

The Economic Significance of Maryland's Municipalities

December 2023



THE MARYLAND MUNICIPAL LEAGUE

The Association of Cities and Towns

SAGE | policy group

Executive Summary

Maryland’s 157 incorporated cities and towns represent the backbone of its economy and are home to one in four Marylanders. The operations of Maryland’s municipal governments, including more than 32,000 direct employees and associated compensation, support robust economic activity across the state.

Including multiplier effects, municipal operations supported more than 42,000 jobs in Maryland in FY 2022. Those jobs were associated with more than \$3 billion in employee compensation and more than \$5.2 billion in augmented statewide economic activity.

Over time, Maryland's municipalities will support even more economic activity. Throughout the state, these are often the communities best positioned to support economic growth by supplying various forms of infrastructure, including water and sewer services. The City of Baltimore stands to play a special role in this regard. Increasingly, Baltimore's suburbs have been built out and many residents want to forestall additional growth. Baltimore City, however, has plentiful opportunity for massive redevelopment, and therefore an opportunity to emerge once again as Maryland's primary economic growth engine.

Exhibit ES1: Statewide Economic Impacts Supported by Incorporated Places

	Jobs	Labor Income (Millions \$2023)	Economic Output (Millions \$2023)
<i>Statewide</i>			
Direct effects	32,163	\$2,517.5	\$3,498.5
Indirect effects	2,510	\$158.1	\$443.3
Induced effects	7,823	\$416.8	\$1,256.8
Total	42,496	\$3,092.5	\$5,198.6

Source: Sage, IMPLAN

*Totals may not add due to rounding

Of course, these quantifiable impacts represent only a fraction of the impact municipal governments have on the state’s economy. Maryland’s incorporated places account for an outsized share of the state’s property tax base and tourist attractions and bring significant federal funding into the state. Their commitment to public safety fosters a higher quality of life for residents, positively impacting population growth. Investments in economic development render these communities enticing locations for growing businesses, investors, and others.

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Introduction

NATURE OF THE ENDEAVOR

This report, commissioned by the Maryland Municipal League, examines the quantifiable economic contributions of municipal governments on the state’s economy and discusses the ways in which Maryland’s cities and towns improve quality of life. Importantly, Sage economists have only measured first order effects – the impacts attributable to the operations of Maryland's municipalities.

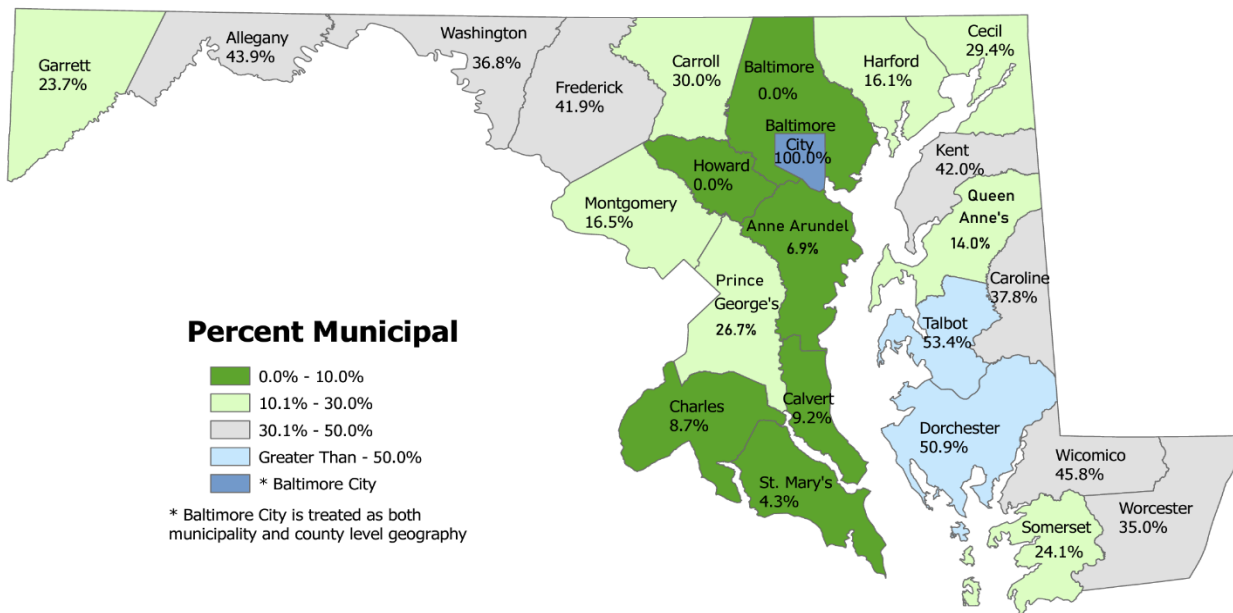
There are second order effects that are more difficult to measure. How, for instance, does one measure the economic impact of Cambridge's ability to attract people who would otherwise not live in Maryland but for a pleasant visit to the city's waterfront? How would one measure the impact of a business that moves from Northern Virginia to Frederick to be in a more idyllic environment? These kinds of impacts barely register in municipal revenues and expenditures but are nonetheless real.

BACKGROUND

POPULATION

One in four Marylanders lives in a municipality. That is significant, but population share varies substantially statewide. One hundred percent of Baltimore City residents live in a municipality by definition. Baltimore and Howard counties, two of Maryland's most populous major jurisdictions, have no incorporated communities. Elsewhere, municipal resident share ranges from 54 percent in Talbot County to approximately 7 percent in Anne Arundel County.

Exhibit 1: Municipal Population in Maryland as Share of Jurisdiction Population, July 1, 2022



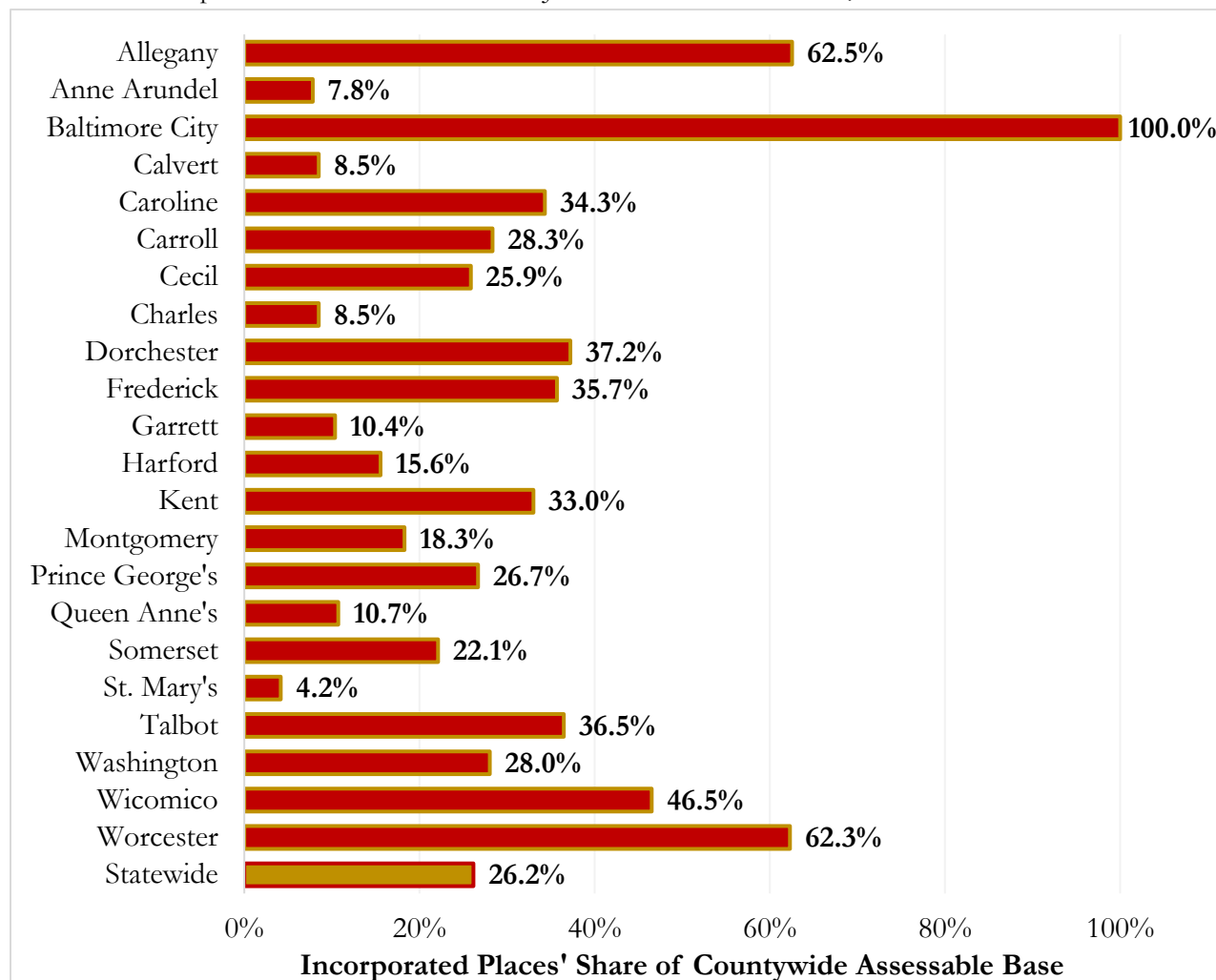
Source: Maryland Department of Planning, U.S. Census Bureau

ASSESSABLE BASE

In many instances, incorporated places account for a higher share of county assessable base relative to population share. In other words, municipalities tend to be more densely developed and populated than non-incorporated portions of their counties.

This is especially true in more densely populated counties like Montgomery and Anne Arundel counties. With respect to assessable base share, there are exceptions elsewhere, however, including in communities with large amounts of valuable agricultural land. Importantly, the value of taxable assessable base has expanded at a more rapid rate in Maryland’s municipalities than in unincorporated areas, rising 3.2 percent versus 2.9 percent, respectively, from FY 2020 to FY 2021. This hints at some of the value that municipal governments create, though as stated earlier, much of this value is difficult if not impossible to quantify.

Exhibit 2: Municipal Assessable Base as Share of Jurisdiction Assessable Base, FY 2022

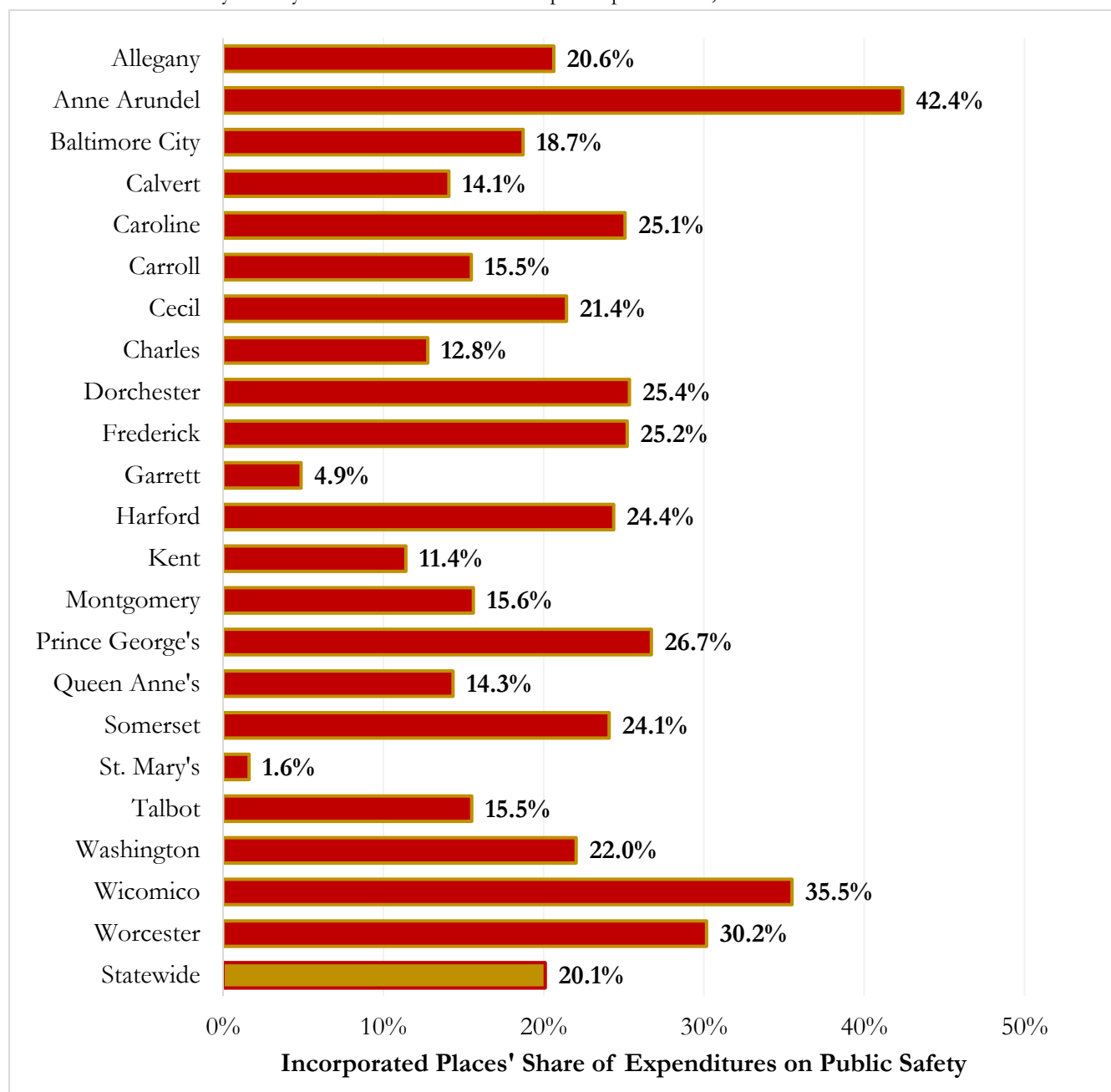


Source: Maryland Department of Legislative Services, Local Government Finances in Maryland

CONTRIBUTIONS TO PUBLIC SAFETY

Among the major functions of municipalities is to supply enhanced levels of public safety. Incorporated places typically spend approximately one out of every four dollars on police, fire fighters, or other forms of public safety. Challenges range from fighting wildfires and supporting rapid responses to health emergencies to dealing with criminal threats to persons and property.

Exhibit 3: Public Safety Outlays as Share of Total Municipal Expenditures, FY 2022

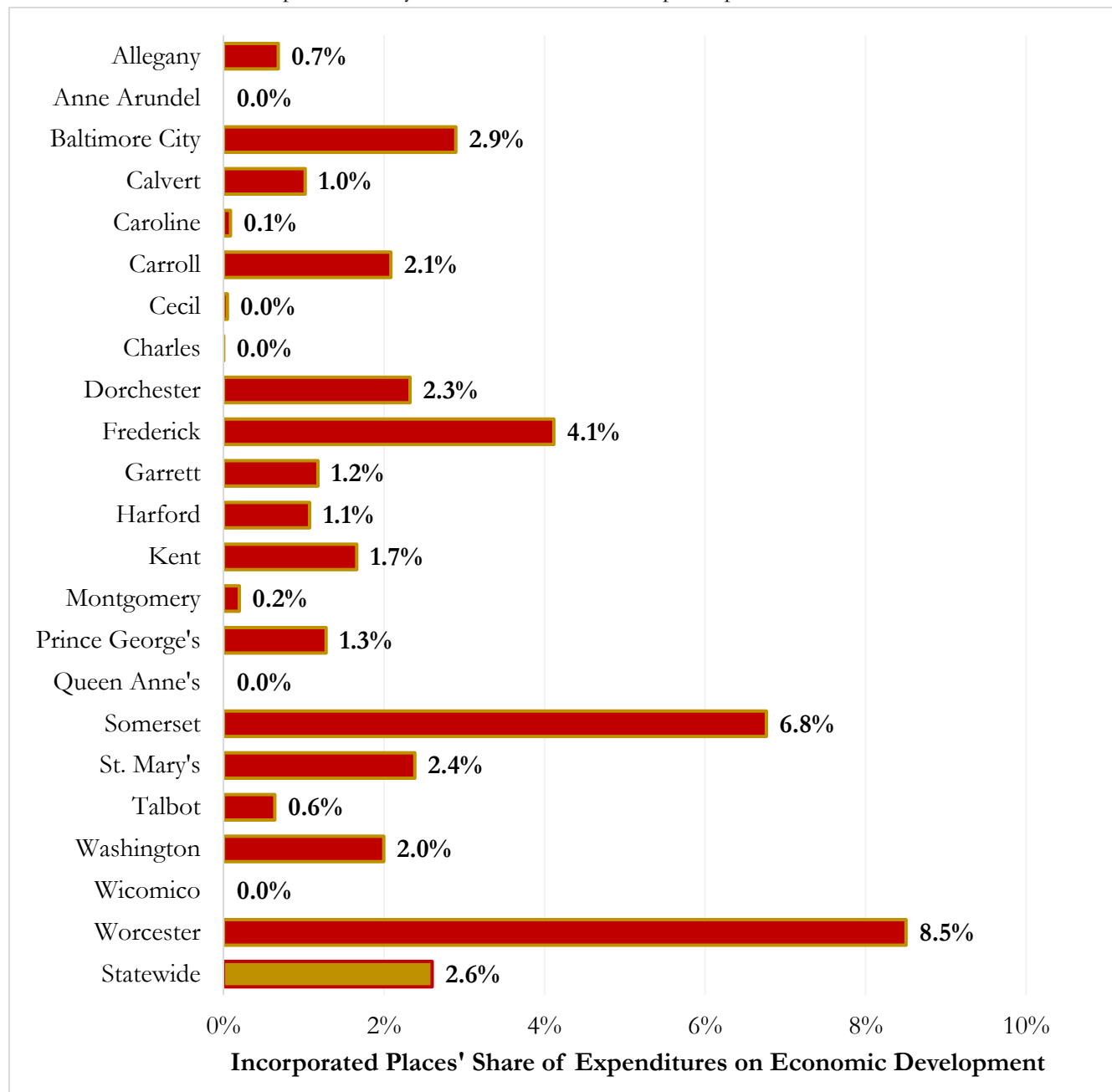


Source: Maryland Department of Legislative Services, Local Government Finances in Maryland

ECONOMIC DEVELOPMENT

Incorporated places also invest substantial sums into economic development. This is especially important given Maryland's soft recovery from the pandemic and ongoing reliance on federal government outlays. Serving as complements to county economic development efforts, municipalities are generally able to embrace more localized approaches focused on particular neighborhoods or properties. As of FY 2022, 2.6 percent of all municipal expenditures were on economic development.

Exhibit 4: Economic Development Outlays as Share of Total Municipal Expenditures, FY 2022

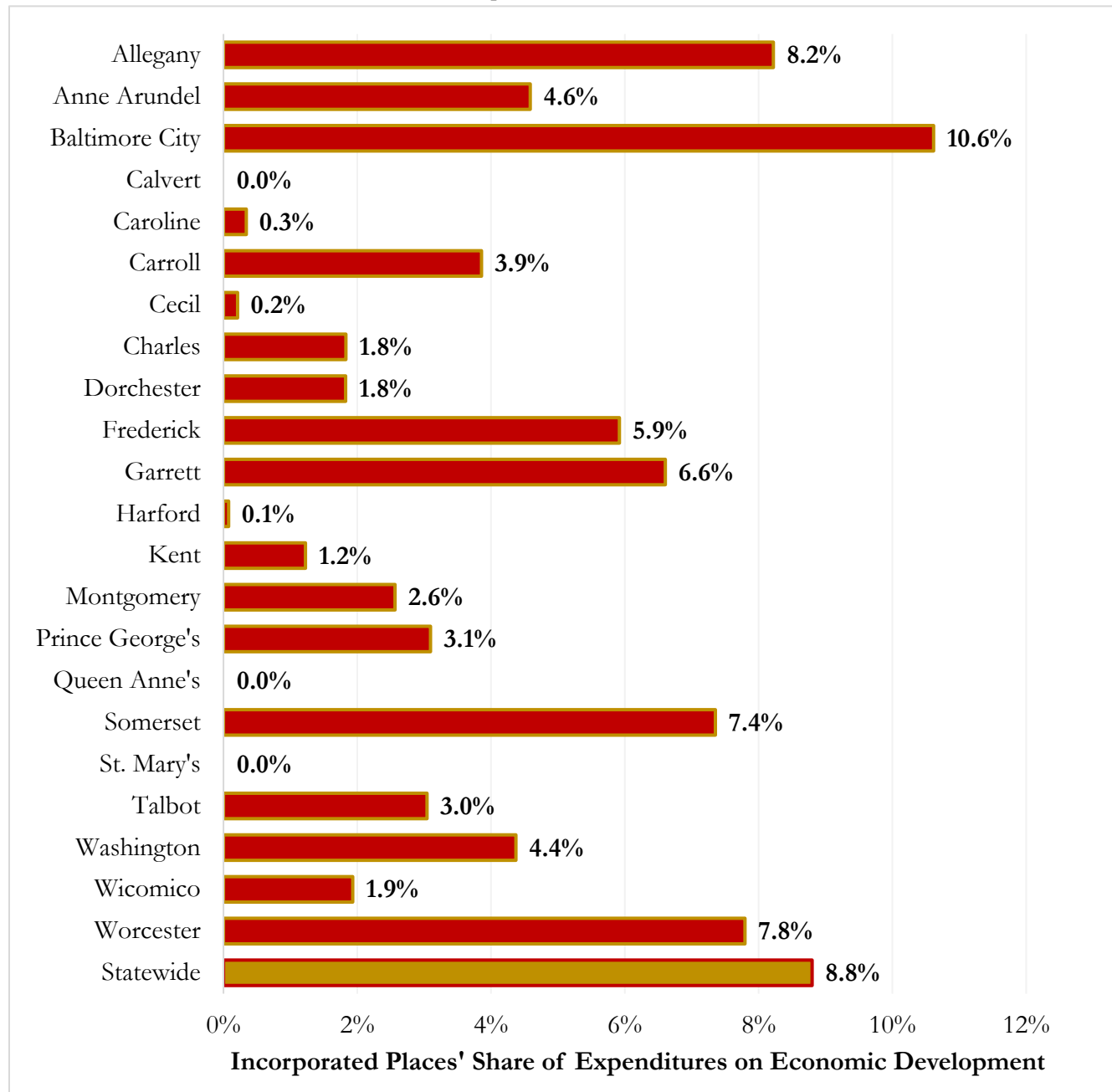


Source: Maryland Department of Legislative Services, Local Government Finances in Maryland

ATTRACTING FEDERAL FUNDING

Federal grants accounted for nearly 9 percent of municipal revenues in FY 2022. Those dollars enhance both quality of life and the local economy. Such grants are used for many purposes, including supporting childhood health, revitalizing main streets, and improving environmental outcomes.

Exhibit 5: Federal Grants as Share of Total Municipal Revenues, FY 2022



Source: Maryland Department of Legislative Services, Local Government Finances in Maryland

TOURISM

This report does not endeavor to quantify the economic impacts generated by tourism to Maryland’s municipalities due to a lack of data regarding visitation. One could argue that that would be supplying municipalities too much credit. For instance, it may not be sensible to allocate a significant amount of the economic impacts generated by Fort McHenry, birthplace of the Star-Spangled Banner, to the City of Baltimore. Nonetheless, municipalities support visitation in many ways, including by managing traffic, issuing permits as appropriate, and supplying additional public safety personnel during public events.

Seven of the ten “Best Places to Visit in Maryland,” as ranked by U.S. News and World Report, are either within or border a municipality. Of Visit Maryland’s Top 20 attractions in Maryland, 12 are located within or border incorporated places. Among the treasures are Ocean City’s Boardwalk, Baltimore’s Inner Harbor, which is poised for massive redevelopment over the next several years, the Antietam battlefield in Sharpsburg, and the docks of Annapolis. Importantly, this visitation also feeds State of Maryland coffers, including by supporting retail sales tax collections.

Exhibit 6: Visit Maryland’s Top 20 Tourist Attractions

Rank	Attraction	Incorporated Place
1	Ocean City Boardwalk	Ocean City town
2	Assateague	-
3	Chesapeake Bay Maritime Museum	St. Michaels town
4	Harriet Tubman Underground Railroad Visitor Center	-
5	Smith Island	-
6	Fort McHenry	Baltimore city
7	U.S. Naval Academy	Annapolis city
8	Carroll County Farm Museum	Westminster city
9	Downtown Frederick	Frederick city
10	Inner Harbor	Baltimore city
11	Annapolis City Dock	Annapolis city
12	Antietam	Sharpsburg town
13	Wisp Resort	-
14	Rocky Gap Casino Resort	-
15	Deep Creek Lake	-
16	Allegany Museum	Cumberland city
17	Nasa Goddard Visitor Center	Greenbelt city
18	Six Flags America	-
19	Strathmore Hall	-
20	Chesapeake & Ohio Canal	Williamsport town, others

Source: Visit Maryland

Economic Impacts

METHODOLOGY

This analysis uses IMPLAN, an industry-standard platform for economic input-output modeling, to estimate the economic contributions that Maryland’s incorporated places make to the state’s economy. These impacts include jobs, associated employee compensation, and economic activity that are supported by the operations of the state’s municipalities. Importantly, this model does not account for certain contributions generated by incorporated communities. Many of these have been discussed earlier and are branded as second order effects. Rather, this analysis quantifies economic impacts attributable to the operational and capital spending of municipalities, which for these purposes are defined as first order effects. Associated multiplier effects are also considered.

Employment impacts presented in this report include both full- and part-time workers. Results are presented in the form of jobs, with one job being the equivalent of one year of employment. Labor income encompasses all forms of employment income including employee compensation (wages and benefits) and proprietor income (earnings of business owners). Output represents the augmented commerce (goods and services) that occurs as a result of municipal government operations.

The model used in this analysis uses multiregional input-output analysis, a technique that allows direct effects to be confined to a particular geographic area while secondary effects are captured for a broader area. In creating this model, the Sage study team divided Maryland’s incorporated places into five distinct geographic areas. Note that these groupings exclude Baltimore County and Howard County, neither of which is home to an incorporated place.

Baltimore Metro	Eastern Shore	Southern	Suburban	Western
Anne Arundel	Caroline	Calvert	Frederick	Allegany
Baltimore City	Cecil	Charles	Montgomery	Garrett
Carroll	Dorchester	St. Mary's	Prince George's	Washington
Harford	Kent			
Queen Anne's	Somerset			
	Talbot			
	Wicomico			
	Worcester			

Economic impacts are presented in the form of **direct impacts** as well as in the form of secondary impacts. Direct impacts pertain to municipal jobs as well as the jobs supported by purchases made by municipal governments.¹ Secondary impacts can be considered the multiplier effect and are segmented into two types of impacts: **indirect** and **induced**. Indirect benefits are generated through the volume of business-to-business transactions that occur due to municipal governments. For instance, if a municipality purchases a sign from a local business and that business as a result purchases more ink from another local vendor, the purchase of ink (and associated jobs and labor income) would be presented as an indirect impact. Induced benefits are triggered when workers primarily or secondarily supported through enhanced economic activity spend their earnings in the local economy.

INPUTS TO THE MODEL

This study uses data regarding municipal expenditures presented in the Maryland Department of Legislative Services' 2022 report on Local Government Finances in Maryland. These data supply detail regarding total expenditures and key disaggregations. Data pertaining to employment per municipality supplied by the Maryland Municipal League augments expenditure data. Note that this study excludes Baltimore City's expenditures related to primary and secondary education since those pertain to the City's role as a county-equivalent jurisdiction rather than a municipality.

Exhibit 7: Municipal Expenditures per Jurisdiction, FY 2022 (millions of Dollars)

Baltimore Metro		Eastern Shore		Southern		Suburban		Western	
Anne Arundel	\$115.2	Caroline	\$17.3	Calvert	\$12.6	Frederick	\$177.1	Allegany	\$68.2
Baltimore City	\$2,941.5	Cecil	\$48.1	Charles	\$21.8	Montgomery	\$251.2	Garrett	\$7.3
Carroll	\$70.9	Dorchester	\$24.5	St. Mary's	\$6.1	Prince George's	\$233.0	Washington	\$126.9
Harford	\$65.4	Kent	\$9.4	Total	\$40.5	Total	\$661.3	Total	\$202.3
Queen Anne's	\$9.9	Somerset	\$5.5						
Total	\$3,202.8	Talbot	\$82.6						
		Wicomico	\$83.9						
		Worcester	\$145.5						
		Total	\$416.7						

¹ This analysis uses *Institutional Spending Patterns*, a type of IMPLAN event, to model the impacts of Maryland's municipal governments. Because the Institutional Spending Pattern event type represents a general spending distribution for measuring broad institutional activity within a region, the model produces 'mixed results' wherein the reported Direct Effects describe both what we would generally consider Direct Effects (income, Employment and Value Added) and the first-round Indirect Effects that arise from the government spending its budget.

STATEWIDE IMPACTS

Incorporated places support nearly 42,500 jobs in Maryland once multiplier effects are considered. Those jobs are associated with more than \$3 billion in annual labor income, which includes benefits and other forms of compensation, and approximately \$5.2 billion in economic activity.

Exhibit 8: Statewide Economic Impacts Supported by Incorporated Places

Annual, Ongoing	Jobs	Labor Income (Millions \$2023)	Economic Output (Millions \$2023)
<i>Statewide</i>			
Direct effects	32,163	\$2,517.5	\$3,498.5
Indirect effects	2,510	\$158.1	\$443.3
Induced effects	7,823	\$416.8	\$1,256.8
Total	42,496	\$3,092.5	\$5,198.6

Source: Sage, IMPLAN

*Totals may not add due to rounding

Most of these jobs are supported directly by municipalities. With respect to multiplier effects, large numbers of jobs are supported in real estate, food services, waste management, and healthcare among other economic sectors.

Exhibit 9: Jobs Supported by Industry and Level of Impact

Industry	Direct	Indirect	Induced	Total
Local Government	23,565	-	-	23,565
Other real estate	819	320	261	1,399
Services to buildings	819	196	92	1,108
Landscape and horticultural services	708	67	51	827
Limited-service restaurants	113	30	440	583
Full-service restaurants	62	102	410	573
Other educational services	366	11	124	502
Waste management and remediation services	422	51	20	492
Hospitals	0	0	450	450
Employment services	146	188	91	425
Other personal services	230	11	147	388
Maintenance/ repair construction of nonresidential structures	308	58	19	386
Investigation and security services	297	47	39	384
Transit and ground passenger transportation	194	49	113	356
All other food and drinking places	116	42	198	355
All other categories	3,997	1,338	5,369	10,703
Total	32,163	2,510	7,823	42,496

Source: Sage, IMPLAN

*Totals may not add due to rounding

MUNICIPAL SPENDING IMPACTS BY REGION

BALTIMORE METRO

Municipalities in the Baltimore metropolitan area support the greatest impacts of any region, largely due to the presence of Baltimore City, easily the state’s largest municipality. On an annual basis, the Baltimore metro municipalities support more than 28,500 jobs. Statewide, those jobs support more than \$2.2 billion in annual labor income.

Exhibit 10: Economic Impacts of Baltimore Metro Municipalities

Annual, Ongoing	Jobs	Labor Income (Millions \$2023)	Economic Output (Millions \$2023)
<i>Baltimore Metro</i>			
Direct effects	22,013	\$1,792.8	\$2,494.9
Indirect effects	1,694	\$108.6	\$301.4
Induced effects	4,803	\$267.1	\$787.7
Total	28,511	\$2,168.5	\$3,584.0
<i>Remainder of Maryland</i>			
Indirect effects	64	\$5.4	\$16.6
Induced effects	626	\$32.0	\$99.4
Total	690	\$37.4	\$116.0
<i>Statewide</i>			
Total	29,201	\$2,205.9	\$3,700.1

Source: Sage, IMPLAN

*Totals may not add due to rounding

EASTERN SHORE

Municipalities on the Eastern Shore support more than 4,600 jobs. Those jobs are associated with more than \$267 million in employee compensation and nearly \$460 million in annual economic activity.

Exhibit 11: Economic Impacts of Eastern Shore Municipalities

Annual, Ongoing	Jobs	Labor Income (Millions \$2023)	Economic Output (Millions \$2023)
<i>Eastern Shore</i>			
Direct effects	3,612	\$220.9	\$306.5
Indirect effects	242	\$10.6	\$34.3
Induced effects	755	\$32.0	\$107.9
Total	4,610	\$263.5	\$448.7
<i>Remainder of Maryland</i>			
Indirect effects	16	\$1.2	\$3.1
Induced effects	46	\$2.6	\$7.6
Total	62	\$3.8	\$10.7
<i>Statewide</i>			
Total	4,672	\$267.3	\$459.4

Source: Sage, IMPLAN

*Totals may not add due to rounding

SOUTHERN MARYLAND

The municipalities of Southern Maryland tend to be smaller. Collectively, they support nearly 400 jobs that support approximately \$25 million in annual employee compensation and generate close to \$44 million in annual economic activity statewide.

Exhibit 12: Economic Impacts of Southern Region Municipalities

Annual, Ongoing	Jobs	Labor Income (Millions \$2023)	Economic Output (Millions \$2023)
<i>Southern Maryland</i>			
Direct effects	302	\$21.4	\$30.2
Indirect effects	21	\$0.9	\$3.0
Induced effects	65	\$2.5	\$9.4
Total	388	\$24.8	\$42.6
<i>Remainder of Maryland</i>			
Indirect effects	1	\$0.1	\$0.3
Induced effects	5	\$0.3	\$0.8
Total	6	\$0.4	\$1.1
<i>Statewide</i>			
Total	394	\$25.2	\$43.7

Source: Sage, IMPLAN

*Totals may not add due to rounding

SUBURBAN MARYLAND

Municipal governments in Suburban Maryland support more than 6,100 jobs across Maryland once multiplier effects are considered. Those jobs are associated with nearly \$470 million in employee compensation and \$790 million in statewide economic activity each year.

Exhibit 13: Economic Impacts of Suburban Maryland Municipalities

Annual, Ongoing	Jobs	Labor Income (Millions \$2023)	Economic Output (Millions \$2023)
<i>Suburban Maryland</i>			
Direct effects	4,607	\$376.6	\$523.4
Indirect effects	354	\$25.0	\$63.7
Induced effects	1,029	\$57.9	\$171.6
Total	5,991	\$459.5	\$758.8
<i>Remainder of Maryland</i>			
Indirect effects	20	\$1.4	\$5.3
Induced effects	159	\$7.8	\$24.6
Total	178	\$9.2	\$29.9
<i>Statewide</i>			
Total	6,169	\$468.6	\$788.7

Source: Sage, IMPLAN

*Totals may not add due to rounding

WESTERN MARYLAND

Operations of Western Maryland municipal governments support more than 2,000 statewide jobs, \$126 million in annual employee compensation, and about \$207 million in annual economic activity.

Exhibit 14: Economic Impacts of Western Maryland Municipalities

Annual, Ongoing	Jobs	Labor Income (Millions \$2023)	Economic Output (Millions \$2023)
<i>Western Maryland</i>			
Direct effects	1,629	\$105.8	\$143.5
Indirect effects	83	\$3.9	\$12.8
Induced effects	315	\$13.6	\$44.7
Total	2,027	\$123.4	\$201.0
<i>Remainder of Maryland</i>			
Indirect effects	14	\$1.1	\$2.7
Induced effects	18	\$1.0	\$3.0
Total	32	\$2.1	\$5.7
<i>Statewide</i>			
Total	2,059	\$125.5	\$206.7

Source: Sage, IMPLAN

*Totals may not add due to rounding

Conclusion

With more than 23,000 paid employees and \$4.5 billion in operating expenditures, the state's municipal governments support large and persistent economic impacts. These communities generate significant economic contributions by funding economic development, including through infrastructure outlays, contributing to public safety, attracting residents and federal funding, and fostering tourism and associated visitor spending by maintaining many of the state's most successful attractions. Fully 12 of Visit Maryland's Top 20 attractions are located within or border an incorporated community.

In Fiscal Year 2022, the operations of Maryland's incorporated places supported more than 42,000 jobs, including positions supported by first order multiplier effects. Those jobs were associated with more than \$3 billion in labor income, which includes benefits and other forms of compensation, and nearly \$5.2 billion in economic activity.

Appendix A: How to Interpret Economic Impact Estimates

To quantify the economic impacts of Maryland’s municipal governments, Sage used IMPLAN economic modeling software and its embodied multipliers to generate estimates of employment, labor income, and output. Below is an abbreviated glossary of terms that may prove helpful in interpreting analytical findings.

EMPLOYMENT

As defined by IMPLAN, a job that lasts twelve months equals one job, two jobs that last six months equal one job, three jobs that last four months equal one job, etc. Based on this, **job-years** represents a useful term. For instance, an endeavor that supports 200 jobs for a six-month period would be considered to support 100 jobs measured in job-years. Note that IMPLAN jobs are not quite the same thing as full-time equivalents (FTEs). Each of IMPLAN’s 536 unique industries has a different conversion rate between jobs and FTEs, although for almost every industry one job is equal to less than one FTE.

OUTPUT (BUSINESS ACTIVITY, ECONOMIC ACTIVITY)

Output equals the value of industry production or service provision. It might be easier to conceptualize this as total business sales or economic activity. For retail industries, it is the gross margin (not gross sales). For manufacturing, output is the quantity of total sales plus/minus the change in inventories. For the service sector, output is directly equal to sales. This is summarized by the following equation:

$$\text{Output} = (\text{Manufacturing sales} \pm \text{change in inventories}) + (\text{service sector sales}) + (\text{gross margin for wholesale and retail trade})$$

LABOR INCOME

Worker compensation is comprised of wages, benefits, and proprietor income (money accruing to owners of businesses).

$$\text{Worker Compensation} = \text{all forms of employee compensation (wages/benefits)} + \text{proprietor income}$$

DIRECT EFFECTS

Direct effects are impacts tightly aligned with the endeavor under consideration. In this instance, direct effects are produced by the operations of Maryland’s incorporated places.

INDIRECT EFFECTS

Indirect effects stem from business-to-business spending activity within the study area that occurs as a result of the direct effects. These can also be considered broader supply chain effects. This is a form of **secondary** effect.

INDUCED EFFECTS

Induced effects relate to household spending that occurs due to expanded levels of labor/household income. This is also a form of **secondary** effect.

About Sage Policy Group

Sage Policy Group is an economic and policy consulting firm headquartered in Baltimore, MD. Dr. Anirban Basu, Sage's chairman and CEO, founded the firm in 2004. Over a period spanning nearly two decades, Sage has managed to create a client base that encompasses more than forty states and seven countries and includes Fortune 500 companies, NFL teams, aquariums and zoos, state and local governments, insurance companies, banks, brokerage houses, major medical systems, trade organizations, and law firms, among others.

The company is especially well known for its analytical capabilities in economic impact estimation, school enrollment forecasting, economic development, economic forecasting, fiscal impact analyses, legislative analyses, litigation support, and industry outlooks, and has significant experience in the subject areas of construction, healthcare, energy, real estate, environmental economics, manufacturing, professional sports, lotteries, agriculture, tourism, entrepreneurship, government contracting, secondary and post-secondary education, and the economics of retirement. The firm is also known for its superior communications and messaging skills.

In addition to leading Sage, Dr. Basu has emerged as one of the nation's most recognizable economists. He serves as the chief economist to Associated Builders and Contractors, the Maryland Bankers Association, and the International Food Distributors Association and as the chief economic adviser to the Construction Financial Management Association. He chaired the Maryland Economic Development Commission from 2014 to 2021 and currently chairs the Baltimore County Economic Advisory Committee. He has been interviewed by CNBC, CNN, Fox Business, Axios, Bloomberg, the New York Times, and many others.

Dr. Basu's lectures in economics are delivered to audiences across the U.S. and abroad. In recent years, he has focused upon health economics, the economics of education, and economic development. He has lectured at Johns Hopkins University in micro-, macro-, urban, and international economics, and most recently, global strategy. He is presently the Distinguished Economist in Residence at Goucher College, where he teaches History of Economic Thought.