

Capital Business

Gov. Hogan's first big Maryland business retention challenge: Marriott

By Jonathan O'Connell and Jenna Johnson March 21

It was a common — [and contested](#) — refrain from gubernatorial hopeful Larry Hogan: Maryland is so unfriendly to business that Fortune 500 firms are leaving in droves.

Now, it's Gov. Hogan's job to make sure the number of corporate giants doesn't shrink on his watch.

His first challenge could be Marriott International, which this month announced plans to [leave](#) its Bethesda campus when — or before — its lease expires in 2022.

“Our goal is really clear: that they remain in Maryland,” said R. Michael Gill, secretary of the state Department of Business and Economic Development, whom Hogan (R) recruited from the private sector. “They're significant in size. They're significant in stature. They're significant in what they mean to Maryland.”

But Maryland likely will face stiff competition from other jurisdictions, experts say, at a time when analysts increasingly are questioning the wisdom of spending big to lure big companies.

Born out of a chain of drive-in restaurants, Marriott employs nearly 10,000 people in Maryland, including more than 2,000 who work at the Bethesda headquarters, which chief executive Arne M. Sorenson said has lost its luster, in part, because it is not located near mass transit.

In 2014, the company declared \$753 million in profit on \$13.8 billion in revenue.

Given the cluster of experienced hospitality workers in the area, Sorenson said, it is unlikely the company will move out of the Washington area. But Marriott is only a few miles away from a state run by another business-savvy governor touting his negotiating bona fides, Virginia's Terry McAuliffe (D). Sandwiched between them is the nation's capital, which has seen a [huge influx of young people in recent years](#) drawn by jobs and the ease of commuting to them.

In addition, it's likely leaders of other states have already begun calling.

"Marriott will be deluged by offers and visits from governors, and it would be malfeasance by Marriott to not at least listen to those offers," said John Boyd, a New Jersey relocation consultant who has advised companies including PepsiCo and Dell.

"Every state and every city in the country wants to attract a corporate headquarters, not just for the jobs but for the panache and the branding value."

By disclosing the company's plans now, Sorenson, the [first non-Marriott](#) family member to run the company, may have put himself in the driver's seat in terms of negotiating tax breaks or other incentives.

He also has begun the discussion when his business is humming; since he took over three years ago, the stock has more than doubled and the company should have more than 1 million rooms open or under construction by later this year.

"Every state really has a profile of what they're willing to do in terms of incentives," said Meredith LaPier, an executive vice president at the real estate services firm CBRE who represented Northrop Grumman when it decided to relocate to Fairfax from California. "You want to start that discussion early . . . because you are leveraging your negotiating power."

Leaders of Maryland's legislature commissioned a study of the state's business climate last year, even as candidate Hogan was decrying it on the campaign trail. The commission, led by former Lockheed Martin chief Norman R. Augustine, found room for improvement, including making

the state's regulatory process more predictable and easier to navigate, as well as investing in public transportation.

The commission pointed out that Maryland has a higher corporate tax rate than neighboring states; it will review the state's tax structure in a second report later this year. And it identified three ways to grow private-sector jobs: support existing companies, encourage the creation of new companies and lure businesses from elsewhere.

Gill agreed that attracting and retaining major companies costs money. "If you want to be a player and if you want to compete for opportunities, you have to have an incentive strategy," he said in January.

Gill said he will meet with Marriott officials in the coming months to figure out what they desire in a future location and what Maryland can provide.

This isn't the first time that the hospitality giant has prompted a bidding war. In the late 1990s, the company flirted with a move to Northern Virginia before landing more than \$50 million in incentives from Maryland and Montgomery County in exchange for staying put.

But since then, there is an increasing level of criticism from academics and advocates arguing that there are better ways to grow regional economies than by offering large subsidies to single companies.

"The smartest places are trying to get away from relocation gambits and mainly selling themselves on the basis of what is critical to the company, which here, I think, is access to Metro for millennials and the workforce that Marriott needs," said Mark Muro, a senior fellow at the Brookings Institution, a Washington think tank.

Augustine's commission warned that poaching companies from other states requires "participating in highly competitive bidding processes that too often benefit none other than the owners of the business being sought."

"Although there will be circumstances that warrant entering such 'zero-sum' contests . . . this is

the least attractive of the three options and should be embraced only on a highly selective basis," the commission wrote.

When a state ponies up major incentives, the other taxpayers essentially end up floating the company's way, said Greg LeRoy, executive director of Washington-based corporate accountability advocacy group Good Jobs First.

"If Marriott is paid to stay and the tax rates remain what they are, everyone's taxes will have to go up, effectively," he said.

Muro said elected leaders in other regions — Denver is one example — [have begun coordinating their efforts](#) to avoid being pitted against one another and working to improve their overall business climate by helping small firms grow and creating neighborhoods that attract talented workers.

It would be great, he said, to see Maryland, Virginia and the District collectively agree to just compete on the merits of their jurisdictions, rather than on the size of the checks they would write. But he isn't holding his breath.

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"In private, I think there is a great desire to swear off the relocation subsidy," he said. "but I think it's very hard in the public space to take oneself out of these competitions."

As the battle plays out, there continues to be debate over how many Fortune 500 companies Maryland has actually lost in recent years — though there is no doubt the state lags behind Virginia, which has 23.

In 2006, there were [five](#) Fortune 500 companies headquartered in Maryland. Three — Black & Decker, Coventry Health Care and Constellation NewEnergy — were acquired or merged with companies headquartered elsewhere.

The remaining two have since been joined by Discovery Communications and Host Hotels (a

Marriott spinoff). But as a candidate, Hogan often said there were only three.

At an economic development event soon after Hogan won the election, an organizer gently pointed out that Maryland, in fact, has four Fortune 500 companies.

“See?” Hogan deadpanned. “Things are already getting better.”

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