

"Federation Corner" column  
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### **Do corporate tax breaks and grants pay off?**

by Jim Humphrey, Chair, MCCF Planning and Land Use Committee

With the economy on life support and our county facing a \$600 million projected budget shortfall for the fiscal year starting this July, officials should take a hard look at whether incentive grants and tax abatements to corporations are delivering sufficient benefits to warrant their cost. Has a company that received a grant to entice it to move to the county delivered the number of jobs it promised to create? If not, Montgomery County might want to join with cities and counties across the country that are writing "clawback" provisions which require corporations to pay refunds if they do not live up to the promises they've made.

Cities, counties and states in the United States, Montgomery County among them, spend an estimated total of \$60 billion a year to lure companies and jobs by offering tax abatements or other incentives. Now, with the poor economy and residents who resent anything that resembles corporate welfare, officials in many jurisdictions are crafting incentive deals that leave no doubt as to what is expected of companies. And, they are not being shy about enforcing those "clawback" provisions when businesses don't hold up their end of the bargain.

Companies in Texas can receive money from a state Enterprise Fund if they promise to create a specific number of jobs. That state enforced nine clawbacks in 2008, up from a total of seven in the previous three years. Officials in Illinois demanded refunds from a total of 37 corporations in 2008, up from six in 2005. And Winston-Salem and its surrounding county in North Carolina recently recovered \$26 million from the computer company Dell Inc., when it announced it was closing its assembly plant there within the year.

Greg LeRoy, executive director of Good Jobs First, has written about the clawback phenomenon, and he believes the number of them which are being enforced is rising. But, he says it is hard to collect statistics since many states and communities are afraid to publicize their clawbacks for fear of scaring off potential employers. That fear persists, LeRoy says, even though there is no evidence that having or enforcing clawbacks is a detriment to attracting business.

With government at all levels feeling the financial squeeze, the clawback provisions that are being written into economic development grant agreements or property tax abatements are becoming more specific, and increasingly related to jobs. While some cities and counties may require a minimum number of employees be retained by a company in exchange for a government incentive, others are specifying that a certain percentage of those jobs must go to residents of the jurisdiction.

Montgomery County officials have traditionally touted the benefits of providing incentive grants to attract new businesses to the county, or retain existing ones. But, the record of success is sketchy at best. Several years ago, the county built an off-ramp from I-270, at a cost of \$50 million, which practically dumps commuters into the headquarters of Marriott Corporation in North Bethesda. In a relatively short time, however, Marriott closed its upcounty call center, outsourcing it offshore and throwing 98 area employees out of work. The company then sold off its airline food service division, which the new owners also relocated out of the county, resulting in a significant loss of jobs.

Another example of a flawed economic development scheme was the one several years ago involving the Discovery Corporation, which had been headquartered in Bethesda. When the company proposed moving its operations to a new building to be constructed in Silver Spring, the county offered Discovery \$12 million to assist in the move, premised on the company hiring a certain number of additional employees. Months later, when the company announced they had cut back the number of planned new hires by one-third, and stated

they did not need the financial incentive being offered by the county anyway, the government's response was to increase the grant to \$20 million.

Had either of these corporate incentives been tied to a jobs-related clawback provision, the county government would have had the means to recover funds when the companies failed to provide the expected benefits.

There is currently a push on the part of Montgomery officials to attract science and technology companies to the county. But it might be wise for officials not to place too many of our economic development eggs in that one basket. They might also consider that small businesses create the lion's share of all jobs in the United States, and a principal need of these smaller companies is to find affordable space to rent or, if they are lucky enough, to purchase. But small businesses across the county are feeling the squeeze from redevelopment.

Whenever the Montgomery County Council rezones a commercial property to allow greater density--a bigger building--it provides the property owner or a developer with the incentive to demolish the existing building, with its affordable retail and office space, and build a new, bigger building in which the rents will most certainly be higher. Even if a small business could afford the new higher rent, it will need to relocate for two years or so while their existing home is torn down and a new building constructed. Officials should understand that business incentives can come in other forms than property tax abatements or grant money, including the Council leaving zoning in place on properties, which has the effect of capping land values...and rents.

The push by certain Council members to rewrite two or three community master plans each year, and to increase the allowable density and, thereby, the prices of properties will have an unintended negative consequence on businesses, which they have failed to recognize. Our government must do more to create a business-friendly climate than simply throwing a few companies a monetary bone with no strings attached.

*The views expressed in this column do not necessarily reflect formal positions adopted by the Federation. To submit an 800-1000 word column for consideration, send as an email attachment to [theelms518@earthlink.net](mailto:theelms518@earthlink.net)*