

TESTIMONY OF

Robert C. Brennan, Executive Director

Maryland Economic Development Corporation

BEFORE

Senate Budget and Taxation

Subcommittee on Education, Business and Administration

February 4, 2016

1:00PM

Background and History

MEDCO was created by the Maryland Legislature in 1984 to assist the state in its economic development efforts by owning real and personal property. The legislature gave MEDCO broad powers to accomplish its mission including the authority to issue revenue bonds to finance its projects. In 2000, MEDCO's enabling legislation was broadened to allow it to assist other entities of government. MEDCO is managed by an Executive Director who is appointed by its Board with the approval of the Governor. The Executive Director reports to the Board which consists of 12 members appointed by the Governor. Included on the MEDCO Board are the Secretaries of the Maryland Department of Transportation and the Maryland Department of Commerce or their designees.

MEDCO is staffed with nine employees. The activities of MEDCO are divided between financing, project development, project administration and accounting. A significant portion of MEDCO's activities are focused on portfolio maintenance and ongoing oversight of its projects. MEDCO monitors its projects' compliance with the provisions of the financing documents to ensure that all of the terms and conditions of its loans are compliant.

MEDCO structures its financings on a non-recourse, project-specific basis. The State of Maryland and MEDCO are not guarantors for the repayment of the bonds that are issued by MEDCO. The repayments of MEDCO bonds are limited to the revenues and the resources of each project.

Types of MEDCO Activities

Conduit Bond Issuance

MEDCO is a statewide issuer of conduit bonds. These bonds allow certain businesses that are eligible to borrow on a tax-exempt basis to arrange financing with their bank or access capital markets and obtain a lower interest rate. The types of eligible borrowers are defined by the IRS

and include nonprofits, certain manufacturers and other eligible tax-exempt entities such as port and transportation facilities. Conduit issuance is the core of MEDCO's business, and MEDCO has issued more than 200 of these types of bonds since its inception.

MEDCO-Owned Projects and Bond Issuance

MEDCO issues tax-exempt or taxable revenue bonds for projects that it owns and operates. Examples of these types of projects include the Chesapeake Bay Conference Center (Hyatt Cambridge), the University of Maryland College Park energy project, two of the Montgomery County business incubators and student housing projects. These projects are, from an accounting perspective, assets of MEDCO, and MEDCO operates each of these projects as standalone business enterprises. MEDCO closely monitors the operating matrix and performance to assure the projects are financially stable. When a project is not financially stable, MEDCO works closely with the day-to-day management company to take corrective measures and in the case of student housing facilities, MEDCO also includes the host university in crafting operating solutions. This activity requires close attention by MEDCO staff, and the Assistant Director of Bonds is tasked with assuring portfolio compliance.

MEDCO-Financed Lease Revenue Bonds

MEDCO has issued both taxable and tax-exempt lease revenue bonds to finance certain projects for both State and Federal projects. In these transactions, the bond financing is secured by lease agreements and, in some instances, the real property. MEDCO's portfolio of lease revenue bonds includes the MDOT headquarters building, the Southwest Airlines terminals A&B, the Laboratory for Telecommunication Sciences on behalf of the US Army Corp of Engineers, the Hilton Street facility for the Department of General Services, the Maryland Public Health Laboratory which is under construction in east Baltimore, and most recently the Maryland State Archives warehouse. In all of these projects, MEDCO is actively involved through the procurement, development, financing and the construction phases of the project. After construction, MEDCO's involvement is dictated by the lease agreements. For example, MEDCO's involvement with the MDOT headquarters building is minimal while its involvement with the State Health Lab will be ongoing as MEDCO will actively oversee the building management and will work with the Department of Health and Mental Hygiene to assure the facilities are functioning in optimal capacity.

Public Private Partnerships (P3s)

MEDCO has been at the forefront when conducting P3s in Maryland. MEDCO's P3 projects include student housing projects, the University of Maryland College Park energy project and Seagirt Marine Terminal. P3s can take on a variety of structures (depending on how much private sector involvement is desired) from a full design, build, finance, operate and maintain structure, to a hybrid structure where the private sector is only engaged for the operations and maintenance portion of the project. MEDCO has also engaged private entities to design and

build, but has arranged the financing of the asset through the issuance of MEDCO's revenue bonds. MEDCO has been working with MDOT on the Purple Line and it is anticipated that MEDCO will issue the transportation revenue bonds for the project.

Tax Increment Financing (TIF)

While MEDCO is not an eligible issuer for TIF bonds in most jurisdictions, MEDCO was given the authority to issue TIF bonds for Baltimore City. Additionally, the statewide TIF legislation was expanded to provide enhanced features to support Transportation Oriented Development (TOD) projects and Sustainable Communities. MEDCO was named as an authorized issuer of TIF bonds in designated areas and was also provided the capability to own certain acquired or improved assets. MEDCO financed and owns a parking garage in the Owings Mills Town Center in Baltimore County using its TOD and TIF capabilities. MEDCO has been working closely with MDOT on other TOD opportunities, and there are several projects that MEDCO may be able to assist in developing and/or financing.

Commerce Sponsored Projects

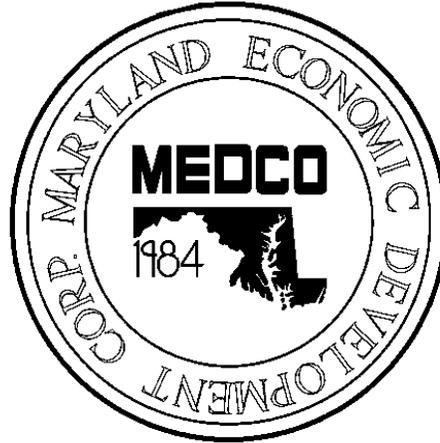
MEDCO has developed industrial parks, spec buildings and other types of facilities in areas where private developers will not invest funds and in One Maryland jurisdictions. These projects are oftentimes funded by Commerce, and MEDCO will, when available, apply for other funding through the host county, USDA, US-EDA and/or ARC. MEDCO holds the property and works collaboratively with the host-county and Commerce to either lease or sell the property. MEDCO also maintains a portfolio of loans that originated through Commerce to industrial or other types of business users. MEDCO worked with Commerce and Montgomery County to repurpose the Shady Grove Innovation Center into a facility that is used as the National Cybersecurity Center of Excellence. This facility became operational in January 2016.

Consulting and Advisory Services

MEDCO has worked with local governments to procure economic feasibility and other technical studies. These studies are usually funded through partner governmental agencies. MEDCO assists the governmental entity by writing the request for proposals and developing the scope of the engagement to ensure the proper elements are obtained to make a decision for a project. MEDCO is also working with MDOT on the Purple Line, has procured and contracted the financial transaction advisor, and will work closely with MDOT to assist with the structuring of the project. MEDCO is also involved in several state organizations such as the Bainbridge Development Corporation and Penmar Development Corporation.

Below are highlights from MEDCO's 2015 Annual report

**MARYLAND
ECONOMIC DEVELOPMENT
CORPORATION**



Annual Activities Report

&

Audited Annual Financials

Fiscal Year Ending:

June 30, 2015

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Baltimore, MD 21202

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Corporate Overview

MEDCO is staffed with eight 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 financings 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 resources 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 in FY 2015

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, 2015, MEDCO provided bond financing for the following projects:

929 N. Wolfe Street, LLC Series 2014: On July 1, 2014, MEDCO issued its non-recourse, tax-exempt and taxable revenue bonds in the amount of \$65,270,000 named Maryland Economic Development Corporation Student Housing Revenue Bonds (929 North Wolfe Street, LLC Project) Series 2014A, Series 2014B-1 and Series 2014B-2 for 929 N. Wolfe Street LLC, a Maryland limited liability company (the "Borrower"), the sole member of which is East Baltimore Development Inc., a Maryland nonprofit corporation.

Proceeds of the Bonds were used to finance and refinance (a) the acquisition of a leasehold interest in and improvements on a parcel of land leased to the Borrower by The Johns Hopkins University located at 929 North Wolfe Street in the City of Baltimore, Maryland, together with the further improvements, equipment and other assets and property thereon and/or relating thereto (the "Property"); (b) the acquisition, construction, installation and equipping of a housing facility (expected to be used predominantly by area graduate students) on the Property; (c) certain other necessary and useful capital improvements and expenditures on or adjoining the Property; and (d) certain costs relating to the issuance of the Bonds and other related eligible costs (collectively, the "Project").

The Project consists of approximately 572 beds and retail space built on land adjacent to the Johns Hopkins East Baltimore Campus leased through 2060. The Project is an apartment facility with full kitchens that offers a residential experience for graduate students and fellows. On the ground floor, 7,780 square feet of retail space is leased for office and/or commercial activities -- a portion of the Series 2014B-2 taxable bond proceeds will be used for the costs of building out the first floor commercial space. Parking for the Project is provided in an adjacent facility pursuant to a parking agreement.

Maryland State Archives Series 2014: On October 3, 2014, MEDCO issued its non-recourse, tax-exempt revenue bonds in the amount of \$9,200,000 named Maryland Economic Development Corporation Revenue Bond (Maryland State Archives Project) Series 2014 and used the bond proceeds along with \$2,300,000 of MEDCO funds (“MEDCO Contribution”), to acquire approximately 5.9 acres of land located at 2255 Rolling Run Drive, Woodlawn, Maryland 21244 containing an approximately 134,240 square foot building previously used by the Social Security Administration as a record retention facility (the “Project”).

MEDCO owns the Project and has entered into an Intergovernmental Lease Agreement with Maryland State Archives (“MSA”) for use of the entire Project for an initial fifteen year term. MSA will pay for operating expenses associated with the Project in addition to the lease payments. MSA consolidated three leased facilities into one building. The new facility has capacity for at least 15 years and more importantly the facility has the environmental control to protect the stored records. Additionally, MSA has the option to renew the Lease for up to two additional ten year terms.

Lyon Bakery Series 2014: On November 24, 2014, MEDCO issued its non-recourse, tax-exempt revenue bonds in the amount of \$9,805,826 named Maryland Economic Development Corporation Revenue Bonds (Lyon Bakery Project) and in the following series and amounts: \$7,735,000.00 of Series 2014A and \$2,070,826.00 Series 2014B for Lyon Bakery, Inc., a District of Columbia corporation (“Lyon”).

MEDCO loaned the proceeds of the bonds to Lyon and Clarckent LLC, a Maryland limited liability company owned by the principals of Lyon to own the Project (“Clarckent” and together with Lyon, the “Borrower”) for the purpose of financing or refinancing all or a portion of (a) the costs of the acquisition of a parcel of land located in Prince George’s County, Maryland at or about 1900 Clarkson Way, Landover, Maryland 20875, and certain improvements, equipment and other assets and property thereon and/or relating thereto, including a two-story building (the “Building”) containing approximately 84,712 square feet of space, consisting of approximately 73,712 square feet of space on the ground level and approximately 11,000 square feet of space on the second story (collectively, the “Property”) and (b) the acquisition, construction, installation, renovation and equipping of certain improvements to the Property, including, (i) the renovation and equipping of the Building for use as a facility for the manufacturing of frozen foods, bread and other baked goods, and (ii) other necessary and useful renovations, improvements, equipment purchases and other capital expenditures

(collectively, the “Project”). Clarckent will own the Project and lease it to Lyon for use as a headquarters and manufacturing facility for its production of artisan breads.

Lyon previously leased spaced in Washington, D.C. After relocating to Prince George’s County, Lyon hopes to add another 20-25 employees over the next 1-3 years.

University of Maryland, Baltimore Series 2015: On March 31, 2015, MEDCO issued its non-recourse, tax-exempt revenue bonds in the amount of \$26,555,000 named Maryland Economic Development Corporation Senior Student Housing Refunding Revenue Bonds (University of Maryland, Baltimore Project) Series 2015 or the “2015 Bonds” at the request of University of Maryland, Baltimore (the “University”) to refund its Maryland Economic Development Corporation Senior Student Housing Revenue Bonds (University of Maryland, Baltimore Project) Series 2003A (the “2003A Bonds”). The Maryland Economic Development Corporation Subordinated Student Housing Revenue Bonds (University of Maryland, Baltimore Project) Series 2003B (the “2003B Bonds”, together with the 2003A Bonds, the “2003 Bonds”) remain outstanding in the principal amount of \$510,000. The 2015 Bonds were issued as Additional Bonds under the documents for the 2003 Bonds.

Proceeds of the 2015 Bonds were used along with other funds held by the trustee for the benefit of the holders of the 2003A Bonds to (i) refund all outstanding 2003A Bonds (ii) make a deposit to the debt service reserve fund for the 2015 Bonds, (iii) make a deposit to the capital reserve fund, and (iv) pay the costs associated with issuing the 2015 Bonds.

MEDCO used the proceeds of the 2003 Bonds to (i) pay the costs of the acquisition, construction, furnishing, and equipping of a 147-unit, 337-bed student housing facility known as “Fayette Square Apartments” and a 59-space underground parking facility (collectively, the “Project”) on land owned by the State of Maryland for the use of the University System of Maryland on behalf of its constituent institution, the University, located on the campus of the University in Baltimore City, Maryland and leased to MEDCO, (ii) pay interest accrued on the Series 2003A Bonds through initial operation of the Project and certain other charges, (iii) establish a debt service reserve fund for the Series 2003A Bonds, (iv) pay working capital and marketing costs associated with the opening of the Project, and (v) pay the costs of issuing the Series 2003 Bonds. The Project provides critical housing for students of the University. MEDCO will continue to own and operate the Project until the 2015 Bonds and the 2003B Bonds are redeemed, after which ownership of the Project will revert to the University.

The refinancing of the Series 2003A Bonds will reduce annual debt service payments by approximately 25%, which will allow the Project to operate without subsidy and currently meet all obligations. The total net present value savings associated with the refunding is \$3,446,659 or just under 12% of refunded principal.

Bowie State University Series 2015: On May 14, 2015, MEDCO issued its non-recourse, tax-exempt revenue bonds in the amount of \$16,905,000 named Maryland Economic Development Corporation Student Housing Refunding Revenue Bonds (Bowie State University Project) Series 2015 or the “2015 Bonds” at the request of Bowie State University (the “University”) to refund its Maryland Economic Development Corporation Student Housing Revenue Bonds (Bowie State University Project) Series 2003 (the “2003 Bonds”). The 2015 Bonds were issued as Additional Bonds under the documents for the 2003 Bonds.

Proceeds of the 2015 Bonds were used along with other funds held by the trustee for the benefit of the holders of the 2003 Bonds to (i) refund the 2003 Bond originally issued in the principal amount of \$21,470,000, (ii) reimburse certain amounts for capital repairs made to certain roofing systems of the Project and (iii) pay the costs associated with issuing the Series 2015 Bonds.

MEDCO used the proceeds of the 2003 Bonds to (i) pay the costs of the acquisition, construction, furnishing and equipping of a 460-bed student housing facility known as the “Christa McAuliffe Residential Community” (the “Project”) on land owned by the State of Maryland for the use of the University System of on behalf of its constituent institution, the University, located on the campus of the University in the City of Bowie, Prince George’s County, Maryland and leased to MEDCO, (ii) pay interest accrued on the 2003 Bonds through initial operation of the Project and certain other charges, (iii) establish a debt service reserve fund for the 2003 Bonds, (iv) pay working capital and marketing costs associated with the opening of the Project and (v) pay the costs of issuing the 2003 Bonds. The Project provides critical housing for students of the University. MEDCO will continue to own and operate the Project until the 2015 Bonds are redeemed, after which ownership of the Project will revert to the University.

The refinancing of the Series 2003 Bonds will result in significant debt service savings for the Project over the term of the 2015 Bonds which will result in more stable operations for MEDCO and will keep rental rates down for University students. The net present value savings associated with the refunding is \$1,218,556 or 6.90% of refunded principal, which equates to approximately \$88,500 per year in reduced debt service.

Compass, Inc. Series 2015: On June 30, 2015, MEDCO issued its non-recourse, tax-exempt bond in the amount of \$5,200,452 named Maryland Economic Development Corporation Revenue Bond (Compass, Inc. Project) Series 2015 (the “Bond”) for Compass, Inc., a Maryland 501(c)(3) organization (“Compass”).

MEDCO loaned the proceeds of the Bond to Compass for the purpose of (a) financing the acquisition, construction, improvement, furnishing, and equipping of group living facilities in Montgomery County (the “New Property”), (b) refinancing an existing conventional loan previously incurred by Compass to finance the acquisition of various residential properties in Montgomery, Prince George’s and Charles Counties (the “Existing Properties”), and (c) paying costs of issuance of the Bond (collectively, the “Project”).

Compass provides services to individuals with developmental disabilities in the State and will use the New Property and the Existing Properties to operate a significant residential program for approximately 123 individuals. By refinancing the existing mortgages on the Property, Compass will be able to lower their cost of borrowing to enable them to enhance services provided to residents of the State. Additionally, Compass will be able to increase employment by approximately 8 employees.

Loan Financed Projects in FY 2015

MEDCO's loan-financed projects encourage and aid the development of business within Maryland's expanding technology sector.

For the fiscal year ending June 30, 2015, MEDCO provided funding assistance to the following entity:

National Cybersecurity Center of Excellence: In January 2015, MEDCO, the Department of Commerce, the Montgomery County Office of Economic Development, and the National Institute of Standards and Technology ("NIST") finalized plans to repurpose the existing William Hanna Innovation Center ("WHIC") facility to host operations of the National Cybersecurity Center of Excellence ("NCCoE").

MEDCO will fund the facility's renovation with proceeds from loans and grants from multiple sources. Proceeds from the State of Maryland in the amount of \$5,250,000, contributions from NIST in the approximate amount of \$3,000,000, grant funding from Montgomery County Office of Economic Development in the annual amount of \$660,000 for 10 years, and grant proceeds from Maryland Economic Development Assistance Authority and Fund in the amount of \$1,400,000 allow for the facility to be renovated into an innovative cyber technology center. MEDCO entered into a loan agreement with PNC Bank to borrow \$5,200,000 to finance the county portion of the capital project. The loan is secured by a lien on the real estate and the grant proceeds pledged by the county to the project.

The NCCoE program enables private companies, institutions and governmental entities to collaborate with and benefit from NIST researchers to effectively co-develop commercial cybersecurity solutions. Renovations to the WHIC facility were completed in December 2015 and the building was in use the first of the year.

Studies and Reports

State of Maryland Department of Commerce Finance Program Study, Report and Recommendations: In June 2015, MEDCO and the Department of Commerce (COMMERCE) entered into a Memorandum of Understanding to coordinate and administer a Finance Program Study, Report, and Recommendations (the “Study”) to seek pragmatic, substantive and detailed recommendations for improvement of Maryland’s finance, tax credit, and workforce development programs. In order to explore economic trends and to provide effective policy recommendations, COMMERCE has authorized the engagement of a third party consultant. The consultant and a Steering Committee of industry leaders will work together to analyze place-based tax credit programs, investment tax credit programs, business attraction and retention targeted programs, small business and lending investment programs, finance mechanisms for small and mid- sized firms, and finance mechanisms for workforce and job creation. The Study, including any costs incurred during the procurement of the third party report, will be funded entirely by COMMERCE, and MEDCO will receive reimbursement for any payments made for the benefit of the Study. The final report from the consultant was delivered in January 2016.

Smart Growth Investment Fund: In 2013, a Maryland Smart Growth Investment Fund Workgroup was created by the General Assembly. The Workgroup requested that MEDCO assist in the initial development of a Smart Growth Investment Fund with the goal of exploring the creation of an investment fund to accelerate growth and sustainable development in Maryland. MEDCO has engaged a consultant to study infrastructure funds and to formulate a plan to create and infrastructure fund in Maryland. The effort is being paid by MEDCO, the Department of Housing and Community Development, the Maryland Department of Transportation and Maryland Department of Commerce.

Prince George’s Stadium Repurposing Feasibility Study: A prior study completed by the Workgroup Green Branch Athletic Complex recommended that resources be allocated towards obtaining an additional report which will specifically focus on the costs and data required to analyze repurposing the Prince George’s Stadium into a multi-sports stadium. MEDCO has been requested to assist in the procurement and overseeing of the additional study to determine the feasibility and sustainability of repurposing the Prince George’s Stadium into a multi-sports stadium. Maryland National Capital Park and Planning Commission requested MEDCO’s assistance and has agreed to fund the entire cost of the abovementioned study.

Prince George’s County Performance Art Center Feasibility Study: MEDCO has been requested to assist in the procurement of a market and economic feasibility study for a performance arts center in Prince George’s County (County). The County supports a significant, growing arts community and the Maryland National Capital Park and Planning Commission (MNCPPC). The County and MNCPPC have sought to explore the possibility of constructing a new performance arts center at various potential locations and desire assistance in conducting a County-wide study to determine the feasibility and sustainability of a new performance arts

center based on an analysis of the demographics and potential locations within the County, region and State. MNCPPC has agreed to fund the entire cost of the abovementioned study.

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 Department of Commerce (Commerce) 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 2015 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 Corporation. In May 2015, the County purchased approximately 27.5 acres of land from MEDCO in order to construct a flex building to attract businesses to the project. The flex building is schedule to be completed by late spring 2016. MEDCO, Allegany County and Commerce continue to market the remaining property to technology based businesses looking to relocate to the Western Maryland region.

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. In 2006, Mid-Atlantic Institute for Space and Technology (MIST) master leased the entire building. In 2007, MIST and MEDCO co-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. In February 2012, MIST relinquished its master lease of the facility. In June 2015, MEDCO master leased the entire facility to Hardwire, LLC. Hardwire has a lease purchase agreement and intends to use this space to expand their manufacturing capabilities and work space.

Maryland Economic Development Assistance Authority and Fund (MEDAAF) Project

MEDCO is enabled by statute to receive funds from the Department of Commerce (Commerce) under MEDAAF in furtherance of its economic development activities.

MEDCO's 2015 involvement in MEDAAF projects include:

Patuxent Business Park: In 2000, MEDCO, with Commerce 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 COMMERCE funding for the continued ongoing costs of engineering, design, permitting and construction of infrastructure. Infrastructure work for the business park was completed and MEDCO, with the collaborative efforts of the County, continues to use the services of a commercial broker to assist with marketing efforts and increase exposure of the park.

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 ground leases that terminate 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 and the debt outstanding for each project as of June 30, 2015:

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

- **Bowie State University, Prince George's County** - \$16,905,000– 460 beds
- **Frostburg State University, Allegany County** - \$14,585,000– 406 beds
- **Salisbury University, Wicomico County**- \$24,300,000- 890 beds
- **Towson University, Baltimore County** - \$45,129,000- 1,088 beds
- **University of Maryland, Baltimore** - \$27,065,000– 337 beds
- **University of Maryland, Baltimore County** – \$24,180,000– 578 beds
- **University of Maryland, College Park** - \$150,095,000– 2,927 beds

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

- **Morgan State University, Baltimore City** - \$30,520,000– 794 beds

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

- **University Village at Sheppard Pratt, Baltimore County** - \$20,475,000– 615 beds

Information and Biological Technology Incubator Projects

In the legislative findings which were part of the basis for MEDCO's creation, 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 technology incubator projects.

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

Montgomery College Germantown Innovation Center (GIC): In September 2008, Montgomery College ("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 space. GIC companies have access to business resources including training, development, and best practices seminars led by industry experts, free counseling and legal services. MEDCO assisted in the construction of the GIC and continues to assist the GIC as its conduit manager.

Currently the GIC accommodates 25 companies that support 174 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. The RIC is backed by an operational grant agreement between MEDCO and Montgomery County. MEDCO is the owner and conduit manager of the RIC.

Currently the RIC accommodates 23 companies that support 98 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 that 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.

Currently, the SSIC accommodates 21 companies and supports 129 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, networking conferences, and business counseling. MEDCO is the conduit manager of the WBIC.

Currently the WBIC accommodates 15 companies that support 53 employees.

Virtual Licensees: In the spirit of Great Britain's HUB concept, MEDCO and Montgomery County collectively designed a concept that would allow researchers, scientists 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 21 virtual licensees.

Emerging Technology Center @ Johns Hopkins Eastern (ETC Eastern): MEDCO received financial commitments from the Department of Commerce, the Maryland Technology Development Corporation, US Department of Commerce-Economic Development Administration, Baltimore Development Corporation and Johns Hopkins University, and employed both federal and State historic tax credits to assist in the building out of space within the former Eastern High School in Baltimore City. MEDCO leases one floor of the facility from Johns Hopkins University to accommodate the ETC Eastern and acts as 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. The 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.

In FY 2015, the ETC Eastern graduated 5 companies. Currently the ETC Eastern accommodates 24 companies and supports 166 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 UMBC 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 Life Science and Technology Incubator has graduated 73 companies, including Celsis/InVitro Technologies, Next Breath LLC, AVIcode Inc. and Noxilizer, Inc. and currently accommodates 48 companies that support 270 employees.

Active Bond Financed Projects

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

Since its inception in 1984, MEDCO has provided financing for hundreds of projects. Below is a list of MEDCO's active financed projects to date:

Bond Financed and Owned Projects

Laboratory for Telecommunications Science Facility Series 2003

Towson University Series 2007

Chesapeake Resort and Conference Center Series 2006

University of Maryland, Baltimore County Series 2006

University of Maryland, College Park Series 2006

University of Maryland, College Park Series 2008

Maryland Public Health Laboratory Series 2011

Morgan State University Series 2012

Salisbury University Series 2012

Sheppard University Series 2012

Towson University Series 2012

Salisbury University Series 2013

Frostburg State University Series 2013

Metro Centre at Owings Mills Series 2014

Maryland State Archives Series 2014

Bowie State University Series 2015

University of Maryland, Baltimore Series 2015

Conduit Bond Financed Projects

Human Genome Sciences Series 1997

Dietz & Watson, Inc. Series 1999

Human Genome Sciences Series 1999

AFCO Cargo BWI II, LLC Series 1999

Maryland Soccer Foundation Series 2000

The Arc of Howard County Series 2000

Bindagraphics, Inc. Series 2001
CWI Limited Partnership Series 2001
Goodwill Industries of Monocacy Valley, Inc. Series 2001
Mountainview Landfill and USA Waste Series 2002
Phenix (Redrock, LLC) Technologies, Inc. Series 2002
AFCO Cargo BWI II, LLC Series 2003
American Red Cross Series 2003
Blind Industries and Services of Maryland Series 2003
Hardwood Mills, Inc. Series 2003
University of Maryland Alumni Association Series 2003
Goodwill Industries International Series 2004
YMCA Metro Washington Series 2005
Prologue, Inc. Series 2005
Canusa Hershman Recycling, LLC Series 2005
Potomac Electric Power Company Series 2006
St. Stephen's Economic Development Corporation Series 2007
Catholic Relief Services, Inc. Series 2007
Easter Seals Series 2007
Bindagraphics, Inc. Series 2007
Gamse Lithographing Company, Series 2007
Lutheran World Relief Series 2007
Opportunity Builders, Inc. Series 2007
United States Bullet Proofing Series 2007
Howard Hughes Medical Institute Series 2008
Linemark Printing Series 2008
Jewish Council for Aging Series 2009
Crossroads Partnership, LLC Series 2009
Ardmore Enterprises, Inc. Series 2009
Seagirt Marine Terminal Series 2010
Maryland Department of Transportation Series 2010
CNX Marine Terminal Series 2010
Gold Crust Baking Series 2010
Federation of America Societies for Experimental Biology Series 2010
Emerge Series 2010
Arc of Baltimore (BARC) Series 2010
Cornell Associates Series 2010
Living Classroom Foundation Series 2010
Providence Center Series 2010
The Baltimore Museum of Art Series 2010
The Maryland Food Bank Series 2010

The Arc of Prince George's County Series 2010
University of Maryland College Park Utility Infrastructure Series 2011
YMCA of Central Maryland Series 2011
United States Pharmacopeial Convention Series 2012
Your Public Radio Corporation Series 2012
American Urological Association Series 2012
Maryland Aviation Administration Series 2012
Universities Space Research Association Series 2012
Washington Research Library Consortium Series 2013
Santa Barbara Court Series 2013
Chesapeake Bay Foundation Series 2013
Hospice of the Chesapeake Series 2014
Allegany College Series 2014
929 N. Wolfe Street Series 2014
Lyon Bakery Series 2014
Compass, Inc. Series 2015

Loan and Grant Financed Projects

Thoroughbred Racing Association
UMBC Research Park
Chesapeake College
Hilton Street
Simon Pearce
Barton Business Park
Pocomoke Flex Building
Patuxent Business Park
Emerging Technology Center- Eastern High
Rockville Innovation Center
Germantown Innovation Center
Wheaton Business Innovation Center
UMBC Tech Center
Silver Spring Innovation Center
National Cybersecurity Center of Excellence

Advisory Capacity

MEDCO, through the involvement of its staff, directly promotes economic development 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.

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.

Maryland Economic Development Association: MEDCO's Executive Director is a member of MEDA's Past Presidents. Past Presidents provide economic development consulting services to parties requesting services.

Maryland Department of Housing and Community Development (DHCD), Revenue Bond Advisory Board: The purpose of the Revenue Bond Advisory Board is to provide independent advice and expertise to the Department of Housing and Community Development on the issuance of revenue bonds by the Department, and the policies and procedures related to the issuance of those revenue bonds. MEDCO's Executive Director serves as a member of the Revenue Bond Advisory Board.

Crownsville Redevelopment Taskforce: The taskforce on the Disposition of the Crownsville Hospital Center was established by legislation during the 2015 legislative session. MEDCO's Executive Director was appointed to serve on the taskforce as the individual with expertise in the disposition of property.

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 2015, MEDCO directed the purchasing of goods and services for its operation and administration from the following MBE's and WBE's: The Canton Group (MBE, SBE, & DBE) for data base restructuring and monthly servicing at a cost of \$225.00; FiveL, a

Human Resources consulting firm (WBE) was paid \$725.50; Curry Printing and Copy Center was paid \$708.00 for printing and business cards; Centric Business Solutions was paid \$709.28 for copier/scanner maintenance services; Flowers By Chris was paid \$60.00 for office plants; and South Street Cafe was paid \$1,033.35 for office catering services.

The Department of Health and Mental Hygiene's State Health Lab Project, completed construction at 1770 Ashland Ave in East Baltimore, meeting its commitments to include 27% MBE, 8% WBE and 20% LBE participation in the project's overall construction contract amount. The construction contract participation as of 2015 FY End was as follows: 32.58% or \$36,786,941 MBE, 6.37% or \$7,187,730 WBE and 30.01% or \$33,881,681 LBE. The project, for the duration of the construction period, committed to 100 new local hires (defined as within Baltimore City) and achieved 127 new local hires. In addition, 81.08% of the workforce was from Maryland. MEDCO and the developer, Forest City New East Baltimore Partnership along with EBDI and local officials, collaborated in establishing an employment pipeline for individuals from East Baltimore and Baltimore City who desired employment at the Project site. The pipeline identified potential employees and matched their skill sets with the needs of contractors, subcontractors, vendors and installers at the project. As of FY 2015, the pipeline had brought 118 local individuals to the project.

MEDCO staff attends MBE networking/procurement events where minority businesses promote their products and services. MEDCO staff attended the MBE Diversity Biz Mix which was hosted by the Baltimore Business Journal. The Governors' Office of Minority Affairs and various directories are checked monthly, at a minimum, for upcoming exhibitions that could be beneficial to MEDCO.

Member Maryland Washington Minority Contractor's Association since 2012.

Member Maryland Minority Contractors Association since 2012.

- 1) **The Department of Legislative Services recommends that MEDCO comment generally on the status of its operating projects and specifically on the designation of the Chesapeake Bay Conference Center as “non-performing.”**

Response: MEDCO’s standard portfolio monitoring and loan administration responsibilities include regular oversight of the financial and operational performance of its projects. Most of the operational projects are managed by third party management companies. The management companies provide MEDCO regular reports, in some cases as often as weekly. These reports are reviewed by MEDCO, and if necessary, MEDCO actively engages with the management companies to address financial and operational issues.

With the exception of the two projects highlighted by the analyst, MEDCO can report and represent its other operating projects are stable and performing well.

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.

Chesapeake Bay Conference Center (CBCC) - “Non-Performing”

The CBCC was classified as a “Watch” in 2010 as the project failed to achieve the required minimum debt service coverage ratio of 1.25, and the project was reclassified as “Non-performing” in 2014 after the June debt service payment was only partially made.

Since the downturn in the economy in 2008, resort hospitality facilities have suffered a loss in business, and at the CBCC the loss of business has had an impact its financial operating performance. During the economic downturn, CBCC revenues declined over 30% from their peak to a low of \$35,434,000 for the fiscal year ended 6/30/10. The resort’s efforts to increase

revenues have been stalled for various reasons including a stagnant market for resort conference facilities. While resort conference facilities around the country have rebounded from the recession, resort conference facilities in our market area have continued to struggle. The single largest loss of business has been in the large group business segment which has not rebounded to its pre-2008 performance level.

The resort needs to increase revenues to its pre-great recession levels of over \$45,000,000 to achieve the 1.25 coverage ratio. The daily operating costs at the project are being paid on a timely basis and have not been impacted by the loss in revenue. The financial impact has been absorbed by the bondholders who received a partial payment on the interest due on the bonds starting with the June 2014 payment. Full interest payments were made to the senior debt holders for the payments due on December 2014, June 2015 and December 2015. While funds were available to make a partial principal payment due in June, the investors deferred taking that payment to allow the resort to grow the balance in the interest fund. The bondholders have been active in the financial review and oversight of the project. The bond trustee has retained a consultant to assist in the review and oversight of the project. Additionally the bondholders have continued to work with MEDCO and have supported the ongoing operations through a forbearance arrangement which has brought in additional oversight and management.

As part of the additional oversight, the property hired a new Marketing Director in May of 2014 and a new General Manager started in January 2015. MEDCO also retained a turnaround consultant in May of 2014 who has displayed a strong track record in working with underperforming hospitality projects. The consultant meets at the property at least monthly and has regular communications with MEDCO and onsite management to track current marketing, financial performance and other operational issues.

The project retains a healthy capital replacement reserve totaling more than \$4,944,000 which is more than adequate to support the facility's capital projects for the remainder of this year and the next two fiscal years. As part of the next forbearance agreement MEDCO is working to include a long term capital expenditure program to address major life cycle replacement and refurbishment requirements at the resort. The plan will fully utilize the capital replacement reserve. The resort funds 5% of its monthly revenues to the capital replacement reserve, and with those projected funds the full capital plan can be completed by 2021. More importantly, the CBCC customer experience remains at a four star quality as the resort continues to deliver an excellent customer experience.

MEDCO remains committed to the CBCC to restore its strong financial performance and protect the positive benefits it provides to the Cambridge community. While this facility was publicly financed with tax-exempt bonds issued by MEDCO, the repayment of those bonds is limited to the resources of the project. There are no public guaranties of the debt nor is there a moral obligation by the State to repay the bonds. None of the debt from the project is owed to the State of Maryland.

University of Maryland, Baltimore “ Watch”

MEDCO is the owner of a student housing project for graduate students at the University of Maryland, Baltimore in Baltimore City. The project had historically underperformed since it opened in fall 2004 and had required subsidization from the University, MEDCO, and manager to pay operating expenses and debt service. Since the Project has never met its 1.2:1 debt service coverage ratio covenant, it has historically been classified as a “Watch” project; however, in the spring of 2015, MEDCO and the University collaborated on a restructuring which has corrected deficiencies in the prior structure.

The restructuring was primarily accomplished through a current refunding of the Series 2003 bonds which financed the construction of the project. Due to the prevailing low level of interest rates and a carefully crafted agreement with the University, MEDCO was able to sell refunding bonds which lowered annual debt service payments by more than \$500,000 per year. The reduced debt service burden has rebalanced the revenues and expenses of the project and has allowed the project to begin to repay deferred obligations of the University and MEDCO. Moreover, the refinancing has created a healthy capital reserve fund which should allow the aging project to remain competitive in the West Baltimore rental housing landscape.

The housing project met its 1.2x coverage ratio for the first time in the fiscal year ended June 30, 2015. Projections for 2016 show that the project should again satisfy its revenue covenant for the year, and should it do so, the project will be returned to “Performing” status.

- 2) **DLS recommends that MEDCO comment on the increase in projects that require MEDCO ownership but no MEDCO operational role, including the negative impact on the corporation’s**

net assets. MEDCO should also comment on any potential concerns about forgoing its management role in these projects and whether the legislature should expect to see similar projects in the future.

Response: The level of MEDCO operational involvement for a MEDCO project is not prescriptive. Our philosophy is to structure transactions that meet the needs and requirements of our State partners and our lenders.

MEDCO's student housing projects are established as separate transactions because the recourse to all investors is limited to the assets of each particular project. The investors require each project to present its financial operational performance on a standalone basis, and each project's financial statements must be audited by an independent, reputable accounting firm. Additionally, the investors require an experienced onsite manager to handle the day-to-day operations.

The structure of other projects can vary depending on the goals of our State partners. For example, the Maryland State Archives (MSA) project is owned by MEDCO, and the financing was arranged with a local bank through the issuance of MEDCO tax-exempt bonds. The lender to the transaction (the bank) is secured by a lien on the building as well as by the lease between MEDCO and MSA. The bank that bought the bonds did not require the project to be standalone for financial reporting purposes, saving \$30,000 to \$40,000 in annual audit fees. The project is included within MEDCO's financial report, and the allocation of the audit cost for this project is substantially lower than a standalone audit.

The MSA building operations did not require a third party manager as MSA was willing to take on certain of operating responsibilities. MSA pays all of its janitorial, gas, electric and telecom expenses directly. This is not dissimilar from a standard commercial triple-net lease where the tenant only pays the landlord rent for the use of the space and the tenant remains liable for all of the other building operating costs. MEDCO is responsible for the building and improvements made to the structure and enters into contract for professional services relating to roofing, HVAC, landscaping and fire monitoring. For example, MEDCO is currently working with MSA to coordinate the replacement of the roof and HVAC system. These were items identified as needing to be replaced before the building was purchased by MEDCO. The delay has been, in part, the result of MSA considering other potential building improvements including the build out of the office space.

Projects such as the new MSA facility will cause MEDCO's balance sheet to reflect a larger negative net asset position for the same reason its operating projects create a negative net asset position. Simply stated, the MSA project on MEDCO's books will depreciate faster than the debt is retired, causing a negative net asset position. MEDCO strongly looks at its cash position as a barometer of its financial strength, and its cash position remains at a healthy level, adequate to support the real estate projects within its portfolio.

MEDCO does not view the characterization of foregoing its management role as a potential risk. As the owner of any building MEDCO, will always have certain level of responsibility to the project and those responsibilities are inextricably embraced by MEDCO. MEDCO believes its experience and ability to provide varying levels of operational support is one of the efficient, flexible and valuable elements it brings to structuring a project. We will only require a project to be managed by a third party if necessary and when in the best interest of the project. In an instance where third party services can be procured by the customer and are not essential to the operation of the project, MEDCO will structure so the customer can undertake those responsibilities directly. Had MEDCO been requested to undertake the operational duties for MSA, we would and could have included wrapped those within the scope of the project services provided by MEDCO.

MEDCO does not have any projects in its pipeline at this time with other state agencies. MEDCO is in discussions with a couple local governments and the University of Maryland, College Park.