success” and measure the results from the Department’s marketing and outreach activities?
- 2) **Description of Activities.** Describe in more detail the array of marketing, outreach, and business support services currently provided by DED. In particular,
 - What is the division of DED’s marketing and outreach efforts focused on businesses/entrepreneurs currently located in Montgomery County vs. businesses not yet located in the County?
 - Is workforce development a part of the marketing program? If so, is it possible to place an estimated dollar amount on this effort?
- 3) **Recommendations for changes to improve efficiency or effectiveness.** Does DED have any specific recommendations for improving how the Department conducts marketing and outreach activities?

D. Locally-Funded Contracts

The table on the next page lists the locally-funded contracts managed by DED. While the Division of Workforce Services also manages three contracts funded by County revenue, they have been excluded from the list because a large portion of each contract is funded by state and federal grants and many of the services provided are mandated by federal law.

For each of the contracts:

- 1) **Measuring Results.** How does DED define “success” and measure the results from each of these contracts?
- 2) **Selection.** How are the contract recipients selected and what justifies the contracts being awarded non-competitively?
- 3) **Recommendations for changes to improve efficiency or effectiveness.** Does DED have any specific recommendations for changes to how these contract dollars are spent?

Contracts managed by the Department of Economic Development - FY09

Contractor	Max. Amount (\$ in 000s)	Type of Contract	DED Division
Conference and Visitor's Bureau	695	Non-competitive	Marketing and Business Dev.
Latino Economic Development Corp.	255	Non-competitive (3 Community Grants)	Business Empowerment
Alliance for Workplace Excellence	60	Non-competitive (Community Grant)	Workforce Services
Small Business Development Center	50	Memorandum of Understanding**	Business Empowerment
CoStar Realty Information, Inc.	28	Non-competitive	Marketing and Business Dev.
Technology Council of Maryland	25	Non-competitive	Marketing and Business Dev.
MD/Israel Development Center	25	Non-competitive (Community Grant)	Marketing and Business Dev.
World Trade Center Institute	25	Non-competitive	Marketing and Business Dev.
Montgomery County Weed Control*	10	Non-competitive	Ag Services
TOTAL	\$1,173		

Source: FY09 Non-Competitive Contract List (FY09 Operating Budget); Department of Economic Development

*Contract amount is \$32,000; \$22,000 funded by Department of Transportation budget

**DED entered into an MOU with the University of Maryland for the Small Business Development Center Network.

Attachment: PHED Committee packet from February 9, 2009

MEMORANDUM

February 5, 2009

TO: Planning, Housing, and Economic Development Committee

FROM: Karen Orlansky, Director ^{ko}
Sarah Downie, Research Associate ^{SD}
Sue Richards, Senior Legislative Analyst ^{SR}
Office of Legislative Oversight

SUBJECT: **Office of Legislative Oversight 2009-8, *The Department of Economic Development: Review of Budget and Strategies***

On February 9, the Planning, Housing and Economic Development Committee will hold a worksession on OLO Report 2009-8. The report, which was received and released by the Council on February 2:

- Summarizes the research on evaluating the results of “successful” local government economic development programs;
- Reviews the Department of Economic Development’s budget and major programs;
- Describes the Executive’s *Vision for Economic Development in Montgomery County* and compares it to the County’s 2004 Strategic Plan for Economic Development;
- Provides 20 case studies of innovative and award-winning economic development programs and practices used in other state and local jurisdictions; and
- Recommends Council actions to enhance the oversight of the County’s economic development expenditures, and establish future funding priorities for the Department of Economic Development.

The four-page Executive Summary of the report is attached at © 1. The Chief Administrative Officer’s comments on the report are attached at © 5.

The County Executive will be represented at the worksession by: Kathleen Boucher, Assistant Chief Administrative Officer; and Pradeep Ganguly, Director, Department of Economic Development. There will also be staff representatives from the Department of Finance and Office of Management and Budget.

WORKSESSION ORDER

OLO recommends the following order for the PHED worksession:

1. Project summary: OLO will present a summary of the report's findings and recommendations.
2. Executive Branch comments: Staff representing the Executive will present comments on the OLO report.
3. Committee worksession on OLO recommendations: OLO's recommendations for the Committee to consider and act upon are summarized below. For reference during the worksession, attached are copies of the County Executive's *A Vision for Economic Development in Montgomery County* (© 25) and DED's latest Performance Plan (© 40).

OFFICE OF LEGISLATIVE OVERSIGHT'S RECOMMENDATIONS

OLO offers five recommendations for Council action to enhance the Council's oversight of the County Government's economic development expenditures, and assist the Council to establish future funding priorities for the Department of Economic Development.

Recommendation #1: In making funding decisions, act with the knowledge that the outcomes of economic development programs are difficult to predict and measure.

The true impact of most state/local government economic development programs is very difficult to measure reliably. It is near impossible to design evaluations that can distinguish between a change (e.g., job growth, tax base expansion) caused by a specific economic development program versus a change caused by external factors, such as business cycles, tax policies, and/or natural firm growth. Further, significant changes in the economic health of any jurisdiction will almost always be due to economic factors that are beyond the control of local government.

In presenting the Council with justification for new economic development initiatives, the Executive Branch routinely projects program costs and identifies desired outcomes. OLO recommends the Council should continue to insist on measures of program costs and anticipated results, and to consistently ask for the details behind the analysis, including all assumptions.

However, OLO also recommends that when making final funding decisions related to economic development programs, the Council should remember that it is unlikely to receive proof positive that a desired result, such as job creation or business growth, occurred or will occur solely because of County Government activities or investment. The challenges of measuring the impact of incentive programs was reiterated just last week in a Wall Street Journal article on how more states are considering tax breaks to "woo jobs." (See © 22-24)

Executive Branch comments. The CAO takes a more positive stance on the feasibility of measuring outcomes of specific economic development programs. His position is outlined on the second page of his written comments on OLO's report (see © 6). DED's performance plan, including recommended outcome measures and performance data, is attached at © 40.

Recommendation #2: Ask the County Executive for a companion document to the *Vision for Economic Development* that provides the costs of the recommended action items and places them in priority order.

A strategic plan is most useful to the Council when it identifies priorities and links them to budgetary decisions. To enhance the value of the *Vision* as a tool for fiscal decision-making, OLO recommends that the Council ask the Executive to prepare a companion document that:

- Provides cost data on the action items, including estimates of future year fiscal impacts;
- Distinguishes between action items that are currently part of DED's work program and those being recommended as new initiatives;
- Clearly indicates which action items could be accomplished within DED's current allocation of resources and which require new funding; and
- Places the goals and specific action items in order of funding priority, with an explanation to the Council on the criteria used for establishing the priority order.

Executive Branch comments. The County Executive views the *Vision for Economic Development* as a "living" document and envisions that "specific priorities and action items will be adjusted over time based on the needs of our local business community, changing economic conditions, and new opportunities and challenges." The CAO also writes:

We would welcome the Council's review of this document and any input or recommendation arising out of that review, particularly as they relate to how the document will be translated into action. We propose that the *Vision for Economic Development* be accompanied by an annual work program which details departmental priorities, with corresponding budgetary and staffing requirements.

Recommendation #3: To prepare for FY10 budget worksessions, identify specific DED programs for closer scrutiny.

Priority setting for the County's economic development agenda should be a collaborative process with the Executive that extends beyond the upcoming budget season. In the coming months, both the Council and Executive will be compelled to make difficult choices as the County establishes spending priorities for the FY10 budget.

To prepare for the FY10 budget review, OLO recommends that the Council, in consultation with Executive staff, identify specific DED programs/activities that it wishes to examine in greater detail with an eye toward potential spending level adjustments. OLO recommends the Council pursue a more detailed review of the total costs, outputs, and results (to the extent available) associated with:

- The Business Innovation Network (the business incubator program);
- The Economic Development Fund;
- The various DED contracts funded by local revenue; and
- DED's outreach and marketing activities.

Asking questions and requesting further analysis on these (and/or other) items during the February/March time frame will better position the Council for decision-making in April and May.

Executive Branch comments. The CAO notes the spirit of cooperation in which the OLO report was compiled. The CAO writes that, “Continuing in this spirit of cooperation, DED will be pleased to work with the Council during its FY10 budget worksessions in an effort to further analyze specific DED programs.

Recommendation #4: Request a follow-up report on the history, current use, and administration of the County’s economic development tax credits.

The County has four tax credits that are used as incentives for qualifying businesses to locate or expand in Montgomery County: Enterprise Zone Tax Credit; New Jobs Tax Credit; Enhanced New Jobs Tax Credit; and Arts and Entertainment District Tax Credit.

For each of these tax credits, State enabling legislation accompanied by County action (either in the form of a law, Council resolution, or application to the State) implements the tax credit for eligible businesses located in the County. The Enterprise Zone Tax Credit was first authorized in 1985; the New Jobs Tax Credits in 1998; and the Arts and Entertainment District credit in 2002.

For FY08, the value of these tax credits totaled about \$3.4 million. Given the Council’s commitment to examining all expenditures during the FY10 budget season, OLO recommends the Council ask for a report on the history, current use, and administration of these tax credits; and to more routinely examine tax expenditures when making decisions about the allocation of limited economic development dollars.

Executive Branch comments. The CAO welcomes a review of the history, current use, and administration of the County’s four economic development tax credits, as OLO recommends.

Recommendation #5: Explore opportunities for increased Internet use, collaboration with outside partners, and more directed targeting of economic development program dollars.

Based on a compilation of comparative information about economic development programs, OLO identified three emerging themes in state and local practices. The goal of each of these practices is to maximize the value received from spending on economic development programs:

Use of the Internet: Communities are increasingly using the Internet to make economic development services (such as site selection tools, market and demographic data, and resource locators) readily available to businesses and entrepreneurs.

Collaboration: Many communities are adopting collaborative strategies involving joint multi-jurisdictional programming and greater coordination with the private sector.

Targeted Programming: A growing number of jurisdictions target economic development programs toward specific industries, job types, or populations.

To some degree, DED already engages in each of these practices. For example, the County’s web site has some business resource links; DED collaborated with the Federal Government to develop “FedTechNet,” a network connecting local businesses with Federal laboratories; and DED has targeted much of its business development activities toward the biotechnology sector. Nonetheless, OLO recommends that the Council use its budget oversight role to discuss further opportunities for the Department to create efficiencies in economic development spending through increased use of the Internet, collaboration, and targeted programming.

Executive Branch comments. The CAO’s comments align with OLO’s suggestion that DED should continuously be identifying best practices in economic development. In particular, the CAO recently asked DED and the Department of Technology Services to “develop a strategy to improve DED’s web presence and marketing capabilities.”

LIST OF ATTACHMENTS

Item	Begins at:
OLO Report 2008-9, Executive Summary	© 1
Chief Administrative Officer comments on final draft report	© 5
OLO Report 2008-9, Chapter VII, Summary of Findings	© 8
Wall Street Journal Article, February 2, 2009	© 22
<i>Vision for Economic Development in Montgomery County</i> , 12/08	© 25
Department of Economic Development Performance Plan, 12/08	© 40

THE DEPARTMENT OF ECONOMIC DEVELOPMENT:

REVIEW OF BUDGET AND STRATEGIES

OFFICE OF LEGISLATIVE OVERSIGHT REPORT 2009-8 / FEBRUARY 3, 2009

The purpose of this study is to enhance the County Council's oversight of the County's economic development expenditures, and assist the Council to establish future funding priorities for the Department of Economic Development. The Council's request for the project evolved from the Planning, Housing and Economic Development Committee's interest in knowing more about DED's spending and how newly proposed projects fit into an overall economic development strategy for the County. In December 2008, the County Executive transmitted to the Council his new economic development strategy titled, *A Vision for Economic Development in Montgomery County*.

DEFINING AND MEASURING THE OUTCOMES OF ECONOMIC DEVELOPMENT PROGRAMS

There is no universal definition of an economic development program. Across the country, numerous types of public and private entities sponsor activities and projects intended to create or retain jobs, grow the tax base, and/or improve the quality of community life. Economic development organizations offer a wide range of services including: marketing and promotion; grants, loans, and other types of financial assistance for businesses; training and mentoring; and information sharing. Three strategies encompass most economic development activities:

Importing growth strategies focus on attracting investment from outside the region.

Growing from within strategies focus on nurturing businesses already in the locality.

Retaining jobs/business strategies focus on counteracting forces that threaten the viability of local businesses.

The research literature contains few examples of rigorous outcome evaluations of state and local government economic development programs. Measuring the effectiveness of an economic development program requires establishing a cause and effect relationship between a program and its outcomes. With economic development programs, it is extremely difficult to determine whether measured results, such as the number of new jobs or size of tax base expansion, are due to the program or caused by external factors, such as business cycles, tax policies, or natural firm growth. In addition, the cost of such evaluation is often perceived to outweigh its benefits, especially if there is a lack of political interest in conducting a review that might reveal negative results.

RESOURCES AND BUDGETS MANAGED BY DEPARTMENT OF ECONOMIC DEVELOPMENT

In FY09, the County's Department of Economic Development (DED) manages funds appropriated in both the operating and capital budgets that total \$19.8 million. DED's personnel costs account for 28% of the resources managed by the Department; other expenses, such as grants, loans, contractual services, and capital projects, account for nearly three-quarters (72%) of this total. The multiple budget approvals that account for these resources include:

- **\$10.5 million approved in DED's departmental operating budget.** The County funds 76% of DED's budget, with the balance (24%) of funds coming from state and federal grant funds, primarily for workforce development activities.
- **\$3.6 million approved in other operating budget accounts.** This includes appropriations to the Economic Development Fund, Non-Departmental Accounts for the Conference Center and the Conference and Visitor's Bureau, and three Community Grants.
- **\$5.7 million in the capital budget** for planned expenditures in FY09 for three CIP projects administered by DED: the Life Sciences and Technology Centers, a Music Venue in Silver Spring, and Agricultural Land Preservation Easements.

DEPARTMENT OF ECONOMIC DEVELOPMENT – ORGANIZATIONAL STRUCTURE AND FUNCTIONS

The Department of Economic Development consists of a Director's Office and five program divisions. The workyears (WYs) and general functions of each division are as follows:

- The Director's Office (4.4 WYs) provides strategic planning and supervision to the department, staffs several committees and task forces, and administers several CIP projects.
- The Division of Finance, Administration, and Special Projects (9.0 WYs) administers DED's procurement and budget functions, and manages finances for the Economic Development Fund, the Business Innovation Network, and other special programs.
- The Division of Marketing and Business Development (10.0 WYs) conducts marketing, outreach, and other activities to attract new businesses and retain existing businesses.
- The Division of Business Empowerment (11.0 WYs) provides support services to the County's small- and minority-owned business community and staffs the County's five business incubators.
- The Division of Agricultural Services (9.8 WYs) supports the agricultural community, works to preserve the County's farmland, and staffs the Soil Conservation District and Cooperative Extension.
- The Division of Workforce Services (6.0 WYs) provides career services at One Stop Centers in the County (primarily through contracts) and offers recruitment services for employers.

MAJOR PROGRAMS AND ACTIVITIES FOR BUSINESS GROWTH AND EXPANSION

Among the three divisions responsible for strategies to develop and support County businesses, DED allocates a majority of its staff and resources to the following programs and activities:

The **Business Innovation Network** (the County's incubator program) provides office space at or below market rent, support services, priority access to financial assistance, and networking opportunities to serve emerging advanced technology, life sciences, and/or professional services companies. DED operates five incubators, located in Shady Grove, Silver Spring, Wheaton, Rockville, and Germantown, and plans to build a sixth incubator in the Fairland/White Oak area. In FY09, planned expenditures of \$2 million for the program include operating expenses of \$1.3 million and DED staff costs of \$640K.

The **Economic Development Fund** is a fund that provides assistance to private employers. The Fund's revenue sources are: the County's general fund, loan repayments, investment income, and state grants. In FY09, loan repayments are expected to account for about 25% of the Fund's revenues. In FY09, planned expenditures of almost \$2 million include \$1.8 million for financial assistance and \$122K in DED staff costs. Since it began in FY96, the Fund has assisted 242 businesses and disbursed nearly \$28 million.

Marketing and Outreach Activities. DED engages in numerous marketing, networking, and business education activities, using a blend of in-house staff and contracts. These activities are designed to attract new businesses and retain or grow existing businesses. Some examples of these activities are: funding event sponsorships; participating in conferences and trade shows; organizing trade missions to other countries; and staffing various business task forces and committees.

CIP Projects. DED administers five projects, with scheduled FY09 expenditures totaling \$5.7 million, in the current FY09-14 CIP. The current projects are: Life Sciences and Technology Centers, the Germantown Business Incubator (completed in Oct. 2008), a Music Venue in Silver Spring, Agricultural Land Preservation Easement, and Adventist Healthcare. DED is also exploring the feasibility of a multi-use sports arena.

MONTGOMERY COUNTY'S ECONOMIC DEVELOPMENT TAX CREDIT PROGRAMS

Montgomery County offers four tax credits to encourage qualifying businesses to locate or expand in the County. These tax credits are authorized in State law and implemented by local action in the form of a law, application, or Council Resolution. The Enterprise Zone tax credit was authorized in 1985; the New Jobs and Enhanced New Jobs tax credits in 1998; and the Arts and Entertainment District credit in 2002.

Tax credits are foregone property tax revenue that would otherwise be available to the County's General Fund. In FY08, these credits total approximately \$3.4 million.

MONTGOMERY COUNTY'S ECONOMIC DEVELOPMENT STRATEGIC PLANS: 2004 AND 2008

In December 2008, the County Executive transmitted to the Council a strategic plan titled *A Vision for Economic Development in Montgomery County*. The document sets forth goals for DED and recommends action items for each goal. As currently written, the *Vision* does not include cost information or establish funding priorities among the dozens of action items listed.

The County's previous economic development strategic plan, (approved by the Council in 2004) had defined economic development more broadly to include transportation infrastructure, housing supply, and the general quality of County life. When County Executive Duncan transmitted the earlier strategic plan to the Council, he explicitly requested that the Council adopt the plan. In contrast, the 2008 *Vision* focuses on DED programs and projects, and does not include a specific request for Council action.

THEMES FROM OLO'S REVIEW OF STATE AND LOCAL ECONOMIC DEVELOPMENT STRATEGIES

OLO's assignment from the Council included research on "best practices" in state and local economic development. While OLO found little hard empirical evidence to demonstrate the efficacy of local government economic development programs, including those that are heralded as innovative and award-winning, OLO identified three themes across current local economic development programs:

Communities are making increasing use of the Internet to make economic development services readily available to businesses and entrepreneurs. Many state and local economic development organizations provide searchable market and demographic data on-line. For example, the website of Milwaukee 7 features an interactive map that allows users to search available land and buildings and view satellite images, street-level photos, listings of nearby businesses, and statistical data for specific properties.

Communities are adopting collaborative economic development strategies that involve joint multi-jurisdictional programming and/or greater coordination with the private sector. In many communities, economic development is a collaborative and/or regional effort. For example, "Select Greater Philadelphia" is a regional marketing organization that promotes corporate expansions and relocations in eleven counties in Pennsylvania, New Jersey, and Delaware.

Communities are targeting economic development programs to specific industries, populations or policies. Many strategies target resources to certain industries or disadvantaged populations. For example, the Bilingual Health Care Career Pathways Partnership in Chicago trains members of the Latino community to supply local health care providers with bilingual health care professionals.

OLO also found jurisdictions that are reevaluating their economic development programs or investments. New York State recently tightened eligibility and accountability standards for a longstanding business incentive program; the City of Concord, California discontinued its business incubator program; and the City of Lowell, Massachusetts is currently reassessing its business plan for a publicly-funded arena that has run a deficit each year since it opened in 1998.

RECOMMENDATIONS

The Office of Legislative Oversight offers five recommendations for Council action. The recommendations aim to enhance the Council's oversight of the County Government's economic development expenditures, and assist the Council to establish future funding priorities for the Department of Economic Development.

Recommendation #1: In making funding decisions, act with the knowledge that the outcomes of economic development programs are difficult to predict and measure.

The true impact of most state/local government economic development programs is very difficult to measure reliably. Despite this fact, the Council should continue to insist on measures of program costs and anticipated results. When presented with these data, OLO recommends the Council should consistently ask for the details behind the analysis (including all assumptions), and remain mindful that there is rarely going to be proof positive that a result occurred only because of the County Government's activities or investment.

Recommendation #2: Ask the County Executive for a companion document to the *Vision for Economic Development* that provides the costs of the action items and places them in priority order.

To enhance the value of the *Vision for Economic Development* as a tool for Council fiscal decision-making, OLO recommends that the Council ask the County Executive to provide a companion document that:

- Provides cost data on the action items, including estimates of any future year fiscal impacts;
- Clearly indicates which action items could be accomplished within DED's current allocation of resources and which require new funding; and
- Places the goals and specific action items in order of funding priority.

Recommendation #3: To prepare for FY10 budget worksessions, identify specific DED programs for closer scrutiny.

Assuming that the Council wants to focus its attention on the largest portions of the DED budget funded with County revenue, OLO recommends the Council, working collaboratively with the Executive, pursue a more detailed review of the total costs, outputs, and results (to the extent available) associated with the Business Innovation Network; the Economic Development Fund; the various DED contracts funded by local revenue; and DED's outreach and marketing activities.

Recommendation #4: Request a follow-up report that focuses on the history, current use, and administration of the County's four economic development tax credits.

In FY08, the value of the four tax credit programs that the County offers as incentives for qualifying businesses to locate or expand in the County totaled about \$3.4 million. Given the Council's commitment to examining all expenditures during the upcoming budget season and given that tax credits translate into lost revenue to the County, OLO recommends the Council ask for a follow-up report on these tax credits.

Recommendation #5: Explore opportunities for increased Internet use, collaboration with outside partners, and greater targeting of economic development program dollars.

Based on a compilation of information about economic development programs around the country, OLO identified these three emerging themes in state and local practices. The County's Department of Economic Development already engages in each of these practices to some degree, yet OLO recommends that the Council use its budget oversight role to discuss further opportunities for the Department to create efficiencies in economic development spending.



OFFICES OF THE COUNTY EXECUTIVE

Isiah Leggett
County Executive

Timothy L. Firestine
Chief Administrative Officer

MEMORANDUM

January 27, 2009

TO: Karen Orlansky, Director
Office of Legislative Oversight

FROM: Timothy L. Firestine 
Chief Administrative Officer

SUBJECT: Office of Legislative Oversight's Draft Report on the Department of Economic Development's Budget and Strategies

I want to thank the Office of Legislative Oversight (OLO) for its comprehensive and objective review of the strategies, programs and budget of the County's Department of Economic Development (DED). The activities of our economic development department are quite diverse, and their contributions significant, relative to those of other economic development agencies. OLO did an exemplary job of synthesizing the broad array of programs and projects managed by DED.

Our economic development staff worked closely with OLO to ensure the accuracy of this report, and, overall, we concur with its findings and recommendations. Continuing in this spirit of cooperation, DED will be pleased to work with the Council during its FY10 budget worksessions in an effort to further analyze specific DED programs. DED also welcomes a review of the history, current use and administration of the County's four economic development tax credits, as recommended by OLO.

As the report points out, DED should continuously be identifying best practices in economic development. Along these lines, and recognizing the vital nature of the Internet in conveying our marketing message, I recently asked DED and the Department of Technology Services to develop a strategy to improve DED's web presence and marketing capabilities. We view this task a priority for the coming year, and one that will produce long-term benefits.

County Executive Leggett recently transmitted to Council his *Vision for Economic Development*. The OLO report describes this document thoroughly and compares it to the written economic development strategy finalized in 2004, with particular emphasis on the role of Council in reviewing the documents.

As the OLO report notes, the 2004 economic development strategy was an all-encompassing document that addressed such issues as transportation infrastructure, affordable housing, arts and culture, quality of life, and of course, business development. Given its far-reaching emphasis, it was felt that the County Council should formally adopt it. The *Vision for Economic Development*, in contrast, is specific to DED and its mission, goals, ongoing programs and special initiatives. The County Executive views it as a "living" document and envisions that specific priorities and action items will be adjusted over time based on the needs of our local business community, changing economic conditions, and new opportunities and challenges.

We would welcome the Council's review of this document and any input or recommendations arising out of that review, particularly as they relate to how the document will be translated into action. We propose that the *Vision for Economic Development* be accompanied by an annual work program which details departmental priorities, with corresponding budgetary and staffing requirements.

OLO notes that it is "analytically difficult to design evaluations that can reliably distinguish between a desired change (e.g., job growth, tax base expansion) caused by a specific economic development program versus a change caused by external factors, such as business cycles, tax policies, and/or natural firm growth." While it is true that it is difficult to gauge the impact of any governmental effort on such factors as the unemployment rate, new job creation, new business formation and the like, we firmly believe that you can measure the results of specific programs in terms of specific outcomes.

For example, we can clearly identify a strong cause and effect relationship between the financial incentives provided through the Economic Development Fund (EDF) and the number of jobs created or retained, capital investment made, and square footage of commercial space occupied. Many times, the County would not be in a position to compete for this private sector investment, or leverage private sector and State funding, if it were not for the EDF funds, especially in a competitive, global economy. In addition, it is important to recognize that many of DED's programs have received best practice awards from the International Economic Development Association, the Northeastern Economic Development Association, the Maryland Economic Development Association, and the National Association of Counties.

We appreciate the opportunity to respond to this report, and look forward to working with the County Council and its staff to advance the recommendations which have been made by OLO. It is critical, particularly during these trying economic times, that the County do all it can to market the County strategically, to ensure the ongoing success of our businesses, and to help create high-paying jobs – goals that are the backbone of DED.

TLF:dg

Karen Orlansky, Director
January 27, 2009
Page 3

cc: Pradeep Ganguly, DED Director
Jennifer Barrett, Finance Director
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CHAPTER VII. SUMMARY OF FINDINGS

This chapter summarizes the Office of Legislative Oversight findings, organized into four areas:

- Defining and Evaluating Local Economic Development Programs
- Overview of the Department of Economic Development's Budget and Programs
- The County's Economic Development Strategic Plans: 2004 and 2008
- State and Local Economic Development Strategies

DEFINING AND EVALUATING LOCAL ECONOMIC DEVELOPMENT PROGRAMS

Finding #1: State and local governments classify a broad range of policies and programs as "economic development programs."

There is no universal definition of an economic development program. Across the country, numerous public and private entities sponsor programs and projects aimed to create jobs, retain jobs, grow the tax base, and/or improve the quality of community life. Economic development organizations perform many types of activities and services, including: marketing and promotion; grants, loans, and other forms of financial assistance; training and mentoring; and information sharing.

Sponsors of economic development activities at the local level include: County and city governments; Chambers of Commerce; non-profit organizations; coalitions of regional governments; and community colleges and universities. In any given locality, these groups might work together on economic development projects or might compete with one another.

Finding #2: Most economic development programs aim to increase the number of jobs and expand the tax base by: attracting new investment; growing local businesses; and/or retaining existing jobs.

Local government economic development programs and policies typically share two common goals: (1) increase the number of local jobs; and (2) expand the local tax base. The research literature identifies three general economic development strategies:

Importing growth strategies focus on attracting investment from outside the region. This category is sometimes referred to as "exogenous" growth.

Growing from within strategies focus on nurturing the growth of businesses already based in a locality. This category is sometimes referred to as "endogenous" growth.

Retaining existing jobs/businesses strategies focus on counteracting economic forces that threaten the viability of local businesses.

Finding #3: Little empirical data exists on the efficacy of state and local economic development programs.

Ideally, a program evaluation measures results and informs policymakers how the outcome of the program would change depending on the scope, scale, design, or management of the program. However, when evaluating a program designed to increase jobs and grow the tax base, it is difficult to distinguish between a change caused by the economic development program itself versus change caused by external factors, such as business cycles, tax policies, or natural firm growth.¹

Reports on the effectiveness or “success” of economic development programs often include data on program activities or local economic conditions. The evaluation research warns, however, that these data alone do not necessarily “tell us the impacts of the program or related policies on outcomes.”² Evaluations of economic development programs that tout the number of jobs created by businesses in the program can “erroneously assume that none of the economic activity would have occurred ‘but for’ the program assistance.”³

The research literature contains few examples of rigorous outcome evaluations of state and local government economic development programs. Measuring an economic development program’s effectiveness requires establishing a cause and effect relationship between the program and outcomes. Few groups undertake this type of evaluation because it is both analytically difficult to design and because the evaluation cost is often perceived as outweighing its benefits. Further, in some situations, political interests further discourage a review that might reveal negative results.

¹ See Timothy Bartik and Richard Bingham, *Can Economic Development Programs be Evaluated?*, Upjohn Institute Staff Working Paper 95-29, at p. 4 (1995).

² *Evaluating the Impacts of Local Economic Development Policies on Local Economic Outcomes* at p. 8.

³ *Ibid.* at p. 7.

OVERVIEW OF THE DEPARTMENT OF ECONOMIC DEVELOPMENT'S BUDGET AND PROGRAMS

Finding #4: In FY09, DED manages about \$14.1 million of resources approved in the operating budget and \$5.7 million approved in the capital budget.

In FY09, the Department of Economic Development manages a total of \$19.8 million in resources. This includes items funded in the operating and capital budgets as follows:

- DED's approved FY09 departmental budget is \$10.5 million.⁴ Of this amount, 76% is funded by County revenue. The other 24% is funded by state and federal grants, most of which the County receives for workforce development activities.
- DED manages \$3.6 million in other approved operating budget items, including the Economic Development Fund, the Conference Center Non-Departmental Account (NDA), the Conference and Visitor's Bureau NDA, and three grants funded in the Community Grants NDA.
- DED also manages five projects funded in the approved Capital Improvements Program (CIP) with planned expenditures of \$5.7 million in FY09.

Of the \$19.8 million managed by DED, 28% consists of personnel expenses for 50.2 workyears in the Department of Economic Development. The other 72% supports a wide range of operating and capital project costs, including \$4.5 million in contracts. In FY09, federal/state grants for workforce development services provide 56% of the funding for DED's contracts.

The Department of Economic Development routinely works with numerous other County Government departments and other County agencies whose responsibilities include managing programs, projects, and activities that contribute to the County's economic development. Appendix A provides highlights of some of these other locally-funded "economic development" programs and services provided by entities other than DED.

⁴ This total represents DED's FY09 budget approved by the Council in May 2008. In November 2008, as a result of the FY09 Savings Plan, DED's planned spending for FY09 was reduced by \$183K. The Department is achieving this savings by not filling a number of vacant positions.

Finding #5: In addition to funds appropriated directly in the operating and capital budgets, the County “spends” local dollars on economic development by offering four tax credits.

The County has the following four tax credits that DED staff use as incentives for qualifying businesses to locate or expand in Montgomery County:

- New Jobs Tax Credit;
- Enhanced New Jobs Tax Credit;
- Enterprise Zone Tax Credit; and
- Arts and Entertainment District Tax Credit.

For each of these tax credits, State enabling legislation accompanied by County action (either in the form of a law, Council resolution, or application to the State) implements the tax credit for eligible businesses located in the County. The Enterprise Zone Tax Credit was first authorized in 1985; the New Jobs Tax Credit in 1998; and the Arts and Entertainment District credit in 2002.

By offering these tax credits, the County foregoes the collection of some property tax revenue that otherwise would have gone to the General Fund. As shown in the table below, the total tax credit amount that businesses received in FY09 for the four tax credits is about \$3.4 million. Appendix F lists the FY09 tax credit recipients and amounts of credits received.

**County’s Economic Development Tax Credits
FY09 Tax Credit Amounts
(\$ in 000s)**

Tax Credit	FY09
New Jobs Tax Credit	326
Enhanced New Jobs Tax Credit	1,114
Enterprise Zone Tax Credit	1,954
Arts & Entertainment District Tax Credit	4
Total	\$3,398

Source: DED and Department of Finance, updated January 2009

The annual report on the Economic Development Fund contains data on the total tax expenditures associated with each of these credits. However, in the course of worksessions on the operating budget, the Council does not routinely review more detailed information about the administration, use, and/or impact of these tax credits.

Finding #6: DED is organized into a Director’s Office and five program Divisions. The majority of DED staff is involved in activities aimed at attracting new businesses or retaining/growing existing businesses.

The table below summarizes the FY09 operating and capital budget funding for the Director’s office and five program divisions.

**FY09 Department of Economic Development Budget by Division:
Operating and Capital Budget Appropriations
(\$ in 000s)**

Office/Division	Total	Funds appropriated in:			
		DED Operating Budget	Economic Development Fund	Non-Dept. Account	Capital Budget
Director's Office	4,343	668	0	0	3,675
Finance, Admin, and Special Projects	4,752	2,233	1,952	567	0
Marketing and Business Development	2,406	1,686	0	720	0
Business Empowerment	1,593	1,339	0	255	0
Agricultural Services*	3,007	1,003	0	0	2,003
Workforce Services**	3,667	3,607	0	60	0
Total	\$19,769	\$10,536	\$1,952	\$1,603	\$5,678

Source: Approved FY09 Operating Budget, Approved FY09-14 CIP, and DED

The Director’s Office (4.4 workyears) provides strategic planning for the Department, staffs a number of committees and task forces, establishes partnerships with federal/state agencies, institutions of higher education, and industry groups, and pursues special initiatives. The Director’s Office staff also administers several major capital budget projects.

The Division of Finance, Administration, and Special Projects (9.0 workyears) performs the procurement and budget functions for the Department, and manages the finances for the Economic Development Fund and the Business Innovation Network (the County’s incubator program). The Division also oversees the County’s management agreement with Marriott International, Inc. to operate the Conference Center.

The Division of Marketing and Business Development (10.0 workyears) promotes the County as a place to do business through a range of marketing, outreach, networking, and education activities. The Division manages eight contracts, including the County’s contract with the Conference and Visitor’s Bureau, the Technology Council of Maryland, the Maryland/Israel Development Center, and the World Trade Center Institute.

The Division of Business Empowerment (11.0 workyears) focuses on supporting small and minority-owned businesses, federal laboratories, and non-profit organizations. About half of the Division’s staff is assigned to staffing the Business Innovation Network. The Division also manages contracts with the Latino Economic Development Corporation and the Small Business Development Corporation.

The Division of Agricultural Services (9.8 workyears) promotes and supports agriculture in the County. Division staff are divided between the Agricultural Services Team and two separate agencies, the Montgomery Soil Conservation District and Montgomery Cooperative Extension. Division staff also manage the County's Agricultural Land Preservation CIP project, which in FY09 accounts for about two-thirds of the \$3 million that funds this Division.

The Division of Workforce Services (6.0 workyears) provides career services to adults, dislocated workers, and youth in the County and helps businesses recruit employees. Most of the work of the Workforce Services Division is contracted to outside organizations, and two-thirds of the Division's work is funded by \$2.5 million federal/state grants. The Division's largest contract funds the Montgomery Works program (\$2.6 million).

Finding #7: The two largest DED programs funded by General Fund revenue are the Business Innovation Network and the Economic Development Fund.

The Business Innovation Network (the County's incubator program) serves emerging advanced technology, life sciences, and/or professional services companies. The program provides office space at or below market rent for start-up businesses, which also receive support services, educational resources, priority access to financial assistance, and networking opportunities.

DED operates five incubators in the County, which are located in Shady Grove, Silver Spring, Wheaton, Rockville, and Germantown. The County plans to build a sixth incubator in the Fairland/White Oak area. The FY09 program costs total about \$2 million; this includes \$640K to fund six DED staff, and \$1.3 million for operating expenses and debt service.

The Maryland Economic Development Corporation (MEDCO) co-financed and currently co-owns two of the incubators and uses tenant rent to service their debt.⁵ Once this debt is paid off, the County will assume full ownership of these incubators. Appendix B contains more details on the operations and overall costs of the incubators.

The Economic Development Fund, established by County law, provides financial assistance to private businesses. The Fund's revenue sources are the County's general fund, loan repayments, investment income, and state grants. In FY09, loan repayments are expected to account for about 25% of the Fund's revenues. The County has provided nearly \$28 million in assistance to County businesses since the Fund was established in FY96.

⁵ MEDCO manages some of the operations of the incubator facilities such as maintenance and collecting tenant rent.

In FY09, DED plans to expend about \$2 million through the Fund's five programs. FY09 expenses from the EDF include \$122K for one DED staff member who performs the Fund's administrative functions. The balance will be spent from the five active programs, with the largest amounts in the Economic Development Grant/Loan Program (\$622K) and the Small Business Revolving Loan Program (\$608K). The table below summarizes the program activity in the five active EDF programs.

Summary of Economic Development Fund Program Information

EDF Program	Years Active	Total Assistance Provided	Total Businesses Assisted	Average Award Amount	Range of Award Amount	
					Low	High
Grant and Loan Program	13 years	\$22.8 million	143	\$159,440	\$3,000	\$6 million
Technology Growth Program	9 years	\$3.3 million	56	\$58,214	\$25,000	\$100,000
Small Business Revolving Loan Program	8 years	\$1.5 million	23	\$63,826	\$5,000	\$130,000
Impact Assistance Program	3 years	\$282,000	19	\$14,842	\$2,800	\$63,100
Micro-Enterprise Program	1 year	\$15,000	1	--	--	--

Source: *Montgomery County Economic Development Fund Annual Report*; Department of Economic Development; March 15, 2008. All data as of February 2008.

Finding #8: Additional DED efforts to attract, grow, and retain businesses include an array of marketing, networking, and business education activities.

Using a blend of in-house staff and contracts, DED is engaged in numerous marketing, networking, and business education activities, which are designed to attract new businesses and retain/grow existing businesses. Examples of activities staffed by DED staff are: event sponsorships; participation in conferences and trade shows; trade missions to other countries; and various business task forces and committees.

DED also enters into contracts with outside organizations such as the Latino Economic Development Corporation (\$255K); the Small Business Development Corporation (\$50K); and the Tech Council of Maryland (\$25K) for a range of networking, outreach, and business support/education tasks. Some of these contracts are competitively bid; others are designated as non-competitive awards.

Finding #9: DED manages more than \$1.2 million appropriated in two non-departmental accounts for the Conference Center and the Conference & Visitor's Bureau.

The Conference Center. DED staff manage the County's agreement with Marriott International to operate the Conference Center. The County and State of Maryland jointly financed the Center's construction, at a cost of \$40 million. The Conference Center was constructed as a profit-making enterprise expected to contribute revenues to the County General Fund.

The FY09 appropriation for the Conference Center NDA is \$567K; this includes \$454K in operating costs and \$113K in personnel costs for one DED staff member. When the FY09 budget was approved, the County had projected a collection of \$1.7 million in revenue from the Conference Center, for a net "profit" of about \$1.2 million. In January 2009, DED indicated that, due to deteriorated economic conditions, the actual net revenue received is likely to be less.

Conference and Visitor's Bureau (CVB). DED also manages a \$695K contract with the CVB to promote tourism in Montgomery County. The CVB has an administrative office co-located with DED and a Visitor Information Center in Germantown.

County law requires that at least 3.5% of the revenue from the County's hotel/motel tax be used for the CVB "to promote travel to the County."⁶ County funding is the CVB's primary source of revenue, but it also receives funds from the Maryland Office of Tourism Development Grant, membership dues, and other private sources. In FY09, the expected revenue from these other sources is \$207K, for a total budget of \$902K.

Finding #10: The Division of Workforce Services receives 69% of its funding from federal/state grants; much of the Division's work is contracted out.

The Division of Workforce Services provides career services to adults and youth in the County and helps businesses recruit employees. The Division's FY09 budget is \$3.6 million; 69% (\$2.5 million) of the Division's funding comes from federal/state grants, and 31% (\$1.1 million) is funded by local dollars.

The federal Workforce Investment Act of 1998 (Public Law 105-220) establishes the primary source of funding for the Division's activities and mandates many of the services that the Division provides (see Appendix D for more detail on the Workforce Investment Act). In contrast to the other DED Divisions, most of the work of Workforce Services is contracted out; the Division's County staff (6.0 WYs) are responsible for fiscal monitoring and accounting, program monitoring, and contract management. In addition, Division staff identify and apply for potential grants and work on improvements and additions to programming.

⁶ County Code § 52-16(l). Each year, the Department of Finance projects the revenue that will be generated by the hotel/motel tax before the start of the fiscal year and appropriates 3.5% to the CVB. If the actual revenue is greater than projected, the Council approves a supplemental appropriation.

Finding #11: The Division of Agricultural Services is responsible for programs that support the County's farmers and preserve agricultural land.

The Division of Agricultural Services consists of 9.8 workyears, or approximately 20% of DED's staff. In FY09, the Division's funding includes \$1.0 million from DED's operating budget and \$2.0 million from the Agricultural Land Preservation Easement CIP project. The funding for this CIP project comes from the County's portion of the State Agricultural Transfer tax, collections of which have declined substantially in recent months due to current economic conditions.

In addition to managing the Agricultural Land Preservation Easement project, the Division provides staff support for two separate State-authorized agencies – the Soil Conservation District and the Cooperative Extension – which are co-located with the Division. Other Division activities include: agricultural marketing and promotion, weed control, and deer management. In the years when the County has allocated funds for drought assistance to County farmers, this Division managed the drought relief program.

Finding #12: DED administers five projects funded in the current CIP, including projects for the County's technology parks, incubators, a music venue in Silver Spring, and agricultural land preservation easements.

DED administers five projects funded in the approved FY09-FY14 Capital Improvements Program (CIP): Life Sciences and Technology Centers; the Germantown Business Incubator; Music Venue in Silver Spring (Live Nation); Agricultural Land Preservation Easement; and Adventist Health Care. In sum:

- Past County expenditures for these projects total \$23 million. FY09 expenditures total \$5.7 million, with an additional \$7.5 million scheduled for FY10-FY14.
- State funding for the CIP projects managed by DED has totaled \$2.75 million; an additional \$4 million in State aid for these projects is scheduled for FY10-FY14.

In addition to the above projects, DED is exploring the feasibility of building a multi-use sports arena. The proposed arena would accommodate 8,000-10,000 seats, and be a potential venue for sporting events, graduations, and entertainment. In FY09, DED contracted with the Maryland Stadium Authority to produce an arena economic feasibility study. This year, the Department is moving forward with a follow-up market feasibility study.⁷

⁷ Last summer, the Council turned down the Department's request for an additional \$150K for the market feasibility study. As a result, DED has reallocated other department operating funds to pay for it.

ECONOMIC DEVELOPMENT STRATEGIC PLANS: 2004 AND 2008

Finding #13: The recently completed economic development strategic plan takes a different approach from the one approved by the Council in 2004.

In December 2008, the County Executive transmitted to the Council *A Vision for Economic Development in Montgomery County*. This document is different from the strategic plan approved by the Council in 2004, which was titled, *Montgomery County: The IDEALocation, Strategic Plan for our Community's Quality of Life and Economic Development*. Specifically:

- The *Vision* focuses on the programs and projects that involve the Department of Economic Development. In comparison, the 2004 Strategic Plan defined economic development more broadly, to include the County's transportation infrastructure, housing supply, and general quality of life.
- The *Vision* is a 15-page document, written during 2008 by DED staff in consultation with a group of five business representatives. In comparison, the 2004 Strategic Plan was a 50-page document, written over a three-year period by DED and the Economic Advisory Council, a 30-member advisory body appointed by the County Executive.
- County Executive Leggett's transmittal of the *Vision for Economic Development* to the Council in December 2008 did not include a specific request for Council action on the document. In comparison, five years ago, County Executive Duncan's transmittal of the 2004 Strategic Plan included an explicit request for the Council to "adopt this Plan as the official economic development strategy for our community." At that time, the Council held a public hearing and multiple worksessions on the Plan, proposed amendments, and eventually took a formal vote to adopt it.

Finding #14: The *Vision* sets forth DED's goals and recommends specific action items for each goal. However, as currently written, the document is of only minimal use to the Council as a tool for fiscal decision making.

The 2008 *Vision for Economic Development* focuses on the activities initiated and managed by the Department of Economic Development. It articulates that the County Executive's vision for Montgomery County is a "globally competitive and highly diversified knowledge-based economy that provides for the retention and growth of existing companies, stimulates new job creation and enhances entrepreneurial opportunities."⁸

To carry out this vision, the County's Department of Economic Development sets forth four goals and recommends specific action items for each goal. Appendix I contains a copy of the *Vision* in its entirety.

⁸ *A Vision for Economic Development in Montgomery County*, December 2008, Page 2.

While the *Vision* serves as a useful articulation of DED's goals and recommended action items, as currently written, the document is of only minimal use to the Council as a fiscal decision-making tool. In particular, the *Vision* does not:

- Provide information on the costs of specific action items;
- Indicate which action items can be accomplished within existing resources;
- Distinguish between action items that are currently part of the DED work program and which would be new initiatives; or
- Establish funding priorities among the dozens of action items listed.

DED staff explain that their intent was to prepare the *Vision* as a long-term planning document; and that information related to priorities and the fiscal impact of specific items will be prepared on an annual basis in conjunction with the Department's operating and capital budgets.

Finding #15: In 2008, DED, working with CountyStat, created a list of performance measures as a way to assess the overall strength of its economic development strategy and outcomes using quantifiable data.

The 2008 *Vision for Economic Development* incorporates a list of eight headline measures and 18 sub-measures that constitute the Department of Economic Development's CountyStat performance plan. The *Vision* states that, "The County will use quantifiable measures to assess the overall strength of its economic development strategy, as well as outcomes."

The eight headline measures are grouped under two general strategies: Business Attraction, Retention, & Expansion Efforts; and Business Innovation Network. The 18 sub-measures correspond to six other strategies: Financing Programs; Capital Project Investments; Marketing Programs; Global Linkages; Workforce Services; and Agricultural Services.

Most of the headline measures are designed to report outcomes, such as jobs created, capital invested, and office space occupied. Many of the sub-measures capture program activity and output data, e.g., numbers of loans completed, grants provided. Other sub-measures report outcomes, e.g., jobs created, job placements, and still others measure leverage or efficiency, e.g., amount of new foreign investments per County dollar invested.

While DED's measures will provide a useful repository of data and valuable information about DED activity, they also illustrate some of the inherent difficulties found with measuring economic development outcomes. Most importantly, while DED's headline measures propose to identify outcomes such as numbers of "new" jobs attracted, jobs created, or jobs retained; it is unlikely that the Department will be able to determine reliably whether these job changes are a direct result of DED's efforts or whether they are due to other external forces and would have occurred without a public subsidy from County taxpayers.

STATE AND LOCAL ECONOMIC DEVELOPMENT STRATEGIES

The final five findings are based on OLO's research to identify emerging and innovative state and local government economic development strategies. As explained in Chapter VI, OLO found an ample supply of economic development programs that won blue ribbon awards from credible organizations, such as the International Economic Development Council and the National Association of Counties. However, an important caveat to the comparative information presented is that OLO found little hard empirical evidence to demonstrate the efficacy of these programs, including those that are heralded as innovative and award-winning.

Finding #16: Economic development organizations are increasingly using the Internet to provide services to the business community.

Many state and local economic development organizations provide searchable market and demographic data on-line. In addition, several communities provide on-line resource locators that offer direct links to government, financial, business, educational, workforce development, and real estate organizations that offer services to growing companies. For example,

- KCSOURCELINK, a business service network in the Kansas City region, provides direct on-line links to organizations that assist small businesses with business plan development, marketing, web site development, legal and tax services, and office space acquisition program (see Chapter VI, Case Study #7).
- Some communities have developed on-line site selection tools that allow users to search for available land and buildings and to access detailed data about specific properties. The website of Milwaukee 7, an economic development partnership in Wisconsin, features an interactive map which allows users to search available land and buildings and to view aerial satellite images, street-level photos, listings of nearby businesses, and data for specific properties (see Chapter VI, Case Study #3).

Finding #17: Another trend is collaborative strategies involving multi-jurisdictional programming and public-private partnerships.

In many communities around the country, economic development is increasingly becoming a collaborative effort between the government economic development office and other entities.

- Several metropolitan areas have created economic development organizations that cooperatively market the region as an attractive location for business investment. For example, "Select Greater Philadelphia" is a regional marketing organization that promotes corporate expansions and relocations in 11 counties (see Chapter VI, Case Study #2).
- Many governments team with local business leaders to establish local economic development goals and policies. For example, a private sector-led group known as the "International Trade Advisory Council" provides guidance to the San Bernardino County (California) Economic Development Agency on how to build overseas business connections program (see Chapter VI, Case Study #4).

Finding # 18: A number of jurisdictions use economic development incentives to advance other public policy objectives.

A few communities use economic development incentives to advance other community policies. For example:

- To be eligible for certain business tax and fee rebates in Boulder Colorado, a business must demonstrate that it meets “community sustainability” standards including those related to minimum wage requirements, worker health insurance, commuter trip reduction, and recycling program (see Chapter VI, Case Study #14).
- The Skillworks partnership in Boston directs philanthropic dollars to assist low-skill workers in stagnant, low-wage jobs advance into careers with advancement opportunity and family-supporting wages (see Chapter VI, Case Study #17).

Finding #19: A growing number of jurisdictions target economic development programs toward specific industries, job types, or populations.

Particularly during times of fiscal constraints, many state and local governments are pursuing economic development strategies targeted at specific industries, job types, or populations. Rather than funding general business investment or workforce development programs, these communities tailor their activities to retain, grow, or attract specific types of industries and to train residents in the skill sets needed to be employed in those industries. In addition, some communities have created workforce development programs targeted to certain disadvantaged populations. For example:

- About five years ago, Workforce Development, Inc. (WDI), based in Southeastern Minnesota, reviewed its programs and found that it provided training for jobs the community did not need. WDI conducted a labor market analysis to identify jobs in greatest demand in the region. Based on the results of this analysis, WDI reallocated its resources to provide training for jobs in four industry sectors with the greatest employer demand program (see Chapter VI, Case Study #8).
- The Bilingual Health Care Career Pathways Partnership trains members of the Chicago Latino community to supply local health care providers with bilingual health care professionals. The program targets its technical training and support services toward helping Latinos with low literacy levels or low English proficiency (see Chapter VI, Case Study #16).

Finding #20: Some jurisdictions have begun to reevaluate the return on investment of their economic development activities.

Recently, some jurisdictions have begun to reevaluate their investment in economic development activities. Elected officials in these jurisdictions have questioned whether their community has received sufficient benefit from the use of public funds for certain economic development programs. For example:

- In December 2008, the Governor of New York tightened eligibility and accountability standards for a well-established business incentive program (see Chapter VI, Case Study #18).
- In 2004, the City of Concord, California, discontinued its business incubator program after the City's Redevelopment Agency received a report concluding that the incubator "was never able to develop a sustainable economic model" program (see Chapter VI, Case Study #19).
- The City of Lowell, Massachusetts, currently is reassessing its business plan for a publicly-funded arena that has run a deficit each year since it opened in 1998 program (see Chapter VI, Case Study #20).

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More States Considering Tax Breaks to Woo Jobs

By STEPHANIE SIMON

Rising unemployment has touched off a race among state governors to woo companies with tax breaks and financial incentives, even as budget shortfalls force cuts in education, health care and other services.

Governors from both parties and from states large and small are counting on the federal stimulus package -- passed by the House last week and headed for the Senate -- to perk up their economies and create tens of thousands of new construction jobs, but they're not convinced it will be enough. So they've laid out urgent calls to chase private-sector jobs with public money.

Under Gov. Jon Corzine, a Democrat, New Jersey has promised to send small businesses a \$3,000 check for every new hire. Minnesota Gov. Tim Pawlenty, a Republican, calls for an expansive package of business tax cuts, including tax-free zones for companies that create "green jobs."

Taking Care of Business

Even as they grapple with budget shortfalls, governors mount a full-court press to attract new businesses with a variety of tax breaks and other financial incentives. Here are three examples:

	COLORADO	MISSOURI	MINNESOTA
Proposed budget cuts	Eliminate 540 state jobs Cut \$126 million from K-12 education and \$100 million from higher education Close two prisons	Eliminate 1,329 state jobs Cut \$85 million from programs such as adult education and health care for rural areas	Freeze state government wages Cut higher education funds by \$254 million, or 8.2%
Economic development proposals	Expand by \$1.4 million an incentive fund for clean energy jobs Create a \$5 million fund for banks that open credit lines for small businesses Cut income taxes for employers who create at least 20 jobs.	Increase funds for customized job training for businesses by 38% Expand a \$60 million corporate incentive fund by up to \$20 million Subsidize ethanol and biodiesel with \$53 million in state funds	Create tax-free zones for renewable energy 'green jobs' Cut business taxes in half, to 4.8%, over the next six years Exempt small businesses from capital gains taxes

Source: Governors' offices

Other states are considering establishing multimillion-dollar loan funds for entrepreneurs, phasing out the corporate income tax, and pledging financial backing to banks willing to extend lines of credit to small businesses.

As he prepared his budget last week, Missouri Gov. Jay Nixon, a Democrat, could hear the chants from a rally of child-welfare advocates outside his office window. Mr. Nixon said he expected anger over his plan to slash the state work force by 1,300 and eliminate or trim dozens of programs. Among his proposals: a \$14.6 million cut for university extension courses, a \$3.4 million cut for rural health care, and a \$250,000 cut for early-childhood literacy programs.

Mr. Nixon says he needs those savings to balance the budget while still expanding -- by about \$20 million -- incentive funds that underwrite corporate job creation. Mr. Nixon's staff cites a deal announced last July with Orgill Inc., a national hardware wholesaler, which received more than \$7 million in state aid to

build a distribution center in rural Sikeston with a goal of creating 350 jobs.

That amounts to a subsidy of \$20,000 per job, but officials expect the state treasury to recoup that many times over in taxes paid by the newly employed.

"Everything stems from jobs," Mr. Nixon said. "Now is not the time to back off the field of economic development."

Mounting Layoffs

Recent job-incentive deals have come at a time of mounting corporate layoffs. Texas, for instance, recently put up \$10 million to bring a new Caterpillar Inc. assembly plant to the small town of Seguin. Days after breaking ground for the plant, which is expected to employ 1,400, Caterpillar announced 20,000 job cuts world-wide. In Kansas, Cessna Aircraft Co. successfully lobbied last spring for \$33 million in incentives to build a new business jet in Wichita. Within months, Cessna began to announce a series of layoffs that by now total 4,000 in Wichita alone.

State Sen. Les Donovan, a Republican who represents Wichita, said he's disappointed at the layoffs but remains committed to incentive deals. "It would be a wonderful world [if we could attract business] by talking about our gorgeous fields of wheat and good-looking sunflowers," Mr. Donovan said. "But we live in a competitive world...and we need to send a very strong message that Kansas is open for business. Come here, and we'll take care of you."

Both Caterpillar and Cessna say they are committed to the new plants as a long-term growth strategy.

Texas Gov. Rick Perry, a Republican, hailed the Caterpillar deal as he called for broader initiatives -- cutting business taxes and replenishing incentive funds to promote job creation with \$520 million over the next two years. Texas doesn't levy an income tax and prides itself on fostering a business-friendly environment. The state is in better financial shape than many others, and Mr. Perry isn't asking for the same deep cuts in services as some other governors.

To minimize risk in incentive deals, many states -- including Texas -- write in claw-back provisions that require companies to return funds if they fail to create the promised number of jobs.

Still, the strategy has drawn criticism from both left and right.

South Carolina Gov. Mark Sanford, a Republican, condemns incentives as unfair meddling in the free market because they often benefit new arrivals to a state at the expense of long-established firms. He and some other conservatives prefer across-the-board cuts in businesses taxes and regulation.

Liberals, meanwhile, maintain that government's first priority in a recession must be to protect the vulnerable. Rolling out the red carpet for business may bring jobs to the state -- and tax-paying workers. But Colorado state Rep. John Pommer, a Democrat, says those taxes don't always cover the expense of providing those workers quality schools, roads, parks and police -- with the result that already-strained services are stretched even thinner.

"It seems like we're always bowing to the god of economic development without stopping to think that he never answers our prayers," Mr. Pommer said.

Colorado Gov. Bill Ritter, a Democrat, says he believes good schools are "the most effective vehicle for bringing jobs into the state" because they signal a well-educated work force.

Still, Mr. Ritter proposes cutting more than \$225 million from public education while more than doubling spending on business tax credits and incentive funds to about \$18 million.

The governor notes that even at the elevated rate, his incentive spending is a tiny share of the overall budget. But he

says it's vital to augment those funds in an era of "heightened competition" among the states for every job. "When the resurgence comes, we want to be poised to capture that," Mr. Ritter said. "It's going to give us a competitive edge."

Jobs Trade-Off

Mr. Ritter's most recent corporate courtship ended with Charles Schwab Corp. agreeing to bring 500 jobs to suburban Douglas County in exchange for up to \$1 million in state incentives.

The deal left child-welfare advocate Megan Ferland with mixed feelings. Stable jobs are essential for stable families, she said. But she worries that those families will falter if the state does not adequately fund education, health and child care. The Douglas County school district is grappling with a budget shortfall and considering raising class size and cutting teacher training, sports and music programs.

"Bringing in jobs absolutely makes sense," but if education and child-care funds are sacrificed in the process, "that's like putting families in a neighborhood that doesn't have a road from the house to the job," said Ms. Ferland, president of the nonprofit Colorado Children's Campaign advocacy group.

Corporate incentives have been around since at least the 1960s. For many years, wooing jobs with cash was viewed as a "poor state strategy," deployed mostly by states in the deep South that couldn't offer corporations well-developed infrastructure or a well-educated work force.

In the 1980s, more states began to test the waters. The 1990s saw a pell-mell rush by states to one-up one another, offering ever more lavish deals to impress a new breed of "site selection consultants" who shopped proposed assembly plants and corporate headquarters from state to state.

Measuring Impact

Over the years, many analysts have tried to measure benefits of incentive programs -- with contradictory results. Nearly every state can point to impressive corporate investments brought in with the help of incentives. But it's tough to determine how much a given company's business strategy is shaped by the goody bags states dangle.

"It's virtually impossible to control for all the other variables," said Robert Ward, deputy director of the Nelson A. Rockefeller Institute of Government, an independent research center affiliated with the State University of New York.

A few governors are pulling back from incentives in the face of gaping budget shortfalls. After sealing a \$1.2 billion deal to bring Albany a computer-chip plant, New York Gov. David Paterson, a Democrat, has called for cuts in the Empire Zone incentive program.

Mr. Paterson will now require firms that get tax breaks under this program to certify that they are generating at least \$20 in investment and wages for every \$1 in state incentives. The governor's office estimates that will save \$270 million this fiscal year.

But in many states, "the political imperative is to be seen to be doing something, even if it's not effective in the long term," said Brent Lane, director of the Center for Competitive Economies at the University of North Carolina. "I have a lot of sympathy for these politicians...They're desperate to do something."

Write to Stephanie Simon at stephanie.simon@wsj.com

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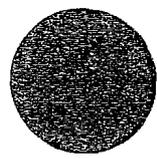
DEPARTMENT OF ECONOMIC DEVELOPMENT

Isiah Leggett
County Executive

Pradeep Ganguly, Ph.D.
Director

MEMORANDUM

December 12, 2008



2008 DEC 12 PM 3:13

RECEIVED
DEPARTMENT OF ECONOMIC DEVELOPMENT

TO: Mike Knapp, Chair
Planning, Housing and Economic Development Committee

FROM: Pradeep Ganguly, Director *Pradeep*
Department of Economic Development

SUBJECT: *A Vision for Economic Development in Montgomery County*

As we have discussed over the past several months, the Department of Economic Development has been working diligently to develop the attached *Vision for Economic Development in Montgomery County*. The attached strategy attempts to look beyond the problems of today and, instead, takes a long-term view of the County's economy.

Montgomery County and the nation are significantly impacted by the national recession. We understand the need to address current economic challenges and opportunities. We are developing supporting, but distinct, action plans for an economic stimulus package and business retention, as well as for harnessing emerging opportunities in biosciences and green technology/clean energy.

I am also pleased to inform you that the County Executive will soon be re-establishing the Economic Advisory Council of Montgomery County, a private sector committee, to provide advice and guidance to the County Executive and the Department of Economic Development. The EAC will recommend the most effective ways to pursue our economic development vision and goals, and will recommend modifications to this strategy as our economic climate changes and new opportunities arise.

I want to thank you and the PHED Committee for your input and guidance in this process, and look forward to the opportunity to discuss this report further.

Attachment

- cc: Marc Elrich, Councilmember
- Nancy Floreen, Councilmember
- Tim Firestine, Chief Administrative Officer
- Jennifer Hughes, Special Assistant to the County Executive
- Justina Ferber, Legislative Analyst

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Beard, Tim, Econ



A Vision For Economic Development in Montgomery County

Isiah Leggett
County Executive

Timothy Firestine
Chief Administrative Officer

Pradeep Ganguly, Ph.D.
Director, DED

*Prepared by the
Montgomery County
Department of Economic Development*

December, 2008

I. Montgomery County's Economic Development Vision

County Executive Leggett's economic development vision for Montgomery County is a *globally competitive and highly diversified knowledge-based economy* that provides for the retention and growth of existing companies, stimulates new job creation and enhances entrepreneurial opportunities.

Montgomery County's large global corporations and existing small businesses form the solid economic base that provides our residents with an ongoing high quality of life. Our high quality of life, in turn, helps retain, attract and create businesses of all sizes in all sectors.

In order to strengthen our leadership position in the world economy, we must adapt to continually changing regional, national and global economic

II. The County's Economic Development Mission

Working with its many public and private partners, *the Department of Economic Development (DED) will retain, attract and create businesses* that support a broad array of employment opportunities; strategically grow its knowledge-based economy and key industry clusters; and expand the County's tax base.

The County will undertake marketing, business development, technical assistance, skilled work force development, advocacy, outreach, partnering, capital projects, and financing activities in support of this mission.

As the County's existing sectors mature and new technology sectors—such as clean energy/green technology—emerge, new business opportunities will evolve.

conditions, especially during the current national downturn. As the County's existing sectors mature and new technology sectors such as clean energy/green technology emerge, new business opportunities will evolve. Where the goal once was innovative research or the development of emerging technologies, the focus should now broaden to the commercialization and deployment of new products, processes and technologies.

This vision will be implemented within the parameters of a complex regional, national and global framework.

As with large corporations, Montgomery County's small businesses can no longer look solely within the boundaries of our jurisdiction to grow, but must consider their position in the region and the world. Montgomery County Government's role is to create an enabling business environment and to provide the tools with which our companies — from all sectors and sizes — can succeed in today's marketplace.



III. Economic Development Goals

The following broad economic development goals form the framework for the County's Economic Development Strategy:

Goal One:

Retain and grow existing businesses, strategically attract new ones, and enhance entrepreneurial opportunities; work to ensure that all business sectors benefit from the knowledge-based economy

Goal Two:

Adapt to a more competitive business climate by creating an environment where knowledge-based industries and small businesses thrive

Goal Three:

Foster creative and strong partnerships with academia, the federal research community, the private sector and various levels of government to pursue innovative projects, policies and best practices that support business growth and expansion

Goal Four:

Establish global linkages to facilitate business opportunities abroad, attract international investment to Montgomery County, and foster trade and joint ventures for Montgomery County businesses



Goal One: Retain and grow existing businesses, strategically attract new ones, and enhance entrepreneurial opportunities; work to ensure that all business sectors benefit from the knowledge-based economy

Retention of existing businesses, especially during trying economic times and heightened competition from other jurisdictions, will be the top priority

Alongside retention, business attraction will remain a high priority.

for DED. In an economy with constant technological advances and

changing market conditions, businesses must have an environment that allows them to take full advantage of new opportunities. The County must work to create a more positive business climate.

Alongside retention, business attraction will remain a high priority. Selected clusters in which the County has a comparative advantage, including life sciences, communications, professional services and government contracting will continue to be a focus. However, strategic opportunities in other sectors such as clean energy and green technology, which contribute to a high quality of life will also be part of the County's economic development strategy.

Action Items for Goal One

Business Retention and Attraction

- Execute an aggressive business visitation program for major accounts and companies that have high-wage jobs in the target market segments
- Implement a short-term retention strategy, including an economic stimulus package for local businesses, to help them through the current economic downturn
- Re-establish an Economic Advisory Council to provide ongoing guidance to the County and DED on economic development matters
- Proactively recognize the accomplishments of existing businesses
- Organize networking seminars and roundtables with targeted groups of County businesses
- Facilitate communication and interaction between Montgomery County companies in order to promote partnerships, tech transfer and increased local to local business or commerce
- Facilitate federal contracting forums, in partnership with County chambers of commerce and other business organizations
- Create more opportunities for Montgomery County based firms to compete for County contracts, and develop procurement strategies with other governmental agencies and large private sector firms
- Develop and implement a mass marketing strategy targeted to resident businesses, including broadcast e-mails, newsletters, business communiqués and article placements, an improved web site, videos, advertising campaign, and increased participation in events of local business organizations
- Create a "Life Sciences Team" and an "Advanced Technology Team" (including green technology) within DED for more targeted marketing and business development
- Aggressively recruit firms in targeted industry sectors, especially bio-pharma, aerospace, communications, advanced technology applications, green technology, professional services and government contracting
- Grow non-tech clusters including financial services, non-tech health services, professional services, and high-end hospitality products and services
- Ensure that agricultural businesses can benefit from existing and emerging technologies

- Create a one-stop small business center (and online portal) in DED to help new entrepreneurs as well as existing businesses

Marketing

- Create a communications and external relations team, and staff it with business development specialists in tech transfer, business communications and marketing
- Proactively promote the County as the 'Smart' location for business in targeted industry publications, selected media, and in selected markets in North America, Europe, Asia, the Middle East and South America
- Upgrade and enhance the DED web site and collateral materials to improve marketing and recruitment efforts
- Double the number of participants in the Mentorship Program

Finance

- Increase the base of financial incentives for existing businesses, such as the Technology Growth Fund, Small Business Revolving Loan Fund and the Impact Assistance Fund, and seek new incentives for bio-pharma, nanotechnology, green technology and other targeted industries
- Retool loan and grant fund evaluation criteria to prioritize financial support for emerging technology companies, in particular green technology businesses
- Increase the number of micro-loans issued

Workforce Services

- Pursue workforce initiatives that benefit workers in targeted industry clusters as well as workers in non-tech service sectors:
 - » Advocate for greater funding for Maryland Business Works
 - » Open a specialized one-stop career center

focused on life sciences and technology careers

- » Offer entrepreneurial training through MontgomeryWorks
- » Organize networks and job clubs for specialized industries in community locations (e.g., libraries)

Smart Growth and Sustainable Design

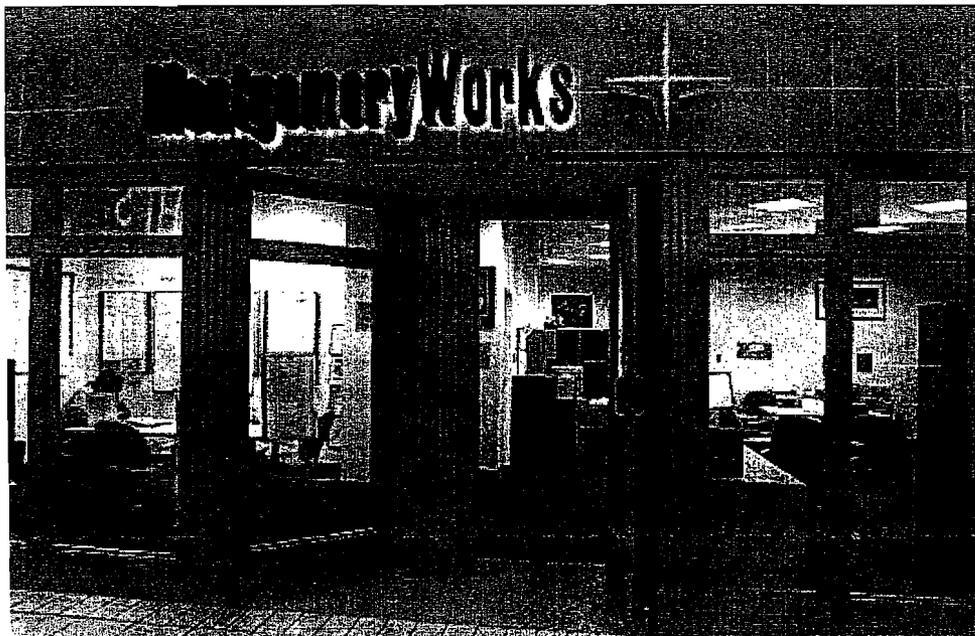
- Advance the economic development opportunities created by County's green building laws and recently enacted climate change legislation
- Emphasize smart-growth and sustainable design principles to enhance economic vitality and improve the local quality of life through higher density and mixed-use projects
- Support the County's Smart Growth Initiative, with a focus on dense transit-oriented development; affordable, workforce and market-rate housing; high-wage jobs in biosciences and technology; and new higher education opportunities
- Promote the County's agricultural land preservation efforts through the newly enacted Building Lot Termination program (BLT). Under the program, private developers can buy BLTs in the County's Agricultural Reserve in exchange for greater density in Transit Mixed-Use zones

Central Business District Revitalization

- *Wheaton:* The County is working collaboratively to foster the redevelopment and revitalization of Wheaton's central business district. A market study will be help assess Wheaton's competitive advantages, and provide recommendations for attracting companies and jobs to the CBD

To date, the County has:

- Created a new Division of Business Empowerment in the Department of Economic Development
- Established, in partnership with the Office of Procurement, the successful Local Small Business Reserve Program, through which eligible County-based small businesses can bid exclusively on selected County contracts
- Created a new Micro-enterprise Loan Program, which to date has funded three loans totaling \$45,000
- Closed on seven business assistance projects during the first months of FY09. DED staff is actively working with an additional 152 prospects on retention, attraction or expansion efforts
- Closed on 38 Economic Development Fund grant and loan transactions totaling \$1,954,621 in FY08 and during the first months of FY09. These County funds have in turn leveraged an estimated \$25,239,500 in external investments
- Re-established “*Business Appreciation Week*” to help understand the current challenges facing businesses and their plans for the future. In April 2008, County staff and partners visited over 400 companies to recognize their achievements, learn about their current challenges and opportunities and provide information on County resources
- Organized quarterly forums with “C- level” business leaders and the County Executive
- Hosted six forums with the County Executive and small and minority businesses
- Sponsored a small business conference in the spring of 2008 attended by over 300 entrepreneurs



Goal Two: Adapt to a more competitive business climate by creating an environment where knowledge-based clusters thrive

Clusters are geographic concentrations of interconnected companies, specialized suppliers, service providers and associated institutions in a particular industry. Montgomery County's established clusters include: biosciences, information technology/advanced technology, electronics, aerospace, satellite and communications, hospitality, and government contracting. The County's emerging clusters include: green/clean technology, nanotechnology, financial services and bio-pharma.

An important component of cluster development is a ready supply of knowledge-workers. Montgomery County's workforce development efforts must adjust to meet its 21st century demands. This includes working regionally with our academic and business partners to identify and develop the talent needed for knowledge-based industries.

Action Items for Goal Two

Industry Clusters

- Enhance economic development incentive programs, and better align attraction and retention efforts with incentives, tax policies and regulations that benefit the growth and development of clusters
- Cultivate existing and emerging industry clusters by forming taskforces that will include business, academia, and federal, state and regional government entities. Each taskforce will identify ways the County can grow and strengthen the cluster
- Assign a highly-qualified business development specialist to the County's biosciences cluster, to provide greater support and resources to this critical industry sector
- Develop programs to provide technical and financial assistance to support spin-off

technologies from existing clusters

- Foster the growth of the County's emerging nanotechnology cluster by facilitating links between industry, research, investor and regulatory communities
- Develop a green economy strategy and nurture a green/clean technology cluster

Capital Projects and Infrastructure

- Working with partners in the private sector and government, develop capital projects that will enhance our quality of life, have positive spill-over effects and are responsive to the needs of key industry clusters. Strategic initiatives currently being pursued include:

Montgomery County's workforce development efforts must meet 21st century demands.

- » The expansion of the Shady Grove Life Sciences Center
- » The development, in partnership with the Johns Hopkins University, the University System of Maryland and others, of a global science center in the Gaithersburg West planning area where research can be translated into marketable products and processes within the context of a vibrant live/work community
- » The redevelopment of the 115-acre Site II property, which neighbors the consolidated FDA campus and the proposed Adventist Hospital in East County, as a mixed use science and technology-focused development and international center for the discovery and manufacture of new drugs and vaccines
- » A science and technology park at the Germantown campus of Montgomery College that will harness the synergies of academia, government, health care and business

- » A multi-use arena and a live music/entertainment venue
- Work with other key County agencies (M-NCPPC, Department of Permitting Services, Department of General Services) to fast track strategic County economic development projects

Workforce Development

- Enhance the development and availability of knowledge workers through specialized efforts to recruit workers with the skills needed for targeted industries and provide tailored training
- Work with the academic and business community to align workforce services with targeted industry clusters, and actively seek industry input in the development of training curricula and course offerings
- Work with private sector partners to provide “teacher employment” at technology and biosciences companies
- Increase mentoring of young people and provide opportunities for job shadowing and internships in technology and biosciences companies
- Create opportunities for professionals from County technology, biosciences, and other companies to give presentations in County schools and to participate in career fairs
- Create a ‘reverse science fair’, in which Montgomery County tech and biosciences companies develop experiments/displays about their work, and visiting middle school and high school students become the judges

Business Innovation Network

- Continue to expand the County’s successful incubator network and provide seed funding

to incubator companies through DED’s financial grant and loan programs

- Engage in preliminary planning for the County’s sixth incubator, a proposed LEED-Gold facility in the new Site II development in East County

Tech Transfer and Commercialization

- Support the commercialization of new technology and high-profile pilot programs for the deployment of existing technologies that have multiple industry applications
- Showcase local technology in pilot projects and adopt technology which improves the local government’s efficiency, finances or quality of life

Marketing

- Adequately fund County marketing campaigns, and align DED advertising programs with the new knowledge-economy strategies
- Expand DED’s successful “I Am Montgomery” marketing campaign, which showcases existing businesses and the reasons they chose to locate in Montgomery County
- Aggressively market the County regionally, nationally and globally in selected media
- Selectively participate in regional, national and global biotech, IT/AT, aerospace and other trade shows
- Enhance the marketing features of DED’s web site

Accomplishments to date:

- The new *Biosciences Task Force* has been formed, and work is under way. Over the coming year the Task Force will assist the County in the development of a Biosciences Strategy, which will articulate a vision and recommended actions to help Montgomery County maintain and expand its position as a world leader in life sciences, clinical and translational research and product delivery
- The County has begun work to develop a long-term strategy to harness emerging opportunities in green technology. The County is forming a green/clean technology taskforce, and is working with a public-private coalition to offer resources to foster the development of the new Maryland Clean Energy Center. A consulting team will work with the task force to assess the County's "status" in the green technology industry, identify competitive forces, and recommend a "10-point plan" for the successful growth of green industries in Montgomery County
- Expanded the County's nationally renowned Business Innovation Network. The County's newest bioscience/technology incubator opened in October, 2008 on the Germantown campus of Montgomery College. The Network's five facilities comprise 147,000 square feet of office, lab and meeting space, including 35 wet labs. These facilities currently house 125 tenants, providing 400 jobs with an average annual salary of \$75,000
- The Network has graduated 88 companies, 71 of which are still operating. Graduate companies have created 1,600 jobs and occupy over 400,000 square feet of commercial space in the County
- MontgomeryWorks Business Services team has visited over 500 businesses, posted over 2,000 jobs listings, conducted nearly 200 individual employer recruiting events, over 20 multiple employer "forums" and six multiple employer job fairs



Goal Three: Foster creative and strong partnerships with academia, federal researchers, the private sector, non-profits and various levels of government to pursue innovative projects, policies and best practices and support business growth and expansion

One of Montgomery County's key competitive advantages is the presence of high quality academic and federal institutions in the region that train and attract top researchers and professionals. The transfer of the rich reservoir of research and intellectual property (IP) that comes out of these institutions

The County will facilitate the transfer and translation of knowledge and IP.

to the private sector is key to the County's economic success. The County must facilitate the transfer of this

knowledge and IP and bring these diverse groups together. In addition, the County needs to focus special attention on its workforce, which requires a broad range of skills to meet the needs of local businesses.

Action Items for Goal Three

Policy Framework

- Coordinate policies with other governmental entities to ensure a supportive environment for cluster development and small business development
- Work with M-NCPPC to ensure that transit-oriented development occurs around our Metro stations, and that businesses have input in the County's plans for growth
- Advance the presence of higher education and ancillary research facilities at the Universities at Shady Grove, Johns Hopkins University, the University System of Maryland and Montgomery College

Partnerships/Networks

- Engage in public-private projects to revitalize the County's town centers and provide for strategic redevelopment opportunities
- Strengthen the Federal Technology Network, and partner with the Federal Laboratory Consortium for Technology Transfer to help move technologies and research into the marketplace
- Strengthen the County's partnerships with business organizations and chambers of commerce

BRAC

- Work with the County Executive's office to ensure that BRAC consolidations in Bethesda and other parts of the County create opportunities for County-based firms and create the necessary infrastructure to support that growth

Workforce Development

- Continue to organize and sponsor events/conferences that help retain post-doctoral level scientists in the County
- Work with technology companies to train dislocated workers, low-income adults, older workers, disadvantaged workers and youth
- Work with businesses and educational institutions, especially Montgomery College, the Universities at Shady Grove and Johns Hopkins University, to ensure that skills needed by emerging industries are identified and become a part of educational offerings

Finance

- Rebuild and enhance the Economic Development Fund so that DED can leverage its resources with State of Maryland funds, including DBED, TEDCO, MEDCO, MARBIDCO and others, to attract, retain and expand businesses in key industry clusters

- Share information about entrepreneurs with prospective venture capitalists and angel investors, and facilitate new companies' access to financial resources

Accomplishments to date:

- The County sponsored the NIST/UMBI October 2008 Conference: "Accelerating Innovation in 21st Century Bioscience," in which over 400 scientists from around the globe participated
- The FedTechNet, established with the assistance of the Federal Laboratory Consortium (FLC), is a County supported network that will assist County based federal labs establish new direct links with local businesses interested in technology transfer and commercialization opportunities
- DED is actively participating in the FLC's Washington Area Working Group, as well as the FLC Mid-Atlantic Region Working Group. DED will host FLC's bioinformatics conference in January, 2009. This effort will focus on the lab opportunities at NIH and NIST
- The Montgomery County Innovation Institute is a new pilot program that will match federal labs with private sector interests. It will align the FedTechNet with Montgomery County businesses, including the Business Innovation Network and small, minority and women-owned firms



Goal Four: Establish global linkages to facilitate business opportunities abroad and to attract international investment in Montgomery County

Globalization has increased the pressure on regions throughout the world, pushing them to increase their competitiveness. A cluster's ability to develop a dynamic international network is important to its competitiveness. Companies that have cultivated strong networks internationally can tap into them for business intelligence and marketplace trends.

Research shows that high tech companies are leveraging international markets earlier in their development than in previous years.

Business development missions will target selected U.S. and strategic international markets.

Business development missions should target selected U.S. states as well as international markets such as Canada, Europe, Israel, selected Asian nations (including Japan, China, India, Korea and Taiwan) and South America (Brazil). These missions should be driven by data intelligence, partnerships and business potential.

Action Items for Goal Four

Partnerships/Networks

- Facilitate international networks for County-based businesses so that they can benefit from emerging market trends, business intelligence and global opportunities
- Continue to be an active member of the World Trade Center Institute, the Tech Council of Maryland and other global organizations that organize regional and international networking events. Amongst other events, DED will continue to sponsor the annual Embassy Day in Montgomery County
- Strengthen relations with international organizations that have business ties to Europe, Asia and Latin America (such as the KOTRA, FICCI, CII, CBA, GAIBP, etc.)

- Build strong relationships with County-based international entrepreneurs to leverage networks in their countries of origin

Marketing and International Outreach

- Leverage County companies' international connections, and undertake selective marketing campaigns in those markets
- Capitalize on the County's unique demographic profile, which provides local and international companies with employees well-versed in multiple cultures and languages
- Focus marketing and promotional activities in selected media and in selected markets—globally and locally
- Expand the Business Innovation Network's portfolio of international companies

Accomplishment to date

- Strategic international business missions: In 2007, the County sent business delegations to Europe, Israel and India. In 2008, business missions went to Korea and China to strengthen business relationships, assist County firms in expanding business opportunities and market the County as a *Smart Location* for international firms and investments
 - » As a direct result of these business missions, the County welcomed over a dozen international companies from India, the U.K., the Netherlands, Korea and China in 2007 and 2008. DED has been invited to speak at IndiaSoft 2009, the largest IT/AT conference of India. Chungbuk Province (Korea) has pledged \$2 million in investment support for the incubator facility to be built as part of the County's development of Site II. In addition, the County identified at least 20 Korean prospects and over 12 Chinese prospects that are expected to establish a U.S. presence within the next five years

V. Performance Measures/ Outcomes

The County will use quantifiable measures to assess the overall strength of its economic development strategy, as well as outcomes.

Headline Measure on: DED's Business Attraction, Retention & Expansion Efforts

Outcomes of Business Attraction, Retention & Expansion Efforts will be measured by:

- 1) Jobs created:
 1. By existing business expansion
 2. By new business attraction
- 2) Total new capital investment:
 1. By businesses currently located in the County
 2. By newly attracted companies and business start-ups
- 3) Office space occupied:
 1. By existing business expansion
 2. By new business attraction
- 4) Survey results from the businesses that have participated in County-sponsored technical assistance programs
- 5) Number of prospects in DED's 'active' pipeline that are successfully closed

Headline Measures on: Business Innovation Network

Outcomes of the Business Innovation Network will be measured by:

- 1) Number of new jobs created by incubator tenant companies and graduates

- 2) Number of jobs created by companies participating in the Network per County dollar invested
- 3) Number of companies graduating from the Network that occupy commercial space in Montgomery County

Sub-Measures

A) *Financing Programs (Economic Development Fund)*

Outcomes of Financing Programs will be measured by:

- 1) Number of EDF transactions completed
- 2) Number and value of Micro-loans awarded
- 3) Number and value of Small Business loans awarded
- 4) Number and value of Impact Assistance grants provided
- 5) Ratio and dollar value of all external funds leveraged per County dollar invested
- 6) Number of jobs created or retained through these programs

B) *Capital Project investments*

Outcomes of Capital Projects investments will be measured by:

- 1) Ratio of private sector and non-County investment to County funds invested
- 2) Jobs created through DED led development projects

C) Marketing Programs

Outcomes of Marketing Programs will be measured by:

- 1) Number of companies participating in "I Am Montgomery"
- 2) Number of new contacts (prospects) developed
- 3) Number of Web site hits

D) Global Linkages

Outcomes of Global Linkages will be measured by:

- 1) Amount of new foreign investments in County per County dollar invested
- 2) Number of jobs created by international companies that DED assisted

E) Workforce Services

Outcomes of Workforce Services will be measured by:

- 1) Number of job-seeking customers in the Intensive Service Program that are placed in jobs
- 2) Number of employers assisted with training and recruitment

F) Agricultural Services

Outcomes of Agricultural Services will be measured by:

- 1) Cumulative and current year acres of farmland protected
- 2) Number of Farmers' Markets in operation
- 3) Number of farms or farm businesses assisted

Acknowledgements

The department is deeply grateful for the contributions to this report by the following individuals: Pat Arnold, Sol Graham, Jennifer Hughes, Sheila Khatri, Les Levine and William G. "Bill" Robertson, as well as the members of the County Council's Planning, Housing and Economic Development Committee. The following DED staff members also contributed: Tina Benjamin, Sarah Miller, James Moody and Corinne Rothblum.

Appendix J

Department of Economic Development's Performance Plan Data

Montgomery County
Senior Executive Performance Plan

Department of Economic
Development

Last Update December 9, 2008

1. CONTRIBUTION TO MONTGOMERY RESULTS

- ① **Strong and Vibrant Economy**
- ② **Vital Living for All of Our Residents**
- ③ **Healthy and Sustainable Communities**
- ④ **A Responsive and Accountable County Government**

2. DEPARTMENT OF ECONOMIC DEVELOPMENT AT A GLANCE

What DED Does and for Whom	How Much (FY08)	FY09
<p><u>Overall</u> DED's vision is to make Montgomery County the "Smart" business location in a competitive, knowledge-based, global economy. Its core mission is the creation, retention, expansion and attraction of businesses in the County to foster investment and job creation, develop strategic infrastructure projects such as technology and life sciences parks, business incubators, conference center and multi-use arena, and manage five business incubators in the County's Incubator Network.</p>	<ul style="list-style-type: none"> • 49.1 WYs plus 2 WYs outside of DED • \$4,428,614 in personnel costs • \$3,687,081 in operating costs • 1 WY and \$820,000 for the Economic Development Fund separate from DED • 1 WY and \$540,000 for the Conference Center in Non Departmental Account 	<ul style="list-style-type: none"> • 45.6 WYs plus 2 WYs outside of DED • \$5,077,990 in personnel costs • \$2,970,590 in operating costs • 1 WY and \$852,440 for the Economic Development Fund separate from DED • 1 WY and \$567,090 for the Conference Center in Non Departmental Account
<p><u>Marketing and Business Development</u></p> <ol style="list-style-type: none"> 1. Showcases the assets of the County in a global economy through promotional activities, communication, event coordination, global marketing and advertising, and dissemination of information through various media. 2. Attracts and retains businesses with qualified business leads ("Prospects") identified through research, business visitations, contacts, networking, tradeshow, and business missions. 3. Helps strengthen key industry clusters in the County through targeted industry sector programs. 	<ul style="list-style-type: none"> • 18% of DED budget • 8 WYs. • \$1,005,515 in personnel costs • \$486,487 in operating costs • Makes 2,000 - 2,400 contacts/year to develop 220 plus prospects/year. 	<ul style="list-style-type: none"> • 22% of DED budget • 10 WYs. • \$1,299,735 in personnel costs • \$508,450 in operating costs • Makes 2,000 - 2,400 contacts/year to develop 150 plus prospects/year.

What DED Does and for Whom	How Much (FY08)	FY09
<p><u>Small and MFD Business Support (Business Empowerment)</u></p> <ol style="list-style-type: none"> 1. While ensuring that the knowledge-based economy enhances all sectors of the business community, focus on providing direct hands-on support to the County's small, ethnic minority, and woman owned businesses by developing resources such as technical publications, and forming service delivery partnership such as SBDC, LEDC, and Macklin Institute, and Dingman Center. 2. Operates programs such as Incubator Network, Mentorship Program, and the Micro-Enterprise Program to a selected number of businesses or entrepreneurs to improve their growth or smooth establishment of their business ventures. 	<ul style="list-style-type: none"> • 37% of DED budget • 11 WYs (5 for the Incubator Network) • \$1,151,553 in personnel costs • \$139,991 in general operating costs • Delivers 45-50 training events/year for Small and MFD businesses • \$1,733,130 in operating funds for the Incubator Network • Incubates 85-110 companies/year 	<ul style="list-style-type: none"> • 32% of DED budget • 11 WYs (5 for the Incubator Network) • \$1,257,742 in personnel costs • \$70,800 in general operating costs • Delivers 45-50 training events/year for Small and MFD businesses • \$1,263,400 in operating funds for the Incubator Network • Incubates 110-135 companies/year
<p><u>Finance, Administration, and Special Projects</u></p> <ol style="list-style-type: none"> 1. Stimulates business growth and expansion by underwriting and issuing grants and loans from the five programs of the Economic Development Fund (EDF). Focus is to induce capital investment and job creation from the private businesses and to leverage funds from the state and other public entities for the County's projects. 2. Plans, develops, and manages capital projects that add growth capacity for the County through private/public, or public/quasi-public entity partnerships. 3. Provides back office functions to all other divisions in the areas of: procurement, finance, budget planning and execution, office administration and automation. 	<p><u>DED</u></p> <ul style="list-style-type: none"> • 12% of DED budget • 6 WYs • \$651,821 in personnel costs • \$281,957 in operating costs • Oversees two technology park projects <p><u>EDF</u></p> <ul style="list-style-type: none"> • 1 WY charged to EDF • \$820,000 in base budget • Conducts due diligence on 75-85 applications to underwrite 25-30 EDF transactions/year <p><u>Conference Center NDA</u></p> <ul style="list-style-type: none"> • 1 WY charged to NDA • \$540,000 in operating fund 	<p><u>DED</u></p> <ul style="list-style-type: none"> • 12% of DED budget • 7 WYs • \$743,364 in personnel costs • \$226,300 in operating costs • Oversees two technology park projects <p><u>EDF</u></p> <ul style="list-style-type: none"> • 1 WY charged to EDF • \$852,440 in base budget • Conducts due diligence on 75-85 applications to underwrite 10-15 EDF transactions/year <p><u>Conference Center NDA</u></p> <ul style="list-style-type: none"> • 1 WY charged to NDA • \$567,090 in operating fund

What DED Does and for Whom	How Much (FY08)	FY09
<p><u>Workforce Development</u></p> <ol style="list-style-type: none"> Operates three One-Stop Career Centers in the County to provide array of career assessment, job readiness training, skill enhancement training services to dislocated workers and at-risk youth population. Provides job placement service to job-seeking public, and provides recruitment services for employers, as well as creating targeted services for employers in key industry clusters 	<ul style="list-style-type: none"> • 12% of DED budget • 5 WYs from County Funds and 1 WY in Grant Fund • \$364,283 in personnel costs • \$592,491 in operating costs • US Department of Labor's \$2.1M grant supports One Stop Career Centers 	<ul style="list-style-type: none"> • 14% of DED budget • 5 WYs from County Funds and 1WY in Grant Fund • \$524,978 in personnel costs • \$595,103 in operating costs • US Department of Labor's \$2.7M grant supports One Stop Career Centers
<p><u>Agricultural Industry Support</u></p> <ol style="list-style-type: none"> Protects farmland and environmental resources through protective easements and Transferable Development Rights (TDRs). Supports, and facilitates agricultural community's stabilization through soil conservation training and education; draught assistance, planning and marketing assistance for the farmer's market and farm tours, providing technical assistance to implement best farming practice, and providing guidance on developing alternative crops and revenue sources. 	<ul style="list-style-type: none"> • 12% of DED budget • 7.2 WYs (plus 2.6 WY charged to CIP) • \$686,519 in personnel costs • \$325,803 in operating costs • \$6.4 million and 1.4 WY in Land Preservation CIP • 2,000 plus acres/year protected 	<ul style="list-style-type: none"> • 12% of DED budget • 7.2 WYs (plus 2.6 WY charged to CIP) • \$730,324 in personnel costs • \$273,347 in operating costs • \$6.4 million and 2.6 WY (\$294,943) in Land Preservation CIP • 2,000 plus acres/year protected
<p><u>Business Advocacy (Director's Office)</u></p> <ol style="list-style-type: none"> Provides strategic planning and initiates various studies so County is always updated on its business/economic base profile. Establishes strategic partnership with the federal/state agencies, higher educational institutions, and industry groups on behalf of the County's business communities to foster synergistic economic development. Provides leadership in legislative initiatives to ensure that the County business communities' interests and needs are reflected and protected in newly introduced legislations. Establishes global linkages, and serves as the global ambassador for the County utilizing various means of media. Coordinates the department's media and public relations and generates press releases for the department and the County businesses. 	<ul style="list-style-type: none"> • 8% of DED budget • 5.2 WYs. • \$568,924 in personnel costs • \$137,223 in operating costs 	<ul style="list-style-type: none"> • 7% of DED budget • 4.5 WYs. • \$521,851 in personnel costs • \$33,150 in operating costs

3. HEADLINE MEASURES

Headline Measure Group #1 (under construction):

Quantifying DED's Business Attraction, Retention & Expansion Efforts

Outcomes of Business Attraction, Retention & Expansion efforts will be measured by:

- ① Jobs created
 1. By existing business expansion
 2. By new business attraction
- ② Total new capital investment:
 1. By businesses currently located in the County
 2. By newly attracted and started businesses
- ③ New Commercial Space Occupied:
 1. By businesses currently located in the County
 2. By newly attracted and started businesses
- ④ Survey results from businesses that participated in County sponsored technical assistance and training programs
- ⑤ Total number of prospects in DED's 'active' pipeline and the number that are successfully closed to gauge the total and the percent success rate.

Headline Measure Group #2 (under construction):

Quantifying DED's Incubator Program

Outcomes of Business Incubator Program will be measured by:

- ⑥ Number of new jobs created by incubator tenant companies during the incubation period and post graduation.
- ⑦ Occupancy rate, graduation rate, and residency rate of each incubator
- ⑧ Number of Intellectual Property issued to and amount of federal research grant and private equity financing received by incubator companies (5 year window from the Incubator admission date). * This data, although not easy to track due to proprietary nature, will be a key success outcome of incubator program. As such, will be tracked and reported to the maximum data availability.

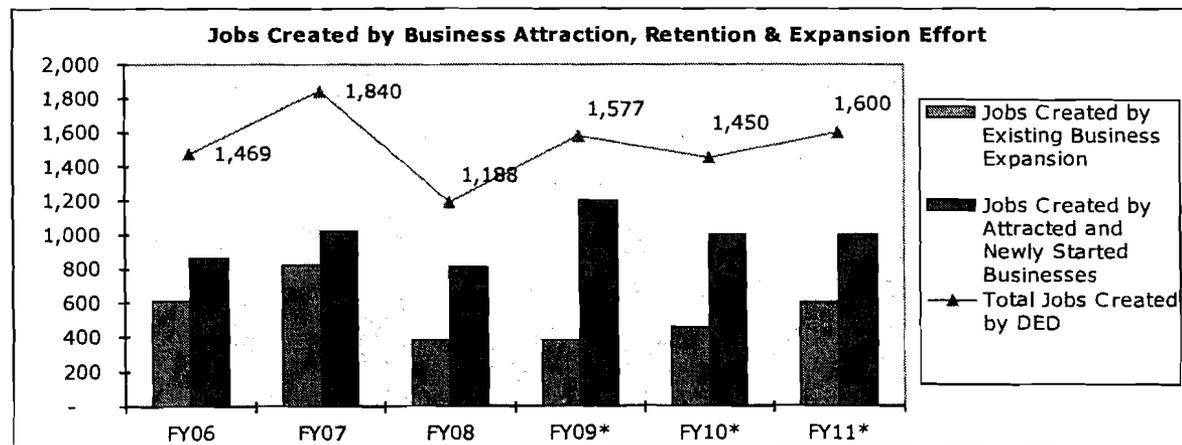
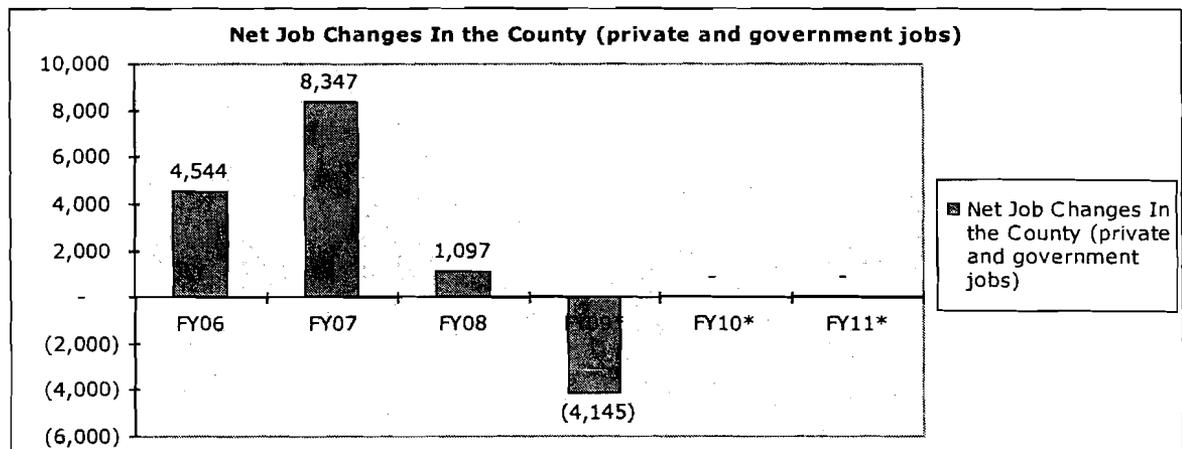
4. PERFORMANCE

Headline Measures on: DED's Business Attraction, Retention & Expansion Efforts

The performance measure ① through ⑤ shows the overall success of DED's business attraction, retention and expansion effort. Fiscal Years with asterisk denote projected outcome.

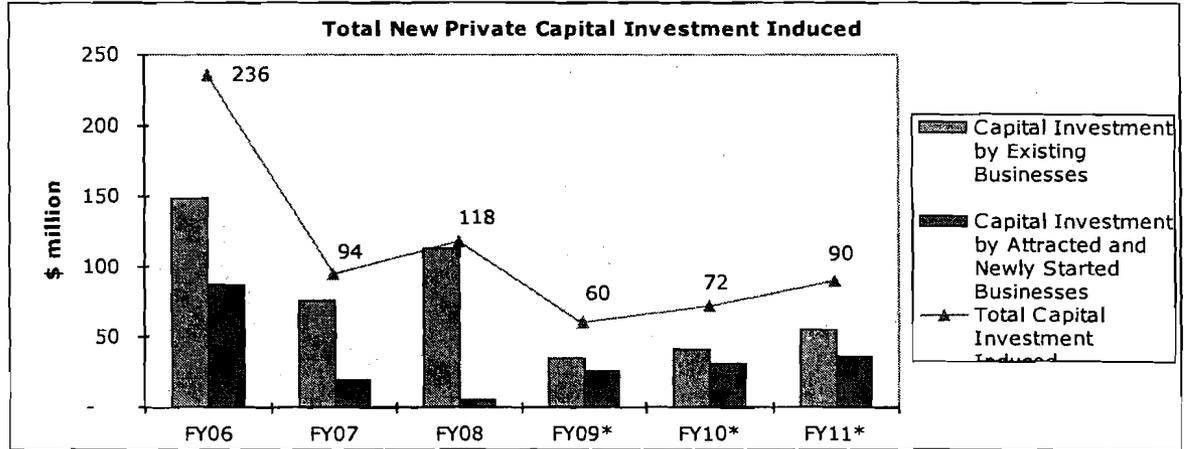
① Number of Jobs Created by Existing Business Expansion

This performance measure shows overall success of DED business development effort. Due to the different types of marketing programming and resources deployed, jobs created by retention effort are tracked separately from jobs created by attracted businesses (including new startups) to monitor the impacts of retention vs. attraction effort.



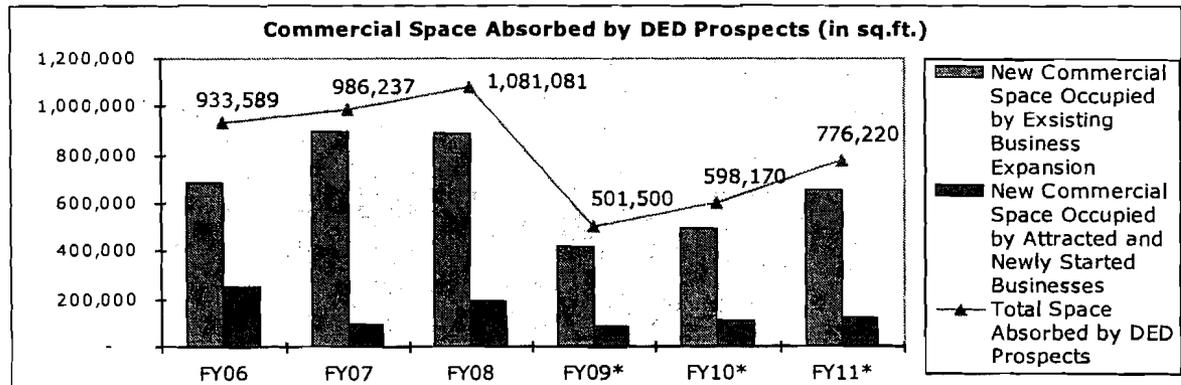
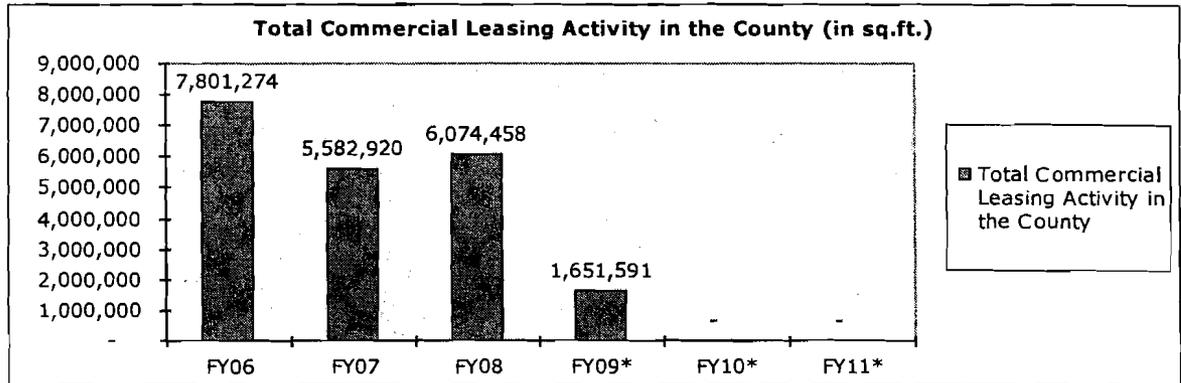
② Total New Capital Investment

This performance measure shows the amount of capital invested by DED's successful prospect closings. This measure is important as it is directly tied to the amount of new tax revenues (particularly on real property) that County will receive.



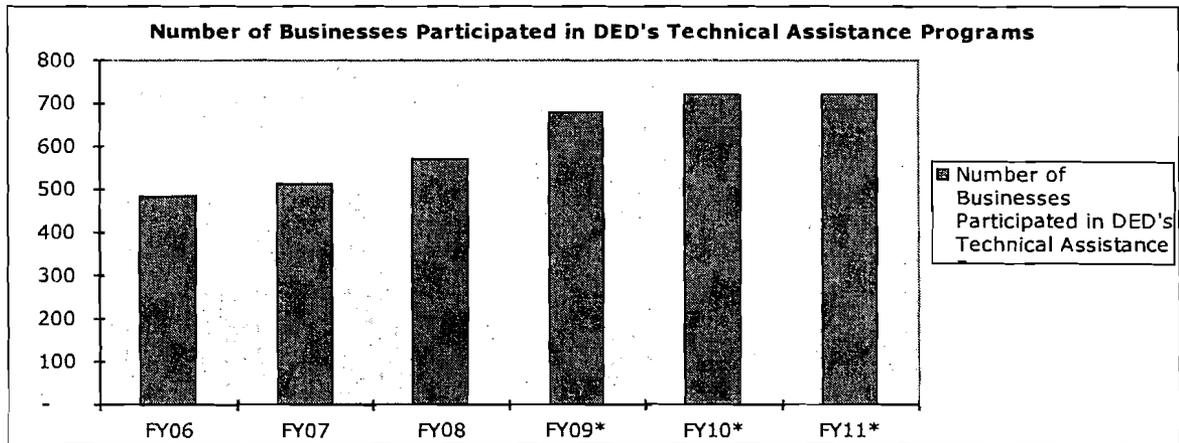
③ New Commercial Space Occupied:

This performance measure shows the new commercial space consumption by DED's successful prospect closing. This measure not only captures DED's contribution in lowering the vacancy rate of the County's commercial space inventory but only enables DED to monitor trends (per employee spending, space need by industry, etc) in commercial leasing and new construction.



④ Number of businesses participated in County sponsored technical assistance programs

This performance measure shows the level of success in DED's Small, Minority, Female, and Disadvantaged business outreach effort and placement of business assistance programs. The participation number will indicate the effectiveness of DED's outreach method and the relevancy of program placement addressing the need of the business communities.



* due to DED's database migration in process, refined numbers will be available by April 2009.

Direct Technical Assistance

- This category is defined as direct contact or training provided to individuals including one-on-one and group meetings and consultations, incubator tenant consultations, business visits, seminars and presentations, walk-ins and telephone calls. This category will track the dissemination of specific information on items such as a) starting a business, b) requirements for admission into the incubator network, c) information on available DED programs and services and d) assistance with procurement or other issues. DBE will create a standardized "Sign In Sheet" template to be used for each event.
- Survey Methodology and Frequency
DED will create a standard electronic survey instrument that will assess the usefulness of the service or program delivered to clients and their satisfaction with the information received. A random sample of approximately 20% of clients served will be implemented on a quarterly basis.

All Innovation Center Tenants will be surveyed on an annual basis.

Indirect Technical Assistance

- Information and Referral – There are private and public groups that provide services to small businesses and there are organizations where DED has established specific strategic partnerships to provide services to small businesses. DBE routinely refers businesses seeking assistance to these organizations. This category will track the number of referrals by DBE to these organizations and include the reporting by the Small Business Development Centers and the Latino Economic Development Corporation.
- Survey Methodology and Frequency - The Small Business Development Center and the Latino Economic Development Corporation conduct client evaluations of their programs and services. The result of these evaluations will be included in this section.

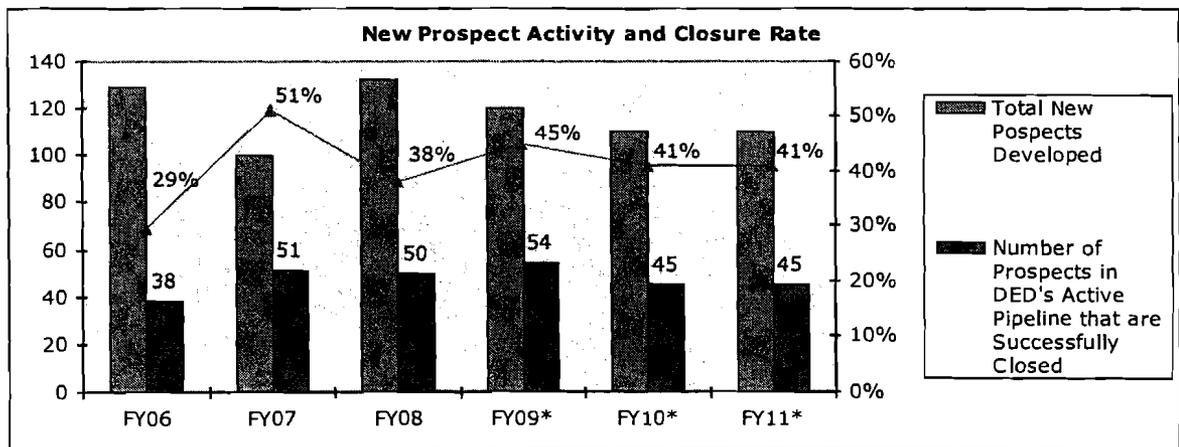
Additionally, wherever possible we will utilize the DBE standard electronic survey instrument as described in Direct Technical Assistance. A random sample of approximately 20% of clients served will be implemented on a quarterly basis.

- **Outreach and Marketing** - This measure will track all contact with individuals or groups where DBE staff is “marketing” and/or providing information about services available within DED. Examples of this type of technical assistance will include attendance at procurement fairs, trade shows, attendance/presentations at various business and professional groups, hosting foreign delegations, hosting outside groups in DED facilities, Innovation Network tours, events where DED partners with other organizations and similar types of events.
- **Survey Methodology and Frequency**
Whenever possible, we will maintain attendance lists of all attendees (including email addresses) and provide a cumulative total of the number of individuals. In instances where DBE is a participant with other groups, we will obtain the results of the evaluation completed by the organization. Annually, DBE will conduct an on line survey of approximately 10% of the clients served using the standardized survey instrument. Additionally, all partnering organizations will be asked to share the results of their satisfaction surveys with DBE. If we are just attending an event, we will request the host/organizer to provide attendance list to us.

Survey Questions:

- The survey instrument will include no more than 10 questions that will include both yes or no responses and rate satisfaction by the following categories: Strongly Agree, Somewhat Agree, Unsure, Somewhat Disagree, and Do Not Agree. At least one question will give the client the opportunity to provide narrative comment regarding the service received.
 - The instrument can be anonymous if desired, and include unbiased questions.
- ⑤ Number of prospects in DED’s ‘active’ pipeline that are successfully closed.

This performance measure shows the effectiveness of DED’s marketing and business development effort. Though marketing, research, and networking, contacts with businesses are developed, and these contacts are screened to separate prospects (defined as business that has expansion/relocation plan within 6-18 months of contact date). Considering the fact that historically less than 10% of the contacts are ultimately screened as prospects, generating sufficient number of contacts and efficient closing of screened prospect cases are critical to DED’s success.

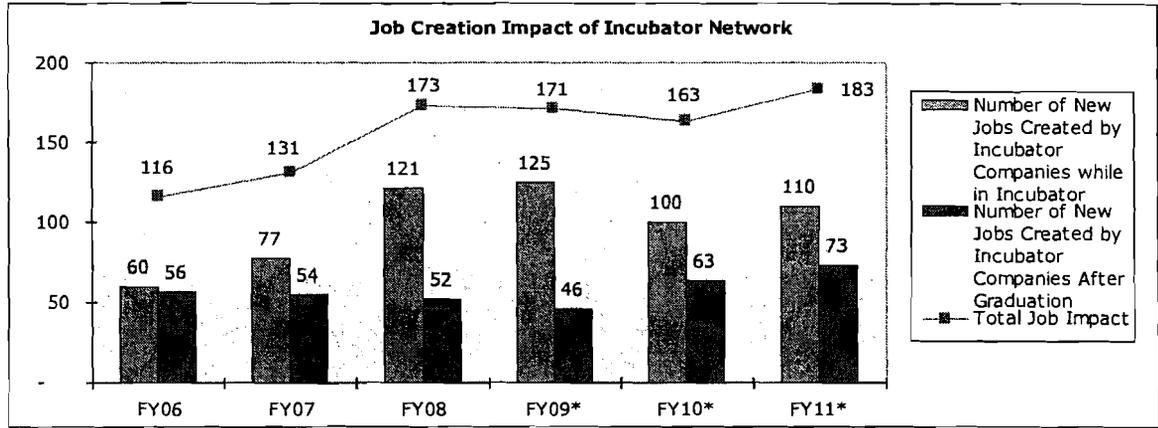


Headline Measures on: DED's Incubator Program

Outcomes of Business Incubator Program will be measured by:

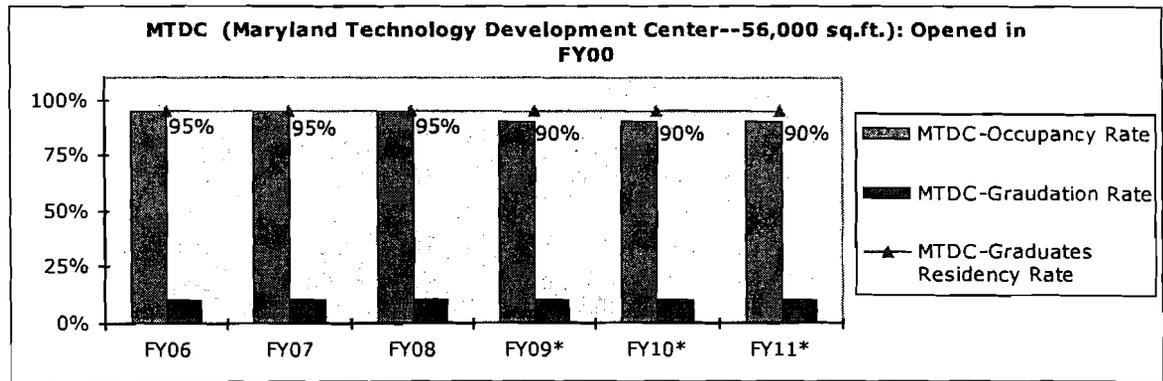
- ⑥ Number of new jobs created by incubator tenant during incubation period and post graduation.

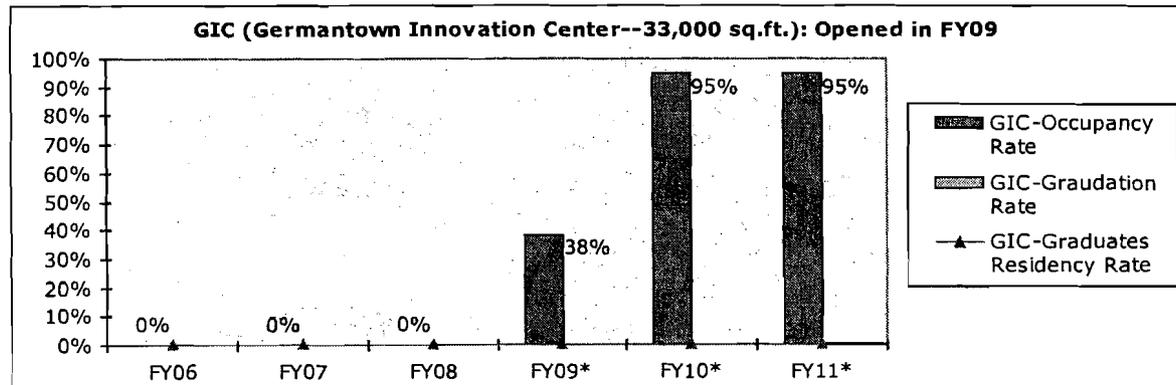
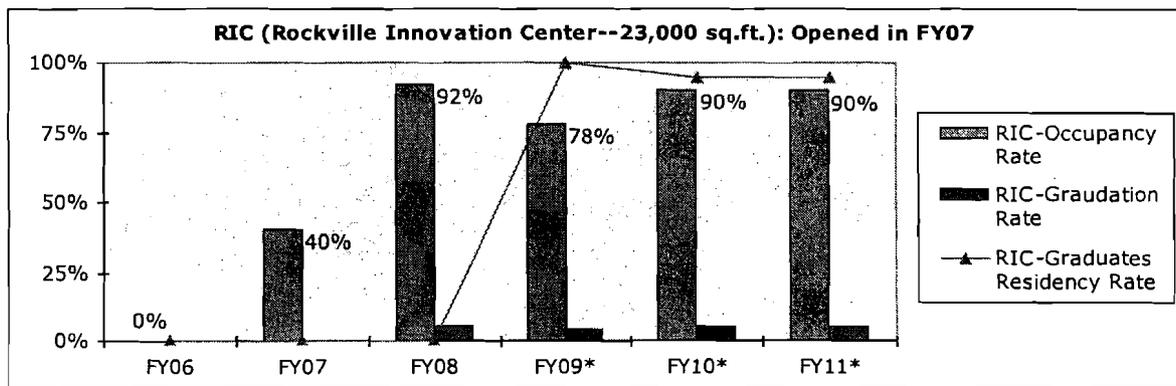
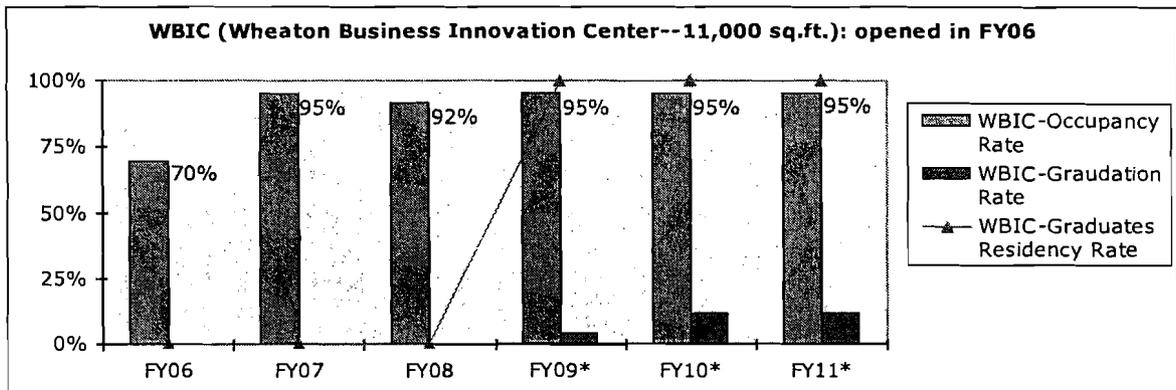
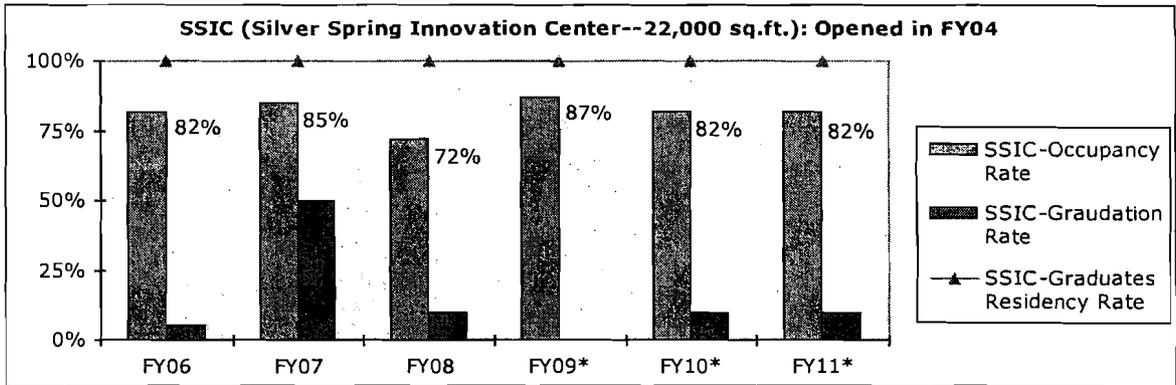
This performance measure shows the effectiveness of DED's Incubator Programs in developing and nurturing early stage and start-up companies to market ready companies that create jobs and occupy commercial space in the County..



- ⑦ Occupancy rate, graduation rate, and residency rate of incubators in the network.

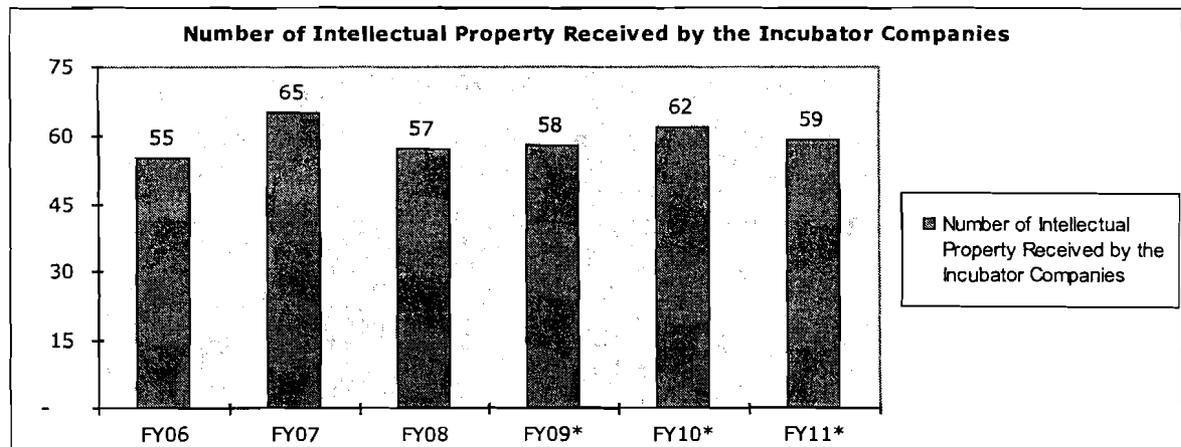
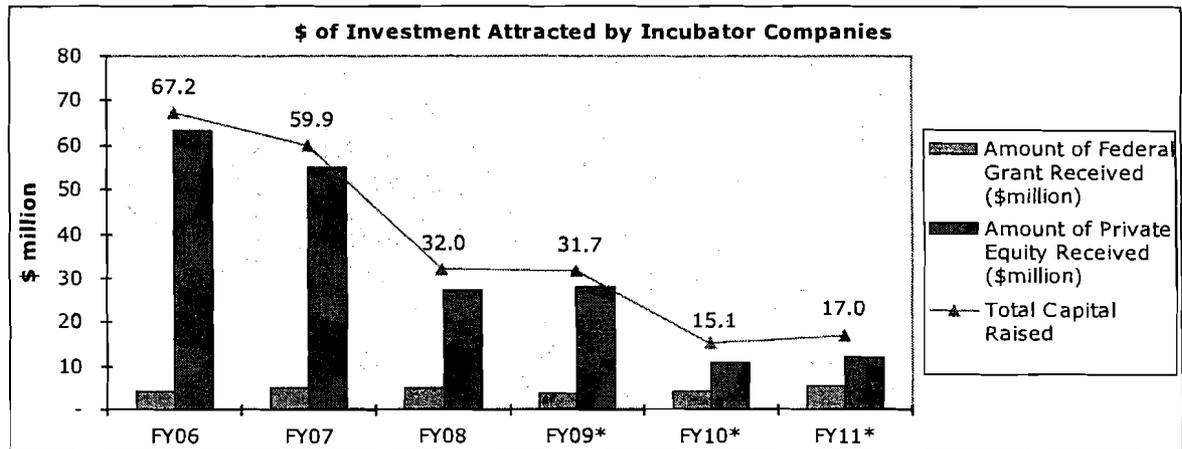
This performance measure shows the effectiveness of County funds in creating new knowledge based jobs in the County. While most jobs are created by the Incubator companies after they graduate, the jobs they create during their stay in the Incubator is a comprehensive measure of DED's screening process for new incubator companies, size and timeliness of the financial assistance that DED either offers directly or facilitates, and the adequacy and the effectiveness of the technical training and networking programs that DED provides to the Incubator tenants.





- ⑧ Number of Intellectual Property issued to and amount of federal research grant and private equity financing received by incubator companies (5 year window from the Incubator admission date). * This data, although not easy to track due to proprietary nature, will be a key success outcome of incubator program. As such, will be tracked and reported to the maximum data availability.

This performance measure gauges the economic impact and the societal impact of Incubator Program in making new scientific and technological discoveries, and enabling commercialization of those discoveries.



5. STORY BEHIND PERFORMANCE

Headline Performance Measure	Contributing Factors	Restricting Factors
Business Attraction, Retention & Expansion Effort	<ol style="list-style-type: none"> 1. Locational advantages and high quality of life in the County. 2. Abundance of business resources and proactive business organizations that support entrepreneurship. 3. Strong partnership with the State to promote business attraction and retention. 4. Recent emphasis on international prospect missions and attraction of foreign direct investment. 	<ol style="list-style-type: none"> 1. Limited marketing funds to carry out a sustained marketing campaign and distribute collateral material (both within and outside of the region). 2. Lack of a unified service delivery system to business community. 3. Scarcity of seed funding for early stage companies. 4. High costs of conducting business due to market conditions and governmental regulations. 5. Competitiveness of the region's other jurisdictions in attracting businesses. 6. High cost of living and State tax structure for businesses.
Incubator Program	<ol style="list-style-type: none"> 1. Strong knowledge based economy of the County encourages entrepreneurship and the spin off of new entrepreneurs. 2. Presence of five top-notch incubator facilities at strategic locations in the County. 3. Quality and number of management training and networking events offered to incubator companies. 4. Ability to provide flexible terms to meet each company's requirements. 5. On-site staffing assistance to resolve operational and facility related issues. 6. Good supply of high-tech work force. 	<ol style="list-style-type: none"> 1. Due to recession, more commercial space is available for potential incubator tenants at lower rate than County's incubator. If incubator rates are lowered to match the market condition, then more operational subsidy will be required to meet the debt service requirements of three incubators. If the rates are not lowered, the vacancy rate will rise resulting in less revenue and hence an additional subsidy requirement from the County will be required. 2. Incubators operate with a minimal subsidy from the County. As a result, their budgets are very limited in providing the type of more sophisticated support services and programs high-tech incubator companies require, and other incubators are starting to provide. 3. Very labor intensive services required to support incubator companies. Current staffing of one professional per incubator facility is insufficient to provide the desired level of service. 4. Strong competition from region's other incubators, require expanded and innovative marketing.

5. WHAT WE PROPOSE TO DO TO IMPROVE PERFORMANCE

To Address:

- High costs of conducting business due to market conditions and governmental regulations, including the County's land use policies.
- Competitiveness of the region's other jurisdictions in attracting businesses.
- Insufficient marketing funds to carry out a sustained marketing campaign and distribute collateral material (both within and outside of the region) to develop sustained prospect flow.
- Direct funding program-the EDF-depleted fund balance

Innovations/New Initiatives

- Create comprehensive prospect guide book for each targeted industry sector demonstrating that County 's locational advantages, abundance of resources, and easy access to highly educated workforce out weights real and perceived higher costs and longer process of doing business in Montgomery County.
- Develop 1-2 international trade missions per year to attract foreign prospects/investment (India mission in FY08 was the first, and Korea and China missions were completed in FY09).
- Develop and implement a strategy to enhance technology transfer from County R&D facilities to the business community through partnerships with organizations such as the Technology Development Corporation of Maryland and Federal Labs Consortium.

To Address:

- Long and complicated development process for capital projects.

Innovations/New Initiatives

- Conduct regular (quarterly) prospect/project meetings with Park and Planning Commission, DHCA, DPS, and Regional Services Center to identify significant prospect activities and provide unified and seamless support services to complete the prospect/project transactions.
- Identify and maintain directory of point staff in all governing agencies that can trouble shoot business related issues.

To Address:

- Direct funding program-the EDF-depleted fund balance
- Scarcity of seed funding for early stage companies.

Innovations/New Initiatives

- Establish a formal working relationship with the national Venture Capital Institute to create a referral and matchmaking network to assist County's advanced technology and life sciences companies seeking growth capital. There is evidence that venture capital investment is made through a rather small circle/network of investors—particularly on Series A or B round.
- Facilitate the creation of training and networking programs for persons and organizations willing to invest—particularly from Asia—in small advanced technology and life sciences companies in the County. In FY08, DED has brokered three investments to County biotech companies from Korea and India, and making progress for two in FY09
- Develop partnerships with federal laboratory groups and State/federal programs to enhance business opportunities for technology transfer and innovation in the women and minority-owned business communities.

Pre-Existing Efforts

- Seek supplemental appropriations to replenish the EDF balance.

To Address:

- Current vacancies and staff resources not adequate to meet the demand of County's estimated 40,000 small businesses.

Innovations/New Initiatives

- Strengthen strategic partnerships and develop collaborative outreach events with the Office of Procurement to enhance available contract opportunities to local and/or small businesses.
- Enhance alliances with resource partners by facilitating and conducting small business walking tours with the U.S. Small Business Administration, Maryland Small Business Development Center Network, and other business groups.
- Create better communication channels through listservs, web site postings and partnering with other organizations.

Pre-Existing Efforts

- Expand the Small Business Mentorship Program.
- Become an integral participant/sponsor of the Federal Laboratory Consortium and create an intra-County network of federal labs, providing new linkages and closer ties with those who promote tech transfer within the labs.
- Participate in marketing, promotion and strategic development working groups on tech transfer within Maryland, to enhance and leverage the County's investment with partners such as TEDCO, University of Maryland, Johns Hopkins University, Rockville Economic Development Inc., and Montgomery College.
- Request for a waiver to fill the current vacancies.