PHED Committee #3
April 26, 2012

MEMORANDUM

April 23, 2012

TO: Planning, Housing and Economic Development Committee

FROM: Jacob Sesker, Senior Legislative Analyst JS

SUBJECT: FY13 Operating Budget: Economic Development Fund

Those expected to attend this worksession include:

From DED: Steve Silverman (Director); Peter Bang (Chief Operating Officer); Tina Benjamin (Director of Special Projects).
From OMB: Adam Damin (Management and Budget Specialist).

Relevant pages from the FY13 Recommended Operating Budget are attached on © 1-4.

Summary of Council Staff Recommendations

Do not fund the proposed room/transient tax rebate to Lockheed Martin. Approve the remainder of the Economic Development Fund budget as requested (see recommended table of changes below).

Overview

The mission of the Economic Development Fund is to assist private employers who are located, or plan to locate or substantially expand operations, in the County. In FY12, the Council approved an appropriation of $4,922,280 to the Economic Development Fund. In FY13, the Executive requests an increase of $997,740 (21.7%) above the FY12 approved amount. While there are four separate programs that are related to the Economic Development Fund, more than 96% of the Executive's request is for the Economic Development Grant and Loan Program.

Change	*Expenditures*	*FTEs*
FY12 Appropriation	**$4,922,280**	**1.00**
Add: EDF Funding for Westfield COSTCO	$2,000,000	0.00
Add: Choice Hotels Headquarters Relocation Project	$1,920,150	0.00
Add: Lockheed Martin Room Rental Transient Tax Rebate	$900,000	0.00

Change	*Expenditures*	*FTEs*
Payment for FY12-13 Expedited Bill 44-10		
Add: Seed Funding for Bioscience Tax Credit Supplement Program	$500,000	0.00
Add: EDF Funding for Meso Scale Expansion Project	$167,000	0.00
Decrease Cost: Group Insurance Adjustment	($2,410)	0.00
Decrease Cost: Reduction to EDF Grants and Loans	($342,000)	0.00
Decrease Cost: Elimination of One-Time Items Approved in FY12	($4,075,000)	0.00
FY13 Recommended	**$5,990,020**	**1.00**

Of the five requested additions to the Economic Development Fund, three represent specific economic development incentive proposals that have been before the Council (Westfield COSTCO, Choice Hotels, Meso Scale Diagnostics), one represents legislation that this Council passed (Bill 34-11 created the Bioscience Tax Credit Supplement), and one represents a proposed "rebate" payment related to a bill that did not pass (the Council did not pass Expedited Bill 44-10, which would have exempted Lockheed Martin's Center for Leadership Excellence from the room rental and transient tax under County Code §52-16). For the text of §52-16, see © 25-26. For the text of Expedited Bill 44-10, which expired in January of 2012, see © 27-29.

Of the three requested downward adjustments, one is technical (group insurance adjustment), one is related to the nature of the fund (elimination of one-time items approved in FY12), and one represents (in effect) a shift from the EDF to DED.

- EDF Decrease cost-reduction to EDF grants and loans: ($342,000)
- DED Increase cost-enhance marketing initiatives: $250,000
- DED Increase cost-professional services contracts: $100,000

FY13 Expenditure Issues

Summary of testimony and other communications

Many individuals testified in opposition to the Executive's request for a $900,000 grant to Lockheed Martin. That testimony included testimony by Delegate Ana Sol Gutierrez (District 18) and Senator Jamie Raskin (District 20).

Delegate Gutierrez noted in her testimony that in 2010 the Council did not pass Bill 44-10, and further notes that, "Now it appears to me that the proposed $900,000 grant to Lockheed Martin in the new budget attempts to subvert the Council's decision to not exempt the facility from paying local taxes."

Susan Kerin, a Derwood resident and project director for travel and logistics who works for a federal contractor, raised the issue of whether in fact Lockheed Martin was being directly or indirectly reimbursed for the hotel/motel tax when billing the federal government. She stated, "Most lodging is billable, including taxes."

Both Delegate Gutierrez and Ms. Kerin raise arguments against retroactive compensation for Lockheed Martin. The Executive has characterized this grant as a tax rebate. There is no established process through which parties who did not benefit from legislation introduced on behalf of the Executive and not passed by the Council can be compensated. Certainly, if there were such a process, the Council would want to know whether the tax rebate exceeded the amount of tax paid and whether the tax payments had already been reimbursed by the federal government.

Lockheed Martin responded to issues raised by the testimony in a letter addressed to the Committee (see © 10-11). Lockheed Martin stated that, in 2011, 99.3% of room-nights were occupied by employees, and in the first quarter of 2012, 99.5% of room-nights were occupied by employees. In a separate e-mail, Lockheed Martin addressed the reimbursement issue.

"The CLE lodging tax is rolled into our overall corporate overhead costs and those costs are allocated to different businesses and to different contracts based on what the contracts are and what form they take – e.g., fixed-price, cost-plus, etc. In addition, different contracts have different cost reimbursement rates, so the idea that "all of our costs get reimbursed by the Federal Government" is not accurate. There is a range of reimbursement for contract costs, depending on the contract vehicle and what the Federal Government has agreed to reimburse. That range can vary greatly – for some contracts its 50%, for others it might be 75% -- it depends. The significant point is that we build corporate overhead costs into our contracts in advance when we seek to do business with our customers. As we have stated before, we are under pressure from our customer (the Federal Government) to lower those costs wherever possible. The fact that some percentage of those costs over time can be reimbursed by the Federal Government doesn't reduce the need to lower our overhead costs whenever we can – because that cost must still be paid by someone. And in this case, where the County is applying a hotel/motel lodging tax to a facility that isn't a hotel or a motel, we have an obligation to try and eliminate that inappropriate cost altogether."

The Department of Economic Development submitted information showing that the company paid approximately $3 million per year in real and personal property taxes in both 2010 and 2011. DED also stated that the construction of the CLE created numerous construction jobs at the start of the downturn, boasts over 175 permanent employees, and generates 6,000 spillover room-nights for County hotels annually (see © 12-14).

The Committee also received a letter from Michael Shuman, a County resident and nationally known economic development expert (see © 15-24). Mr. Shuman provides a detailed explanation of the critiques of attraction and retention incentives generally, the comparative benefits of supporting local small businesses, and provides examples of alternative economic development investments that would achieve more substantial returns on investment than the requested incentive for Lockheed Martin.

Notice requirement under the Economic Development Fund Law

Staff notes that Expedited Bill 44-10 is not before the Council, and has already expired. Whether or not Lockheed Martin's Center for Leadership Excellence should be exempt from the room rental and transient tax is not a question that is before the Council at this time. The question, rather, is whether or not to provide an economic development grant of unspecified terms to Lockheed Martin as a rebate for FY12 room rental and transient taxes paid and FY13 room rental and transient taxes estimated.

The existing process that was used in this case, the Economic Development Grant and Loan Program, was established by the Council and is codified in Chapter 20, Article XIII, §20-73 through §20-76A. Regulations adopted under "method 1" (COMCOR 20.73.01.01 through 20.73.01.07) provide additional detail regarding how the Economic Development Grant and Loan Program is to be administered, including a legal requirement that the Executive provide notice prior to making an offer of assistance from the Fund.

- Under §20-75(b), the Executive must notify the Council at least 2 working days before he offers assistance valued at more than $100,000 to a private employer. That notice must include all fiscal analyses and other supporting documents.
- Under COMCOR 20.75.01.05 (e), the Executive must provide an economic benefit analysis and/or pro-forma analysis for all awards above $100,000.[1]
- Under §20-75(c), the notice required under §20-75(b) must specify the proposed terms of any assistance offered, including any repayment provisions.
- Furthermore, §20-75(d) states that, "Unless expressly inconsistent with any other federal, state, or County law, the terms of any assistance from the Fund must require the recipient to meet certain performance criteria specified in the offer of assistance, including a repayment agreement unless the Executive describes why repayment of assistance is not required."

In this particular case, the Executive has proposed assistance in the amount of $900,000 without providing the Council with any documentation that this amount is correct, and without addressing the issue of whether Lockheed Martin has already been reimbursed for much of this expense by the federal government.

The process in this case was very different from the usual process in an EDF grant or loan proposal. Rather than notifying the Council prior to making an offer, the Executive in this case either made an offer of assistance to Lockheed Martin and then submitted his budget, or merely submitted his budget without having previously made an offer to Lockheed Martin. In either case, the next question is whether the release of the Executive's budget represents an offer, notice, neither, or both.

- If releasing the budget constituted an offer to Lockheed Martin, but not notice to the Council, then the Executive did not comply with the requirement to notify the Council at least 2 working days before he offered the assistance.
- If releasing the budget constituted notice to the Council, but not an offer to Lockheed Martin, then the Executive's notice is defective for the reasons outlined above.
- If releasing the budget did not constitute an offer or notice, then the Council should assume that this matter need not be discussed further.
- If releasing the budget constituted both an offer to Lockheed Martin and notice to the Council, then the notice did not satisfy the requirement that the Council be notified at least 2 working days before an offer of assistance is made.

Furthermore, the Economic Development Fund is generally used prospectively to incentivize a company to locate in the County, physically expand in the County, or grow its local workforce. The

[1] COMCOR 20.73.01.05 (e): "An economic benefit analysis and/or pro-forma analysis will be completed for all awards above $100,000, the cost of which will be charged to the Fund. The economic benefit analysis will be used when the business prospect can clearly demonstrate its ability and commitment to perform on its proposed project. The pro-forma analysis will be completed for projects which require due diligence by the County to determine feasibility. This could include analysis of the project's financial feasibility by examining revenues and costs, appropriate market analysis, profit and loss projections, current and projected balance sheets and return on investment."

rebate as proposed, however, is retroactive rather than prospective. The proposed assistance in this case is not tied to any plan to substantially expand or retain operations in the County.[2]

Reimbursement

If the Committee wants to grant a rebate to Lockheed Martin, that rebate should be for taxes actually paid, and should be net of any reimbursement that the company has already received through its contracts.

Staff strongly advises against establishing a precedent of granting a rebate to a local employer on the basis of legislation introduced and not passed. However, if the Committee does recommend a rebate, that rebate should only be for actual taxes paid, and not based on an estimated amount for FY12 (not yet over) and FY13 (not yet here). Furthermore, if the Council were to grant a rebate, it should be net of any amount for which the company has already been reimbursed.

Spending shift from EDF to DED

The Executive requests a decrease of expenditures in the amount of $342,000. This decrease is essentially offset by two corresponding increases in the Department of Economic Development's Operating Budget. The corresponding increases would fund capacity that DED has lost due to reduced staffing levels in recent years.

Future expenditure issues

On April 17, 2012, the Council enacted Bill 6-12. That bill created a small business assistance program to assist certain small businesses affected by redevelopment of County properties. Staff anticipates that this program will require an increase in appropriations beginning in FY14 due to the Wheaton Redevelopment Program.

Follow up issues

This proposal raises one issue that may warrant additional discussion following the budget season. Given Lockheed Martin's assertion that more than 99% of room-nights at the Center for Leadership Excellence are charged to employees, does it make sense to again consider changes to the law that would exempt the facility? Bill 44-10 expired in January 2012; consequently, in order to properly consider the issue, a bill would need to be introduced.

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[2] *COMCOR 20.73.01.03 Eligibility*
(a) Any private employer (including nonprofits) which is located in the County that plans to substantially expand or retain operations in the County, or an employer that plans to locate in the County.
(b) Special consideration may be given to high technology and manufacturing companies, businesses in urban revitalization areas, or other private employers which maximize the spin-off effects for the public investment.

Council Staff Recommendations

Do not fund the proposed room/transient tax rebate to Lockheed Martin. Approve the remainder of the Economic Development Fund budget as requested (see recommended table of changes below).

Change	*Expenditures*	*FTEs*
FY12 Appropriation	**$4,922,280**	**1.00**
Add: EDF Funding for Westfield COSTCO	$2,000,000	0.00
Add: Choice Hotels Headquarters Relocation Project	$1,920,150	0.00
Add: Seed Funding for Bioscience Tax Credit Supplement Program	$500,000	0.00
Add: EDF Funding for Meso Scale Expansion Project	$167,000	0.00
Decrease Cost: Group Insurance Adjustment	($2,410)	0.00
Decrease Cost: Reduction to EDF Grants and Loans	($342,000)	0.00
Decrease Cost: Elimination of One-Time Items Approved in FY12	($4,075,000)	0.00
FY13 Recommended	**$5,090,020**	**1.00**

Economic Development Fund

MISSION STATEMENT

The mission of the Economic Development Fund is to assist private employers who are located, or plan to locate, or substantially expand operations in the County. The Fund is administered by the Department of Finance, and programs utilizing the Fund are administered by the respective departments as noted below.

BUDGET OVERVIEW

The total approved FY12 Operating Budget for the Economic Development Fund is $4,922,280, which is a 477% increase over the FY11 Approved Budget. Personnel Costs comprise 2 percent of the budget for one workyear for a position in the Department of Economic Development. Operating Expenses account for the remaining 98 percent of the FY12 budget.

LINKAGE TO COUNTY RESULT AREAS

While this program area supports all eight of the County Result Areas, the following are emphasized:

- ***Healthy and Sustainable Neighborhoods***
- ***Strong and Vibrant Economy***

ACCOMPLISHMENTS AND INITIATIVES

- ***Retain 270 jobs and create 97 new jobs for the ICF Consulting Group.***
- ***Retain 435 jobs and create 153 new jobs while attracting $44 million in investment for Boeing DRT.***
- ***Create 475 new jobs by supporting the Westfield-Costco project.***
- ***Retain 375 existing jobs and create 75 new jobs by retaining Choice Hotels headquarters.***
- ***Provide seed funding for early stage Bioscience companies.***

PROGRAM CONTACTS

Contact Peter Bang of the Economic Development Fund at 240.777.2008 or Mary Oneda-Brown of the Office of Management and Budget at 240.777.2751 for more information regarding this department's operating budget.

PROGRAM DESCRIPTIONS

Demolition Loan Program

The Demolition Loan Program was established in FY99. The program helps owners of obsolete, underutilized commercial buildings demolish buildings and clear the land. This program is administered by the Department of Housing and Community Affairs.

FY13 Recommended Changes	Expenditures	FTEs
FY12 Approved	0	0.00
FY13 CE Recommended	0	0.00

Economic Development Grant and Loan Program

The Economic Development Grant and Loan Program was established in FY96 to provide assistance to private employers who will retain jobs already in the County or create jobs in the County through the expansion of current businesses or location of new businesses in the County. As part of its Marketing and Business Development Program, the Department of Economic Development (DED) identifies and develops prospects which meet the criteria for grants or loans from the Economic Development Fund. DED works to develop offers of assistance, frequently in close cooperation and coordination with the State of Maryland. By March 15, the County Executive submits an annual report on the status and use of the Fund, as required by Chapter 20-76 (b) of the Montgomery County Code. This program is administered by the Department of Economic Development.

(1)

FY13 Recommended Changes	Expenditures	FTEs
FY12 Approved	**4,697,490**	**1.00**
Add: EDF Funding for the Westfield-COSTCO Project 2nd Phase	2,000,000	0.00
Add: Choice Hotels Headquarters Relocation Project	1,920,150	0.00
Add: Lockheed Martin Room Rental Transient Tax Rebate Payment for FY12-13 for Expedited Bill 44-10	900,000	0.00
Add: Seed Funding for Bioscience Tax Credit Supplement Program	500,000	0.00
Add: EDF Funding for Meso Scale Expansion Project	167,000	0.00
Decrease Cost: Reduction to Economic Development Fund (EDF) Grants and Loans	-342,000	0.00
Decrease Cost: Elimination of One-Time Items Approved in FY12	-4,075,000	0.00
Multi-program adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting multiple programs. Other large variances are related to the transition from the previous mainframe budgeting system to Hyperion.	-2,410	0.00
FY13 CE Recommended	**5,765,230**	**1.00**

Technology Growth Program

The Technology Growth Program was created in FY99 as a program within the Economic Development Fund to facilitate the growth of technology-based companies located or desiring to locate in the County. Financial assistance under the program is based on the evaluation of the technology and the innovation proposed, along with potential impact for the County. The program is aimed at leveraging private-sector financing and State Challenge and Equity Investment funds and is administered by the Department of Economic Development.

FY13 Recommended Changes	Expenditures	FTEs
FY12 Approved	**0**	**0.00**
FY13 CE Recommended	**0**	**0.00**

Small Business Revolving Loan Program

The Small Business Revolving Loan Program was established in FY00. The program augments a grant from the Maryland Economic Development Assistance Authority and Fund (MEDAAF) Act under Senate Bill 446 to finance economic development projects that do not receive priority consideration from institutional lenders and other public sources because they are in non-priority industry sectors and/or non-priority transaction sites, and/or cannot fully satisfy the credit requirements of conventional lend. The program offers secured loans typically in the range of $25,000 to $100,000 and is administered by the Department of Economic Development.

FY13 Recommended Changes	Expenditures	FTEs
FY12 Approved	**224,790**	**0.00**
FY13 CE Recommended	**224,790**	**0.00**

BUDGET SUMMARY

	Actual FY11	Budget FY12	Estimated FY12	Recommended FY13	% Chg Bud/Rec
ECONOMIC DEVELOPMENT FUND					
EXPENDITURES					
Salaries and Wages	92,345	94,300	94,303	94,295	0.0%
Employee Benefits	29,538	26,240	28,967	23,835	-9.2%
Economic Development Fund Personnel Costs	***121,883***	***120,540***	***123,270***	***118,130***	***-2.0%***
Operating Expenses	630,000	4,801,740	6,399,216	5,871,890	22.3%
Capital Outlay	0	0	0	0	—
Economic Development Fund Expenditures	***751,883***	***4,922,280***	***6,522,486***	***5,990,020***	***21.7%***
PERSONNEL					
Full-Time	0	0	0	0	—
Part-Time	0	0	0	0	—
FTEs	1.00	1.00	1.00	1.00	—
REVENUES					
Investment Income	55,489	20,700	0	0	—
Loan Payments	222,734	174,590	148,780	94,970	-45.6%
Miscellaneous Revenues	274,730	0	0	0	—
Economic Development Fund Revenues	***552,953***	***195,290***	***148,780***	***94,970***	***-51.4%***

FY13 RECOMMENDED CHANGES

	Expenditures	FTEs
ECONOMIC DEVELOPMENT FUND		
FY12 ORIGINAL APPROPRIATION	**4,922,280**	**1.00**
Changes (with service impacts)		
Add: EDF Funding for the Westfield-COSTCO Project 2nd Phase [Economic Development Grant and Loan Program]	2,000,000	0.00
Add: Choice Hotels Headquarters Relocation Project [Economic Development Grant and Loan Program]	1,920,150	0.00
Add: Lockheed Martin Room Rental Transient Tax Rebate Payment for FY12-13 for Expedited Bill 44-10 [Economic Development Grant and Loan Program]	900,000	0.00
Add: Seed Funding for Bioscience Tax Credit Supplement Program [Economic Development Grant and Loan Program]	500,000	0.00
Add: EDF Funding for Meso Scale Expansion Project [Economic Development Grant and Loan Program]	167,000	0.00
Other Adjustments (with no service impacts)		
Decrease Cost: Group Insurance Adjustment	-2,410	0.00
Decrease Cost: Reduction to Economic Development Fund (EDF) Grants and Loans [Economic Development Grant and Loan Program]	-342,000	0.00
Decrease Cost: Elimination of One-Time Items Approved in FY12 [Economic Development Grant and Loan Program]	-4,075,000	0.00
FY13 RECOMMENDED:	**5,990,020**	**1.00**

PROGRAM SUMMARY

Program Name	FY12 Approved Expenditures	FY12 Approved FTEs	FY13 Recommended Expenditures	FY13 Recommended FTEs
Demolition Loan Program	0	0.00	0	0.00
Economic Development Grant and Loan Program	4,697,490	1.00	5,765,230	1.00
Technology Growth Program	0	0.00	0	0.00
Small Business Revolving Loan Program	224,790	0.00	224,790	0.00
Total	**4,922,280**	**1.00**	**5,990,020**	**1.00**

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FUTURE FISCAL IMPACTS

Title	CE REC. FY13	FY14	FY15	($000's) FY16	FY17	FY18
This table is intended to present significant future fiscal impacts of the department's programs.						
ECONOMIC DEVELOPMENT FUND						
Expenditures						
FY13 Recommended	5,990	5,990	5,990	5,990	5,990	5,990
No inflation or compensation change is included in outyear projections.						
Subtotal Expenditures	*5,990*	*5,990*	*5,990*	*5,990*	*5,990*	*5,990*

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Testimony before the Montgomery County Council
Public Budget Hearing: April 12, 2012

Presented by Delegate Ana Sol Gutiérrez
Maryland House of Delegates, District 18
3317 Turner Lane, Chevy Chase, MD 20815

IN OPPOSITION TO: Grant to Lockheed Martin

Mr. President and Members of the Montgomery County Council: Good Afternoon. I come before you today to urge you to reject a proposal in the County Executive's budget that would grant of almost a million dollars to Lockheed Martin.

This grant is unnecessary and inconsistent with the funding priorities of the County, which have always aimed to maintain excellent services while supporting the common interests of the residents in the county. In the current economic and budgetary climate, and the highly probable required cuts to education, health and social services, and public safety in Montgomery County, it is difficult to justify such a generous grant to a defense giant whose 2011 annual report reveals $46.5 billion in net sales and close to $4 billion in operating profits.

Background: During the 2009 legislative session, the MGA passed HB 821, which created a special Class B Corporate Training Center alcoholic beverage license in Montgomery County to be used by Lockheed Martin. The annual fee for this license is $2500, similar to the fee paid by all other Class B licensees. However, this special license was restricted for use in a facility that serves only workforce training and education needs of employees, customers, and visitors to the headquarters of a corporation with at least 500 employees in the county.

During the 2010 session, State legislation introduced and passed, HB855, to allow a large corporate entity such as Lockheed Martin to avoid paying State and local taxes. Because this was enabling legislation, the County had to take action regarding payment of local taxes.

In September 2010, Expedited Bill 44-10 was proposed by County Executive Ike Leggett that would have exempted Lockheed Martin from paying Montgomery County taxes, thereby legally redefining a hotel in order to provide a special tax exemption for patrons of Lockheed Martin's training center in Bethesda. I provided testimony in strong opposition to this bill. This exemption would cost the County $450,000 in foregone taxes per year. Intense public opposition was displayed at a public hearing on the bill, and you, the Council, wisely decided not to pass the bill. Now, it appears to me that the proposed $900,000 grant to Lockheed Martin in the new budget attempts to subvert the Council's decision to not exempt the facility from paying local taxes.

KEY ISSUES TO CONSIDER: How can this unprecedented county subsidy for private, for-profit training center be justified? Does this grant promote unfair competition of other lodging service providers in the area?

I urge you disallow this unjustified grant and prevent a significant loss of County revenue, especially in the current negative revenue climate.

Public Comment Testimony from Susan Kerin
Re: 2012 Budget and Lockheed Martin $900,000 Grant
April 12, 2012

1. My Background and Lack of Documentation Concerns

Good afternoon. My name is Susan Kerin and I am a constituent living in Derwood, Maryland. For the past 8 years, I have worked for a government contractor to the National Cancer Institute as a project director for a travel/logistics contract. My employer is a small business owner and while our firm handles a lot of travel needs, alas we do not have the economies-to-scale to build our own hotel.

I am deeply concerned about the lack of documentation related to this $900,000 grant to Lockheed Martin. As a taxpayer who will be footing this bill, I feel I have a right to the backup data on this. When I called the county's budget office to gather more information, I was told there was only one line in the budget referencing expedited bill 44-10. When I asked to see that bill, the person responded "well, that's strange. The bill was never voted on." I said "you mean it didn't pass?" She said "yeah, it didn't even get to a vote."

2. Direct Billable Costs and "Markup Costs"

The reason I want to see the documentation is I want to know how Lockheed Martin currently line-items these charges. To be simplistic, government contractors have two types of costs, directs and indirects. Direct costs are billable expenses that we invoice to a government agency who then reimburses the contractor, in this case Lockheed Martin. Most lodging is billable including taxes. So I want to know how much of the $900,000 falls in this category and if Lockheed Martin is planning to reimburse these government agencies with the grant money since they were the ones that paid the bill.

As someone who pays both Federal and Montgomery County taxes, I want to be sure that I'm not paying this charge twice. To be honest, if we must pay this, why don't we just give the grant to the U.S. Department of Treasury directly?

So onto the second cost: Indirects. These are the general costs of doing business, like rent, along with a company's profit. When a contractor sends their invoices to the government, they add these indirects as a markup on their bill. So if Lockheed sends a bill to a Federal agency to get reimbursed for the $900,000, they might add anywhere from $90,000-$200,000 as markup. This begs the question: if we reimburse this money back, would Lockheed also write a refund check to return the associated markups fee they got paid?

3. Indirect Costs and Lobbyists' Incentives

I should note that there may be some instances where a lodging cost is not billable. A proposal writer comes down here to do marketing or there is a staff training. But these are corporate investments. If a firm is not getting a good return on these activities and is needs to quibble about a $14 lodging tax, they really should evaluate these investments. Even small minority-owned firms who get accommodations to level the playing field know not to expect breaks on these costs as they solely benefit the owner.

However, there are actually 91 other reasons why I don't want to reimburse Lockheed costs in the indirect category. They are Lobbyists. In 2011, Lockheed Martin hired 91 lobbyists and paid them over $18 million. This is nearly 2 lobbyists per state. As someone who works for a firm who doesn't retain a single lobbyist, I find 91 to be somewhat excessive even extravagant. I think this is so saturated that to "earn their keep" these lobbyists need to go beyond just fishing for grants and tax breaks. They virtually have to go trawling. We know that these fishing expeditions need to produce at least $18 million/year of revenue, because otherwise it wouldn't be worth it for Lockheed Martin to invest in these services. And it must be worth it because Lockheed Martin has been investing at least $15 million annually on lobbyists for over the past decade.

By greenlighting this grant, I feel my public servants would be fueling a system whose existence relies on perpetually finding new and deeper ways to get into the taxpayer pockets for no other benefit except Lockheed Martin's bottom line. And if Lockheed Martin can afford to allocate so much of their corporate resources to this one line-item, how do they reconcile it with their "hard luck" lament about having to pay a lodging tax?

4. **Defining Fairness**

Finally, I want to mention fairness. A Montgomery County employee in a news article said that the county doesn't want Lockheed to think of us as being unfair. There are many retail employees who pay sales tax on items they buy from their employer. For example, if a cashier at Giant Food goes on his break to the salad bar to get lunch, he pays tax on the purchase like everyone else. How do you go to these hardworking neighbors of ours and say "well we had to give Lockheed Martin $900,000 to help them because it was the fair thing to do."

Frankly, I wouldn't have the heart to tell them such a thing. I'm hoping that you will feel the same way. Thank you.

Submitted by Susan Kerin
16924 Olde Mill Run
Rockville, MD 20855
(301) 675-9518
skerin1@msn.com

Top Spenders on Lobbyists For 2011

http://www.opensecrets.org/lobby/top.php?showYear=2011&indexType=s

Lobbying Client	Total
U.S Chamber of Commerce	$66,370,000
General Electric	$26,340,000
National Association of Realtors	$22,355,463
American Medical Association	$21,490,000
Blue Cross/Blue Shield	$20,985,802
Conoco/Phillips	$20,557,043
American Hospital Association	$20,482,147
AT&T	$20,230,000
Comcast	$19,260,000
Pharmaceutical Research and Mfrs of America	$18,910,000
National Cable and Telecommunications	$18,530,000
Boeing	$16,060,000
Verizon Communications	$15,470,000
AARP	$15,170,000
Lockheed Martin*!	**$15,166,845**
Royal Dutch Shell	$14,790,000
United Technologies	$14,270,000

*When you add up the individual lobby services for Lockheed, it actually totals $18 million.

! This number is underreported. For example the Lockheed Martin lobbyist who worked on the $900,000 grant (Denise Bowman with Alexander & Cleaver) was not listed as one of the 91 on the Open Secret tracking database.

G. Gluck

Lockheed

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If I had a better voice, I'd sing this first verse from one of my son's 1970's Sesame Street LPs:

"One of these things is not like the others,

One of these things just doesn't belong,

Can you tell which thing is not like the others

By the time I finish my song?"

1. Choice Hotels Headquarters Relocation Project
2. EDF Funding for the Westfield-COSTCO Project 2nd Phase
3. EDF Funding for Meso Scale Expansion Project
4. Lockheed Martin Room Rental Transient Tax Rebate Payment for FY12-13 for Expedited Bill 44-10

These are all FY13 recommended changes to the Montgomery County Economic Development Grant and Loan Program. Only the fourth is a tax rebate, which is a result of the County Council, in 2010, not granting Lockheed Martin an exemption to the county hotel tax.

Mr. Chris Williams, spokesperson for Lockheed Martin, claims in the Washington Examiner that the "tax should not apply to Lockheed Martin because its facility is used for employees only." Yet right now, the University of Southern California is advertising that it will hold a Strategic Organization Design Workshop at the Lockheed Martin's Center for Leadership Excellence (CLE) on October 9-12, 2012, and anyone wishing to lodge at the CLE can expect the cost to be approximately $226 per night. These are not employees, but members of the public attending the Workshop. And if Lockheed Martin did not have this hotel, the attendees at their Center would expect to pay other hotels in the county for lodging including the appropriate sales tax. After all, the facility, its employees and guests use county resources just the same as other Montgomery county hotels do.

In his "Cross of Iron" speech on April 16th of 1953, President Eisenhower said "Every gun that is made, every warship launched, every rocket fired signifies, in the final sense, a theft from those who hunger and are not fed, those who are cold and are not clothed." He went on to say "The cost of one modern heavy bomber is this: a modern brick school in more than 30 cities." The amount requested for Lockheed Martin this year, nearly $1 million - and the $450,000 each year for years to come, will add up to many millions of dollars that could build, if not 30 schools, eventually one! One school that could educate hundreds of potential Lockheed Martin employees.

Our County Executive told the Washington Examiner: "We can't be in the business of having one of our major corporations believing that the county and the state is treating them in a way they believe is unfair." But since any corporation has a fiduciary responsibility to maximize its profits, it would be natural for the corporation to believe that any cost it could avoid would be "unfair" -- and so try to convince the County Executive and Council that it should be exempted from paying that cost, whatever it may be. But it is the responsibility of our elected officials to decide which costs warrant exemption, on a basis of fairness wider than a single corporation. Indeed, "fair" means considering the entire group that will be affected, fair to everybody - which includes other Montgomery hotels that would have unfair competition from this Lockheed Martin hotel, and citizens that will pay for all the county services used by its guests. Everybody in this day and age should be willing to pay their fair share of living in our community.

I have grown up in a religious community that, like others, asks us to observe many "laws." But there is also a meta-law that states that a fence should be built around each law. Loosely speaking, that means we, and especially our elected representatives, should obey not just the letter of the law, but the spirit of the law as well. It is my hope that in this era of the Supreme Court's decision in the "Citizens United" case, Lockheed Martin and/or our Executive withdraws this grant that "does not belong." If neither does, I trust that the County Council will.

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LOCKHEED MARTIN

David A. Heywood
Vice President, Taxes & General Tax Counsel

April 23, 2012

Councilmember Nancy Floreen
Planning, Housing and Economic Development
Committee Chair
Montgomery County Council
100 Maryland Avenue
Rockville, Maryland 20850

RE: Lodging Tax on Lockheed Martin Corporation's Center for Leadership Excellence

Dear Councilmember Floreen:

I appreciate your consideration of the lodging tax issue affecting Lockheed Martin's corporate training facility, the Center for Leadership Excellence (CLE). The CLE is being treated for Montgomery County tax purposes as if it were a commercial hotel, and it is not. It is a corporate training facility used by our employees who travel to Bethesda for business meetings.

Lockheed Martin Corporation (LMC), the nation's largest defense contractor, is headquartered in Montgomery County, Maryland and employs over 7,500 men and women in the state, with 5,000 of those jobs located in Montgomery County. In 2009, Lockheed Martin invested $125M in Montgomery County by constructing the Center for Leadership Excellence, a world-class corporate learning center consisting of training rooms, classrooms, breakout rooms, an auditorium, a 183-room lodging facility, and additional parking. The CLE is attached to our Corporate Headquarters building and is within its security perimeter. Use of the CLE is restricted to Lockheed Martin employees and invited visitors, consistent with a zoning amendment that was passed in Montgomery County. The zoning allows a "Corporate Training Center" as an allowed use in a Commercial Office Park Zone. Last year, the Corporation remitted to Montgomery County more than $3M in real and personal property taxes.

Centralizing LMC's training and internal conferences in Montgomery County brings thousands of visitors from all over the country and world to Montgomery County each year. For example, our annual senior leadership meeting that was formerly held in Arizona has, for the past 3 years, been held at the CLE, bringing several hundred senior executives to Bethesda. Because there are only 183 rooms available, meetings such as these create overflow room nights in the County at places like the Marriott. Visitors also patronize the local restaurants, shop at the malls, rent vehicles, etc., all of which generate substantial revenue for local businesses and the County. The CLE employs more than 140 individuals and, in addition to payroll, spent about $2M last year for routine repair and maintenance, food, gift shop items, linens, etc.

The CLE lodging facility is not a hotel and is not open to the public. Only Lockheed Martin employees and a very limited number of contractors (e.g., seminar instructors, board members, and facility maintenance personnel during weather emergencies) are permitted to stay in the CLE lodging facility. During 2011, 99.3% of room-nights at the CLE were occupied by LMC employees. In the first quarter of 2012, 99.5% of room nights were occupied by LMC employees. The Lockheed Martin employees that utilize the lodging facility come from Lockheed Martin business operations throughout the world. In order to allocate the cost of building and operating the lodging facility to those Lockheed Martin business units that receive benefit, a per-night rate (based on the U.S. Government per diem) is charged to each visiting employee's travel card. This charge is allocated through our normal travel accounting system, and therefore the charge is ultimately borne by the business unit or program, a practice that the Federal Government audit agencies require.

After reviewing these facts, the State of Maryland changed its statute (based on the substance of the transactions involved, as opposed to the form) to make it clear that sleeping accommodations at corporate training facilities such as LMC's would not be subject to the state sales tax. We also believe that the use of the CLE should fall outside the scope of the tax imposed on hotel/motel room rentals under the Montgomery County Code. Rooms are not offered to the public, and nothing is "paid" for use of the rooms – there is only an allocation of costs to Lockheed Martin's various business units and programs.

We are concerned that the controversy surrounding this issue has prevented appropriate consideration of the fairness of applying the County's hotel/motel tax to a facility that is not a hotel. We are proud of the significant contribution that Lockheed Martin makes to Montgomery County's economy and ask for your help in clarifying that LMC's Center for Leadership Excellence is not subject to the County's hotel/motel room rental tax.

Very truly yours,

David A. Heywood
Vice President, Taxes & General Tax Counsel

cc: Councilmember George Leventhal
Councilmember Marc Elrich
Mr. Jacob Sesker, Sr. Legislative Analyst

DEPARTMENT OF ECONOMIC DEVELOPMENT
FACT SHEET

Economic Impact of Lockheed Martin:

- From 2007 to 2009, Lockheed Martin generated $7.1 billion in economic activity from its Montgomery County operations.

- Lockheed Martin has nearly 5,000 employees in Montgomery County.

-Lockheed Martin pays approximately $3.2 million in real and personal property taxes from its County operations on an annual basis.

Economic Impact of the Center for Leadership Excellence (CLE):

- The 300,000 square foot Center for Leadership Excellence (whose original capital investment was valued at $110 million), generated numerous construction jobs for local residents at the start of the economic downturn.

- The CLE employs over 175 permanent employees and provides approximately $900,000 annually in real and personal property taxes.

- The CLE also generates 6,000 spillover room nights for County hotels annually, and substantial new business for County retail, restaurant and service establishments, many of whom are small businesses.

Applicability of the Hotel/Motel Room Tax:

- When the CLE was originally conceived and constructed, Lockheed Martin believed that it was not subject to the hotel/motel room tax based on the fact that the lodging component is not open to the general public for a fee.

- Only because Lockheed Martin utilizes a corporate credit card for conference expenditures in order to allocate costs to various contracts was it felt that a clarification to existing law was required.

- In the interim, Lockheed Martin has been paying the hotel/motel room tax until the issue could be addressed at the local level, payments of which total over $1.3 million since the facility opened in 2009.

- The State of Maryland recognized the true characteristics of this facility by passing HB855 during the 2010 General Assembly, which provides for an exemption for facilities of this nature under the State sales and use tax.

Lockheed Martin Corporation and Affiliates
Montgomery County Real & Personal Property Tax Paid

	2010		
	Real Property	Personal Property	Totals
6801 Rockledge Drive, Bethesda	597,246	135,626	732,872
CLE (6801 Rockledge Drive, Bethesda)	355,998	542,469	898,467
One Curie Ct., Rockville	419,937	24,705	444,642
700 N. Frederick Ave., Gaithersburg	546,540	200,661	747,201
30 West Gude Drive		53	53
220 Girad St		1,117	1,117
2275 Research Blvd.		2,945	2,945
9211 Corp Blvd		129,846	129,846
22300 Comsat Drive		0	0
Miscellaneous Locations		101,347	101,347
Totals	1,919,721	1,138,769	3,058,490

2011		
Real Property	Personal Property	Totals
598,059	91,605	689,664
355,652	568,720	924,372
434,341	35,695	470,036
565,031	320,993	886,024
	0	0
	1,164	1,164
	2,078	2,078
	0	0
	1,388	1,388
	91,319	91,319
1,953,083	1,112,962	3,066,045

Michael H. Shuman
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23 April 2012

Council Member Nancy Floreen
PHED Committee Chair
Montgomery County County

Dear Honorable Council Member Floreen,

As a resident of Montgomery County, I'm writing to express my dismay that the County Executive is even *proposing* a tax abatement to Lockheed Martin of $900,000 at a time when county and local governments are slashing budgets to deal with the aftermath of the financial crisis that began in 2008. But I'm also writing as an expert on economic-development strategies across the country, to implore you to consider that the overwhelming weight of the evidence is that this kind of economic-development practice has no value whatsoever, even in "normal" economic times.

I have written three books on economic development that are widely used in the field:

- *Going Local: Creating Self-Reliant Communities in a Global Age* (New York: Free Press, 1998)
- *The Small-Mart Revolution: How Local Businesses Are Beating the Global Competition* (San Francisco: Berrett-Koehler, 2006)
- *Local Dollars, Local Sense: How to Shift Your Money from Wall Street to Main Street and Achieve Real Prosperity* (White River Junction, VT: Chelsea Green, 2012)

Below, I summarize three of the arguments that I make and document extensively in these books that seem relevant here:

- There's overwhelming evidence that corporate attraction and retention incentives do not work and waste public money.
- There's overwhelming evidence that locally owned businesses are far more important for successful economic development.

15

- There are numerous ways of supporting locally owned businesses that would be far wiser uses of scarce Montgomery County dollars.

Corporate Attraction and Retention Incentives Do Not Work

The use of an incentive to reward Lockheed Martin defies even the usual logic for corporate incentives. Normally, an incentive is used to attract a company or to retain it. But Lockheed Martin is already here, has invested $100 million already on the conference facility, and has given no explicit indication that, but-for the subsidy, it will move out. But even if there was a stated threat of departure, it's not at all clear that the benefits would be worth the costs.

One of the sharpest analysts of corporate attraction policies has been Professor Ann Markusen, director of the Project on Regional and Industrial Economics at the Humphrey Institute of Public Affairs, based at the University of Minnesota. Several years ago, she assembled the best analysts in the field to explore the validity of these critiques and to offer reforms. Some of these analysts believed that these deals were ultimately beneficial, some didn't, and some were unsure. The resulting book of essays, *Reining in the Competition for Capital* (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2007), remains the best analysis of the field. In the opening essay, Markusen and Katherine Ness of the University of Illinois at Urbana-Champaign set out the problem by writing: "Incentive competition is on the rise. It is costly, generally inefficient, and often ineffective for the winning regions."[1]

Markusen and her colleagues review a number of troubling problems with economic-development attraction practices. As one weighs the value of continuing incentive programs that are practiced regulary by the County's economic developers, here are some of the key findings of academic research that need to be weighed:

- Companies attracted often don't stay very long and under-deliver the jobs they promise.

- The jobs delivered pay poorly and have few benefits, and therefore have the potential to drive down labor costs and reduce family incomes throughout the community.

- About 80% of the jobs created, particularly for very large projects, are taken by workers who read about the new project and move to the community to take the new position.

- The cost-benefit of subsidies exceeding say half a million dollars per job is impossible to justify, since the jurisdiction could simply put the money

[1] Ann Markusen, ed., *Reining in the Competition for Capital* (Kalamazoo, MI: W. E. Upjohn Institute for Employment Research, 2007).

into a low risk bond fund, pay a family of four a living wage in perpetuity, and dispense with the risky business proposition altogether.

- Many of the costs that a community promises to subsidize – of capital improvements, for example – are often much greater than originally projected.

- The structure of site-selection representatives' compensation, around finders' fees, gives them an incentive to represent community interests poorly—that is, to overstate the benefits, understate the costs, and exaggerate the packages other communities are putting on the table.

- The site-selection industry has been able to overstate benefits over the costs through massive advertising (the industry sponsors, for example, *Site Selection* magazine and distributes it widely to local politicians and economic developer).

- The secrecy surrounding much of the deal-making facilities communities making ill-informed decisions about such deals and short-circuits altogether adequate democratic accountability.

- The details of these deals are so embarrassing to the politicians who approve them that they fight to keep the details secret even after the deal, and—in the case of New Mexico's last Governor, Bill Richardson—work assiduously to kill or veto legislation that might bring those details to light.

- The packages are such a small fraction a corporation's bottom line that they actually have very little impact on it site decision, which instead is driven by other factors like the proximity of weak regulations, no unions, nearby input suppliers, readily available land, or close target markets.

- Most communities engaged in global attraction wind up losing any given bid, which means they are draining precious civic time, money, and goodwill—and, at a minimum, these costs need to be weighed against the purported benefits of the occasionally won deal.

The case against corporate attraction has become so powerful that it's exceedingly difficult to find an economist prepared to defend the practice. The vast majority of scholarly articles either question the benefits or disprove them altogether.

Moreover, almost none of the studies that have weighed the biggest problem with incentives—namely the opportunity costs. What were communities providing incentives unable to do, because their economic development dollars were focused on outside attraction? What local businesses were not grown? What were the consequent costs?

These questions are critically important, because as the evidence below suggests, local businesses actually are significantly better drivers of economic development.

Local Small Business Are More Important for Economic Development

A subsidy to a company like Lockheed Martin has to be understood as an unfair advantage being given to a nonlocal business over potential local providers of lodging, catering, and conference services. It also undermines the entire mission of economic development, because it deprives the community of the superior ability of local businesses to deliver income, wealth, and jobs.

A classic study, performed in 2002 by a small consulting firm called Civic Economics, analyzed the impact of a proposed Borders bookstore compared to two local bookstores in Austin, Texas. Researchers found that $100 spent at Borders would circulate $13 in the Austin economy, while the same $100 spent at the local bookstores would circulate $45.[2] Why the difference? Unlike Borders, the local bookstores had a high-level management team, used local business services, advertised locally, and brought profits back into the community. The study found that every dollar spent at the local store contributed three times the jobs, income effects, and tax benefits to the local economy as every dollar spent at the national chain store.

Nearly a dozen other studies in the United States—and many others internationally — have confirmed local businesses generate, per dollar spent, two to four times as many jobs in a community than similar nonlocal businessees. Just as significant, *not a single study* has shown the opposite – that is, where a dollar spent at a nonlocal business yields more economic-development impact than one spent at an equivalent local business. And if one thinks about, it defies logic to that Company A owned a thousand miles away would spend its money locally while locally owned Company B would spend all its money out of town. In fact, the most widely used input-output model used by economic developers, IMPLAN, is built on the assumption that getting businesses to spend more of their money locally improves the local economy.

Two summers ago, in the *Harvard Business Review*, a graph appeared with the headline "More Small Firms Means More Jobs."[3] The authors wrote, "Our research shows that regional economic growth is highly correlated with the presence of many small, entrepreneurial employers—not a few big ones." The authors further argued that the major preoccupation of econonomic developers – how to attract global companies – is fundamentally wrong-headed. "Politicians enjoy announcing a big company's arrival because people tend to think that will mean lots of job openings. But in a rapidly

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[2] The Austin study is "Economic Impact Analysis: A Case Study," monograph (Civic Economics, Austin, Texas, December 2002). It can be found at www.civiceconomics.com.

[3] Edward L. Glaeser and William R. Kerr, "The Secret to Job Growth: Think Small," *Harvard Business Review*, July-August 2010.

18

evolving economy, politicians are all too likely to guess wrong about which industries are worth attracting. What's more, large corporations often generate little employment growth even if they are doing well."

A more recent study just published in the *Economic Development Quarterly*, a journal long supportive of business attraction practices, similarly finds: "Economic growth models that control for other relevant factors reveal a positive relationship between density of locally owned firms and per capital income growth, but only for small (10-99 employees) firms, whereas the density of large (more than 500 workers) firms not owned locally has a negative effect."[4]

The case for favoring locally owned business actually goes well beyond the multiplier argument. Consider nine other advantages locally businesses generally offer over the nonlocal competition:

(1) *Higher Standards* – The most fundamental difference between local and nonlocal businesses is that the former stick around while the latter may well move to Mexico or Malaysia. Consequently, any community seeking sustainability through nonlocal businesses, in the final analysis, is likely to find nonlocal businesses leading the fight against tougher environmental standards.[5] A good example of this can be found in Maryland, which is generally a very environmentally conscious state. Regulation of the chicken industry has been virtually impossible because the producers, Tyson and Perdue, are continually threatening to move to "business friendly" jurisdictions like Arkansas and Mississippi.

(2) *Greater Wealth* – Because nonlocal businesses come and go while local businesses more often stick around for years, even generations, they are much more reliable generators of wealth, income, and jobs. The comings and goings of the supposedly high quality jobs turn out to be a very poor bargain for public expenditures on economic development. According to an investigative report about the cost effectiveness of tax abatements in Lane County, Oregon, the cost to the community in lost taxes was about $23,800 per job for nonlocal firms and $2,100 per job for the local firms.[6] The nonlocal jobs were *more than ten times* more expensive, because the absentee-

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[4] David A. Fleming and Stephan J. Goetz, "Does Local Firm Ownership Matter?," *Economic Development Quarterly*, 2011.

[5] See generally Thomas Michael Power, *Environmental Protection and Economic Well-Being* (Armonk, NY: M. A. Sharpe, 1996). Power is chair of the economics department at the University of Montana.

[6] Sherri Buri McDonald and Christian Wihtol, "Small Businesses: The Success Story," *The Register-Guard, 10 August 2003.*

19

owned firms were so unreliable. On a net jobs basis (after the big departures), nonlocal jobs were 33 times more expensive.

(3) *Greater Stability* – The comings and goings of large, nonlocal business create enormous stresses, especially on a small community's economy. In the Katahdin Region of Maine, the shutdown of a paper mill in 2002 (the parent company sought to move operations to a lower-wage area) created a regional unemployment rate of 40% over the next year. That kind of catastrophe is far less likely in a community economy built primarily around local businesses with no plans for moving to China. A local-business economy is essentially an insurance policy against global bad news.

(4) *Less Vulnerability* – Because locally owned businesses tend to buy locally, they foster self-reliance in a community and help inoculate the economy against global surprises totally outside local control. The obvious example right now is importation of oil, which many observers link with terrorism and economic instability and which could be largely eliminated through the cost-effective implementation of local energy efficiency and renewable resources over the next generation.[7] Importing food is another example, in that it leaves a community vulnerable to imported pollution, micro-organisms, and pests from less responsible farmers elsewhere in the world.

(5) *Smart Growth* – Locally owned business is a natural promoter of "smart growth" or anti-sprawl policies. Smart growth means redesigning a community so that residents can walk or ride bikes from home to school, from work to the grocery store. It means scrapping old zoning laws and promoting multiple uses—residential, commercial, clean industrial, educational, civic—in existing spaces, because it's better to fully use the town center than to build subdivisions on green spaces on the periphery. Because local businesses tend to be small, they can fit more easily inside homes or on the ground floor of apartment buildings. Also, because they focus primarily on local markets, local businesses place a high premium on being easily accessible by local residents.

(6) *Greater Identity* – Part of what makes any community great is how well it preserves its unique culture, foods, ecology, architecture, history, music, and art. Local businesses celebrate these features, while nonlocals steamroll them with retail monocultures. Outsider-owned firms take what they can from local assets and move on. It's the homegrown entrepreneurs whose time horizon extends even beyond their grandchildren and who have a vested interest in growing these assets. And it's the local firms who are most inclined to serve

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[7] Amory B. Lovins et al., *Winning the Oil Endgame: Innovation for Profits, Jobs, and Security* (Snowmass, CO: Rocky Mountain Institute, 2004).

local tastes with specific microbrews and clothing lines. Austin's small business network employs the slogan "Keep Austin Weird," because it's "weirdness" that attracts tourists, engages locals in their culture, draws talented newcomers, and keeps young people hanging around.

(7) *Greater Creativity* – Richard Florida's arguments about the importance of a "creative class" for economic success also tend to support locally owned businesses.[8] Florida argues that among the key inducements for a creative class to move to and stay in a community are its civic culture, its intellectual bent, its diversity, and its sense of self—all attributes that are clearly enhanced in a local-business economy. A local-business economy seeks to celebrate its own culture, not to import mass culture through boring chain restaurants and Cineplexes. It seeks to have more residents engaged as entrepreneurs and fewer as worker bees for a Honda plant. Myriad ideas and elements of a culture can best emerge through myriad homegrown enterprises.

(8) *Greater Social Well Being* – In 1946 two noted social scientists, C. Wright Mills and Melville Ulmer, compared communities dominated by at least one large manufacturer versus those with many small businesses.[9] They found that small business communities "provided for their residents a considerably more balanced economic life than did big business cities" and that "the general level of civic welfare was appreciably higher." The late Thomas Lyson, a professor of rural sociology at Cornell University, updated this study by looking at 226 manufacturing-dependent counties in the United States.[10] He concluded that these communities are "vulnerable to greater inequality, lower levels of welfare, and increased rates of social disruption than localities where the economy is more diversified."[11]

(9) *Greater Political Participation* – Studies of voting behavior suggest that the longer residents live in a community, the more likely they are to vote, and that economically diverse communities have higher participation rates in local politics. Moreover, Harvard political scientist Robert Putnam has identified the long-term relationships in stable communities as facilitating the kinds of

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[8] Richard Florida, *The Rise of the Creative Class* (New York: Basic Books, 2002).

[9] C. Wright Mills and Melville Ulmer, "Small Business and Civic Welfare," in *Report of the Smaller War Plants Corporation to the Special Committee to Study Problems of American Small Business*, Document 135. U.S. Senate, 79th Congress, 2nd session, February 13. (Washington, DC: U.S. Government Printing Office, 1946)

[10] Thomas A. Lyson, "Big Business and Community Welfare: Revisiting A Classic Study," monograph (Cornell University Department of Rural Sociology, Ithaca, NY, 2001): 3.

[11] Ibid., 14.

21

> civic institutions—schools, churches, charities, fraternal leagues, business clubs—that are essential for economic success.[12] As one group of scholars recently concluded after reviewing the social science literature: "[T]he degree to which the economic underpinnings of local communities can be stabilized—or not—will be inextricably linked with the quality of American democracy in the coming century."[13] An economy with many long-term homegrown businesses is more likely to contribute to such stability than the boom-and-bust economy created by place-hopping corporations

These arguments, taken together, underscore why any initiative undertaken in the name of economic development, whether public or private, should focus methodically on locally owned businesses. It's not that nonlocal businesses like Lockheed Martin are bad for the economy. To the contrary, most nonlocal businesses generate for their home community some income, wealth, and jobs, and they contribute some economic multiplier effects. But we now know that dollar for dollar of business activity, local businesses contribute substantially more to the major measures of economic development than do nonlocal businesses.

Montgomery County Can Spend Its Money Far More Strategically

A far better approach for Montgomery County is to focus on nurturing locally owned business. With this perspective, economic development would focus on six kinds of questions:

- *Local Planning* – How can significant dollar "leaks" caused by imports be identified, and which can best be plugged with competitive local enterprises?

- *Local Entrepreneurship* – How can a new generation of local-business entrepreneurs be nurtured and trained?

- *Local Business Organizing* – How can existing local businesses work together (through, for example, joint purchasing or marketing cooperatives) to improve their competitiveness?

- *Local Investing* – How can local savings, whether in banks or pension funds, be tapped to support new or expanded local businesses?

- *Local Purchasing* – How can local businesses achieve greater success through "Local First" purchasing by consumers, businesses, and government agencies?

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[12] Robert Putnam, *Making Democracy Work* (Princeton: Princeton University Press, 1993).

[13] Thad Williamson, David Imbroscio, and Gar Alperovitz, *Making A Place for Community: Local Democracy in a Global Era* (New York: Routledge, 2003), 8.

- *Local Public Policymaking* – How can the myriad biases that currently exist against local business, such as the proposed Lockheed Martin subsidy, be eliminated so that local businesses can compete on a level playing field?

Shifting economic development to these challenges begins to open up another intriguing feature of avoiding outside attraction and retention strategies. Rather than costing the public till vast sums of money, economic development could actually finance itself. Local economy advocates are increasingly designing, testing, and deploying models for self-financing economic development, everything from local gift and debit cards to business-to-business contract facilitators. These programs are called "meta-businesses," since they are designed to operate profitably like other businesses, but benefit not just shareholders but all local businesses.

To promote local purchasing, Montgomery County might create a gift card that is usable only at locally owned businesses and this would help introduce residents and tourists to unfamiliar local businesses. It's a great stocking-stuffer, and a terrific promotional item to be sold to tourists. Generally, gift card programs are more attractive to local businesses than debit, credit, or loyalty programs, because they are more likely to award a dollar for dollar redemption. Whereas every dollar a business accepts in a local debit, credit, or loyalty transaction means surrendering some percent in fees and discounts (typically 3-5%), a dollar accepted through a gift card usually gets completely paid. The administrative costs of gift card programs are covered by lost, discarded, or unused cards, called "shrinkage," often amounting to 15-25% of total card purchases.

Or the County might create a business-to-business marketplace. In the 1980s and early 1990s, the Oregon Marketplace operated out of six offices in which staff tried to help local businesses purchase local "inputs" from other local businesses: "I see you're making flags and importing cloth from Japan. Suppose we found you a cloth manufacturer in Oregon—same cost and same quality. Would you make the substitution?" If the deal were done, the Marketplace got a finder's fee from the Oregon cloth manufacturer. The Oregon Marketplace came close to covering its administrative costs but never quite got there – but this occurred in a largely pre-internet era. With a well-designed software package, this concept could become a viable means of promoting regional purchasing.

To promote business partnerships that might increase local competitiveness, Montgomery County might create a procurement cooperative for resident local businesses. Because bulk purchasing brings down costs, a local business network engaged in collective purchasing could improve the competitiveness of its members. Tucson Originals, for example, services its member food businesses by purchasing in bulk foodstuffs, kitchen equipment, and dishes.

To promote local investment, Montgomery County might help local businesses take advantage of the new crowdfunding laws, just signed three weeks ago by President Obama. These laws could operate on a fee-for-service basis. Additionally, the County might encourage residents to roll over some of their pension savings into self-directed IRAs that could then invest tax-deferred dollars into promising local companies.

To promote small-business entrepreneurship, Montgomery County might seek to put its incubators on a positive cash basis. While nearly all of the 1,000 incubators in North America depend on outside support, models exist – in Australia, for example – of well-run, financially self-supporting incubators. These can be open to all kinds of businesses or they can specialize, like the community kitchens for food businesses pioneered by AceNet of Athens, Ohio. To become self-financing and expand, the incubator could work with each incubated company issue local stock, and then upon graduation claim 5-10 percent of the shares as payment for its services. This could increasingly be done for virtually incubated companies (with the incubator claiming a smaller percentage of the stock).

Meta-businesses are hard work. Each requires adaptation, experimentation, and improvement. Each needs start-up capital. None is a guaranteed success, any more than any subsidy is a guaranteed winner. But the point is that every dollar Montgomery County continues to waste on foolish incentives is a dollar that's unavailable for promising metabusinesses. And every hour of a civil servant's time invested in traditional attraction or retention is an hour unavailable for supporting local businesses. There are real opportunity costs if the County continues to waste money on obsolete attraction and retention incentives.

Conclusion

The evidence I've shared with you underscores the following:

- Incentives in general are an unreliable, ineffective, and counterproductive way of generating economic-development benefits.
- The proposed incentive to Lockheed Martin lacks even a superficial justification of benefits that would outweigh the costs.
- Public money would be far better spent on launching "meta-businesses" that could nurture local businesses that are highly unlikely ever to threaten to leave if the County doesn't pay them a sufficient "incentive."
- In short, the County Executive's proposed subsidy should be summarily rejected.

I would be happy to share with the County Council a more comprehensive version of the evidence backing up the points here.

Sincerely,

Michael H. Shuman

Sec. 52-16. Room rental and transient tax.

(a) (1) The Director of Finance must impose on each transient a tax at the rate of 7 percent of the total amount paid for room rental, by or for the transient, for sleeping accommodations in any hotel or motel that is located in the County.

(2) The County Council by resolution, after a public hearing advertised under Section 52-17(c), may increase or decrease the rate of this tax.

(b) The following words and phrases, when used in this Section, have the following meanings:

Transient: An individual who, for any period of 30 or fewer consecutive days, actually occupies a sleeping accommodation.

Broker: A person, other than the owner or operator of a hotel or motel, that receives payment for hotel or motel accommodations from a transient who is subject to tax under subsection (a).

Hotel or *motel:*

(1) Any hotel, inn, hostelry, tourist home or house, motel, apartment hotel, rooming house, or other lodging place that offers for compensation sleeping accommodations in the County to 5 or more transients at any one time.

(2) A hotel or motel does not include:

(A) a hospital, medical clinic, nursing home, rest home, convalescent home, assisted living facility, or home for elderly individuals; or

(B) a facility owned or leased by an organization that is exempt from taxation under section 501(c)(3) of the Internal Revenue Code if the primary use of the facility is other than housing overnight guests.

Hotelkeeper: A person that:

(1) owns or operates a hotel or motel; or

(2) acts as a broker.

Room rental: The total charge paid by a transient for a sleeping accommodation. *Room rental* does not include any charge for services in addition to the charge for the use of sleeping space. The portion of the total charge, if any, that represents other than room rental must be separately billed.

Director: Director of Finance or the Director's designee.

(c) Every hotelkeeper that receives any payment for a room rental that is subject to a tax under this Section must collect the amount of tax imposed under subsection (a) when payment for the room rental is made. The hotelkeeper must hold the taxes required to be collected by this Section in trust for the County until remitted as required by this Section.

(d) (1) Each hotelkeeper must file a report on a form supplied by the Director. The form must show the amount of room rental payments collected, the amount of tax required by this Section to be collected, and any other information the Director requires to assure that the proper tax has been remitted to the County.

(2) Unless the Director accepts a quarterly report, each hotelkeeper must file a report on or before the last day of each month showing all room rentals during the preceding month.

(3) If a hotelkeeper requests, the Director may, in the Director's sole discretion, accept a quarterly report showing all room rentals during the 3 months immediately before the month when the report is due. Each hotelkeeper so approved must file a quarterly report on or before the last day of April, July, October, and January.

(4) Each hotelkeeper must remit the full amount of tax due with each report

(e) If any hotelkeeper does not remit to the Director the tax required to be paid by this Section, or does not file a timely report to the Director, the Director must add to the tax due:

(1) interest at the rate of one percent per month on the amount of the tax for each month or part of a month after the tax is due until the tax is paid and the report is files; and

(2) a penalty of 5 percent of the amount of the tax per month or part of a month, not to exceed a total of 25 percent of the tax, until the tax is paid and the report filed.

(f) (1) If a hotelkeeper does not file a required report by the deadline established under subsection (d), the Director may estimate the amount of tax due. The Director may base the estimate on a reasonable projection of room rentals, and may consider rentals reported by other hotelkeepers.

(2) The Director must send a notice of the estimated tax due, including interest and penalty, to the hotelkeeper's last known address. The hotelkeeper must pay the estimated tax, including any interest and penalty, assessed by the Director within 10 days after the notice is sent.

(g) (1) Each hotelkeeper must preserve, for 3 years, all records necessary to determine the amount of the tax due under this Section.

(2) The Director may inspect any records required to be kept under this Section at any reasonable time.

(h) If a hotel or motel stops doing business or a hotelkeeper disposes of its business, the hotelkeeper must immediately file a report under subsection (d) and pay any tax due.

(i) Each hotelkeeper or transient that does not comply with any provision of this Section has committed a class A violation. A finding of violation under this subsection does not relieve any hotelkeeper or transient of any tax, including any applicable interest or penalty, due under this Section.

(j) At least 3.5% of the revenue from the tax levied under this Section must be used for the Conference and Visitors Bureau, Inc., as designated by the Council in a budget resolution to promote travel to the County. The County Executive must report to the Council on the use of these funds by March 15 each year.

Expedited Bill No. 44-10
Concerning: Room Rental and Transient Tax – Exemption – Corporate Facility
Revised: 7-21-10 Draft No. 1
Introduced: July 27, 2010
Expires: January 27, 2012
Enacted:
Executive:
Effective: July 1, 2010
Ch. _____, Laws of Mont. Co.

COUNTY COUNCIL FOR MONTGOMERY COUNTY, MARYLAND

By: Council President at the Request of the County Executive

AN EXPEDITED ACT to:
(1) exempt certain corporate facilities from the County room rental and transient tax; and
(2) generally amend the law authorizing the County room rental and transient tax.

By amending
Montgomery County Code
Chapter 52, Finance
Section 52-16

Boldface	*Heading or defined term.*
Underlining	*Added to existing law by original bill.*
[Single boldface brackets**]**	*Deleted from existing law by original bill.*
Double underlining	*Added by amendment.*
[[Double boldface brackets**]]**	*Deleted from existing law or the bill by amendment.*
* * *	*Existing law unaffected by bill.*

The County Council for Montgomery County, Maryland approves the following Act:

27

Sec. 1. Section 52-16 is amended as follows:

52-16. Room rental and transient tax.

* * *

(b) The following words and phrases, when used in this Section, have the following meanings:

* * *

Broker: A person, other than the owner or operator of a hotel or motel, that receives payment for hotel or motel accommodations from a transient who is subject to tax under subsection (a).

Hotel or *motel:*

(1) Any hotel, inn, hostelry, tourist home or house, motel, apartment hotel, rooming house, or other lodging place that offers for compensation sleeping accommodations in the County to 5 or more transients at any one time.

(2) A hotel or motel does not include:

(A) a hospital, medical clinic, nursing home, rest home, convalescent home, assisted living facility, or home for elderly individuals; [or]

(B) a facility owned or leased by an organization that is exempt from taxation under section 501(c)(3) of the Internal Revenue Code if the primary use of the facility is other than housing overnight guests[.]; or

(C) a lodging facility operated solely to support the headquarters, campus, training facility, or conference facility, of the corporation that owns the facility, which offers lodging solely for that corporation's employees, contractors, vendors, or business invitees, and does not offer lodging to the public.

Hotelkeeper: A person that:

(1) owns or operates a hotel or motel; or

(2) acts as a broker.

* * *

Sec. 2. Expedited Effective Date.

The Council declares that this Act is necessary for the immediate protection of the public interest. This Act takes effect on the date when it becomes law, and applies to any tax levied under County Code Section 52-16 on or after July 1, 2010.

Approved:

____

Nancy Floreen, President, County Council Date

Approved:

____

Isiah Leggett, County Executive Date

This is a correct copy of Council action.

____

Linda M. Lauer, Clerk of the Council Date