

**TA.01.99**  
**Maryland Economic Development Corporation**

***Balance Sheet Data***

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(\$ in Thousands)

	<u><b>FY 98</b></u>	<u><b>FY 99</b></u>	<u><b>FY 00</b></u>
Assets (cash, receivables, property, and equipment)	\$258,407	\$350,956	n/a
Liabilities (accounts payable and debt)	232,997	325,537	n/a
Net assets at beginning of year	18,019	25,410	n/a
Rocky Gap accounting adjustment			
Adjusted net assets at beginning of year			
Maryland Economic Development Corporation (MEDCO)			
Revenues	16,643	17,182	n/a
MEDCO Expenses	(16,601)	(15,078)	n/a
Rocky Gap Revenues	9,256	8,810	n/a
Rocky Gap Expenses	(1,906)	(10,886)	n/a
Maryland Technology Development Center (MTDC)			
Revenues		406	n/a
MTDC Expenses		(425)	n/a
Net assets at end of year	\$25,410	\$25,419	n/a

- Notes: (1) The figures for fiscal 2000 are unavailable due to delays in the corporation's financial audit submission.  
(2) Non-cash items omitted.  
(3) Fiscal 1999 Maryland Technology Development Center (MTDC) report is for a six-month period ending June 30, 1999.  
(4) Fiscal 1999 Rocky Gap Lodge and Golf Resort report is for a 15-month period ending June 30, 1999.

Note: Numbers may not sum to total due to rounding.

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## *Analysis in Brief*

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### Issues

***Financial Statement for Fiscal 2000 Is Unavailable:*** The Maryland Economic Development Corporation (MEDCO) is statutorily required to submit an annual financial statement within the first 90 days of each fiscal year. This report has not been made available in time for inclusion in this analysis. **MEDCO should comment on the delay in the preparation of its audited financial statement.**

***Financial State of MEDCO and Rocky Gap Lodge and Golf Resort:*** MEDCO separately reports the financial activity for the MTDC and Rocky Gap. These projects continue to experience net operating losses. **MEDCO should brief the budget committees on the financial outlook for these projects.**

***Legislative Proposals Would Expand MEDCO's Investment Abilities:*** HB 790/SB 486 of 2001 would alter MEDCO's investment capabilities. **MEDCO should brief the budget committees on the impact this legislation would have on the corporation's mission.**

### Recommended Actions

1. Nonbudgeted.
2. Adopt budget language requiring the submission of a fiscal 2000 financial statement.

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**Maryland Economic Development Corporation**

***Operating Budget Analysis***

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**Program Description**

The Maryland Economic Development Corporation (MEDCO) is a nonbudgeted entity created in 1984 to allow the State the ability to directly own or develop property for economic development purposes. The corporation is governed by statute under Article 83A, Sections 5-201 through 5-216. A 12-member board of directors appointed by the Governor with the advice and consent of the Senate manages the corporation's affairs and appoints the executive director. The secretaries of the Departments of Business and Economic Development and Transportation serve as ex-officio voting members. MEDCO's activities complement the marketing and financing programs of the Department of Business and Economic Development (DBED).

The MEDCO mission is to assist in the expansion, modernization, and retention of existing Maryland business and to attract new business to the State. MEDCO purchases or develops property that is leased to others under favorable terms. MEDCO also makes direct loans to companies requiring financing to maintain or develop facilities throughout the State, often serving as the conduit for loans administered by DBED. MEDCO borrows money and issues bonds for the purpose of financing this assistance. There are currently four full-time and two part-time staff members.

MEDCO activity has increased substantially in the last two fiscal years. In fiscal 1999 the corporation closed on 24 new projects, and its total assets increased \$92.5 million to nearly \$351 million. In fiscal 2000 MEDCO closed on another 19 new projects and increased its total assets to nearly \$710 million.

## Issues

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### 1. Financial Statement for Fiscal 2000 Is Unavailable

Section 5-212(f) of Article 83A requires MEDCO to provide a report to the Governor, to the Maryland Economic Development Commission, and to the General Assembly within the first 90 days of each fiscal year. The report is to contain the corporation's complete operating and financial statement for the preceding fiscal year. In recent years, MEDCO has been unable to meet this 90-day reporting target, and the financial and operating reports are often not completed until immediately prior to the corporation's appearance before the budget committees.

MEDCO has yet to provide the required operating and financial statement for the year ending June 30, 2000 (fiscal 2000). Without this report the Department of Legislative Services (DLS) is incapable of evaluating MEDCO's current financial status in time for the corporation's annual budget hearings before the budget committees. The corporation has expressed that it is having difficulty obtaining an accredited accounting firm that will complete the report in a timely fashion. The corporation reports that it is now using its second accounting firm in as many years. In many respects, the problem is not something that MEDCO can directly control once an accounting firm has been selected. In addition, it may be unrealistic to expect that MEDCO will be able to provide the annual financial statement within the statutorily required first 90 days of each fiscal year. However, it is not unrealistic to expect to have the financial statement available by the first of the year, and in time for DLS to review the document prior to the start of session. In addition, the State in its annual review of MEDCO's economic development activities, places a great deal of reliance on the information provided in the corporation's annual financial statement. This is increasingly important because the number of projects MEDCO is involved in and the amount of the corporation's financial assets continues to increase. **MEDCO should comment on the repeated delays in the preparation of its audited financial statements and whether it would be appropriate to direct the Office of Legislative Audits to undertake this important task in the absence of a capable private sector provider. DLS further recommends the adoption of the following budget language:**

SECTION XX. AND BE IT FURTHER ENACTED, That, no funds in this budget may be used to support any project in which financing is also derived from the Maryland Economic Development Corporation (MEDCO) until:

- (1) MEDCO has provided the budget committees with an audited financial statement financial prepared in accordance with generally accepted accounting principles by a licensed certified accountant or accounting firm of the corporation's assets and liabilities and income and outflows for the fiscal year ending June 1, 2000; and
- (2) The Secretary of Business and Economic Development certifies to the budget committees, on the basis of the financial accounting statement prepared, that MEDCO is operating on a sound financial basis.

## 2. Financial State of MEDCO and Rocky Gap Lodge and Golf Resort

The corporation's accounting systems control the Rocky Gap project and the Maryland Technology Development Center (MTDC) project (the Montgomery County incubator facility) separately from all other MEDCO revenues and expenses. The balance sheet data, provided on the cover page, shows Rocky Gap experienced expenses of \$10.8 million against revenues of \$8.8 million for the period April 1, 1998, through June 30, 1999. Similarly, MTDC had expenses in excess of revenues for its six-month reporting period. *(Due to the unavailability of the corporation's fiscal 2000 financial statement, DLS is unable to ascertain whether these projects are continuing to experience expenses in excess of revenues.)*

During the construction of Rocky Gap, a consulting firm working with MEDCO estimated that the resort would begin to realize net operating income in excess of combined debt service by the end of calendar 2001. Since its first full year of operation, the resort has experienced a net operating loss. In anticipation of operating deficits in the resort's early years, a \$3.5 million fund was established from which to cover losses. Much of the losses are blamed on bad weather which delayed the completion of the golf course, impacting both golf-related and hotel-related revenues.

**MEDCO should brief the committees on the losses associated with these projects and the financial outlook for fiscal 2000 through 2002. MEDCO should also comment on the amount of available funds, if any, in the reserve fund established to cover early financial losses at Rocky Gap.**

## 3. Legislative Proposals Would Expand MEDCO's Investment Abilities

HB 790/SB 486 of 2001 introduced as emergency bills propose to alter MEDCO's legislative purpose and expand its ability to make investments. This could potentially increase the scope of projects MEDCO could undertake on behalf of the State.

**MEDCO should brief the committees on the impact these legislative proposals might have on MEDCO's ability to make investments and enhance the corporations mission to "assist in the expansion, modernization, and retention of existing Maryland Business and to attract new business to the State."**

## ***Recommended Actions***

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1. Nonbudgeted.
2. Adopt the following budget language:

SECTION XX. AND BE IT FURTHER ENACTED, That, no funds in this budget may be used to support any project in which financing is also derived from the Maryland Economic Development Corporation (MEDCO) until:

- (1) MEDCO has provided the budget committees with an audited financial statement financial prepared in accordance with generally accepted accounting principles by a licensed certified accountant or accounting firm of the corporation's assets and liabilities and income and outflows for the fiscal year ending June 1, 2000; and
- (2) The Secretary of Business and Economic Development certifies to the budget committees, on the basis of the financial accounting statement prepared, that MEDCO is operating on a sound financial basis.

## Completed Project List

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The MEDCO annual report describes several dozen recent and ongoing projects which are representative of the corporation's activity. The following is a list of MEDCO projects on the books and those added since June 30, 2000:

1. Bethlehem Steel Drydock lease -- Baltimore County; \$2.7 million
2. Montgomery Yacht mortgage -- Somerset County (project closed); \$328,000
3. Pier 6 Concert Pavilion refurbishment -- Baltimore City (bonds redeemed, project closed); \$3.4 million
4. Maryland Brush ESOP financing -- Baltimore City; \$1.51 million
5. Halethorpe Extrusions, Inc. financing -- Baltimore County; \$2.5 million
6. READI Program -- Washington, Garrett, and Allegany counties; \$1.0 million
7. Thoroughbred Racing Association lease/purchase -- Cecil County; \$1.3 million
8. Kelly-Springfield Tire Company lease -- Allegany County; \$13.4 million
9. Markel, Inc. equipment loan -- Caroline County; \$335,000; fully paid February 1997
10. Department of Health and Mental Hygiene (DHMH) service providers bond issue series 1992; \$5.475 million
  - a. Harford-Belair Community Mental Health, Inc. -- Baltimore County
  - b. Rock Creek Foundation for Mental Health, Inc. -- Montgomery County
  - c. United Cerebral Palsy of Central Maryland, Inc. -- Baltimore City
11. Baltimore Museum of Art project bonds -- Baltimore City; \$2.0 million
12. DHMH service providers bond issue series 1993; \$4.675 million
  - a. Baltimore Association for Retarded Citizens, Inc. (BARC) -- Baltimore City and Baltimore County
  - b. Intervals, Inc. -- Baltimore City and Baltimore County
13. Adheron, Inc. equipment loan -- Anne Arundel County; \$315,000; fully paid November 1998
14. Roland Park Country School -- new construction/rehabilitation -- Baltimore City; \$3.0 million; fully paid November 1998
15. Honeywell Enviracaire -- acquisition/lease -- Washington County; \$4.7 million
16. MEDCO -- Martin Marietta -- Department of Juvenile Justice lease -- Baltimore County
17. Montgomery Ward -- PTP and MEDCO -- reuse of former distribution center -- Baltimore City; \$8.2 million; fully paid May 1998
18. Guilford Pharmaceutical, Inc. -- tenant fit-up -- Baltimore City; \$8.0 million
19. Hilton Street (Archway Ford) -- rehabilitation -- Baltimore City; \$2.185 million
20. UMBC Research Park, Inc. -- 1st phase -- infrastructure -- Baltimore County; \$650,000
21. Census Bureau -- purchase/gift to General Services Agency -- Prince George's County; \$500,000

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22. Osiris Therapeutics, Inc. -- tenant fit-up -- Baltimore City; \$3.1 million
23. Carroll Industrial Development Group -- bond reduction -- Baltimore City; \$1.0 million; fully paid May 1998
24. NationsBank/MEDCO municipal pool -- statewide; \$75 million
25. Strategic Assistance Fund -- marketing assistance -- defense closure impacted communities
26. Pleasant Manor Healthcare Nursing Home -- acquisition -- Baltimore City; \$5.685 million
27. Chesapeake College Training Center -- lease -- Dorchester County; \$1.1 million
28. Advanced Manufacturing International -- business acquisition -- Baltimore County; \$200,000
29. Rockglen Healthcare, Inc. -- nursing home new construction -- Baltimore City; \$8.365 million
30. Producer's Club -- study monies -- Baltimore City, Baltimore, Howard, and Anne Arundel counties; \$27,000
31. Rosewood Technology Center -- site development -- Baltimore County; \$1.5 million
32. Bethlehem Steel Corporation -- dredging grant -- Baltimore County; \$900,000
33. Marble Source Unlimited -- manufacturing facility -- Howard County; \$900,000
34. Rite Aid Corporation -- computer center -- Baltimore County; \$450,000
35. DHMH service providers facilities acquisition program, revenue bond, series 1996A; \$3.855 million
  - a. eMerge, Howard County
  - b. North Baltimore Center, Baltimore City
36. UMBC/Lockheed Martin -- acquisition for use by UMBC Phase I -- Baltimore County; \$9.5 million
37. Grafco Industries -- plastic bottle manufacturing facility -- Anne Arundel County; \$6.5 million
38. Chimes, Inc. -- acquisition, renovation -- Baltimore City, Baltimore County; \$2.2 million
39. Gull Creek/AHF Nursing Home -- Worcester County; \$7.93 million
40. Rohr, Inc. equipment loan -- Washington County; \$2.0 million
41. Atlantic Pharmaceutical Services (Niro) -- contract drug manufacturing facility -- Baltimore County; \$5.5 million
42. Rocky Gap Hotel and Jack Nicklaus Signature Golf Course -- Allegany County; \$34.3 million
43. Ciena Corporation -- fiber optic enhancements -- Howard County; \$556,000; fully paid April 1997
44. Inner Harbor East -- office development -- Baltimore City; \$2.85 million
45. Frederick Brewing Company, Blue II LLC -- new brewery construction -- Frederick County; \$4.2 million
46. Ravenwood Healthcare, Inc. (Seton) -- nursing home acquisition and renovation -- Baltimore City; \$16.8 million
47. United Book Press -- manufacturing building acquisition -- Baltimore County
48. Tessco Technologies, Inc. -- acquisition of headquarters and distribution facility -- Baltimore County

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49. Baltimore Museum of Art, Inc. -- acquisition of Lucas Art Collection -- Baltimore City; \$8.6 million
50. UMBC/Lockheed Martin -- acquisition and lease to UMBC Phase II -- Baltimore County
51. South Highland LLC -- Brownfields remediation -- Baltimore City; \$1.0 million
52. Memorial Hospital at Easton -- equipment refinancing -- Talbot County; \$1.9 million
53. UniSite Design, Inc. -- acquisition and construction -- Caroline County; \$3.1 million
54. Tech Court LLC -- equipment purchase -- Carroll County
55. Sylvan Learning Systems, Inc. -- renovations -- Baltimore City; \$700,000
56. The Southern Galvanizing Company -- construction and equipment -- Baltimore City; \$400,000
57. Jenkins Memorial Nursing Home, Inc. -- refinancing -- Baltimore City; \$5.4 million
58. University of Maryland Baltimore County -- purchase of Lockheed Martin facility
59. J.C. Parry & Sons, Inc. -- industrial revenue bond for equipment -- Baltimore County; \$3.7 million
60. Caroline County Health and Public Service Building -- government facilities -- Caroline County; \$4.1 million
61. Human Genome Sciences -- research and pilot manufacturing facility -- Montgomery County; \$23 million
62. Crescent Cities Charities -- rehabilitation of former hospital -- Prince George's County; \$9 million
63. Dixon Valve & Coupling Co. -- equipment -- Kent County; \$4 million
64. AdventureSports -- feasibility study -- Garrett County; project closed
65. The Chimes, Inc. -- acquisition of facilities -- Baltimore City, Baltimore County, Montgomery County; \$1.1 million
66. Bausch & Lomb Facility Acquisition -- industrial building -- Garrett County
67. Maryland Technology Center -- bio and information technology incubator -- Montgomery County
68. Cinder and Concrete Block Company -- manufacturing equipment -- Baltimore County
69. Chesapeake Appraisal and Settlement Services -- subsidiary of Commercial Credit Co. -- Anne Arundel County
70. Morrison Health Care, Inc. -- centralized kitchen -- Baltimore County
71. Dixie Printing and Packaging Corporation -- equipment -- Anne Arundel County
72. Catterton Printing Co., Inc. -- printing facility and equipment -- Charles County
73. Corporate Press, Inc. -- acquisition of printing equipment -- Prince George's County
74. Monocacy Associates, LLC -- new printing facility (part of Corporate Press) -- Prince George's County
75. Chesapeake Bay Foundation -- new headquarters -- Anne Arundel County
76. Tuchenhagen North America, Inc. -- moving costs and tenant improvements -- Howard County
77. Skylar Development LLC (Bagby Furniture Building) -- rehabilitation -- Baltimore City
78. Crescent Cities Charities -- renovation of closed hospital -- Prince George's County
79. Rocky Gap Lodge and Golf Resort II -- construction costs -- Allegany County
80. Maryland Brush -- restructuring of financing -- Baltimore City

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81. SourceOne, LLC -- equipment purchase and leaseback -- Baltimore City
82. READI -- Wood Products, Inc. -- equipment purchase and additional space -- Garrett County
83. Dietz & Watson, Inc. -- acquisition of manufacturing facility -- Baltimore City
84. Allegany Technology, Inc. -- sale-leaseback -- Allegany County
85. Victor Graphics, Inc. -- land acquisition, construction, and equipment -- Baltimore City
86. Erickson Foundation -- UMBC student dormitory -- Baltimore County
87. Vintage Lumber & Construction Co. -- new sawmill -- Frederick County
88. Salisbury State University -- student housing -- Wicomico County
89. Gene Logic, Inc. -- tenant improvements -- Montgomery County
90. Towson University -- student housing -- Baltimore County
91. University of Maryland College Park (UMCP) -- student housing -- Prince George's County
92. Catholic Charities -- acquisition of headquarters and refinancing -- Baltimore City
93. AFCO Cargo BWI project -- new midfield cargo terminal -- Anne Arundel County
94. Goodwill of the Chesapeake, Inc. -- purchase new headquarters building -- Baltimore City
95. UMCP energy infrastructure project -- out-sourcing of energy requirements -- Prince George's County
96. Lemar, Inc. Wattyl USA -- manufacturing plant acquisition -- Baltimore City
97. 3DI, Inc. -- construction of computer technology building -- Talbot County
98. Allison Transmission -- manufacturing plant -- Baltimore County
99. Cambridge Hyatt -- destination golf resort -- Dorchester County
100. Atlantic Pharmaceutical Services, Inc. -- pharmaceutical manufacturing -- Baltimore County

**Since June 30, 2000**

101. Esskay project -- demolition of former processing plant -- Baltimore City
102. Baltimore Area Retarded Citizens (BARC) -- refinancing and new facilities -- Baltimore County and Baltimore City
103. Human Genome Sciences, Inc. -- production facility -- Montgomery County
104. Lutheran World Relief/Immigration and Refugee Service Headquarters Facility -- Baltimore City
105. E.J. Schmitz, Inc. -- new printing equipment -- Baltimore County
106. Merkle, Inc. -- build-to-lease project -- Garrett County
107. Maryland Soccer Foundation -- soccer facilities -- Montgomery County
108. South Campus -- student housing project at the University of Maryland at College Park -- Prince George's County