

TESTIMONY OF

**Robert C. Brennan, Executive Director
Maryland Economic Development Corporation**

BEFORE

**House Committee on Appropriations
Subcommittee on Education and Economic Development**

**February 16, 2012
1:00PM**

Legislation

The Maryland Economic Development Corporation (MEDCO) functions under the provisions of Title 10, Subtitle 1 of the Economic Development Article of the Annotated Code of Maryland.

The legislative purposes of MEDCO are to: relieve unemployment in the State; encourage the increase of business activity and commerce and a balanced economy in the State; help retain and attract business activity and commerce in the State; promote economic development; and promote the health, safety, right of gainful employment, and welfare of residents of the State.

The General Assembly intends that MEDCO operate and exercise its corporate powers in all areas of the State; exercise its corporate powers to assist governmental units and State and local economic development agencies to contribute to the expansion, modernization, and retention of existing enterprises in the State as well as attraction of new business to the State; cooperate with workforce investment boards, private industry councils, representatives of labor, and governmental units in maximizing new economic opportunities for residents of the State; and accomplish at least one of its legislative purposes and complement existing State marketing and financial assistance programs by owning projects, leasing projects to other persons, lending the proceeds of bonds to other persons to finance the cost of acquiring or improving projects.

Corporate Overview

MEDCO is staffed with ten full-time employees and one part-time employee. A significant portion of MEDCO's ongoing project management responsibilities include reviewing and providing management oversight. MEDCO monitors its projects' compliance with the provisions of financing documents to ensure that the current financial statements of participants are available, required compliance benchmarks are achieved and current and appropriate insurance requirements are being met. MEDCO also collects and reviews the monthly financials for its owned projects.

MEDCO structures its projects on a non-recourse basis. The State of Maryland, any State agency and MEDCO are not responsible for the repayment of the bonds that are issued by MEDCO. The repayment of MEDCO bonds is limited to the revenues and the sources of the project.

MEDCO has a website which lists MEDCO's projects, presents MEDCO's annual audited financials, highlights many MEDCO projects, lists MEDCO's Board Members, and provides other useful information at www.medco-corp.com.

Bond Financed Projects

MEDCO's bond financed projects encourage business activities, retain businesses, relieve unemployment, promote the welfare of State residents, and generally promote economic development in the State.

For the fiscal year ending June 30, 2011, MEDCO provided bond financing for the following projects:

Student Housing College Park, L.L.L.P. Series 2010:

On July 8, 2010, MEDCO closed on its non-recourse, taxable revenue bonds in the amount of \$69,325,000 and loaned the proceeds of the bonds to Student Housing College Park, LLLP, a Maryland limited liability limited partnership, to finance a portion of the cost of constructing and equipping an approximately 900 bed student housing facility adjacent to the University of Maryland, College Park, approximately 20,100 square feet of retail space, and a parking garage; to fund all or a portion of a Debt Service Reserve Account; to fund a ground rent reserve for the payment of ground rent during construction and equipping the project; to fund all or a portion of the interest on the bonds during construction; and to pay the costs of issuing the bonds and the costs of credit enhancement. The project will house students of the University of Maryland, College Park, exclusively, which will provide much needed housing supply for the University. The project is projected to create approximately 300 temporary construction jobs and 100 permanent jobs in Prince George's County.

Providence Center, Inc.:

On September 1, 2010, MEDCO reissued its non-recourse, tax-exempt revenue bonds in the amount of \$4,500,000 series 2005 and loaned the proceeds of the bonds to the Providence Center, Inc, a Maryland non-profit corporation with headquarters in Anne Arundel County Maryland, to finance and refinance the cost of: the acquisition of real property consisting of an approximately 31,000 square foot building, construction, renovations and improvements to the new building and existing properties in Anne Arundel County, the acquisition and installation of certain necessary or useful furnishings, fixtures, equipment, vehicles and machinery to be installed in, or used at or in connection with the properties, the acquisition of such other rights including appurtenances, rights-of-way, franchises, easements, and other interests in land, land

and facilities , and other rights necessary or useful in the acquisition, construction, renovation, furnishing, equipping or operation of the properties.

The 2005 project financed by the 2005 bonds has been and will continue to be owned and operated by Providence Center, Inc. and used in furtherance of its mission and purpose to provide services that allow individuals with disabilities to lead a more independent, valuable and functioning role in society. For more than 40 years, Providence Center, Inc. has been dedicated to the well-being of individuals with developmental disabilities. From its origins in 1961 in a donated farmhouse, the Center has grown and now serves more than 470 adults in seven locations throughout Anne Arundel County.

CNX Marine Terminal, Inc., Port of Baltimore Facility (Consol):

On September 28, 2010, MEDCO issued its non-recourse, tax-exempt revenue bonds in the amount of \$102,865,000 and loaned the proceeds of the bonds to the CNX Marine Terminal in order to refund the outstanding principal amounts of the \$72,000,000 Mayor and Council of Baltimore Port Facility Revenue Bonds Series 1984A and Series 1984B and the \$30,865,000 Mayor and Council of Baltimore Port Facility Revenue Bonds Series 1985.

The proceeds of the refunding bonds were used to refund the 1984 and 1985 bonds which were originally issued to fund the acquisition and construction of certain improvements, modifications and additions to a coal transshipment terminal located on approximately 200 acres in the Canton area of the Port of Baltimore consisting of wharves, coal loading and unloading machinery, road and railroad tracks, and coal storage facilities. The facility is owned and operated by CNX Marine Terminal and is used as a terminal for unloading railroad cars carrying coal, storing coal, and loading coal into ships.

The project has a major economic impact on the future success of the Port of Baltimore. This facility controls the movement of 98% of the Port's exported coal, and it facilitated the Port's benefit from a recovery in east coast thermal and metallurgical coal export demand. It is expected that new access to the Asian markets will allow growth in coal throughput from 6-8 million tons per year to 12 million tons per year.

Gold Crust Baking Company, Inc. (Series 2010):

On September 30, 2010, MEDCO issued its non-recourse, tax-exempt revenue bonds in the amount of \$7,348,000 and loaned the proceeds of the bonds to 6200 Columbia Park Road, LLC, a Maryland limited liability company, to acquire and construct improvements to an approximately 100,000 square foot one-story building on approximately 4.95 acres of land located at 6200 Columbia Park Road, Hyattsville, Maryland, to acquire and install certain necessary or useful furnishings, fixtures, equipment and machinery to be installed in, or used at, the building, to acquire such other rights related to the land, including appurtenances, rights-of-way, franchises, easements, and other interests in land as may be necessary or useful in connection with the construction of the building, and to acquire such other land and facilities which are functionally related and subordinate to the land and building. 6200 Columbia Park Road, LLC is leasing the project to Gold Crust Baking Company, Inc., a Virginia corporation and affiliate. Gold Crust Baking, Inc will use the building and equipment in its trade or business to market, design, manufacture fresh and frozen bread and other bakery products, and other uses incidental thereto.

Gold Crust Baking Company is relocating their business from Virginia to Maryland. The new facility is projected to create 50-60 new jobs in the State. Additionally, the new facility will

allow for further expansion of the company's business which is currently projected to result in the creation of an additional 50 jobs over the next 3-5 years.

Emerge, Inc. Facilities (Series 2010 A & Series 2010 B):

On October 19, 2010, MEDCO issued its non-recourse, tax-exempt revenue bonds in the amount of \$4,674,282.88 and loaned the proceeds of the bonds to eMerge, Inc. to refund the \$4,075,000 Maryland Economic Development Corporation Variable Rate Demand Revenue Bonds Series 2006A and B, which were issued to refund the Corporation's Maryland Economic Development Corporation Revenue Bonds, Series 1996A, which bonds were issued for the benefit of eMerge, Inc., and to finance or refinance all or a portion of the cost of the acquisition of the properties; refinance mortgage loans made to the eMerge, Inc. which financed costs of acquisition of the residential properties; finance or refinance repairs and renovations to the properties; and pay or refinance capitalized interest, costs of issuance and other related costs and to pay for the issuance costs of the bonds.

The issuance of the 2010 bonds will afford eMerge, Inc. lower costs of borrowing thereby furthering its charitable purpose of creating supportive environments and individualized services for people with disabilities in the State. eMerge, Inc. is a not-for-profit organization headquartered in Columbia, Maryland focused on serving individuals with developmental, physical and mental health disabilities. Emerge, Inc. provides residential, employment and day services to over 400 individuals in Baltimore City and Baltimore, Howard, Anne Arundel and Prince George's counties.

The Arc of Baltimore, Inc., Series 2010:

On November 17, 2010, MEDCO issued its non-recourse, tax-exempt revenue bonds in the amount of \$5,790,000 and loaned the proceeds of the bonds to The Arc of Baltimore, a Maryland non-profit corporation with headquarters located in Baltimore, to refund the Maryland Economic Development Corporation Health and Mental Hygiene Providers Facilities Acquisition Program Revenue Bonds 2000 Series and to finance or refinance the costs of the acquisition, construction, installation, renovation and equipping of certain additional improvements to The Arc of Baltimore's facilities, to establish a reserve fund, and to pay the costs of issuing the 2010 Bonds and other eligible costs.

The original 2000 Series bonds were issued to finance the costs of the acquisition, construction, installation and equipping of certain buildings owned by The Arc of Baltimore and located in Baltimore City and Baltimore County, Maryland, to refinance certain existing indebtedness issued on behalf of the Borrower in 1993, to establish a reserve fund and to pay the costs of issuing the 2000 Bonds.

The issuance of the 2010 bonds will afford The Arc of Baltimore lower costs of borrowing thereby furthering its charitable purpose of ensuring that people with developmental disabilities have maximum opportunities to actively participate in all aspects of community life and offering programs and services that support them in doing so.

Living Classrooms Foundation, Inc. Series 2010:

On December 17, 2010, MEDCO issued \$3,000,000 in non-recourse revenue bonds and loaned the proceeds of the bonds to the Living Classrooms Foundation, Inc., a Maryland non-profit corporation, to finance and refinance the costs of the acquisition, construction, installation,

renovation and equipping of numerous classroom, office and harbor facilities in Baltimore City and Montgomery County and related improvements and to finance certain costs relating to the issuance of the bonds and other related eligible costs.

Living Classroom Foundation, Inc. has approximately 350 employees and serves thousands of students and young adults throughout the Baltimore-Washington D.C. area. It provides three core programs for residents of the State; educating students through a charter school, through after-school and supplemental education programs, and through environmental experiences, with special emphasis on serving students who live in high risk environments; providing job training programs to help eliminate barriers to success for young adults and families; and providing maritime programs to educate the general public.

The Maryland Food Bank, Inc. Series 2010:

On December 17, 2010, MEDCO issued its tax-exempt, non-recourse revenue bonds in the amount of \$3,550,000 and loaned the proceeds of the bonds to The Maryland Food Bank, Inc, a Maryland non-profit corporation with facilities in Baltimore and Wicomico Counties, to finance and refinance the costs of the acquisition, construction, installation, renovation and equipping and related improvements to those facilities and to finance certain costs relating to the issuance of the bonds and other related eligible costs.

The project will be owned by The Maryland Food Bank and will be used in support of its charitable purpose of providing free food to Maryland's hungry citizens. The Maryland Food Bank employs approximately 75 people and operates in all areas of Maryland except Montgomery and Prince George's Counties which are served by a sister food bank. The Maryland Food Bank procures warehouses, and distributes food which is then provided to hungry Marylanders through network partners; approximately 18.6 million pounds of food were made available in 2010.

The Baltimore Museum of Art, Incorporated Series 2010:

On December 20, 2010, MEDCO issued its non-recourse, tax-exempt revenue bonds in the amount of \$8,000,000 and loaned the proceeds of the bonds to The Baltimore Museum of Art, Inc., a Maryland non-profit corporation, to finance and refinance the cost of renovation, improvement and equipping of the museum's galleries and lobby area, and museum's store, installation of new roofs, installation of a new HVAC automation system, and construction, improvement and equipping of a third floor above the museum's existing Thalheimer temporary exhibit galleries, all located at the museum's facilities on Art Museum Drive in Baltimore City, Maryland (collectively, the "New Money Project"), and to refund all of the Issuer's outstanding Series 2006 bonds. The Series 2006 bonds financed certain parking facilities to support the museum's operations.

The Baltimore Museum of Art, Inc. owns and operates these facilities to further its mission of seeking innovation and excellence in an artistic program that focuses on art of the modern era and creating an environment that inspires creativity, encourages learning, and fosters human understanding in a place where everyone feels welcome. Founded as a public-private partnership in 1914, The Baltimore Museum of Art, Inc. moved to its present site in 1929 where it holds a collection of approximately 90,000 works of art and welcomes between 200,000-300,000 visitors annually, including 20,000 school children and 7,500 teachers who take advantage of the curriculum-based programs and training. The New Money Project will improve services of the museum and is estimated to create 185 temporary jobs in construction and related industries over the four year construction period.

Federation for American Societies for Experimental Biology Series 2010:

On December 28, 2010, MEDCO reissued its non-recourse, tax-exempt revenue bonds in the amount of \$15,500,000 and loaned the proceeds of the bonds to the Federation of American Societies for Experimental Biology, a District of Columbia non-profit corporation (“FASEB”), to refund the Maryland Economic Development Corporation Adjustable Mode Economic Development Revenue Bonds Series 2008, initially issued in the aggregate principal amount of \$15,500,000, which refunded the Maryland Economic Development Corporation Variable Rate Economic Development Revenue Bonds Series 2002A and 2002B, initially issued in the aggregate principal amount of \$13,000,000 which 2002 Bonds, financed the costs of the acquisition, construction, installation and equipping of an office building, a parking garage and an atrium located at the headquarters campus of FASEB located in Bethesda, Montgomery County, Maryland and refinanced the costs of the acquisition, construction, installation and equipping of an office building located at the Company’s headquarters campus by refunding the Montgomery County, Maryland Industrial Development Revenue Bond F1984 Series; and financed the costs of the acquisition, construction, installation, renovation and equipping of certain improvements to existing facilities and related improvements at the headquarters campus of FASEB, the costs of issuing the 2008 Bonds and other eligible costs.

The campus headquarters is home to approximately 90 employees of FASEB and an additional 300 employees of the member societies who lease office space from FASEB. The 2010 bonds will lower the cost of borrowing and allow the FASEB to operate more efficiently to pursue its mission of advancing biological science through collaborative advocacy for research policies that promote scientific progress and education and lead to improvements in human health.

Cornell Associates, LLC Project:

On December 29, 2010, MEDCO issued its non-recourse, tax-exempt revenue bonds in the amount of \$6,073,282 and loaned the proceeds of the bonds to the Cornell Associates, LLC, a Maryland limited liability company with headquarters in Landover Maryland, to finance the costs of the acquisition, construction, installation and equipping of an office, warehouse and manufacturing facility to be located in Upper Marlboro, Maryland and certain costs relating to the issuance of the bond and other related eligible costs. Cornell Associates, LLC will lease the land and building renovations to TSI/Exterior Wall Systems, Inc. and TSI/Architectural Metals, Inc., both Maryland corporations and affiliates of the Cornell Associates, LLC. TSI/Walls will use the project in its operation as a commercial glass and glazing sub-contractor and TSI/Metals will use the project in its operation as a metal panel manufacturer and an architectural and ornamental metal designer, manufacturer, and installer.

TSI/Walls was started in 1977 and averages approximately 150 employees. TSI/Metals was started in 1991 and averages approximately 75 employees. They had previously leased 45,000 square feet of space in three separate locations. Consolidation of its operations will produce efficiencies and will allow for expansion. Cornell Associates, LLC expects that this project will allow them to add 30 – 40 full time positions to support growth projections.

University of Maryland College Park, Utility Infrastructure:

On February 24, 2011, MEDCO issued its non-recourse, tax-exempt revenue bonds in the amount of \$40,195,000 series 2011 bonds to advance refund its series 2001 bonds. The 2011 bonds were issued as additional bonds under the bond documents for the 2001 bonds.

The proceeds of the 2011 bonds were used along with existing funds held by the trustee for the benefit of the Series 2001 bondholders to advance refund all outstanding maturities of the 2001 bonds, fund reserve funds related to the 2011 bonds, and pay costs of issuance related to the 2011 bonds.

Proceeds of the 2001 bonds were used to finance capital and related costs of constructing, acquiring and improving certain heating, cooling, electric distribution and electric generating facilities on the campus of the University of Maryland, College Park, as part of a program to improve the steam, electricity and chilled water services on the campus of the University, to provide for privatized management of these services and to achieve operating savings relative to the projected costs of continued operation by the University.

Loans

MEDCO provided funding assistance to the following entities during the fiscal year ending June 30, 2011.

Rocky Gap Lodge and Golf Resort:

On October 18, 2010 MEDCO approved a line of credit in the amount of \$750,000 to Rocky Gap Lodge and Golf Resort Project to support its working capital needs through 2011. As of the fiscal year ending June 30, 2011, \$565,000 has been extended to the Project as a seasonal line of credit to support working capital requirements.

The Project continues to provide jobs with benefits and economic stimulus to the Western Maryland region.

Baltimore Racing Development Corporation:

On December 30, 2010 MEDCO loaned \$500,000 to Baltimore Racing Development, LLC, a Maryland limited liability company, to provide working capital in connection with the inaugural Baltimore Grand Prix.

The Baltimore Racing Development, LLC is the authorized promoter of the Baltimore Grand Prix. The Baltimore Grand Prix is expected to have a significant economic impact for the City of Baltimore and the State of Maryland during its debut in September 2011.

Bainbridge Development Corporation:

On June 3, 2011, MEDCO loaned \$50,000 to the Bainbridge Development Corporation, a body politic and corporate and a public instrumentality of the State of Maryland, as a bridge loan until receipt of an annual payment under the Master Development Agreement from MTPM LLC, a Maryland limited liability company whose members include entities affiliated with Richard Alter, Ken Michaels, John Paterakis and Clark Turner.

The Bainbridge Development Corporation oversees the redevelopment activities and efforts at the 1,200 acres site of the formal U.S. Bainbridge Naval Training Center.

Grants

MEDCO provided grant assistance to the following entities during the fiscal year ending June 30, 2011.

Maryland Center for Construction, Education & Innovation, Inc (MCCEI):

On August 26th, 2010, MEDCO granted \$75,000 to MCCEI, a non-stock corporation, for operational funding in furtherance of MCCEI's cause of prompting Maryland's vibrant construction and energy economies through workforce development, education, training, advocacy and marketing.

Advances

MEDCO was requested by the State to assist in providing funding to support its efforts to maintain a meaningful thoroughbred race schedule for the year 2011. For the fiscal year ending June 30, 2011, MEDCO made an advance to the following entity:

Maryland Jockey Club:

On May 16, 2011 and in conjunction with the Budget Reconciliation and Financing Act enacted during the 2011 legislative session, MEDCO advanced \$3,450,000 to the Maryland Jockey Club to assist in the continued operation of thoroughbred racing during the calendar year 2011. MEDCO received full repayment in fiscal 2012. from the Racetrack Facility Renewal Account maintained by the Department of Labor, Licensing and Regulation.

The Maryland Jockey Club oversees thoroughbred racing in Maryland from which the State derives significant revenues from wagering.

Feasibility Studies

Feasibility Studies provide MEDCO and the State of Maryland with the critical information needed to determine the practicality of current projects, prospective projects and new business activities.

Rocky Gap Lodge and Golf Resort, Gaming Feasibility Study:

In March 2011 MEDCO engaged The Innovation Group to conduct a Gaming Feasibility Study related to gaming development at the Rocky Gap Lodge and Golf Resort. The ultimate goal of the Study was to obtain a cash flow summary that could be used to determine the financial feasibility of gaming development at Rocky Gap.

Spring Grove Hospital, Updated Master Site Plan:

On June 13, 2011 MEDCO began accepting proposals for the review and updating of the 2001 Master Site Plan for the Spring Grove Hospital Center, a State-operated inpatient psychiatric facility located on approximately 190 acres of land in Catonsville, MD. The goal of the final report is to provide guidelines for the redevelopment of the site that incorporates compatible mixed land uses while defining parcels for each potential user.

One Maryland Projects

The General Assembly intends that MEDCO assist governmental units as well as State and local economic development agencies in contributing to the expansion, modernization, and retention of existing enterprises in the State as well as the attraction of new business to the State. MEDCO follows through on these intentions through its continued involvement with One Maryland projects. The One Maryland Program is funded by the Maryland State Department of Business and Economic Development (DBED) and provides economic development assistance to economically distressed jurisdictions. MEDCO assisted One Maryland projects have been completed in Allegany County, Garrett County, Dorchester County, Worcester County, Caroline County, Somerset County and Baltimore City.

MEDCO's recent involvement in One Maryland Projects includes:

Barton Farms Business Park, Allegany County: Developed by MEDCO and located south of Cumberland on US Route 220, the project initially included land acquisition, permitting, installation of utilities and site preparation. In June of 2004, approximately 40 acres were sold to American Woodmark. MEDCO, Allegany County and DBED continue to market the remaining property to technology based businesses looking to relocate to the Western Maryland region.

Dorchester Cambridge Flex Building, Dorchester County: In 2004 MEDCO constructed this 30,000 square foot (expandable to 80,000) building. MEDCO, the County and DBED continue to market the building to companies interested in initiating a lease or purchase thereof. In early 2011, to enhance marketing efforts and exposure for this building, MEDCO entered into a brokerage agreement with the local branch of the national commercial real estate advisors Sperry Van Ness.

Dorchester Technology Park, Dorchester County: In 2004, MEDCO and the County secured DBED and EDA financing to initiate the development of a technology park. MEDCO received initial funding to pre-develop a County identified property suitable for the proposed park. MEDCO continues to monitor ongoing development of the property on behalf of DBED and continues to advise the County on construction and design matters. Improvements to the property are scheduled for completion by or before October 31st, 2011, at which time MEDCO, with DBED funds, will serve as the contract purchaser and will manage the asset. After purchase of the property, the County will market lots to prospective businesses.

Keyser's Ridge Business Park, Garrett County: In 2003, MEDCO assisted the County by purchasing land for the purpose of developing a business park. The development of this park assisted in attracting American Woodmark to an adjacent parcel accessed by way of the property. MEDCO continues to work with the County and DBED to attract other industrial and commercial users to the park. The County intends to purchase the park and transfer of the park from MEDCO to the County is scheduled to occur in the fall of 2011.

Patuxent Business Park: In 2000, MEDCO, with DBED financing, purchased approximately 92 acres of land for the development of a business park in Calvert County, Maryland. The park is designed for Class A office and flex space. In 2005, MEDCO secured additional DBED funding for the continued ongoing costs of engineering, design, permitting and construction of infrastructure. Infrastructure work for the business park is completed and MEDCO and the County are working collaboratively to market business park lots to potential purchasers and interested businesses, as well as screening commercial brokers to assist with marketing efforts and increase exposure of the park.

Pocomoke Flex Building, Worcester County: Constructed by MEDCO in 2002, this 43,000 square foot industrial shell building provides the County with marketable flex space. Mid-Atlantic Institute for Space and Technology (MIST) master leases the entire building. In 2007, MEDCO applied for and MIST was awarded an EDA grant totaling \$200,000.00. The award provided for interior improvements to expand existing work space within the building. MIST continues to master lease and make interior improvements and infrastructure upgrades to the facility in order to assist companies and organizations needing space in the area. Currently, MIST, Maryland Hawk Corporation, BlooSurf, Maryland Robotics, LJT Associates and Hardwire, LLC occupy space within the building.

Southern Garrett Flex Building, Garrett County: Constructed by MEDCO in 2005, this 30,000 square foot building (expandable to 50,000) assists in providing marketable flex space to the County. In June 2010, MEDCO entered into a six month lease with Pioneer Conveyor for approximately 8,000 sq/ft of space within the building. MEDCO and County negotiated an extension of Pioneer's lease until September 30th, 2011. The County intends to purchase the building and the transfer from MEDCO to the County is scheduled to occur in the fall of 2011.

Student Housing Projects

MEDCO provides assistance to Maryland's higher education entities through the bond financing and ownership of student housing projects. These projects enable Maryland's higher education entities to attract and house students without adversely affecting their State mandated debt capacities.

In these student housing projects, MEDCO assumes project ownership by way of a ground lease that terminates contemporaneously with the repayment of the bonds issued by MEDCO to finance each project. Upon repayment of the bonds, the ownership of these projects reverts to the ground lessor.

The following is a brief summary of the student housing currently owned/ground leased by MEDCO:

Projects that revert to the University System of Maryland upon repayment of MEDCO bonds:

- **Bowie State University, Prince George's County** - \$21,470,000 – 460 beds
- **Frostburg State University, Allegany County** - \$17,915,000 – 406 beds
- **Salisbury University, Wicomico County**- \$16,410,000- 312 beds
- **Towson University, Baltimore County (West Village)** - \$33,485,000- 668 beds

- **University of Maryland, Baltimore** - \$34,400,000 – 337 beds
- **University of Maryland, Baltimore County** – \$37,500,000 – 581 beds
- **University of Maryland, College Park** - \$133,645,000 – 2,633 beds
- **University of Maryland, College Park (Building #7)**- \$38,200,000 – 370 beds

Projects that revert to Morgan State University upon repayment of MEDCO bonds:

Morgan State University, Baltimore City - \$38,025,000 – 796 beds

Projects that revert to Sheppard Pratt Health Systems upon repayment of MEDCO bonds:

University Village at Sheppard Pratt, Baltimore County - \$27,725,000 – 615 beds

Information and Biological Technology Incubator Projects

In articulating findings which became the basis for the creation of MEDCO, the General Assembly of Maryland determined that the State's economy continues to experience technological change and that such change may result in economic contraction and dislocation, but affords opportunities to expand productive employment and expand the State's economy and tax base. MEDCO capitalizes on these opportunities through its continued ownership of and involvement in information and biological technology incubator projects.

Here is an overview of those eight incubators, as well as an overview of the virtual licensee program:

Montgomery College Germantown Innovation Center (GIC): In September 2008, Montgomery College and Montgomery County Department of Economic Development renovated a vacant 67,000 square foot commercial building adjacent to Montgomery College's Germantown Campus. The County subleases the second floor (roughly 35,000 SF) from the College for the GIC. The GIC includes 12 labs, two clean room facilities and 8,500 square feet of office. GIC companies have access to business resources including training, development, and best practices seminars led by industry experts, free counseling and legal services through the Maryland Intellectual Property Legal Resource Center. MEDCO assisted in the construction of the GIC and continues to assist the GIC as its conduit manager.

Currently the GIC accommodates 29 companies that support 113 employees.

Rockville Innovation Center (RIC): On July 12, 2007 MEDCO obtained a loan in the amount of \$4,700,000 from Mercantile Potomac Bank (now PNC Bank) for the construction of a two story information technology incubator as part of a five story mixed use building in Rockville, Maryland. RIC companies have access to business resources including training, development, and best practices seminars led by industry experts, free counseling and legal services through the Maryland Intellectual Property Legal Resource Center. The RIC is backed by an operational grant agreement by and between MEDCO and Montgomery County. MEDCO is the owner and conduit manager of the RIC.

Currently the RIC accommodates 23 companies that support 101 employees.

Shady Grove Innovation Center (SGIC, formerly the Maryland Technology Development Center): Originally funded in July 1998, by way of a combination of MEDCO bonds and State grants, the SGIC was refinanced under a commercial loan to MEDCO from PNC

Bank in March 2009. The SGIC contains approximately 57,000 square feet of space and is specifically designed to meet the requirements of both information technology and biological technology startup companies. SGIC companies have access to business resources including training, development, and best practices seminars led by industry experts, and free counseling and legal services through the Maryland Intellectual Property Legal Resource Center. The SGIC is backed by an operational grant agreement by and between MEDCO and Montgomery County. MEDCO is the owner (by way of a ground lease with Montgomery County) and conduit manager of the SGIC.

Since its inception, the SGIC has successfully graduated over 96 companies. The 96 successful graduates, still in business in the State of Maryland, support over 1,250 jobs.

Currently the SGIC accommodates approximately 42 companies and is home to Maryland's Biotechnology Center. Companies within the SGIC presently support 244 employees.

Silver Spring Innovation Center (SSIC): The SSIC is a 40,000 square foot building located in and owned by Montgomery County. The SSIC is an information technology incubator and excels in providing fast and efficient telecommunication connections for all of its companies. SSIC companies have access to business resources including training, development, and best practices seminars led by industry experts, and free counseling and legal services through the Maryland Intellectual Property Legal Resource Center. MEDCO is the conduit manager of the SSIC.

Since its inception in the summer of 2004, the SSIC has graduated 7 info tech companies that currently support 175 employees. Currently, the SSIC accommodates 25 companies and supports 95 employees.

Wheaton Business Innovation Center (WBIC): The WBIC opened in 2006 and contains approximately 10,000 square feet of office space and conference rooms. WBIC companies have access to business resources including training, development, and best practices seminars led by industry experts, free counseling and legal services through the Maryland Intellectual Property Legal Resource Center, networking conferences, and business counseling. MEDCO is the conduit manager of the WBIC.

Currently the WBIC accommodates 25 companies that support 63 employees.

Virtual Licensees: In the spirit of Great Britain's HUB concept, MEDCO and Montgomery County collectively designed a concept that would allow researchers, scientist and entrepreneurs with limited capital the usage of certain incubator resources on a scheduled basis for a minimal monthly fee. Such resources include mailbox space, shared office resources (phone, fax, copy machine, computers, etc.), conference rooms and access to programs offer at the various incubators located in Montgomery County.

There are currently 16 virtual licensees.

Emerging Technology Center @ Johns Hopkins Eastern (ETC Eastern): MEDCO received financial commitments from DBED, the Maryland Technology Development Corporation, US Department of Commerce-Economic Development Administration, U.S. and Maryland Historic Tax Credits, Baltimore Development Corporation, and The Johns Hopkins

University to assist MEDCO in building out space located in Baltimore City. MEDCO leases one floor of the facility from Johns Hopkins University to accommodate the ETC Eastern and is also the conduit manager for the ETC Eastern.

The ETC Eastern facility contains approximately 45,800 square feet of office space, distributed over 35 separate offices and 10 cubicle spaces. ETC Eastern is managed and financially supported by the Baltimore Development Corporation and provides its information technology companies with an assortment of business assistance services.

ETC Eastern has successfully graduated 32 companies that support 297 employees. Currently the ETC Eastern accommodates 30 companies and supports 92 employees.

Emerging Technology Center @ Canton (ETC Can): Early in 1999, renovation began on improvements at the Emerging Technology Center at the old Can Company building on Boston Street in Baltimore City. MEDCO leases one floor of the facility from Struever Brothers, Eccles & Rouse to accommodate the ETC Can and is the conduit manager of the ETC Can. ETC Can contains approximately 48,909 square feet of office space, distributed over 27 separate offices. ETC Can is managed and financially supported by the Baltimore Development Corporation and provides its companies with the same business assistance services that are made available at ETC Eastern, including NASA fast tracking.

ETC Can has graduated 63 companies which currently support 805 employees. Currently ETC Can has 31 companies licensing space at the facility. Those 31 companies presently support 212 employees.

bwtech@UMBC Incubator and Accelerator: The bwtech@UMBC Incubator and Accelerator is a nationally-recognized life-science and technology business incubation program that is home to over 30 early-stage bioscience and technology companies. bwtech@UMBC is managed by the University and owned by MEDCO. Companies enjoy 165,000 square feet of affordable office and wet lab space, flexible lease arrangements, as well as access to resources and networking opportunities to help their businesses succeed. An experienced entrepreneurial services staff provides resident companies with general business support services and access to an active network of mentors and investors.

Since its inception in 1989, the bwtech@UMBC Incubator has graduated more than 42 companies, including BD Metrics, Celsis/InVitro Technologies, Next Breath LLC, and AVicode Inc. and currently accommodates 48 companies that support 300 employees.

Advisory Capacity

MEDCO, through the involvement of its executive director, directly promotes economic development in the State and assists in maximizing new economic opportunities in the State by active service in board memberships and advisory positions within various organizations throughout the State.

These organizations include:

Maryland Industrial Partnership (MIPS): MIPS promotes the development and commercialization of products and processes through research partnerships between universities and industries. MEDCO's executive director is a member of MIPS' advisory board.

Maryland Technology Development Corporation (TEDCO): TEDCO facilitates the creation of businesses and fosters their growth through the commercialization of technology.

MEDCO's executive director serves as a member of TEDCO's Technical Advisory Board for Small Business Incubation.

PenMar Development Corporation: The PenMar Development Corporation is solely focused on the redevelopment of the Fort Richie site. MEDCO's executive director serves as an ex-officio member of the board of directors.

Bainbridge Development Corporation: The purpose of the Bainbridge Development Corporation is to develop the Bainbridge Naval Training Center and to accelerate the transfer of the site to the private sector. MEDCO's executive director is an ex-officio member of the board of directors.

Emerging Technology Centers (ETC): The ETC is a non-profit business incubator venture of the Baltimore Development Corporation that helps early-stage companies grow and prosper. MEDCO's executive director serves as a member of the ETC's advisory board.

Cambridge Sail Wind Project: MEDCO facilitated dialogue between the City of Cambridge and the Maryland State Department of Transportation on the long term use of the Sail Winds land and facility.

Maryland Economic Development Association: The MEDCO Executive Director is a member of MEDA's Part Presidents. Part Presidents are organized to offer knowledge and experience to local economic development organizations upon request.

Minority Business Enterprises Participation

MEDCO seeks to implement its statutory purpose of promoting economic development in the State by purchasing supplies and services from entities with operations in the State. While the majority of its projects are funded privately, MEDCO complies in practice with applicable minority business enterprise requirements for projects that involve governmental funding sources.

During fiscal year 2011 MEDCO's direct operating expenses included Rent, Consulting Fees, Insurance, Attorney Fees, Auditing Fees, Telephone expenses and Supplies. In the purchase of these services and supplies MEDCO secured the services of The Canton Group (MBE, SBE, & DBE) for data base maintenance at a cost of \$5,446.00, Five L, a Human Resources consulting firm (WBE) was paid \$735.01 and Curry Printing & Copy Center, a City and State registered WBE was paid \$2,190.00.

Over the past year, MEDCO increased its banking relationships with minority operated Harbor Bank from \$242,582.00 in fiscal year 2010 to \$1,563,504.00 in fiscal year 2011.

Looking forward, MEDCO has set a target goal of 35% MBE/WBE participation in the development of the Department of Health and Mental Hygiene State Health Lab Project to be located in Baltimore City

As part of its outreach, MEDCO staff attend MBE networking/procurement events where minority businesses promote their products and services. The Governors' Office of Minority Affairs and other sources are regularly reviewed for upcoming exhibitions where minority vendors exhibit products useful to MEDCO. During fiscal year 2011 MEDCO staff attended Minority Business conferences and exhibitions including the Baltimore Metropolitan Council Regional Procurement Expo, The Baltimore Regional Cooperative Purchasing Committee held at

Timonium Fair Grounds and the Fall Business Growth Expo sponsored by the Baltimore Business Journal.

<i>Project Classification Report</i>

MEDCO has adopted a loan classification policy whereby projects are characterized as “Performing”, “Watch” or “Non-Performing.”

The following are projects that are classified as either Watch or Non-Performing and MEDCO was either the issuer or owner during the fiscal year 2011.

University of Maryland, Baltimore (Status: Watch) MEDCO is the owner of a student housing project for graduate students at the University of Maryland, Baltimore City. The project has underperformed since it opened in Fall 2004 relative to the initial pro forma and has required subsidization from the University, MEDCO, and manager to pay operating expenses and debt service. MEDCO works closely with the University and replacement manager to maximize net operating income at the site.

In October 2010, MEDCO retained a management consultant for a sixth consecutive year as required by the bond documents since the FY10 audited financials showed that the project failed to meet the required 1.2 coverage ratio. In fiscal years 2010 and 2011, the project suffered lower than expected occupancy as a result of heavy competition in the area from private apartment communities who are offering rate reductions and other incentives. The reduced number of annual leases was mitigated partially in 2010 and largely in 2011 by the ability to tap into the short-term housing market; however, cash flow was not sufficient to make the October 2010 bond payments and a draw on the debt service reserve fund was needed. Enhanced coordination with the University and a more aggressive marketing approach has allowed the project to reach 100% occupancy for Fall 2011. However, the lack of capital reserve funds has and will continue to put a strain on project cash flow as critical FF&E purchases must be made to keep the aging facility competitive within the market. It is expected that even with the University subsidy, the project will need to partially draw on the debt service reserve fund in FY12 to make the October 2011 bond payments.

Bowie State University (Status: Watch) MEDCO is the owner of this student housing project. The project got off to a slow start as a result of poor initial management and development. The initial project manager was terminated in May 2006, and since management transition, the project has exhibited year-over-year improvement in debt service coverage.

In October 2010, MEDCO retained a management consultant for the fifth consecutive year, as required by the bond documents, since the FY10 audited financials showed that the project failed to meet the required 1.2 coverage ratio. In FY11, however, the unaudited year-end statements indicate that the project will produce a coverage ratio above 1.2. Cash flow has been strong which has allowed the project to repay most of the deferred fees due to the University and

MEDCO from prior years. The project is budgeting to meet 1.2 coverage for the fiscal year ending June 30, 2012, and if the budget holds, this project will return to “Performing” status.

Chesapeake Resort and Conference Center (Status: Watch) This project’s June 30, 2011 financial statements show that for the second consecutive year it will not achieve its required debt coverage ratio for the fiscal year. Previously MEDCO secured a management consultant and collaborated with the project’s manager to initiate changes in pricing and to reduce expenses in order to bring the project into compliance. With an upturn in the economy facilitating increased leisure activities and business conferences, MEDCO projects that the project will be able to meet all of its operating and debt service obligations for the 2012 fiscal year.

Rocky Gap Golf and Resort (Status: Non-Performing) The project began construction in 1996, on land ground leased to MEDCO by DNR, and funding was derived through a combination of MEDCO bonds, State grants and loans and a grant from Allegany County. From its inception, the project experienced operating difficulties resulting in its inability to meet required debt service payments.

In order to address these operating difficulties, as well as the project’s need for additional capital improvements to enhance operational competitiveness, MEDCO concluded a restructuring of the debt in December of 2008. Since that time the nationwide downturn has not left Rocky Gap unaffected. The project experienced a significant drop in revenues and has been struggling to regain its market share. For the first time in several years the project failed to generate a positive operating cash flow for the calendar year ending 2010. The project will not be able to sustain operating cash flow deficits for another year unless additional funding is made available. MEDCO continues its efforts to facilitate a sale of the leasehold interest in the property to a potential gaming operator, and these efforts are bolstered by legislative changes effective May 10, 2011 to the State’s gaming framework which provides increased incentives to potential operators. MEDCO is optimistic that a qualified bidder will emerge from the current RFP which was issued in June of 2011 for a gaming operator to set up at the resort. The legislation incentivizes the operator by reducing the state tax to 50% with the condition that the bidder must buy the facility in order to obtain such reduced tax.

Pocomoke Flex Building, Worcester County (Status: Non-Performing) Constructed by MEDCO in 2002, this 43,000 square foot industrial shell building provides the County with marketable flex space. Mid-Atlantic Institute for Space and Technology (MIST) master leases the entire building. MIST has failed to make any rent payments since late 2010 and MEDCO is waiting for instructions from DBED on how to proceed.

The following are projects that are classified as either Non-Performing or Watch in which MEDCO’s role is solely as bond issuer and in which the borrower has experienced challenges during the 2011 fiscal year:

Rock Glen Healthcare Inc (Status: Non-Performing) This nursing home project has experienced financial difficulties consistent within the public pay nursing home industry due to the federal government revised reimbursement rules, and cash flow problems when its working capital provider filed for bankruptcy. Rock Glen has operated under a series of forbearance agreements with the bond trustee. Most recently and to comply with federal tax laws which require the bond issuer to consent to a forbearance extension, Rock Glen requested that MEDCO consent to a solicitation of bondholders to enter into another Forbearance Agreement and to transfer the trusteeship. The trustee received sufficient response from bondholder ballots to authorize MEDCO to enter into a 2009 forbearance agreement under newly transferred

trusteeship, which agreement continues through January 4, 2012 and provides for partial interest payments and a moratorium on principal payments to the bondholders.

Ravenwood Healthcare, Inc. (Status: Non –Performing) This nursing home project has a history of financial difficulties consistent within the public pay nursing home industry due to the federal government revised reimbursement rules, compounded more recently by the failure of the air conditioning system in July 2010 necessitating the closing of the project pending completion of repairs and State regulatory approval for re-opening. The borrower failed to pay \$487,650 on February 1, 2011, representing accrued interest for the period from August 1, 2010 through January 31, 2011. Additional accrued interest for the period from February 1, 2011 through July 31, 2011 remained unpaid after the trustee drew on the debt service reserve fund. The trustee issued a notice of default on April 14, 2011 reciting these and other defaults, all of which reflect the interruption of cash flow last summer. The borrower has recently met its periodic interest payments and MEDCO expects that the borrower will continue to increase its occupancy while it tries to stabilize the project and resume principal payments.

TEC/Gull Creek Inc., formerly known as AHF/Gull Creek Inc. (Status: Non-Performing) This independent and assisted living facility began experiencing financial difficulties in 2000 which led to a series of forbearance agreement beginning in 2001. The latest forbearance agreement was executed in 2009 and expired February 15, 2011. Prior to the expiration of the 2009 forbearance agreement, the Borrower and trustee were negotiating terms for a new agreement but were unable to agree to terms. The Borrower's financial condition remains weak, and they have not been able to generate enough cash to consistently pay operating expenses, real estate taxes, and amounts due to bond holders under the 2009 forbearance agreement. The trustee sent a notice of event of default to the Borrower on March 31, 2011 and notified bond holders that it plans to assess the viability of operations at the facility by engaging an independent auditor. The trustee has already had the facility appraised, and once the audit is complete, it will send its findings to bond holders and will request direction from bond holders on how to proceed.

St Stephen's Economic Development Corporation (Status: Non-Performing) This daycare project experienced financial difficulties with the economic downturn and was unable to make the required payments of principal and interest on its loan from Columbia Bank in August of 2010. The project is affiliated with St. Stephen's AME Church, a guarantor of the financing, and has received significant federal funding through the US Department of Health and Human Services, Administration for Children and Family, Office of Community Service. The lender and the borrower agreed to a restructured payment schedule from November 2010 through June 2011 and are in the process of working out a long-term loan modification.

TESTIMONY OF

**Robert C. Brennan, Executive Director
Maryland Economic Development Corporation**

BEFORE

**House Committee on Appropriations
Subcommittee on Education and Economic Development**

**February 16, 2012
1:00PM**

- 1) **The Department of Legislative Services recommends that MEDCO comment on the designation of the Chesapeake Bay Conference Center as a “Watch” project.**

Response: MEDCO utilizes a loan classification system designating its projects as performing, watch, or non-performing.

A **“Watch”** project is one that is making its payments where no event of default has occurred, although the project may not have met all of its financial covenants. A **“Non-performing”** project is one that is in payment default or is not making its payments on a timely basis and is not in compliance with its financial covenants. Additionally, a “Non-performing” loan would include the following:

1. A loan or lease with payment(s) more than 90 days past due from the payment due date;
2. A loan where an event of default has occurred as identified by the primary lender through written notice to MEDCO; and/or
3. For MEDCO-owned projects, if the annual budget projects an insufficient level of funds will be available to support the operations without an additional investment and a payment default is anticipated.

The Chesapeake Bay Conference Center (CBCC) has been classified as “Watch” as it has failed to achieve the required minimum debt service coverage ratio of 1.25 to 1. With the downturn in the economy most hospitality facilities have suffered a diminution in business, and at the CBCC the loss of business has severely impacted its operating performance. At the bottom of the economic downturn, the CBCC lost about 20% of its business from its peak period. The operation has been able to fully pay all of its operating expenses and has been able to make annual debt service payments albeit by utilizing funds from its debt service reserve fund. The turnaround in the economy has been projected to be long and slow. At the CBCC we are seeing a resurgence of business and do project being able to get back to a thriving operation by 2013-2014.

The primary softness in the business came from the pull back by corporate and group business. We are seeing corporate and group business slowing coming back to the resort, and we remain optimistic that we will be able to return the project to “Performing” status by 2014.

MEDCO did obtain a consulting report from PKF, an independent expert in the industry, as is required when the project does not achieve its debt coverage ratio. The report made recommendations for the resort to broaden its marketing outreach to geographic areas south of Fredericksburg, Virginia, to Richmond and from there east to the Norfolk.

2) The Department of Legislative Services recommends that MEDCO comment on the university projects and specifically on the designation of the University of Maryland, Baltimore as a “Watch” project.

Response: 1) MEDCO currently owns and operates nine student housing facilities across the State, seven of which are housed on the campuses of constituent institutions of the University System of Maryland, one is on the campus of Morgan State University, and one is on land owned by Sheppard Pratt Health Systems adjacent to Towson University.

All MEDCO student housing projects which are designated as “Performing” have been operating at or above the required 1.2 coverage ratio as evidenced by each project’s audited financials for the fiscal year ended June 30, 2011. MEDCO interacts regularly with the property managers and host institutions to ensure that these performing projects continue to operate effectively. Performing projects will eventually generate surplus operating cash that is available after satisfying all requirements under the project documents, and such surplus is either paid to the host institution as rent under a ground lease or applied toward the redemption of any outstanding MEDCO bonds used to finance the project.

Currently, only one of MEDCO’s student housing projects is on “Watch” status, that being our project at the University of Maryland, Baltimore (UMB). The UMB project had construction and management problems in its early years that lead to the replacement of the property manager in 2006. Since the management transition, MEDCO, the University and the replacement manager have been working diligently to improve project operations; however, the economics of the project remain weak. This weakness was exacerbated by the downturn in the economy, by the development of numerous apartment and condo projects in the immediate area, and by two years of operations where rental rates had to be reduced to maintain an appropriate level of occupancy. Project revenues have never been able to cover all expenses, and our ability to raise rental rates to a level that would cover all expenses is limited by the highly competitive housing market surrounding the University.

In 2011, the Manager, UMB and MEDCO rebranded the project as university housing and implemented a more aggressive marketing campaign to increase occupancy. This effort was successful in increasing occupancy to 92% in terms of 12-month leases, up from 84%

in 2010. Additionally, the project team was able to access the short-term housing market that exists at UMB, in particular for graduate students who were fulfilling their residency requirement, to achieve a physical occupancy rate of near 100%.

Since the project did not meet the required 1.2 coverage ratio, MEDCO has again procured a study of operations by an independent student housing management consultant. The report confirms that the project team has been operating the facility effectively and provides some ideas for further improvement of performance. The project is currently 100% occupied for the fiscal year ending June 30, 2012, and the leasing numbers for the Fall of 2012 have surpassed all prior years through the date of this testimony.

2) MEDCO also owns and operates an energy generating facility on behalf of the University of Maryland, College Park which provides the University with 100% of its steam, 50% of its electricity, and 20% of its chilled water needs. The project has been performing well and has historically been in compliance with the coverage ratio requirement. MEDCO recently refinanced the project debt which achieved approximate 4% net present value savings for the University (approximately \$450,000 a year for the next eight years).

3) MEDCO also owns the Laboratory for Telecommunication Sciences facility on the campus of the University of Maryland, College Park. This facility is leased by the Federal government by the Army Corp of Engineers and is a center of collaborative research where the University, faculty and students interact with the federal employees in developing technology solutions.

3) The Department of Legislative Services recommends that the corporation brief the budget committees on the steps taken to sustain Rocky Gap until the issuance of a video lottery terminal license.

Response: In 2011 MEDCO extended a \$600,000 line of credit to Rocky Gap, of which \$565,000 was drawn to provide operational funding. The credit facility was not repaid by the end of the year, and MEDCO approved and extended an additional credit facility for 2012 of \$800,000 which will enable the facility to remain viable for 2012. The extension of the credit facilities is accomplished in cooperation with the bond investors who have subordinated their interest to these advances.

MEDCO believes the issuance of a slot license by the lottery commission will be successfully accomplished this year which will result in the sale of the resort to the winning bidder before the end of the year.

- 4) **The Department of Legislative Services further recommends that the corporation comment on the use of its funds for projects outside its conventional financing role and the potential impact of Senate Bill 435.**

Response: The use of MEDCO funds for the extension of grants and loans is not a primary function of the corporation, and such advances are undertaken only after the MEDCO Board of Directors has considered the circumstances surrounding the request.

MEDCO is requesting that its enabling statute, Economic Development Article 10-101 to 10-132 of the Annotated Code (the “MEDCO Statute”), be amended with the following changes:

The first change would amend section 10-103 to provide MEDCO the authority to issue bonds for certain educational institutions when MEDCO will also own the project.

The second change would make the date for submitting the Corporation’s annual report consistent with the audit completion and submission date.

MEDCO seeks to amend its enabling statute to provide for clarification and flexibility in executing its mission.

TESTIMONY OF

**Robert C. Brennan, Executive Director
Maryland Economic Development Corporation**

BEFORE

**Senate Budget and Taxation
Subcommittee on Education, Business and Administration**

**February 20, 2012
1:00PM**

Legislation

The Maryland Economic Development Corporation (MEDCO) functions under the provisions of Title 10, Subtitle 1 of the Economic Development Article of the Annotated Code of Maryland.

The legislative purposes of MEDCO are to: relieve unemployment in the State; encourage the increase of business activity and commerce and a balanced economy in the State; help retain and attract business activity and commerce in the State; promote economic development; and promote the health, safety, right of gainful employment, and welfare of residents of the State.

The General Assembly intends that MEDCO operate and exercise its corporate powers in all areas of the State; exercise its corporate powers to assist governmental units and State and local economic development agencies to contribute to the expansion, modernization, and retention of existing enterprises in the State as well as attraction of new business to the State; cooperate with workforce investment boards, private industry councils, representatives of labor, and governmental units in maximizing new economic opportunities for residents of the State; and accomplish at least one of its legislative purposes and complement existing State marketing and financial assistance programs by owning projects, leasing projects to other persons, lending the proceeds of bonds to other persons to finance the cost of acquiring or improving projects.

Corporate Overview

MEDCO is staffed with ten full-time employees and one part-time employee. A significant portion of MEDCO's ongoing project management responsibilities include reviewing and providing management oversight. MEDCO monitors its projects' compliance with the provisions of financing documents to ensure that the current financial statements of participants are available, required compliance benchmarks are achieved and current and appropriate insurance requirements are being met. MEDCO also collects and reviews the monthly financials for its owned projects.

MEDCO structures its projects on a non-recourse basis. The State of Maryland, any State agency and MEDCO are not responsible for the repayment of the bonds that are issued by MEDCO. The repayment of MEDCO bonds is limited to the revenues and the sources of the project.

MEDCO has a website which lists MEDCO's projects, presents MEDCO's annual audited financials, highlights many MEDCO projects, lists MEDCO's Board Members, and provides other useful information at www.medco-corp.com.

Bond Financed Projects

MEDCO's bond financed projects encourage business activities, retain businesses, relieve unemployment, promote the welfare of State residents, and generally promote economic development in the State.

For the fiscal year ending June 30, 2011, MEDCO provided bond financing for the following projects:

Student Housing College Park, L.L.L.P. Series 2010:

On July 8, 2010, MEDCO closed on its non-recourse, taxable revenue bonds in the amount of \$69,325,000 and loaned the proceeds of the bonds to Student Housing College Park, LLLP, a Maryland limited liability limited partnership, to finance a portion of the cost of constructing and equipping an approximately 900 bed student housing facility adjacent to the University of Maryland, College Park, approximately 20,100 square feet of retail space, and a parking garage; to fund all or a portion of a Debt Service Reserve Account; to fund a ground rent reserve for the payment of ground rent during construction and equipping the project; to fund all or a portion of the interest on the bonds during construction; and to pay the costs of issuing the bonds and the costs of credit enhancement. The project will house students of the University of Maryland, College Park, exclusively, which will provide much needed housing supply for the University. The project is projected to create approximately 300 temporary construction jobs and 100 permanent jobs in Prince George's County.

Providence Center, Inc.:

On September 1, 2010, MEDCO reissued its non-recourse, tax-exempt revenue bonds in the amount of \$4,500,000 series 2005 and loaned the proceeds of the bonds to the Providence Center, Inc, a Maryland non-profit corporation with headquarters in Anne Arundel County Maryland, to finance and refinance the cost of: the acquisition of real property consisting of an approximately 31,000 square foot building, construction, renovations and improvements to the new building and existing properties in Anne Arundel County, the acquisition and installation of certain necessary or useful furnishings, fixtures, equipment, vehicles and machinery to be installed in, or used at or in connection with the properties, the acquisition of such other rights including appurtenances, rights-of-way, franchises, easements, and other interests in land, land

and facilities , and other rights necessary or useful in the acquisition, construction, renovation, furnishing, equipping or operation of the properties.

The 2005 project financed by the 2005 bonds has been and will continue to be owned and operated by Providence Center, Inc. and used in furtherance of its mission and purpose to provide services that allow individuals with disabilities to lead a more independent, valuable and functioning role in society. For more than 40 years, Providence Center, Inc. has been dedicated to the well-being of individuals with developmental disabilities. From its origins in 1961 in a donated farmhouse, the Center has grown and now serves more than 470 adults in seven locations throughout Anne Arundel County.

CNX Marine Terminal, Inc., Port of Baltimore Facility (Consol):

On September 28, 2010, MEDCO issued its non-recourse, tax-exempt revenue bonds in the amount of \$102,865,000 and loaned the proceeds of the bonds to the CNX Marine Terminal in order to refund the outstanding principal amounts of the \$72,000,000 Mayor and Council of Baltimore Port Facility Revenue Bonds Series 1984A and Series 1984B and the \$30,865,000 Mayor and Council of Baltimore Port Facility Revenue Bonds Series 1985.

The proceeds of the refunding bonds were used to refund the 1984 and 1985 bonds which were originally issued to fund the acquisition and construction of certain improvements, modifications and additions to a coal transshipment terminal located on approximately 200 acres in the Canton area of the Port of Baltimore consisting of wharves, coal loading and unloading machinery, road and railroad tracks, and coal storage facilities. The facility is owned and operated by CNX Marine Terminal and is used as a terminal for unloading railroad cars carrying coal, storing coal, and loading coal into ships.

The project has a major economic impact on the future success of the Port of Baltimore. This facility controls the movement of 98% of the Port's exported coal, and it facilitated the Port's benefit from a recovery in east coast thermal and metallurgical coal export demand. It is expected that new access to the Asian markets will allow growth in coal throughput from 6-8 million tons per year to 12 million tons per year.

Gold Crust Baking Company, Inc. (Series 2010):

On September 30, 2010, MEDCO issued its non-recourse, tax-exempt revenue bonds in the amount of \$7,348,000 and loaned the proceeds of the bonds to 6200 Columbia Park Road, LLC, a Maryland limited liability company, to acquire and construct improvements to an approximately 100,000 square foot one-story building on approximately 4.95 acres of land located at 6200 Columbia Park Road, Hyattsville, Maryland, to acquire and install certain necessary or useful furnishings, fixtures, equipment and machinery to be installed in, or used at, the building, to acquire such other rights related to the land, including appurtenances, rights-of-way, franchises, easements, and other interests in land as may be necessary or useful in connection with the construction of the building, and to acquire such other land and facilities which are functionally related and subordinate to the land and building. 6200 Columbia Park Road, LLC is leasing the project to Gold Crust Baking Company, Inc., a Virginia corporation and affiliate. Gold Crust Baking, Inc will use the building and equipment in its trade or business to market, design, manufacture fresh and frozen bread and other bakery products, and other uses incidental thereto.

Gold Crust Baking Company is relocating their business from Virginia to Maryland. The new facility is projected to create 50-60 new jobs in the State. Additionally, the new facility will

allow for further expansion of the company's business which is currently projected to result in the creation of an additional 50 jobs over the next 3-5 years.

Emerge, Inc. Facilities (Series 2010 A & Series 2010 B):

On October 19, 2010, MEDCO issued its non-recourse, tax-exempt revenue bonds in the amount of \$4,674,282.88 and loaned the proceeds of the bonds to eMerge, Inc. to refund the \$4,075,000 Maryland Economic Development Corporation Variable Rate Demand Revenue Bonds Series 2006A and B, which were issued to refund the Corporation's Maryland Economic Development Corporation Revenue Bonds, Series 1996A, which bonds were issued for the benefit of eMerge, Inc., and to finance or refinance all or a portion of the cost of the acquisition of the properties; refinance mortgage loans made to the eMerge, Inc. which financed costs of acquisition of the residential properties; finance or refinance repairs and renovations to the properties; and pay or refinance capitalized interest, costs of issuance and other related costs and to pay for the issuance costs of the bonds.

The issuance of the 2010 bonds will afford eMerge, Inc. lower costs of borrowing thereby furthering its charitable purpose of creating supportive environments and individualized services for people with disabilities in the State. eMerge, Inc. is a not-for-profit organization headquartered in Columbia, Maryland focused on serving individuals with developmental, physical and mental health disabilities. Emerge, Inc. provides residential, employment and day services to over 400 individuals in Baltimore City and Baltimore, Howard, Anne Arundel and Prince George's counties.

The Arc of Baltimore, Inc., Series 2010:

On November 17, 2010, MEDCO issued its non-recourse, tax-exempt revenue bonds in the amount of \$5,790,000 and loaned the proceeds of the bonds to The Arc of Baltimore, a Maryland non-profit corporation with headquarters located in Baltimore, to refund the Maryland Economic Development Corporation Health and Mental Hygiene Providers Facilities Acquisition Program Revenue Bonds 2000 Series and to finance or refinance the costs of the acquisition, construction, installation, renovation and equipping of certain additional improvements to The Arc of Baltimore's facilities, to establish a reserve fund, and to pay the costs of issuing the 2010 Bonds and other eligible costs.

The original 2000 Series bonds were issued to finance the costs of the acquisition, construction, installation and equipping of certain buildings owned by The Arc of Baltimore and located in Baltimore City and Baltimore County, Maryland, to refinance certain existing indebtedness issued on behalf of the Borrower in 1993, to establish a reserve fund and to pay the costs of issuing the 2000 Bonds.

The issuance of the 2010 bonds will afford The Arc of Baltimore lower costs of borrowing thereby furthering its charitable purpose of ensuring that people with developmental disabilities have maximum opportunities to actively participate in all aspects of community life and offering programs and services that support them in doing so.

Living Classrooms Foundation, Inc. Series 2010:

On December 17, 2010, MEDCO issued \$3,000,000 in non-recourse revenue bonds and loaned the proceeds of the bonds to the Living Classrooms Foundation, Inc., a Maryland non-profit corporation, to finance and refinance the costs of the acquisition, construction, installation,

renovation and equipping of numerous classroom, office and harbor facilities in Baltimore City and Montgomery County and related improvements and to finance certain costs relating to the issuance of the bonds and other related eligible costs.

Living Classroom Foundation, Inc. has approximately 350 employees and serves thousands of students and young adults throughout the Baltimore-Washington D.C. area. It provides three core programs for residents of the State; educating students through a charter school, through after-school and supplemental education programs, and through environmental experiences, with special emphasis on serving students who live in high risk environments; providing job training programs to help eliminate barriers to success for young adults and families; and providing maritime programs to educate the general public.

The Maryland Food Bank, Inc. Series 2010:

On December 17, 2010, MEDCO issued its tax-exempt, non-recourse revenue bonds in the amount of \$3,550,000 and loaned the proceeds of the bonds to The Maryland Food Bank, Inc, a Maryland non-profit corporation with facilities in Baltimore and Wicomico Counties, to finance and refinance the costs of the acquisition, construction, installation, renovation and equipping and related improvements to those facilities and to finance certain costs relating to the issuance of the bonds and other related eligible costs.

The project will be owned by The Maryland Food Bank and will be used in support of its charitable purpose of providing free food to Maryland's hungry citizens. The Maryland Food Bank employs approximately 75 people and operates in all areas of Maryland except Montgomery and Prince George's Counties which are served by a sister food bank. The Maryland Food Bank procures warehouses, and distributes food which is then provided to hungry Marylanders through network partners; approximately 18.6 million pounds of food were made available in 2010.

The Baltimore Museum of Art, Incorporated Series 2010:

On December 20, 2010, MEDCO issued its non-recourse, tax-exempt revenue bonds in the amount of \$8,000,000 and loaned the proceeds of the bonds to The Baltimore Museum of Art, Inc., a Maryland non-profit corporation, to finance and refinance the cost of renovation, improvement and equipping of the museum's galleries and lobby area, and museum's store, installation of new roofs, installation of a new HVAC automation system, and construction, improvement and equipping of a third floor above the museum's existing Thalheimer temporary exhibit galleries, all located at the museum's facilities on Art Museum Drive in Baltimore City, Maryland (collectively, the "New Money Project"), and to refund all of the Issuer's outstanding Series 2006 bonds. The Series 2006 bonds financed certain parking facilities to support the museum's operations.

The Baltimore Museum of Art, Inc. owns and operates these facilities to further its mission of seeking innovation and excellence in an artistic program that focuses on art of the modern era and creating an environment that inspires creativity, encourages learning, and fosters human understanding in a place where everyone feels welcome. Founded as a public-private partnership in 1914, The Baltimore Museum of Art, Inc. moved to its present site in 1929 where it holds a collection of approximately 90,000 works of art and welcomes between 200,000-300,000 visitors annually, including 20,000 school children and 7,500 teachers who take advantage of the curriculum-based programs and training. The New Money Project will improve services of the museum and is estimated to create 185 temporary jobs in construction and related industries over the four year construction period.

Federation for American Societies for Experimental Biology Series 2010:

On December 28, 2010, MEDCO reissued its non-recourse, tax-exempt revenue bonds in the amount of \$15,500,000 and loaned the proceeds of the bonds to the Federation of American Societies for Experimental Biology, a District of Columbia non-profit corporation (“FASEB”), to refund the Maryland Economic Development Corporation Adjustable Mode Economic Development Revenue Bonds Series 2008, initially issued in the aggregate principal amount of \$15,500,000, which refunded the Maryland Economic Development Corporation Variable Rate Economic Development Revenue Bonds Series 2002A and 2002B, initially issued in the aggregate principal amount of \$13,000,000 which 2002 Bonds, financed the costs of the acquisition, construction, installation and equipping of an office building, a parking garage and an atrium located at the headquarters campus of FASEB located in Bethesda, Montgomery County, Maryland and refinanced the costs of the acquisition, construction, installation and equipping of an office building located at the Company’s headquarters campus by refunding the Montgomery County, Maryland Industrial Development Revenue Bond F1984 Series; and financed the costs of the acquisition, construction, installation, renovation and equipping of certain improvements to existing facilities and related improvements at the headquarters campus of FASEB, the costs of issuing the 2008 Bonds and other eligible costs.

The campus headquarters is home to approximately 90 employees of FASEB and an additional 300 employees of the member societies who lease office space from FASEB. The 2010 bonds will lower the cost of borrowing and allow the FASEB to operate more efficiently to pursue its mission of advancing biological science through collaborative advocacy for research policies that promote scientific progress and education and lead to improvements in human health.

Cornell Associates, LLC Project:

On December 29, 2010, MEDCO issued its non-recourse, tax-exempt revenue bonds in the amount of \$6,073,282 and loaned the proceeds of the bonds to the Cornell Associates, LLC, a Maryland limited liability company with headquarters in Landover Maryland, to finance the costs of the acquisition, construction, installation and equipping of an office, warehouse and manufacturing facility to be located in Upper Marlboro, Maryland and certain costs relating to the issuance of the bond and other related eligible costs. Cornell Associates, LLC will lease the land and building renovations to TSI/Exterior Wall Systems, Inc. and TSI/Architectural Metals, Inc., both Maryland corporations and affiliates of the Cornell Associates, LLC. TSI/Walls will use the project in its operation as a commercial glass and glazing sub-contractor and TSI/Metals will use the project in its operation as a metal panel manufacturer and an architectural and ornamental metal designer, manufacturer, and installer.

TSI/Walls was started in 1977 and averages approximately 150 employees. TSI/Metals was started in 1991 and averages approximately 75 employees. They had previously leased 45,000 square feet of space in three separate locations. Consolidation of its operations will produce efficiencies and will allow for expansion. Cornell Associates, LLC expects that this project will allow them to add 30 – 40 full time positions to support growth projections.

University of Maryland College Park, Utility Infrastructure:

On February 24, 2011, MEDCO issued its non-recourse, tax-exempt revenue bonds in the amount of \$40,195,000 series 2011 bonds to advance refund its series 2001 bonds. The 2011 bonds were issued as additional bonds under the bond documents for the 2001 bonds.

The proceeds of the 2011 bonds were used along with existing funds held by the trustee for the benefit of the Series 2001 bondholders to advance refund all outstanding maturities of the 2001 bonds, fund reserve funds related to the 2011 bonds, and pay costs of issuance related to the 2011 bonds.

Proceeds of the 2001 bonds were used to finance capital and related costs of constructing, acquiring and improving certain heating, cooling, electric distribution and electric generating facilities on the campus of the University of Maryland, College Park, as part of a program to improve the steam, electricity and chilled water services on the campus of the University, to provide for privatized management of these services and to achieve operating savings relative to the projected costs of continued operation by the University.

<i>Loans</i>

MEDCO provided funding assistance to the following entities during the fiscal year ending June 30, 2011.

Rocky Gap Lodge and Golf Resort:

On October 18, 2010 MEDCO approved a line of credit in the amount of \$750,000 to Rocky Gap Lodge and Golf Resort Project to support its working capital needs through 2011. As of the fiscal year ending June 30, 2011, \$565,000 has been extended to the Project as a seasonal line of credit to support working capital requirements.

The Project continues to provide jobs with benefits and economic stimulus to the Western Maryland region.

Baltimore Racing Development Corporation:

On December 30, 2010 MEDCO loaned \$500,000 to Baltimore Racing Development, LLC, a Maryland limited liability company, to provide working capital in connection with the inaugural Baltimore Grand Prix.

The Baltimore Racing Development, LLC is the authorized promoter of the Baltimore Grand Prix. The Baltimore Grand Prix is expected to have a significant economic impact for the City of Baltimore and the State of Maryland during its debut in September 2011.

Bainbridge Development Corporation:

On June 3, 2011, MEDCO loaned \$50,000 to the Bainbridge Development Corporation, a body politic and corporate and a public instrumentality of the State of Maryland, as a bridge loan until receipt of an annual payment under the Master Development Agreement from MTPM LLC, a Maryland limited liability company whose members include entities affiliated with Richard Alter, Ken Michaels, John Paterakis and Clark Turner.

The Bainbridge Development Corporation oversees the redevelopment activities and efforts at the 1,200 acres site of the formal U.S. Bainbridge Naval Training Center.

Grants

MEDCO provided grant assistance to the following entities during the fiscal year ending June 30, 2011.

Maryland Center for Construction, Education & Innovation, Inc (MCCEI):

On August 26th, 2010, MEDCO granted \$75,000 to MCCEI, a non-stock corporation, for operational funding in furtherance of MCCEI's cause of prompting Maryland's vibrant construction and energy economies through workforce development, education, training, advocacy and marketing.

Advances

MEDCO was requested by the State to assist in providing funding to support its efforts to maintain a meaningful thoroughbred race schedule for the year 2011. For the fiscal year ending June 30, 2011, MEDCO made an advance to the following entity:

Maryland Jockey Club:

On May 16, 2011 and in conjunction with the Budget Reconciliation and Financing Act enacted during the 2011 legislative session, MEDCO advanced \$3,450,000 to the Maryland Jockey Club to assist in the continued operation of thoroughbred racing during the calendar year 2011. MEDCO received full repayment in fiscal 2012. from the Racetrack Facility Renewal Account maintained by the Department of Labor, Licensing and Regulation.

The Maryland Jockey Club oversees thoroughbred racing in Maryland from which the State derives significant revenues from wagering.

Feasibility Studies

Feasibility Studies provide MEDCO and the State of Maryland with the critical information needed to determine the practicality of current projects, prospective projects and new business activities.

Rocky Gap Lodge and Golf Resort, Gaming Feasibility Study:

In March 2011 MEDCO engaged The Innovation Group to conduct a Gaming Feasibility Study related to gaming development at the Rocky Gap Lodge and Golf Resort. The ultimate goal of the Study was to obtain a cash flow summary that could be used to determine the financial feasibility of gaming development at Rocky Gap.

Spring Grove Hospital, Updated Master Site Plan:

On June 13, 2011 MEDCO began accepting proposals for the review and updating of the 2001 Master Site Plan for the Spring Grove Hospital Center, a State-operated inpatient psychiatric facility located on approximately 190 acres of land in Catonsville, MD. The goal of the final report is to provide guidelines for the redevelopment of the site that incorporates compatible mixed land uses while defining parcels for each potential user.

One Maryland Projects

The General Assembly intends that MEDCO assist governmental units as well as State and local economic development agencies in contributing to the expansion, modernization, and retention of existing enterprises in the State as well as the attraction of new business to the State. MEDCO follows through on these intentions through its continued involvement with One Maryland projects. The One Maryland Program is funded by the Maryland State Department of Business and Economic Development (DBED) and provides economic development assistance to economically distressed jurisdictions. MEDCO assisted One Maryland projects have been completed in Allegany County, Garrett County, Dorchester County, Worcester County, Caroline County, Somerset County and Baltimore City.

MEDCO's recent involvement in One Maryland Projects includes:

Barton Farms Business Park, Allegany County: Developed by MEDCO and located south of Cumberland on US Route 220, the project initially included land acquisition, permitting, installation of utilities and site preparation. In June of 2004, approximately 40 acres were sold to American Woodmark. MEDCO, Allegany County and DBED continue to market the remaining property to technology based businesses looking to relocate to the Western Maryland region.

Dorchester Cambridge Flex Building, Dorchester County: In 2004 MEDCO constructed this 30,000 square foot (expandable to 80,000) building. MEDCO, the County and DBED continue to market the building to companies interested in initiating a lease or purchase thereof. In early 2011, to enhance marketing efforts and exposure for this building, MEDCO entered into a brokerage agreement with the local branch of the national commercial real estate advisors Sperry Van Ness.

Dorchester Technology Park, Dorchester County: In 2004, MEDCO and the County secured DBED and EDA financing to initiate the development of a technology park. MEDCO received initial funding to pre-develop a County identified property suitable for the proposed park. MEDCO continues to monitor ongoing development of the property on behalf of DBED and continues to advise the County on construction and design matters. Improvements to the property are scheduled for completion by or before October 31st, 2011, at which time MEDCO, with DBED funds, will serve as the contract purchaser and will manage the asset. After purchase of the property, the County will market lots to prospective businesses.

Keyser's Ridge Business Park, Garrett County: In 2003, MEDCO assisted the County by purchasing land for the purpose of developing a business park. The development of this park assisted in attracting American Woodmark to an adjacent parcel accessed by way of the property. MEDCO continues to work with the County and DBED to attract other industrial and commercial users to the park. The County intends to purchase the park and transfer of the park from MEDCO to the County is scheduled to occur in the fall of 2011.

Patuxent Business Park: In 2000, MEDCO, with DBED financing, purchased approximately 92 acres of land for the development of a business park in Calvert County, Maryland. The park is designed for Class A office and flex space. In 2005, MEDCO secured additional DBED funding for the continued ongoing costs of engineering, design, permitting and construction of infrastructure. Infrastructure work for the business park is completed and MEDCO and the County are working collaboratively to market business park lots to potential purchasers and interested businesses, as well as screening commercial brokers to assist with marketing efforts and increase exposure of the park.

Pocomoke Flex Building, Worcester County: Constructed by MEDCO in 2002, this 43,000 square foot industrial shell building provides the County with marketable flex space. Mid-Atlantic Institute for Space and Technology (MIST) master leases the entire building. In 2007, MEDCO applied for and MIST was awarded an EDA grant totaling \$200,000.00. The award provided for interior improvements to expand existing work space within the building. MIST continues to master lease and make interior improvements and infrastructure upgrades to the facility in order to assist companies and organizations needing space in the area. Currently, MIST, Maryland Hawk Corporation, BlooSurf, Maryland Robotics, LJT Associates and Hardwire, LLC occupy space within the building.

Southern Garrett Flex Building, Garrett County: Constructed by MEDCO in 2005, this 30,000 square foot building (expandable to 50,000) assists in providing marketable flex space to the County. In June 2010, MEDCO entered into a six month lease with Pioneer Conveyor for approximately 8,000 sq/ft of space within the building. MEDCO and County negotiated an extension of Pioneer's lease until September 30th, 2011. The County intends to purchase the building and the transfer from MEDCO to the County is scheduled to occur in the fall of 2011.

Student Housing Projects

MEDCO provides assistance to Maryland's higher education entities through the bond financing and ownership of student housing projects. These projects enable Maryland's higher education entities to attract and house students without adversely affecting their State mandated debt capacities.

In these student housing projects, MEDCO assumes project ownership by way of a ground lease that terminates contemporaneously with the repayment of the bonds issued by MEDCO to finance each project. Upon repayment of the bonds, the ownership of these projects reverts to the ground lessor.

The following is a brief summary of the student housing currently owned/ground leased by MEDCO:

Projects that revert to the University System of Maryland upon repayment of MEDCO bonds:

- **Bowie State University, Prince George's County** - \$21,470,000 – 460 beds
- **Frostburg State University, Allegany County** - \$17,915,000 – 406 beds
- **Salisbury University, Wicomico County**- \$16,410,000- 312 beds
- **Towson University, Baltimore County (West Village)** - \$33,485,000- 668 beds

- **University of Maryland, Baltimore** - \$34,400,000 – 337 beds
- **University of Maryland, Baltimore County** – \$37,500,000 – 581 beds
- **University of Maryland, College Park** - \$133,645,000 – 2,633 beds
- **University of Maryland, College Park (Building #7)**- \$38,200,000 – 370 beds

Projects that revert to Morgan State University upon repayment of MEDCO bonds:

Morgan State University, Baltimore City - \$38,025,000 – 796 beds

Projects that revert to Sheppard Pratt Health Systems upon repayment of MEDCO bonds:

University Village at Sheppard Pratt, Baltimore County - \$27,725,000 – 615 beds

Information and Biological Technology Incubator Projects

In articulating findings which became the basis for the creation of MEDCO, the General Assembly of Maryland determined that the State's economy continues to experience technological change and that such change may result in economic contraction and dislocation, but affords opportunities to expand productive employment and expand the State's economy and tax base. MEDCO capitalizes on these opportunities through its continued ownership of and involvement in information and biological technology incubator projects.

Here is an overview of those eight incubators, as well as an overview of the virtual licensee program:

Montgomery College Germantown Innovation Center (GIC): In September 2008, Montgomery College and Montgomery County Department of Economic Development renovated a vacant 67,000 square foot commercial building adjacent to Montgomery College's Germantown Campus. The County subleases the second floor (roughly 35,000 SF) from the College for the GIC. The GIC includes 12 labs, two clean room facilities and 8,500 square feet of office. GIC companies have access to business resources including training, development, and best practices seminars led by industry experts, free counseling and legal services through the Maryland Intellectual Property Legal Resource Center. MEDCO assisted in the construction of the GIC and continues to assist the GIC as its conduit manager.

Currently the GIC accommodates 29 companies that support 113 employees.

Rockville Innovation Center (RIC): On July 12, 2007 MEDCO obtained a loan in the amount of \$4,700,000 from Mercantile Potomac Bank (now PNC Bank) for the construction of a two story information technology incubator as part of a five story mixed use building in Rockville, Maryland. RIC companies have access to business resources including training, development, and best practices seminars led by industry experts, free counseling and legal services through the Maryland Intellectual Property Legal Resource Center. The RIC is backed by an operational grant agreement by and between MEDCO and Montgomery County. MEDCO is the owner and conduit manager of the RIC.

Currently the RIC accommodates 23 companies that support 101 employees.

Shady Grove Innovation Center (SGIC, formerly the Maryland Technology Development Center): Originally funded in July 1998, by way of a combination of MEDCO bonds and State grants, the SGIC was refinanced under a commercial loan to MEDCO from PNC

Bank in March 2009. The SGIC contains approximately 57,000 square feet of space and is specifically designed to meet the requirements of both information technology and biological technology startup companies. SGIC companies have access to business resources including training, development, and best practices seminars led by industry experts, and free counseling and legal services through the Maryland Intellectual Property Legal Resource Center. The SGIC is backed by an operational grant agreement by and between MEDCO and Montgomery County. MEDCO is the owner (by way of a ground lease with Montgomery County) and conduit manager of the SGIC.

Since its inception, the SGIC has successfully graduated over 96 companies. The 96 successful graduates, still in business in the State of Maryland, support over 1,250 jobs.

Currently the SGIC accommodates approximately 42 companies and is home to Maryland's Biotechnology Center. Companies within the SGIC presently support 244 employees.

Silver Spring Innovation Center (SSIC): The SSIC is a 40,000 square foot building located in and owned by Montgomery County. The SSIC is an information technology incubator and excels in providing fast and efficient telecommunication connections for all of its companies. SSIC companies have access to business resources including training, development, and best practices seminars led by industry experts, and free counseling and legal services through the Maryland Intellectual Property Legal Resource Center. MEDCO is the conduit manager of the SSIC.

Since its inception in the summer of 2004, the SSIC has graduated 7 info tech companies that currently support 175 employees. Currently, the SSIC accommodates 25 companies and supports 95 employees.

Wheaton Business Innovation Center (WBIC): The WBIC opened in 2006 and contains approximately 10,000 square feet of office space and conference rooms. WBIC companies have access to business resources including training, development, and best practices seminars led by industry experts, free counseling and legal services through the Maryland Intellectual Property Legal Resource Center, networking conferences, and business counseling. MEDCO is the conduit manager of the WBIC.

Currently the WBIC accommodates 25 companies that support 63 employees.

Virtual Licensees: In the spirit of Great Britain's HUB concept, MEDCO and Montgomery County collectively designed a concept that would allow researchers, scientist and entrepreneurs with limited capital the usage of certain incubator resources on a scheduled basis for a minimal monthly fee. Such resources include mailbox space, shared office resources (phone, fax, copy machine, computers, etc.), conference rooms and access to programs offer at the various incubators located in Montgomery County.

There are currently 16 virtual licensees.

Emerging Technology Center @ Johns Hopkins Eastern (ETC Eastern): MEDCO received financial commitments from DBED, the Maryland Technology Development Corporation, US Department of Commerce-Economic Development Administration, U.S. and Maryland Historic Tax Credits, Baltimore Development Corporation, and The Johns Hopkins

University to assist MEDCO in building out space located in Baltimore City. MEDCO leases one floor of the facility from Johns Hopkins University to accommodate the ETC Eastern and is also the conduit manager for the ETC Eastern.

The ETC Eastern facility contains approximately 45,800 square feet of office space, distributed over 35 separate offices and 10 cubicle spaces. ETC Eastern is managed and financially supported by the Baltimore Development Corporation and provides its information technology companies with an assortment of business assistance services.

ETC Eastern has successfully graduated 32 companies that support 297 employees. Currently the ETC Eastern accommodates 30 companies and supports 92 employees.

Emerging Technology Center @ Canton (ETC Can): Early in 1999, renovation began on improvements at the Emerging Technology Center at the old Can Company building on Boston Street in Baltimore City. MEDCO leases one floor of the facility from Struever Brothers, Eccles & Rouse to accommodate the ETC Can and is the conduit manager of the ETC Can. ETC Can contains approximately 48,909 square feet of office space, distributed over 27 separate offices. ETC Can is managed and financially supported by the Baltimore Development Corporation and provides its companies with the same business assistance services that are made available at ETC Eastern, including NASA fast tracking.

ETC Can has graduated 63 companies which currently support 805 employees. Currently ETC Can has 31 companies licensing space at the facility. Those 31 companies presently support 212 employees.

bwtech@UMBC Incubator and Accelerator: The bwtech@UMBC Incubator and Accelerator is a nationally-recognized life-science and technology business incubation program that is home to over 30 early-stage bioscience and technology companies. bwtech@UMBC is managed by the University and owned by MEDCO. Companies enjoy 165,000 square feet of affordable office and wet lab space, flexible lease arrangements, as well as access to resources and networking opportunities to help their businesses succeed. An experienced entrepreneurial services staff provides resident companies with general business support services and access to an active network of mentors and investors.

Since its inception in 1989, the bwtech@UMBC Incubator has graduated more than 42 companies, including BD Metrics, Celsis/InVitro Technologies, Next Breath LLC, and AVIcode Inc. and currently accommodates 48 companies that support 300 employees.

Advisory Capacity

MEDCO, through the involvement of its executive director, directly promotes economic development in the State and assists in maximizing new economic opportunities in the State by active service in board memberships and advisory positions within various organizations throughout the State.

These organizations include:

Maryland Industrial Partnership (MIPS): MIPS promotes the development and commercialization of products and processes through research partnerships between universities and industries. MEDCO's executive director is a member of MIPS' advisory board.

Maryland Technology Development Corporation (TEDCO): TEDCO facilitates the creation of businesses and fosters their growth through the commercialization of technology.

MEDCO's executive director serves as a member of TEDCO's Technical Advisory Board for Small Business Incubation.

PenMar Development Corporation: The PenMar Development Corporation is solely focused on the redevelopment of the Fort Richie site. MEDCO's executive director serves as an ex-officio member of the board of directors.

Bainbridge Development Corporation: The purpose of the Bainbridge Development Corporation is to develop the Bainbridge Naval Training Center and to accelerate the transfer of the site to the private sector. MEDCO's executive director is an ex-officio member of the board of directors.

Emerging Technology Centers (ETC): The ETC is a non-profit business incubator venture of the Baltimore Development Corporation that helps early-stage companies grow and prosper. MEDCO's executive director serves as a member of the ETC's advisory board.

Cambridge Sail Wind Project: MEDCO facilitated dialogue between the City of Cambridge and the Maryland State Department of Transportation on the long term use of the Sail Winds land and facility.

Maryland Economic Development Association: The MEDCO Executive Director is a member of MEDA's Part Presidents. Part Presidents are organized to offer knowledge and experience to local economic development organizations upon request.

Minority Business Enterprises Participation

MEDCO seeks to implement its statutory purpose of promoting economic development in the State by purchasing supplies and services from entities with operations in the State. While the majority of its projects are funded privately, MEDCO complies in practice with applicable minority business enterprise requirements for projects that involve governmental funding sources.

During fiscal year 2011 MEDCO's direct operating expenses included Rent, Consulting Fees, Insurance, Attorney Fees, Auditing Fees, Telephone expenses and Supplies. In the purchase of these services and supplies MEDCO secured the services of The Canton Group (MBE, SBE, & DBE) for data base maintenance at a cost of \$5,446.00, Five L, a Human Resources consulting firm (WBE) was paid \$735.01 and Curry Printing & Copy Center, a City and State registered WBE was paid \$2,190.00.

Over the past year, MEDCO increased its banking relationships with minority operated Harbor Bank from \$242,582.00 in fiscal year 2010 to \$1,563,504.00 in fiscal year 2011.

Looking forward, MEDCO has set a target goal of 35% MBE/WBE participation in the development of the Department of Health and Mental Hygiene State Health Lab Project to be located in Baltimore City

As part of its outreach, MEDCO staff attend MBE networking/procurement events where minority businesses promote their products and services. The Governors' Office of Minority Affairs and other sources are regularly reviewed for upcoming exhibitions where minority vendors exhibit products useful to MEDCO. During fiscal year 2011 MEDCO staff attended Minority Business conferences and exhibitions including the Baltimore Metropolitan Council Regional Procurement Expo, The Baltimore Regional Cooperative Purchasing Committee held at

Timonium Fair Grounds and the Fall Business Growth Expo sponsored by the Baltimore Business Journal.

<i>Project Classification Report</i>

MEDCO has adopted a loan classification policy whereby projects are characterized as “Performing”, “Watch” or “Non-Performing.”

The following are projects that are classified as either Watch or Non-Performing and MEDCO was either the issuer or owner during the fiscal year 2011.

University of Maryland, Baltimore (Status: Watch) MEDCO is the owner of a student housing project for graduate students at the University of Maryland, Baltimore City. The project has underperformed since it opened in Fall 2004 relative to the initial pro forma and has required subsidization from the University, MEDCO, and manager to pay operating expenses and debt service. MEDCO works closely with the University and replacement manager to maximize net operating income at the site.

In October 2010, MEDCO retained a management consultant for a sixth consecutive year as required by the bond documents since the FY10 audited financials showed that the project failed to meet the required 1.2 coverage ratio. In fiscal years 2010 and 2011, the project suffered lower than expected occupancy as a result of heavy competition in the area from private apartment communities who are offering rate reductions and other incentives. The reduced number of annual leases was mitigated partially in 2010 and largely in 2011 by the ability to tap into the short-term housing market; however, cash flow was not sufficient to make the October 2010 bond payments and a draw on the debt service reserve fund was needed. Enhanced coordination with the University and a more aggressive marketing approach has allowed the project to reach 100% occupancy for Fall 2011. However, the lack of capital reserve funds has and will continue to put a strain on project cash flow as critical FF&E purchases must be made to keep the aging facility competitive within the market. It is expected that even with the University subsidy, the project will need to partially draw on the debt service reserve fund in FY12 to make the October 2011 bond payments.

Bowie State University (Status: Watch) MEDCO is the owner of this student housing project. The project got off to a slow start as a result of poor initial management and development. The initial project manager was terminated in May 2006, and since management transition, the project has exhibited year-over-year improvement in debt service coverage.

In October 2010, MEDCO retained a management consultant for the fifth consecutive year, as required by the bond documents, since the FY10 audited financials showed that the project failed to meet the required 1.2 coverage ratio. In FY11, however, the unaudited year-end statements indicate that the project will produce a coverage ratio above 1.2. Cash flow has been strong which has allowed the project to repay most of the deferred fees due to the University and

MEDCO from prior years. The project is budgeting to meet 1.2 coverage for the fiscal year ending June 30, 2012, and if the budget holds, this project will return to “Performing” status.

Chesapeake Resort and Conference Center (Status: Watch) This project’s June 30, 2011 financial statements show that for the second consecutive year it will not achieve its required debt coverage ratio for the fiscal year. Previously MEDCO secured a management consultant and collaborated with the project’s manager to initiate changes in pricing and to reduce expenses in order to bring the project into compliance. With an upturn in the economy facilitating increased leisure activities and business conferences, MEDCO projects that the project will be able to meet all of its operating and debt service obligations for the 2012 fiscal year.

Rocky Gap Golf and Resort (Status: Non-Performing) The project began construction in 1996, on land ground leased to MEDCO by DNR, and funding was derived through a combination of MEDCO bonds, State grants and loans and a grant from Allegany County. From its inception, the project experienced operating difficulties resulting in its inability to meet required debt service payments.

In order to address these operating difficulties, as well as the project’s need for additional capital improvements to enhance operational competitiveness, MEDCO concluded a restructuring of the debt in December of 2008. Since that time the nationwide downturn has not left Rocky Gap unaffected. The project experienced a significant drop in revenues and has been struggling to regain its market share. For the first time in several years the project failed to generate a positive operating cash flow for the calendar year ending 2010. The project will not be able to sustain operating cash flow deficits for another year unless additional funding is made available. MEDCO continues its efforts to facilitate a sale of the leasehold interest in the property to a potential gaming operator, and these efforts are bolstered by legislative changes effective May 10, 2011 to the State’s gaming framework which provides increased incentives to potential operators. MEDCO is optimistic that a qualified bidder will emerge from the current RFP which was issued in June of 2011 for a gaming operator to set up at the resort. The legislation incentivizes the operator by reducing the state tax to 50% with the condition that the bidder must buy the facility in order to obtain such reduced tax.

Pocomoke Flex Building, Worcester County (Status: Non-Performing) Constructed by MEDCO in 2002, this 43,000 square foot industrial shell building provides the County with marketable flex space. Mid-Atlantic Institute for Space and Technology (MIST) master leases the entire building. MIST has failed to make any rent payments since late 2010 and MEDCO is waiting for instructions from DBED on how to proceed.

The following are projects that are classified as either Non-Performing or Watch in which MEDCO’s role is solely as bond issuer and in which the borrower has experienced challenges during the 2011 fiscal year:

Rock Glen Healthcare Inc (Status: Non-Performing) This nursing home project has experienced financial difficulties consistent within the public pay nursing home industry due to the federal government revised reimbursement rules, and cash flow problems when its working capital provider filed for bankruptcy. Rock Glen has operated under a series of forbearance agreements with the bond trustee. Most recently and to comply with federal tax laws which require the bond issuer to consent to a forbearance extension, Rock Glen requested that MEDCO consent to a solicitation of bondholders to enter into another Forbearance Agreement and to transfer the trusteeship. The trustee received sufficient response from bondholder ballots to

authorize MEDCO to enter into a 2009 forbearance agreement under newly transferred trusteeship, which agreement continues through January 4, 2012 and provides for partial interest payments and a moratorium on principal payments to the bondholders.

Ravenwood Healthcare, Inc. (*Status: Non-Performing*) This nursing home project has a history of financial difficulties consistent within the public pay nursing home industry due to the federal government revised reimbursement rules, compounded more recently by the failure of the air conditioning system in July 2010 necessitating the closing of the project pending completion of repairs and State regulatory approval for re-opening. The borrower failed to pay \$487,650 on February 1, 2011, representing accrued interest for the period from August 1, 2010 through January 31, 2011. Additional accrued interest for the period from February 1, 2011 through July 31, 2011 remained unpaid after the trustee drew on the debt service reserve fund. The trustee issued a notice of default on April 14, 2011 reciting these and other defaults, all of which reflect the interruption of cash flow last summer. The borrower has recently met its periodic interest payments and MEDCO expects that the borrower will continue to increase its occupancy while it tries to stabilize the project and resume principal payments.

TEC/Gull Creek Inc., formerly known as AHF/Gull Creek Inc. (*Status: Non-Performing*) This independent and assisted living facility began experiencing financial difficulties in 2000 which led to a series of forbearance agreement beginning in 2001. The latest forbearance agreement was executed in 2009 and expired February 15, 2011. Prior to the expiration of the 2009 forbearance agreement, the Borrower and trustee were negotiating terms for a new agreement but were unable to agree to terms. The Borrower's financial condition remains weak, and they have not been able to generate enough cash to consistently pay operating expenses, real estate taxes, and amounts due to bond holders under the 2009 forbearance agreement. The trustee sent a notice of event of default to the Borrower on March 31, 2011 and notified bond holders that it plans to assess the viability of operations at the facility by engaging an independent auditor. The trustee has already had the facility appraised, and once the audit is complete, it will send its findings to bond holders and will request direction from bond holders on how to proceed.

St Stephen's Economic Development Corporation (*Status: Non-Performing*) This daycare project experienced financial difficulties with the economic downturn and was unable to make the required payments of principal and interest on its loan from Columbia Bank in August of 2010. The project is affiliated with St. Stephen's AME Church, a guarantor of the financing, and has received significant federal funding through the US Department of Health and Human Services, Administration for Children and Family, Office of Community Service. The lender and the borrower agreed to a restructured payment schedule from November 2010 through June 2011 and are in the process of working out a long-term loan modification.

TESTIMONY OF

**Robert C. Brennan, Executive Director
Maryland Economic Development Corporation**

BEFORE

**Senate Budget and Taxation
Subcommittee on Education, Business and Administration**

**February 20, 2012
1:00PM**

- 1) **The Department of Legislative Services recommends that MEDCO comment on the designation of the Chesapeake Bay Conference Center as a “Watch” project.**

Response: MEDCO utilizes a loan classification system designating its projects as performing, watch, or non-performing.

A **“Watch”** project is one that is making its payments where no event of default has occurred, although the project may not have met all of its financial covenants. A **“Non-performing”** project is one that is in payment default or is not making its payments on a timely basis and is not in compliance with its financial covenants. Additionally, a “Non-performing” loan would include the following:

1. A loan or lease with payment(s) more than 90 days past due from the payment due date;
2. A loan where an event of default has occurred as identified by the primary lender through written notice to MEDCO; and/or
3. For MEDCO-owned projects, if the annual budget projects an insufficient level of funds will be available to support the operations without an additional investment and a payment default is anticipated.

The Chesapeake Bay Conference Center (CBCC) has been classified as “Watch” as it has failed to achieve the required minimum debt service coverage ratio of 1.25 to 1. With the downturn in the economy most hospitality facilities have suffered a diminution in business, and at the CBCC the loss of business has severely impacted its operating performance. At the bottom of the economic downturn, the CBCC lost about 20% of its business from its peak period. The operation has been able to fully pay all of its operating expenses and has been able to make annual debt service payments albeit by utilizing funds from its debt service reserve fund. The turnaround in the economy has been

projected to be long and slow. At the CBCC we are seeing a resurgence of business and do project being able to get back to a thriving operation by 2013-2014.

The primary softness in the business came from the pull back by corporate and group business. We are seeing corporate and group business slowing coming back to the resort, and we remain optimistic that we will be able to return the project to “Performing” status by 2014.

MEDCO did obtain a consulting report from PKF, an independent expert in the industry, as is required when the project does not achieve its debt coverage ratio. The report made recommendations for the resort to broaden its marketing outreach to geographic areas south of Fredericksburg, Virginia, to Richmond and from there east to the Norfolk.

2) The Department of Legislative Services recommends that MEDCO comment on the university projects and specifically on the designation of the University of Maryland, Baltimore as a “Watch” project.

Response: 1) MEDCO currently owns and operates nine student housing facilities across the State, seven of which are housed on the campuses of constituent institutions of the University System of Maryland, one is on the campus of Morgan State University, and one is on land owned by Sheppard Pratt Health Systems adjacent to Towson University.

All MEDCO student housing projects which are designated as “Performing” have been operating at or above the required 1.2 coverage ratio as evidenced by each project’s audited financials for the fiscal year ended June 30, 2011. MEDCO interacts regularly with the property managers and host institutions to ensure that these performing projects continue to operate effectively. Performing projects will eventually generate surplus operating cash that is available after satisfying all requirements under the project documents, and such surplus is either paid to the host institution as rent under a ground lease or applied toward the redemption of any outstanding MEDCO bonds used to finance the project.

Currently, only one of MEDCO’s student housing projects is on “Watch” status, that being our project at the University of Maryland, Baltimore (UMB). The UMB project had construction and management problems in its early years that lead to the replacement of the property manager in 2006. Since the management transition, MEDCO, the University and the replacement manager have been working diligently to improve project operations; however, the economics of the project remain weak. This weakness was exacerbated by the downturn in the economy, by the development of numerous apartment and condo projects in the immediate area, and by two years of operations where rental rates had to be reduced to maintain an appropriate level of occupancy. Project revenues have never been able to cover all expenses, and our ability to raise rental rates to a level that would cover all expenses is limited by the highly competitive housing market surrounding the University.

In 2011, the Manager, UMB and MEDCO rebranded the project as university housing and implemented a more aggressive marketing campaign to increase occupancy. This effort was successful in increasing occupancy to 92% in terms of 12-month leases, up from 84% in 2010. Additionally, the project team was able to access the short-term housing market that exists at UMB, in particular for graduate students who were fulfilling their residency requirement, to achieve a physical occupancy rate of near 100%.

Since the project did not meet the required 1.2 coverage ratio, MEDCO has again procured a study of operations by an independent student housing management consultant. The report confirms that the project team has been operating the facility effectively and provides some ideas for further improvement of performance. The project is currently 100% occupied for the fiscal year ending June 30, 2012, and the leasing numbers for the Fall of 2012 have surpassed all prior years through the date of this testimony.

2) MEDCO also owns and operates an energy generating facility on behalf of the University of Maryland, College Park which provides the University with 100% of its steam, 50% of its electricity, and 20% of its chilled water needs. The project has been performing well and has historically been in compliance with the coverage ratio requirement. MEDCO recently refinanced the project debt which achieved approximate 4% net present value savings for the University (approximately \$450,000 a year for the next eight years).

3) MEDCO also owns the Laboratory for Telecommunication Sciences facility on the campus of the University of Maryland, College Park. This facility is leased by the Federal government by the Army Corp of Engineers and is a center of collaborative research where the University, faculty and students interact with the federal employees in developing technology solutions.

3) The Department of Legislative Services recommends that the corporation brief the budget committees on the steps taken to sustain Rocky Gap until the issuance of a video lottery terminal license.

Response: In 2011 MEDCO extended a \$600,000 line of credit to Rocky Gap, of which \$565,000 was drawn to provide operational funding. The credit facility was not repaid by the end of the year, and MEDCO approved and extended an additional credit facility for 2012 of \$800,000 which will enable the facility to remain viable for 2012. The extension of the credit facilities is accomplished in cooperation with the bond investors who have subordinated their interest to these advances.

MEDCO believes the issuance of a slot license by the lottery commission will be successfully accomplished this year which will result in the sale of the resort to the winning bidder before the end of the year.

- 4) The Department of Legislative Services further recommends that the corporation comment on the use of its funds for projects outside its conventional financing role and the potential impact of Senate Bill 435.**

Response: The use of MEDCO funds for the extension of grants and loans is not a primary function of the corporation, and such advances are undertaken only after the MEDCO Board of Directors has considered the circumstances surrounding the request.

MEDCO is requesting that its enabling statute, Economic Development Article 10-101 to 10-132 of the Annotated Code (the “MEDCO Statute”), be amended with the following changes:

The first change would amend section 10-103 to provide MEDCO the authority to issue bonds for certain educational institutions when MEDCO will also own the project.

The second change would make the date for submitting the Corporation’s annual report consistent with the audit completion and submission date.

MEDCO seeks to amend its enabling statute to provide for clarification and flexibility in executing its mission.