

Measuring the Effectiveness of Economic Development Programs in Maryland Using LEHD and Other Data

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Abstract

- Conduct a pre-study to discover how longitudinal employer-household dynamics data can be combined with other public and commercial economic data sources to measure the effectiveness of economic development programs:
 - Measurement limited to geographically-based programs

MARYLAND'S ECONOMIC DEVELOPMENT PROGRAMS

Economic Development Programs

- Economic development incentives can be broken down into two basic categories:
 - Geography-based programs that assist companies in certain areas.
 - Company-, Industry-, or Activity-Based programs that are not related to particular areas.
- Note that most geography-based programs also have restrictions on covered activities, industries, or both.
- LEHD and similar data sources are most useful for tracking geography-based programs.

Economic Development Programs

Maryland DBED Geography-Based:

- Enterprise Zones
- One Maryland Zones
- Job Creation Tax Credit (JCTC) Priority Funding Areas
- Arts and Entertainment (A&E) Districts
- Base Re-Alignment and Closure (BRAC) Zones

Geography-Based from Other Agencies:

- SBA Historically Underutilized Business (HUB) Zones
- USITA Free Trade Zones (FTZs)
- DHCD Sustainable Communities
- DHMH Health Enterprise Zones
 - Not an economic development program, but...

MARYLAND'S ENTERPRISE ZONE PROGRAM

Maryland Enterprise Zones

- Enterprise Zones (EZs) are one of the five geographically-based incentive programs.
 - Was created in 1982
- Program has three components:
 - Real estate tax abatement
 - Employment income tax credit
 - Focus areas, which increase real estate tax abatement, add an additional abatement for business personal property, and increase income tax deduction for new employees

Maryland Enterprise Zones

- Program is a joint local-state initiative.
 - Local governments create zones, DBED approves.
 - Zone boundaries can be modified every six months
 - Local governments administer zones, DBED reports on EZ use yearly.
 - State supplies 50% of lost real property tax revenue (and 50% of lost business personal property tax revenue for EZ Focus Areas).
 - State process income tax deduction for employment, which affects State and local income tax receipts*

*All MD counties have a local income tax

Maryland Enterprise Zones

- To qualify as an Enterprise Zone in Maryland, an area must have:
 - At least 150% of the average unemployment rate
 - Area must qualify as a “low-income poverty area”
 - At least 70% of the families in the area have incomes that are less than 80% of area median family income; or
 - Population decreases of 10% between the most recent two censuses AND (1) chronic abandonment or demolition of property is occurring in the area; or (2) substantial property tax arrearages exist in the area.
- Location definition is “in the area, or within a reasonable proximity to the area but in the same county.”
 - Allows unpopulated or sparsely populated areas to be designated
 - Zones often cover areas near poverty or blight, but do not directly include these areas.

Maryland Enterprise Zones

- Focus Areas: A More powerful EZ designation. A Focus Area must meet three of the following criteria:
 - (1) for the most recent 18-month period, the average unemployment rate for the area is at least 150% of the average for the State or the United States (whichever is greater);
 - (2) the incidence of poverty for the population in the area is 150% of the national average;
 - (3) the crime rate in the area is at least 150% of the crime rate in the political subdivision;
 - (4) the percentage of substandard housing is at least 200% of the percentage of housing units in the State that is substandard;
or
 - (5) the percentage of square footage of vacant commercial property in the area is at least 20%.

Maryland Enterprise Zones

- There are currently 28 active Enterprise Zones in 14 Maryland jurisdictions.
- Only two jurisdictions have Focus Areas (Baltimore City and Prince George's County).
- Over time, certain areas have seen Enterprise Zones expire.
 - These areas no longer met the criteria.

PROGRAM EVALUATION

5-Tiered Approach to Program Evaluation

- Tier 1: Needs Assessment / Pre-Implementation
 - Data can be used to measure the need for intervention (unemployment, income levels, etc.).
- Tier 2: Monitoring and Accountability
 - Program-generated data is “fresh” enough to use for monitoring.
 - LEHD data, and most economic data, probably is not.
- Tier 3: Quality Review and Program Clarification
 - I.e. “understanding and refining”
 - Acceptable as data recency is not an issue
- Tier 4: Achieving Outcomes
- Tier 5: Establishing Impact

Measuring Outcomes and Impacts

- Most DBED geography-based programs have been in place for multiple years.
 - All are established by statute.
 - Preliminary needs assessments unavailable.
- Program goals often need to be interpreted, as controlling legislation is often silent on intent.
 - Program eligibility rules are often used as stand-ins for intended outcomes.

Pew Business Incentives Initiative

- Joint study with Pew Charitable Trusts, Center for Regional Economic Competitiveness (CREC), and Entrenworks Consulting. The study means to:
 - Identify effective ways to manage and assess economic development incentive policies and practices.
 - Improve data collection and reporting on incentive investments.
 - Develop national standards and best practices that states can use to successfully gather and report data on economic development incentives.
- Participating states: Indiana, Louisiana, Maryland, Michigan, Tennessee, Oklahoma, Virginia

Tax Credit Evaluation Act of 2012

- MD Legislature passed the “Tax Credit Evaluation Act of 2012” (Chapters 568 and 569) to create a process for evaluating various tax credits.
- In 2014, the MD Division of Legislative Services (DLS) completed a preliminary report on the the Enterprise Zone program.

Tax Credit Evaluation Act of 2012

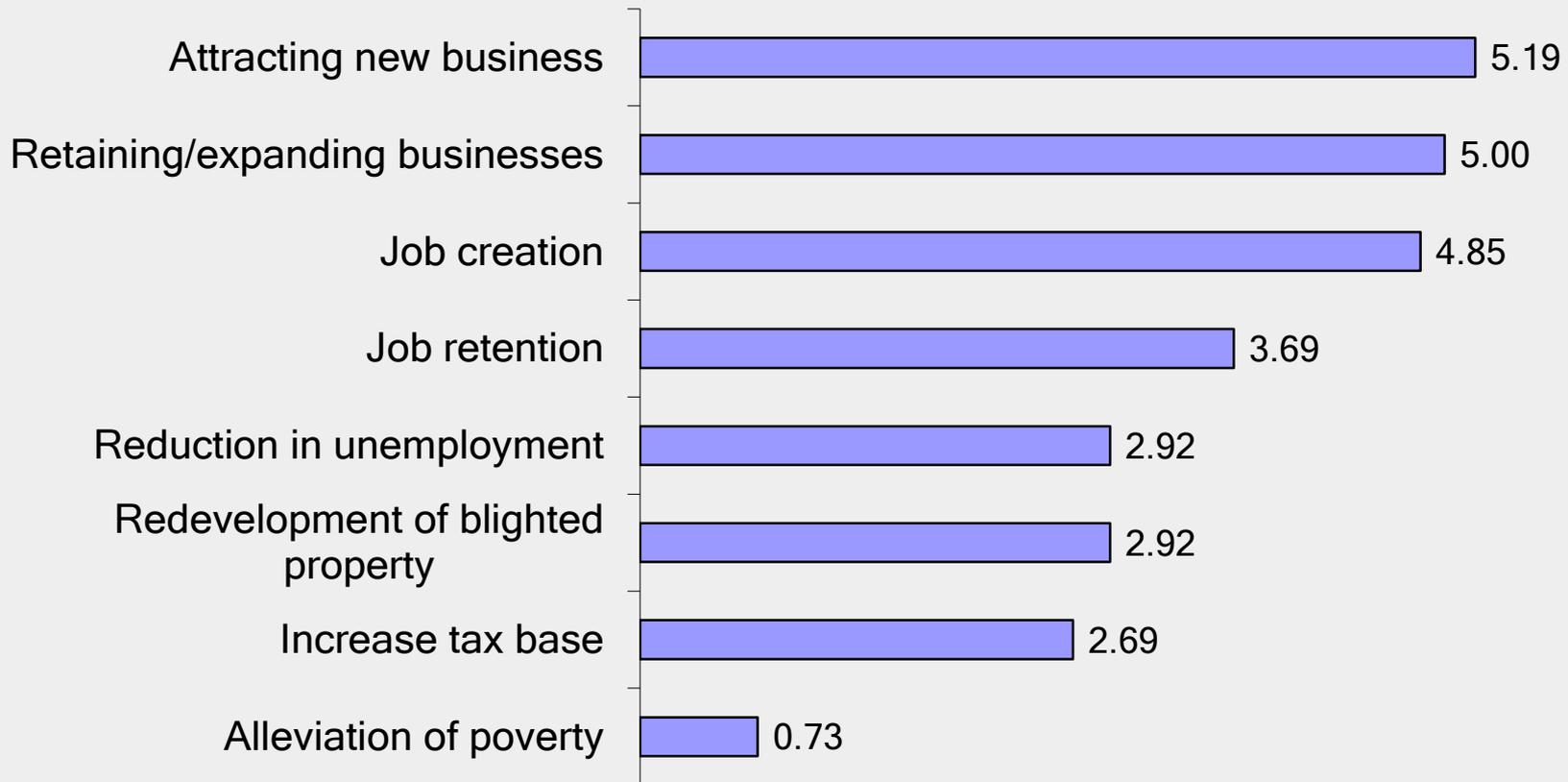
- Findings from the DLS study were that:
 - The EZ program was not “Creating Employment Opportunities for Enterprise Zone Residents”
 - In many EZs, “Few Businesses Are Claiming the Property Tax Credit”
 - “DBED and the Comptroller’s Office Do Not Assess the Effectiveness of the Enterprise Zone Tax Credit”
 - “Enterprise Zone Expansions Have Become More Prevalent in Recent Years, Diluting the Impacts of Zones and Increasing State and Local Credit Costs”
 - Data collection and tax calculation issues

DBED Enterprise Zone Survey

- Local government officials and Enterprise Zone administrators were surveyed.
- Major findings:
 - Major Enterprise Zone goals are to create jobs and attract new businesses.
 - Enterprise Zones are perceived as useful tools by local governments to attract new businesses and create jobs.
 - Poverty alleviation is generally not seen as a goal.

Enterprise Zone Objectives from DBED / MACo / MML Survey

Please rank the main objectives of having an Enterprise Zone (EZ) in your jurisdiction (rank 1-8, 8 is highest)



ENTERPRISE ZONE ANALYSIS

EZ Analysis Questions

- Are Zone residents employed by businesses located within Enterprise Zones?
 - Have EZs increased employment, or have they reduced employment declines?
 - First is simple to discover, second is not.
 - Have income levels increased for Zone residents?
-
- Has company health improved within EZs?
 - Have property values improved?

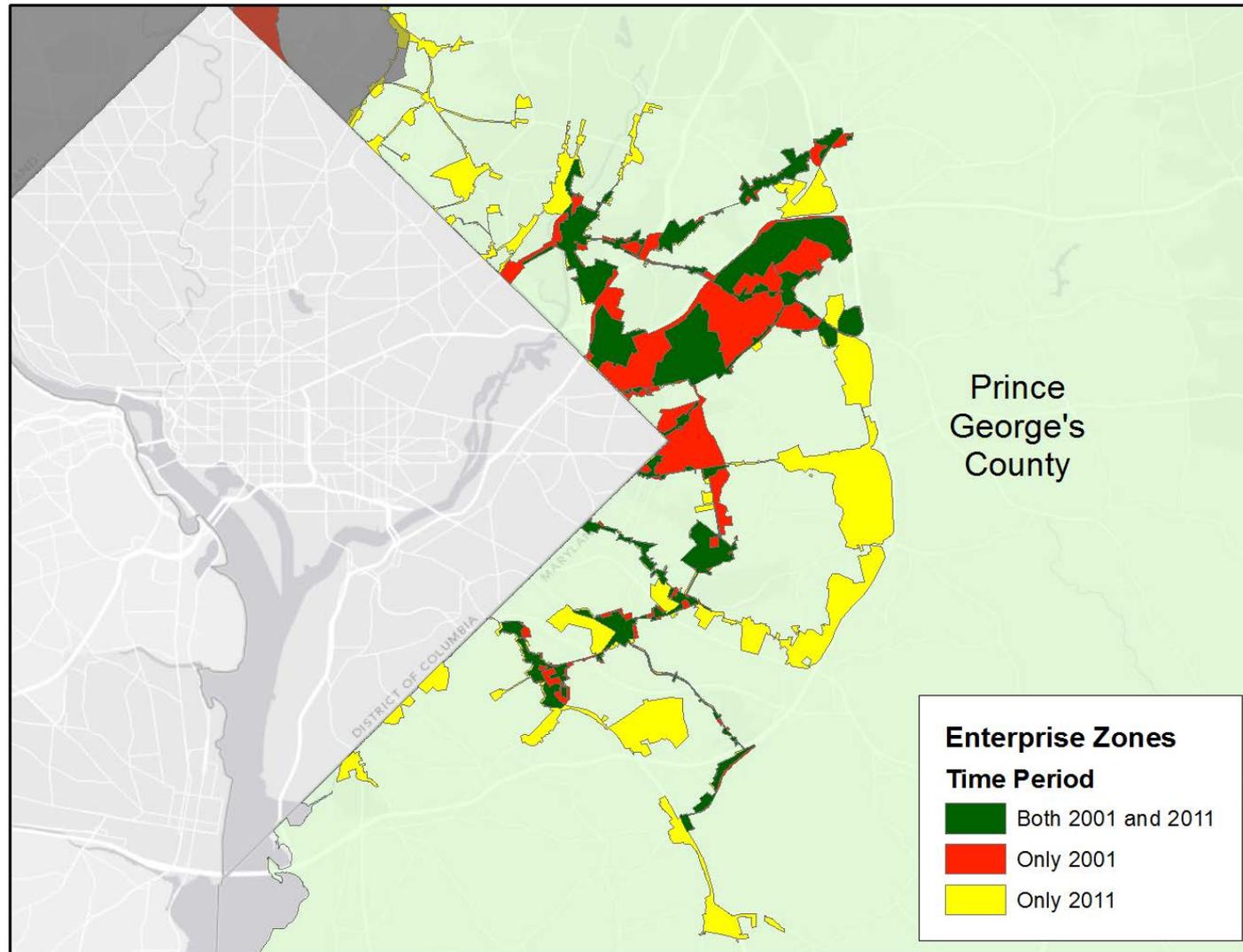
Analysis Methodology

- Examine the place of work of workers who live in or around EZ areas
 - Using LODES demographic data
- Examine the place of residence of workers who work in EZ areas
 - Including demographics as above
- Examine multiple time periods
 - Raises issues of LEHD / LODES comparability over time
- Examine individual establishments using National Establishment Time Series (NETS) Data
- Examine property values and changes using assessment data at the parcel level (MD PropertyView)

Analysis Methodology

- Decide which Enterprise Zone definition(s) to use:
 - Enterprise zone boundaries change on a regular basis. Boundaries can change every six months.
 - For convenience, only GIS layers from 2002 and 2011 were used, overlaid to highlight intersecting areas.
 - In some counties, significant changes occurred in with EZ status over the 10-year period, complicating the analysis.
- Enterprise Zones do not overlay well with Census blocks, even in urban areas:
 - Minimum unit for creating an EZ is a parcel.
 - Many EZ's only capture parcels on major streets.

Example Enterprise Zone Areas in Prince George's County, MD - 2001 and 2011



BALTIMORE CITY ANALYSIS USING ON THE MAP

Use the following tools to import a shape as your selection.

Click the shapes on the map to select and unselect them or use as your selection.

Read New Data Notice (6/6/2013)

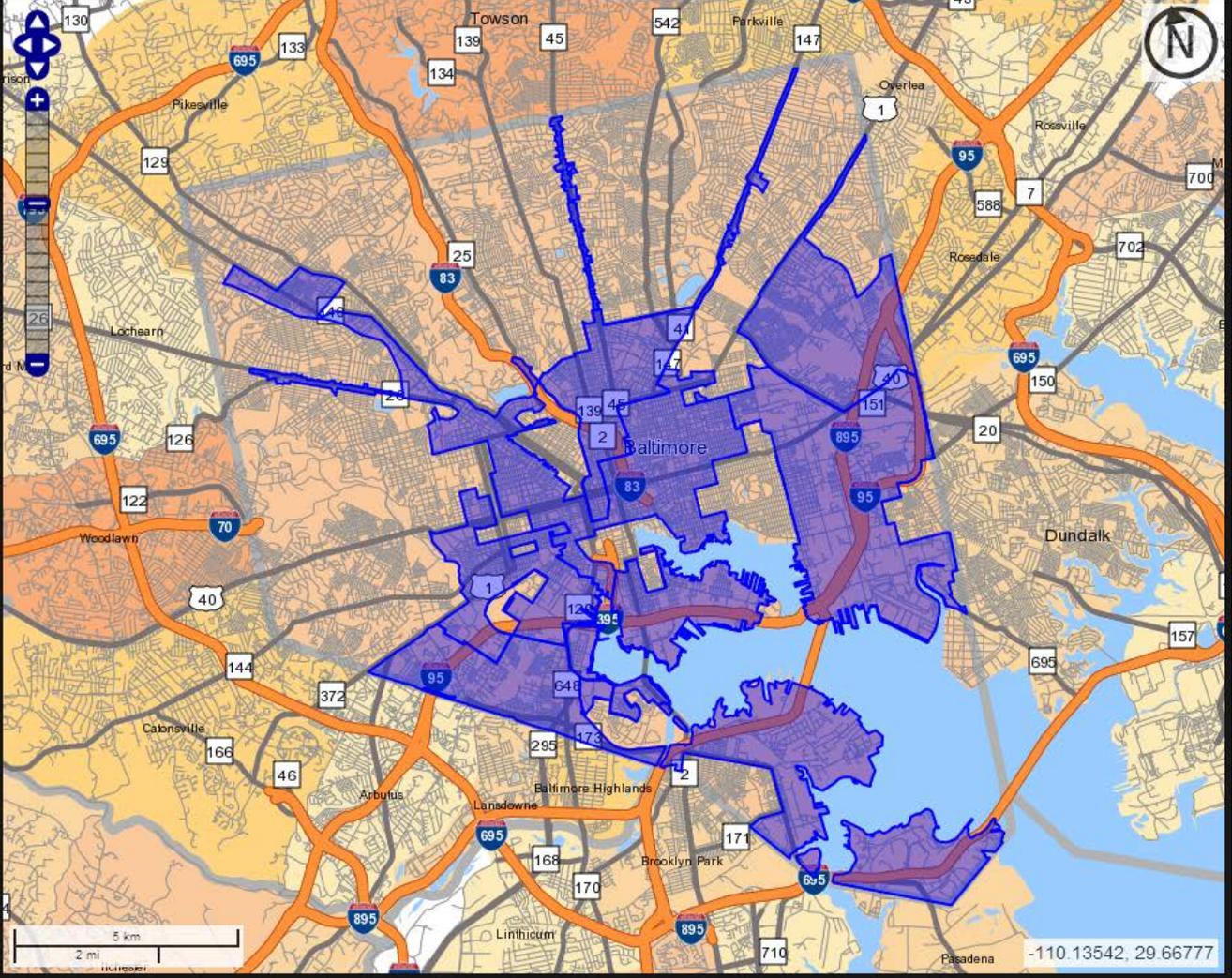
- Cancel Import
- Zoom To Imported Shapes
 - Select All Points
 - Select All Lines
 - Select All Polygons
- Clear Selection

Continue with Selected Features

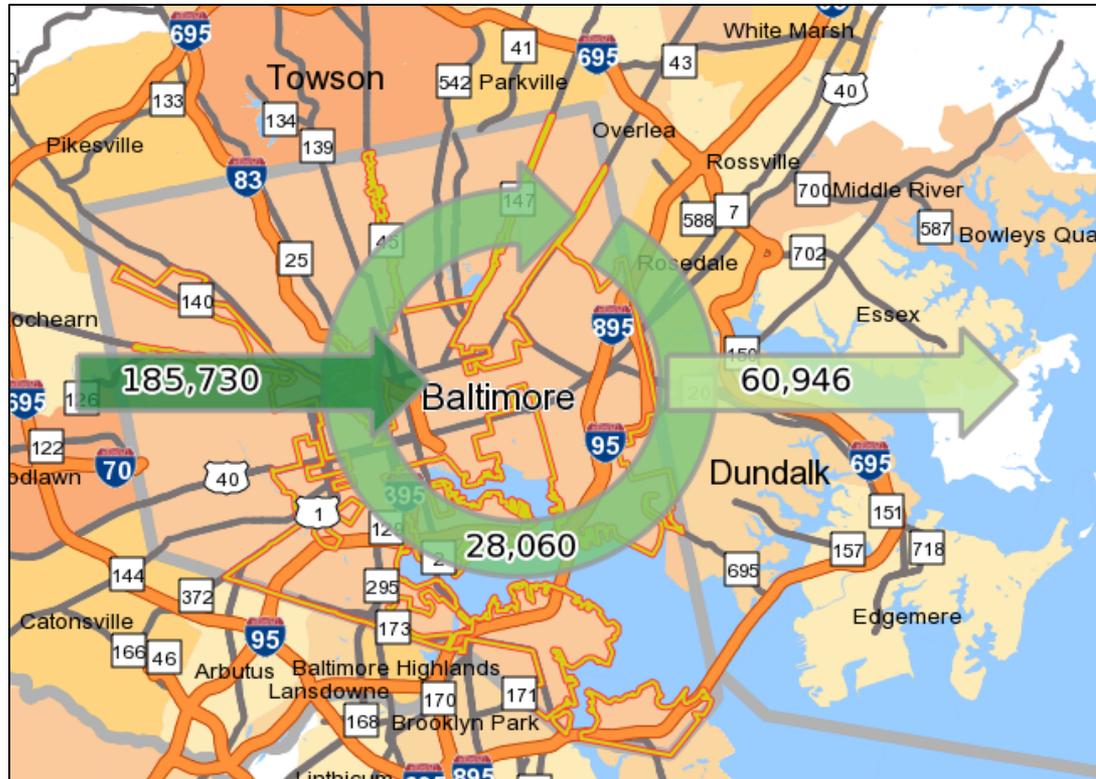
- Import from KML
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Load DTM File

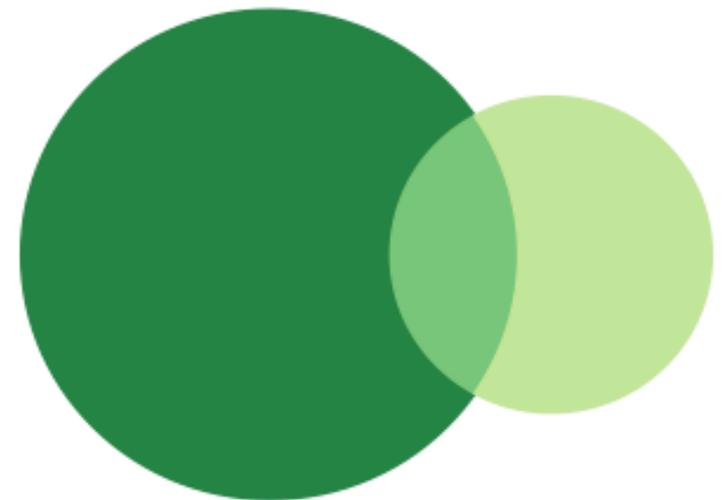
Click the "Load" button below to load a DTM file



Baltimore EZ Commuting Analysis



Inflow/Outflow Job Counts in 2011



- 185,730 - Employed in Selection Area, Live Outside
- 60,946 - Live in Selection Area, Employed Outside
- 28,060 - Employed and Live in Selection Area

Of the 214 thousand workers employed in Census blocks intersected by Baltimore's Enterprise Zone Boundaries between 2002 and 2011, 28 thousand (13%) both lived and worked within prior or current EZ boundaries, and 32% of residents worked in the EZ.

Baltimore EZ Commuting Analysis

Living in the Study Area	2002	2011	Change
Baltimore City	280,957	242,084	-13.8%
Baltimore Enterprise Zones	102,475	89,006	-13.1%
Living and Employed in the Study Area	2002	2011	Change
Baltimore City	132,983	111,257	-16.3%
Baltimore Enterprise Zones	36,719	28,060	-23.6%
Living and Employed in the Study Area	2002	2011	Change
Baltimore City	147,974	130,827	-11.6%
Baltimore Enterprise Zones	65,756	60,946	-7.3%
Employed in the Study Area	2002	2011	Change
Baltimore City	319,016	325,608	2.1%
Baltimore Enterprise Zones	220,497	213,790	-3.0%

Baltimore EZ Resident Earnings

Interior Flow Job Characteristics	2002		2011	
	Count	Share	Count	Share
Workers Earning \$1,250 per month or less				
Baltimore City	38,830	29.2%	23,164	20.8%
Baltimore Enterprise Zones	11,595	31.6%	5,835	20.8%
Workers Earning \$1,251 to \$3,333 per month				
Baltimore City	67,902	51.1%	46,822	42.1%
Baltimore Enterprise Zones	19,866	54.1%	12,932	46.1%
Workers Earning More than \$3,333 per month				
Baltimore City	26,251	19.7%	41,271	37.1%
Baltimore Enterprise Zones	5,258	14.3%	9,293	33.1%

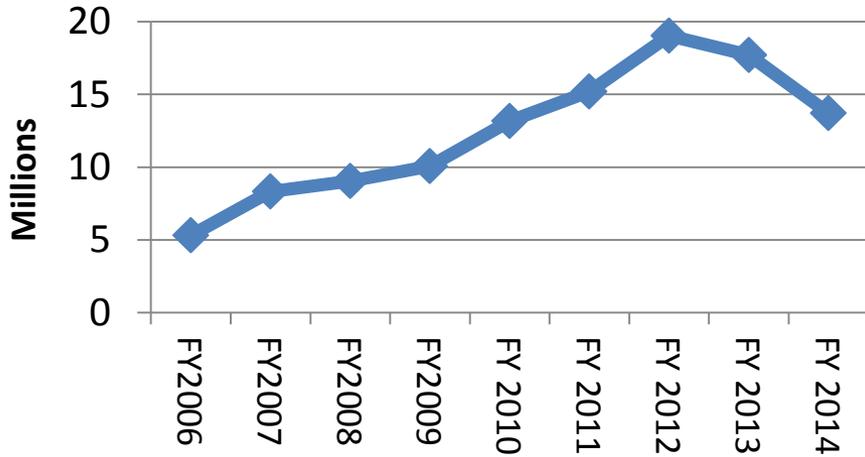
Local Establishment Changes Using NETS

- NETS (National Establishment Time Series) is based on Dun & Bradstreet data, tracks establishments from 1990 through 2012.
 - Tracks location, employment, sales, etc.
 - Underlying data for YourEconomy.org
- NETS Data is geocoded to the individual establishment, allowing more precise analysis.
- RESI at Towson University performed an analysis of EZ's using 2011 NETS data.

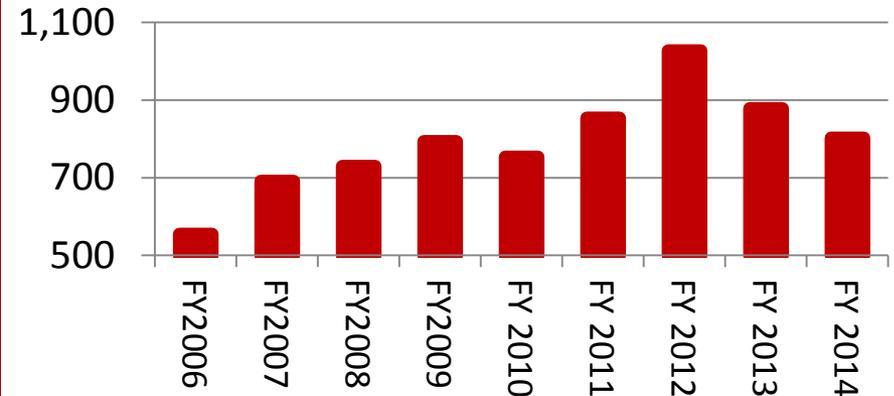
Real Estate Change Analysis

- Real estate investments are the largest use of the Enterprise Zone program.
- Question: Does an entire Enterprise Zone area see increases in taxable value following investments by a small number of landowners?
- Answer: The data are unclear.

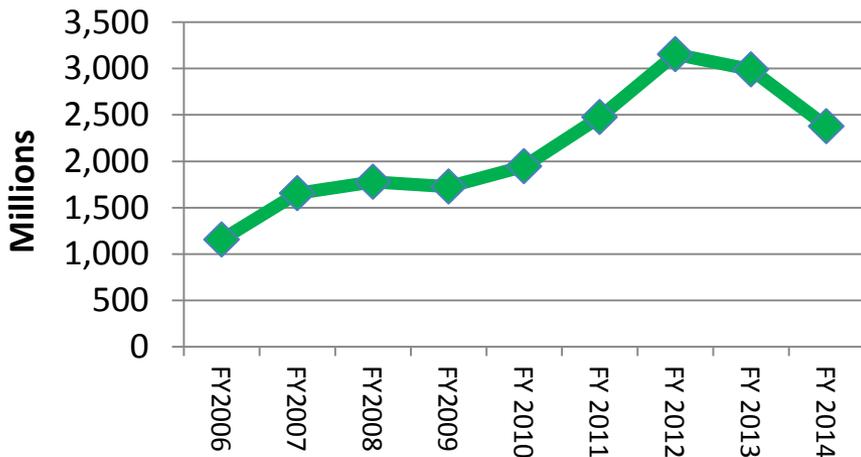
State Tax Reimbursement



Businesses Receiving Property Tax Credits



Capital Investment



Capital investment in Enterprise Zones was \$2.4 billion in FY2014. State tax reimbursement to jurisdictions was \$13.7 million, meaning that jurisdictions gave up another \$13.7 million in revenues (50% match). These tax reductions went to 802 recipients in FY2014.

FINDINGS

Findings

- Q. Are Zone residents employed by businesses located within Enterprise Zones?
- A. A certain percentage are employed, but far from the majority.
 - This is partly due to how Zones are defined. Many zones only include commercial or industrial land.
 - Enterprise Zone boundaries are drawn to cover lands that can support redevelopment, not lands that contain poverty or blight.
 - Can or should the analysis be performed on areas that are used to justify the existence of Enterprise Zones?

Findings

- Q. Have Enterprise Zones increased employment, or have they reduced employment declines?
 - There is much variation between zones.
 - In Baltimore City, it could be argued that Enterprise Zones performed about as well as the City as a whole.
- Q. Have income levels increased for Zone residents?
 - Data shows that income levels have generally increased, again, there is variation between zones.
 - How much of this is due to inflation? Gentrification?

Findings

- Q. Has company health improved within EZs?
- Q. Have property values improved?
- A. The answer to both of these questions are greatly affected by the effects of the run-up in property value before the recession, and the effects of the recession itself.
 - In short, it's hard to tell (so far).

Findings

- LODES data is difficult to match to EZ boundaries, making the analysis proximity-based rather than exact.
 - Buffers are probably a better method of analysis, as errant blocks near EZs would be captured.
- NETS data and MD PropertyView data give a more exact view of changes within EZ boundaries
 - However, data on workers is not available from these sources.
- No data source has a long enough time series to study the Enterprise Zone program from the beginning.
 - Program started in 1981.
 - GIS map layers are not available until 2001.
- Finding comparable areas not covered by EZ areas is difficult
 - Most eligible areas seem already to be covered.

NEXT STEPS

Next Steps: Full Analysis and Review

- Analyzing year-by year changes from 2002 to 2011:
 - Blocks included in analysis when they are included in an Enterprise Zone.
 - Areas uncovered by EZ's kept in the analysis for 10 years.
- Adding Focus Areas:
 - Focus Areas have different rules that likely create different outcomes and need to be analyzed separately.
- Correcting missing property data:
 - Missing or incorrect property valuation data needs to be corrected or estimated.
- Review methodology and results for future use:
 - Is this the best way to measure the effectiveness of Enterprise Zones?

Questions?

- Contact Information:

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