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TESTIMONY OF
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MARKETING MARYLAND FOR ECONOMIC DEVELOPMENT
BEFORE
COMMISSION ON MARYLAND'S FISCAL STRUCTURE
THURSDAY, OCTOBER 24, 2002

Thank you Mr. Puddester and members of the Commission for having me here today. I appreciate the invitation to offer my perspective on Maryland's economic competitiveness.

At earlier hearings, you heard from my colleagues – the Secretary of Transportation and Maryland's Superintendent of Education. They have outlined for you key transportation and education funding needs facing our state.

I also know that Dr. Alice Rivlin was here at your last meeting and put Maryland's fiscal challenges in perspective. Dr. Rivlin compared our current budget challenges with other states and speculated about the length of the economic recession/downturn. Overall, her analysis put Maryland in a good standing.

I am here today to speak about Maryland's economic competitiveness. I hope my experience as an economic development practitioner and as the Department of Business and Economic Development's (DBED) Secretary helps the Commission on Maryland's Fiscal Structure understand our current business climate and business recruitment and retention efforts.

As you go about determining the strategy the state should pursue regarding taxes, I urge you to balance thoughtful fiscal and tax policy with businesses' need to thrive and prosper to ensure the state's economic competitiveness.

What is Competitiveness?

- The ability to grow existing businesses
- The ability to foster a climate for entrepreneurship
- Retaining our college graduates – future entrepreneurs and future workforce
- The ability to attract new businesses and create jobs
- To be on the short list of site selection consultants

We would venture to say that we have been successful in achieving these goals. However, the question remains - what role do Maryland taxes play in determining our state's economic competitiveness? While taxes play a role in the attraction and retention of companies in Maryland, they are just one of the concerns of most businesses. What is the foremost concern of most businesses? Workforce.

Role of Economic Development

At DBED, our mission is to stimulate private investment and create family-supporting jobs, attract new businesses and encourage the expansion of existing companies. We achieve this through aggressive marketing and by providing Maryland businesses with workforce training grants and financial assistance.

DBED's role is to nurture today's knowledge-based economy, and the Department has a distinct technology focus. DBED also markets Maryland both to in-state businesses and out-of-state companies that are looking to relocate or expand. We run ads in trade publications and on television, focusing on retaining and attracting businesses that create jobs with family-supporting wages.

These efforts help Maryland compete for a limited number of projects. However, at least half of the time, decision makers are located outside of Maryland and competition among the states for limited projects is fierce.

Competition With Other States

Maryland is not only competing, but we are doing well. But even in the face of the slowing national economy, we have had success with our retention and recruitment efforts. Nevertheless,

I must confess to feeling a little frustrated when someone asks me about a company that decided to locate in a competitor state.

Invariably this question comes from someone who is completely unaware of Maryland's outstanding record of business attraction, business retention and job creation in strategic growth industries. For that reason, I feel obligated to provide the following recent list of Maryland wins, all assisted by DBED programs and all of which involved multi-state competitions. These wins were realized in a national climate that, according to the *Wall Street Journal*, is showing a 5% decline in capital spending by business for 2001 and 2002 as industry works out significant overcapacity.

Manufacturing:

- **General Motors** – recently announced that it would continue production at Baltimore's Broening Highway plant until the summer of 2005. GM's decision was to extend the production of the Chevrolet Astro and GMC Safari vans for an additional two years, retaining 1,600 jobs. This is a significant retention victory for Maryland.
- **Allison Transmission** – built a \$200 million state of the art manufacturing facility in Baltimore County employing more than 400 workers.
- **Silverton Marine Corporation** – one of the largest boat builders in the United States who recently purchased a 66,000 square foot building to house a metal shop and fiberglass room for manufacturing purposes and creating 175 new jobs.
- **Volvo/Mack Trucks** – AB Volvo, parent company of Mack Trucks, Inc., selected the Mack powertrain operations in Hagerstown as its North American manufacturing site for the next generation of Volvo trucks and Mack trucks heavy-duty diesel engines, securing the jobs of 1,200 workers – another significant retention victory for the state.
- **Closetmaid** – will build a manufacturing facility in Garrett County creating 700 jobs. The impact of this project is such that we believe it will actually lower the unemployment rate by a full percentage point in this distressed jurisdiction.
- **Phillips Seafood** – a major retention win in Baltimore City, preserving several hundred jobs for the community.
- **Hunter Douglass** – is expanding and add jobs in new facility in Allegany County.

Biotechnology:

- **Qiagen** – this year opened its North American headquarters and manufacturing facility in Germantown, employing 300. Qiagen makes DNA-based products for research, diagnostics and pharmaceutical manufacturing.
- **Medimmune** – broke ground on their world headquarters in Montgomery County.
- **Eyetel, Inc.** – an innovative company developing a new technology to aid in the fight against blindness, and who recently moved its headquarters from Chantilly, Virginia to save Maryland.

Technology:

- **Neschen AG** – a German-based company and a world market leader for self-adhesive products will establish its American headquarters in Howard County.
- **Northrup Grumman** – despite cutbacks, is consolidating jobs in Linthicum and building a new facility there.

Financial Services:

- **NCO Group** – this month, announced it was consolidating 600 jobs in Baltimore City.
- **Toyota Financial Services** – after a search of the entire East Coast, has opened its eastern region customer service center in Baltimore County, employing 420.
- **Allstate** – will consolidate and expand its Maryland and northern Virginia offices into three new facilities in Maryland. The consolidation will retain 469 jobs and create 156 jobs in the new facilities in Howard, Baltimore and Montgomery Counties.
- **Banc One** – will result in 500 new jobs in Baltimore City. This project is a significant One Maryland program win.

Distribution Centers:

- **Giant Food** – another significant retention win for Maryland. After considering sites in Delaware and Virginia, as well as Maryland, Giant decided to build its new fresh food distribution center in Maryland. This decision retains 550 jobs in Maryland.
- **Ikea** – will build a new distribution center in Cecil County, creating 300 jobs.
- **Lenox, Inc.** – expanding their distribution center in Hagerstown.

Factors in Business Location Decisions

It is wrong to say taxes is the number one factor influencing a business location decision, but it is one the list. Business decision makers consider numerous tangible and intangible factors such as:

Skilled workforce
Quality of life
Access to higher education
Research and Development
Transportation
Infrastructure

Personal preferences of corporate decision makers
Business cost issues
Quality of schools
Public Safety
Taxes

Skilled Workforce

I believe that the single most important factor for business location decision-making, particularly with regard to technology focused industries and the knowledge-based economy that has given our state significant economic success, is the workforce. Maryland has a highly skilled workforce that is second to none. Our workforce ranks first among U.S. states in the percentage

of professional and technical workers in the labor pool, and third in the percentage of the population with a bachelor's degree or more. Maryland has also attracted a core workforce of science and engineering workers, ranking fourth among the states in doctoral scientists and engineers as a percent of the population. The state ranks first in PhD's in biological sciences, and second in computer sciences.

Quality of Life

It is important to point out that our competitive strength is based on a number of factors, and some of these factors carry considerably more weight than others. The things that make for a good quality of life make for sound business location decisions. Maryland's quality of life is a valuable asset. This state is well known as a location where skilled workers like to live. Assets such as outdoor recreation, cultural and sports amenities, diverse, well-educated communities and a central location are all selling points in our marketing and promotion efforts.

At DBED, we speak with business site selection consultants on a daily basis. While tax incentives, grants, loans and other assistance play a role, quality of life is always an important factor and is directly connected to workforce availability.

Quality education, both K-12 and higher education is important for location decisions within the state. A strong school system is paramount to attracting and retaining high-paying, family-supporting jobs. Health care is a strong factor in attracting businesses. The cost of doing business includes health care costs and businesses are looking for states that can offer quality health care at affordable prices.

To be sure, the state enjoys a high quality of life that should not be compromised. Strong support for public and higher education, safe and efficient transportation and quality, affordable health care are all important to businesses.

Access to Higher Education

In the 21st century, I am absolutely convinced that the economic success of Maryland is directly tied to strong institutions of higher education. The Governor and Lt. Governor and General Assembly's investments in higher education are in fact an investment in economic development, as they contribute to workforce, technology transfer and entrepreneurship. Maryland is fortunate to enjoy great colleges and universities, many with worldwide reputations and growing stature. We clearly owe much of Maryland's recent economic success to our highly skilled, superbly educated workforce.

Maryland is home to 58 accredited institutions of higher learning, including eleven campuses of the University System of Maryland, as well as the world-renowned Johns Hopkins University. The University System of Maryland's flagship campus at College Park is nationally ranked for its business entrepreneurship, engineering and information technology curricula. The University of Maryland Baltimore County is a national leader in the production of bachelor's degrees in information technology. Among other national rankings, Johns Hopkins University ranks first in graduate biomedical engineering and public health and is known throughout the world for research in medicine and basic sciences.

Access to Research and Development

Maryland has tremendous resources in federal labs/research facilities and institutions of higher education. Our state has access to the intellectual power of approximately 70 federal research centers. Private-sector companies and federal, university and research centers in Maryland conduct more than \$8 billion annually in federally funded research and development projects – the second highest level in the country. This strength is a major positive factor in Maryland’s ability to market itself as a strong, knowledge based technology focused economy.

Transportation

Transportation is another issue that can make or break decisions to locate in Maryland. Maryland can be proud of its transportation system, especially when compared to some of our neighbors such as Virginia. BWI Airport is one of the fastest-growing flight centers in the country, and surpasses Reagan National as the most popular airport among local travelers. In addition, the port of Baltimore is located 200 miles closer to the Midwest than any other Atlantic seaport, and is a top ranked port for roll on/roll off cargo. The transportation system profoundly and largely positively affects business location decisions.

Infrastructure

Access to certain types of infrastructure, such as fiber optics, clean rooms and water and sewer capacity, are also significant factors in business locations decisions.

Cost Issues

In marketing the state, the cost of living is obviously a factor. We are able to cite data indicating that the overall cost of doing business in Maryland is very competitive. Certainly, in competing for technology sector industries, comparisons with northern California, New England, and even portions of northern Virginia, show an advantage for most of Maryland. Baltimore compares even more favorably with other metropolitan areas, especially with regard to the cost of housing and the cost of living. Maryland’s location is highly competitive for distribution centers.

Tourism

Tourism is another economic engine driving Maryland’s economy. Return on investment (ROI) is the key of our aggressive marketing campaign. Tourism ROI is \$16 being returned to the Maryland economy in tourism expenditures for every \$1 invested by the state. This translates into \$2 in state tax revenues for every \$1 invested. This is an industry that should be protected, and its competitiveness should be a factor in the Commission’s deliberations. In addition, tourism adds to Maryland’s quality of life strengths.

Personal Preferences

Personal preferences of decision makers also play a large role in locating businesses. Issues such as the location of family, friends and homes always are a factor. Even local variables such as the quality of schools and the level of public safety are sometimes important for personal and not corporate reasons.

Taxes

We are not suggesting that taxes and tax policy do not effect economic development and competitiveness. Maryland is extremely competitive with surrounding states regarding

economic development. When permitted to provide the facts and a comprehensive picture, DBED regularly is able to make the case that Maryland is not a high tax state, and that Maryland compares favorably with our competitor states, especially in the overall level of taxation.

Business Attraction and Maryland's Tax Structure

In marketing Maryland in interstate competitions, we promote Maryland's business tax structure as fair and consistent. The corporate tax rate is below the national average at 7%, which has remained unchanged for decades. The state has no corporate franchise tax or gross receipts tax on manufacturers. The sales and use tax is 5% statewide, with numerous exemptions for businesses and is understood to be low. According to a recent survey, workers' compensation costs for manufacturers in Maryland are 25% below the national average. We promote Maryland on the basis that the overall burden as a percentage of income is fair, ranking slightly below average in state and local government tax revenue.

Tax Rates

Nevertheless, despite our best efforts, outsiders frequently look at tax burden per capita or even at tax rates without doing a careful comparison of the way different states actually tax businesses and individuals. We must be very cautious in making adjustments and not lose the important ground that was gained by reducing the personal income tax rate. This greatly helped limit problems caused by Maryland's personal income tax rate and improved perceptions around the country.

Tax Incentives

There is an important place in the state's tax policy for tax incentives for business development. These must be carefully and responsibly crafted to achieve the desired, targeted results and are a necessary element in our national competition for business expansions and locations. For example, the One Maryland tax credit is turning out to be crucial in areas of the state that have not shared Maryland's overall prosperity. Among the most important of the tax incentives that DBED routinely markets are the Job Creation Tax Credit, the Enterprise Zone tax credit, One Maryland tax credit, R&D tax credit – incentives for businesses to hire new employees and make capital investments. We need these to compete with the states that surround us.

Delaware, Pennsylvania, North Carolina and Virginia all have credits similar to our Job Creation Tax Credit. Pennsylvania has its Keystone Opportunity Zones, New York has Empire Zones, Virginia has Enterprise Zones – locating a business in one of these distressed areas, like our Enterprise Zones, can provide significant financial relief to a company. These business tax credits are not responsible for any concerns about the state's fiscal situation and should not be eliminated. The amount of economic activity, the new jobs, the new investment necessary to qualify for these credits far exceeds the amount of revenue lost by the state. Figures from the Comptroller on tax year 1999 indicate that less than \$2.25 million in these types of credits were actually taken against income tax liability. But they are crucial for marketing and to be competitive.

I strongly believe in targeted tax advantages for strategic industries. An example of this is the job creation tax credit, which allows the state to incentivize industries that are growing, and we see this particularly in areas like distribution. The One Maryland tax credit allows us to target incentives to areas of the state that have not enjoyed and prospered along with the rest of Maryland. The R&D tax credit targets the companies with high paying, technology jobs Maryland needs most in the 21st century.

Maintaining the State's Competitive Posture

The state has to work very hard to keep our competitive advantage. We are not complacent, we are not taking anything for granted and we are not blind to the challenges that we face as a state, such as transportation, access to capital, and skilled workers, nor are we blind to the fact that specific industries and regions in Maryland are hurting more than the averages that I cite.

Independent Groups Say Maryland is Doing Well

That Maryland's economy is performing well and our strategy is sound has been verified by several independent groups:

- The Milken Institute, a nationally recognized firm, ranked Maryland as the 4th best state for potential for high-tech growth – we moved up from number five last year.
- The Corporation for Enterprise Development identified Maryland as one of the top 10 states selected as part of their 2001 honor roll. This report assesses each state's economy and potential for future growth.
- The Progressive Policy Institute, a non-profit think tank, ranked Maryland first in workforce education – measured by educational attainment.
- An Ernst and Young report on the country's biotechnology industry ranked Maryland #3 among the states in the number of biotechnology companies – behind California and Massachusetts. Maryland is second only to Massachusetts in the number of biotechnology companies per capita.

The challenge is to balance thoughtful fiscal and tax policy with businesses' need to thrive and prosper – to ensure the state's economic competitiveness. As you go about the very serious task of reviewing Maryland's revenue and expenditure demands, keep in mind what drives Maryland's economy – our businesses, both small and large.