Financial Statement Data

Maryland Economic Development Corporation Financial Statement
Fiscal 2011-2013
($ in Thousands)

	2011	2012	2013	Change 2012-2013
Total Assets	$679,110	$647,302	$626,545	-$20,757
Total Liabilities	872,539	864,373	814,619	-49,754
Net Assets (Deficit)	**-$193,429**	**-$217,071**	**-$188,074**	**$28,997**
Total Operating Revenue	$129,982	$130,746	$127,855	-$2,891
Total Operating Expenses	118,457	118,657	115,868	-2,789
Operating Income Subtotal	**$11,525**	**$12,089**	**$11,987**	**-$102**
Non-operating Revenues and Expenses	-$41,444	-$41,444	$17,010	$52,740
Net Income (Deficit)	**-$29,920**	**-$29,920**	**$28,997**	**$52,639**

Change in Net Assets (Deficit) and Income by Source
Fiscal 2011-2013
($ in Thousands)

	2011	2012	2013	Change 2012-2013
Operating Facilities Net Assets	-$206,274	-$228,463	-$188,195	$40,268
Other Operations Net Assets	12,845	11,392	121	-11,271
Net Assets (Deficit)	**-$193,429**	**-$217,071**	**-$188,074**	**$28,997**
Operating Facilities Net Income	-$29,897	-$22,189	**$40,268**	$62,457
Other Operations Net Income	-23	-1,453	-11,271	-9,818
Net Income (Deficit)	**-$29,920**	**-$23,642**	**$28,997**	**$52,639**

Note: Other operations are comprised of property and equipment rental and consultant and management fees.

Source: Maryland Economic Development Corporation financial statements

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

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- The Maryland Economic Development Corporation's (MEDCO) net income totaled $28.9 million for fiscal 2013. This is the first time in 10 years in which the corporation posts positive income, rather than a deficit. Operating income for fiscal 2013 was also positive at $12.0 million, which is a key indicator of economic health. Noncash expenses, such as depreciation, and non-operating items, such as interest expense, cause the income and assets deficits, and these deficits are not uncommon for real estate projects. Each year that a net income deficit persists, the corporation's equity position declines. However, due to the positive fiscal 2013 income position, the corporation's net assets deficit improved to -$188.1 million in fiscal 2013.

- The corporation's net asset deficit is attributable to the accumulated losses of its operating facilities. However, in fiscal 2013, the corporation's operating facilities' net income increased by $62.5 million, compared to an increase of $7.7 million in fiscal 2012. This dramatic increase was a result of the sale of the Rocky Gap Resort and Golf Course, a project which posted annual losses for the corporation. The corporation also experienced a net income deficit of $11.3 million for its non-operating activities.

Analysis in Brief

Overall Financial Position

Operating Revenues Continue to Exceed Operating Expenses: The corporation continues to maintain a net asset deficit of $188.1 million. In addition, operating revenues continue to exceed operating expenses, albeit by a smaller margin than in fiscal 2012.

MEDCO's Assets Exclusive of Operating Facilities Remain Positive: Exclusive of operating facilities, MEDCO had approximately $121,000 in net assets in fiscal 2012, far less than the 10-year average of $14.1 million. In fiscal 2013, MEDCO provided funding for 11 new projects.

Operating Facilities Financial Position

Sale of Rocky Gap Has Significant Impact on Net Assets: Operating facilities' net assets increased by $40.3 million in fiscal 2013 due in large part to the sale of the Rocky Gap Resort in August 2012.

Operating Income Increased Slightly in 2013; Four Projects Posted a Loss: Operating facilities' income was $12.1 million in fiscal 2013, an increase of $0.5 million. Four projects showed a loss, and four projects were defined as "watch" projects in the corporation's financial statement. **The Department of Legislative Services recommends that MEDCO comment on the designation of four of its operating projects as "watch" projects.**

Recommended Actions

1. Nonbudgeted.

Operating Budget Analysis

Program Description

The Maryland Economic Development Corporation (MEDCO) is a nonbudgeted entity that allows the State to own or develop property for economic development purposes. MEDCO was created in 1984 with the mission to help expand, modernize, and retain 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 throughout the State to maintain or develop facilities, and it often serves as the conduit for loans administered by the Department of Business and Economic Development (DBED). MEDCO issues bonds to raise funds for its loans. The bond debt consists primarily of revenue bonds and notes payable to government agencies such as DBED. The debt represents nonrecourse obligations because MEDCO is not liable to bondholders and lenders in the event of a project or borrower default. Each project must have self-supporting revenues, and no projects are cross-collateralized. As a result, MEDCO debt is not debt of the State, and there is no implied State guaranty or State obligation to protect bondholders from losses.

MEDCO has been involved in 251 projects through fiscal 2013. Of these, MEDCO owns and operates 13 as operating facilities, meaning the corporation is involved in management decisions and has a hand in ensuring successful daily operations. For other projects, MEDCO serves as an arms-length financing entity.

The corporation is governed by statute under the Economic Development Article, Sections 10-101 though 10-132. A 12-member board of directors oversees and approves actions pertaining to the corporation’s affairs and appoints the executive director. The Secretaries of DBED and the Maryland Department of Transportation serve as *ex-officio* voting members. MEDCO’s activities complement the marketing and financing programs of DBED. There are currently 8 full-time and 1 part-time professional staff members.

In 2001, MEDCO’s statutory authority was amended to be more consistent with the Maryland Economic Development Revenue Bond Act and economic development revenue bond enabling legislation that is in effect in other states competing for opportunities. MEDCO’s legislative purpose now is to (1) relieve the conditions of unemployment; (2) encourage increased business activity and commerce and a balanced economy; (3) assist in the retention and attraction of new business activity; (4) promote economic development; and (5) generally promote the present and prospective health, happiness, safety, right of employment, and general welfare of State residents.

MEDCO's Overall Financial Position

Operating Revenues Continue to Exceed Operating Expenses

MEDCO operates 13 facilities, and revenue from those facilities contributes to the corporation's bottom line. Operating revenues ($127.9 million) continue to exceed operating expenses ($115.9 million). Both revenues and expenses were down in fiscal 2013 due largely to the sale of the Rocky Gap Resort.

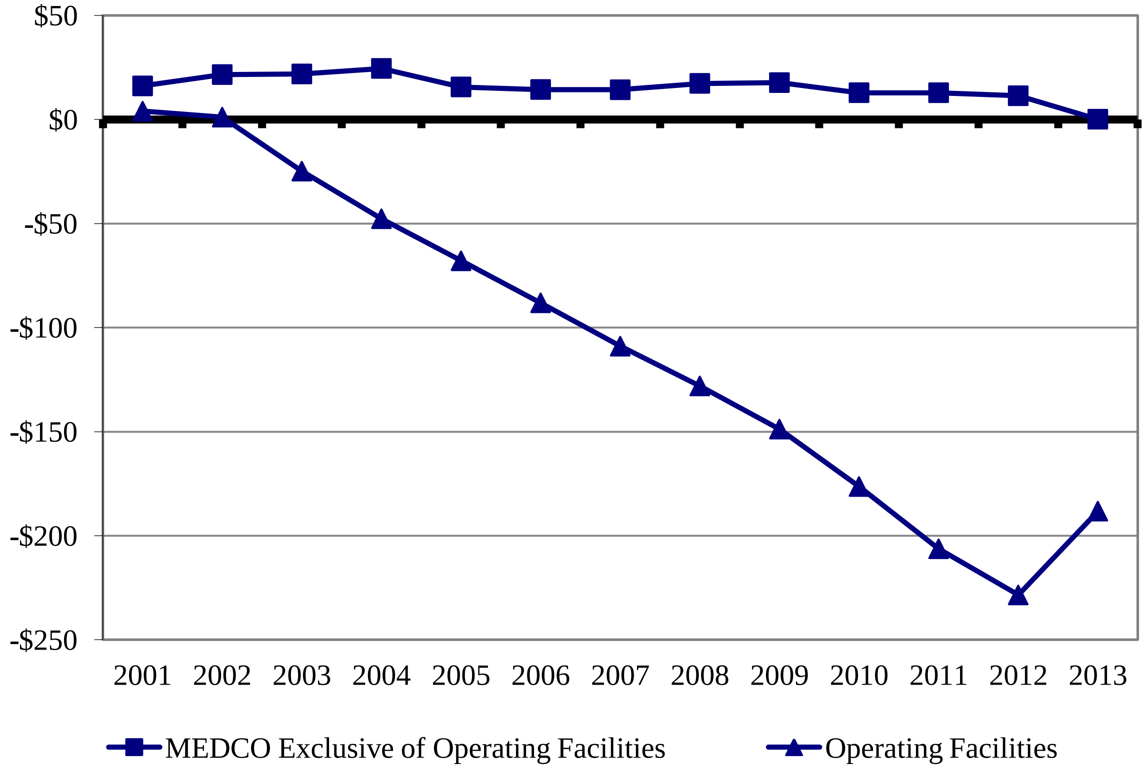
Each year, when the corporation experiences a net income deficit, the corporation's equity position declines. This has been the case for the last decade of operations. The corporation reports that a growing net assets deficit is not a significant concern as long as operating revenues exceed cash operating expenses. MEDCO reports that net losses and assets deficits are not uncommon for real estate companies. With these companies, the market value of the assets generally exceeds the book value, and MEDCO says that real estate investors look at market value or, more specifically, cash flow coverage rather than book value. Accordingly, MEDCO's operating position (operating revenues exceeding expenses) is positive.

MEDCO's Assets Exclusive of Operating Facilities Remain Positive

Exhibit 1 shows the value of MEDCO's net assets with operating facilities extracted. MEDCO, exclusive of operating facilities, had about $121,000 in net assets in fiscal 2013. The balance has averaged $14.1 million for the last 10 years. These funds represent the accumulation of excess fees over operating expenses that MEDCO attains as it conducts financing transactions each year. Though it remained positive in fiscal 2013, net assets (exclusive of operating facilities) fell considerably. According to the corporation, one-time non-operating losses were realized to facilitate the sale of the Rocky Gap Resort.

Although the corporation was required to realize losses due to the sale, the sale of Rocky Gap also improved the corporation's financial position of its operating portfolio. Post sale, MEDCO has 13 operating facilities in its portfolio. The net assets deficit for these facilities fell to -$188.1 million in fiscal 2013, as shown in Exhibit 1. This marks the first improvement in net assets since fiscal 2002. The operating net assets deficit began to grow dramatically in fiscal 2003. It was at this time that MEDCO greatly expanded its operating facility portfolio, including the Chesapeake Bay Conference Center and several university housing projects. The net assets deficit is a direct result of adding new operating real estate facilities. MEDCO's operating projects often have net income deficits (as explained above), and with the addition of each operating project, a net income deficit is added to the accounts, which in turn adds to the overall net assets deficit. Conversely, the removal of an operating project (Rocky Gap) improves the net asset deficit position.

Exhibit 1
MEDCO Net Assets
Fiscal 2001-2013
($ in Millions)



MEDCO: Maryland Economic Development Corporation

Source: Maryland Economic Development Corporation

Operating Facilities Financial Position

Sale of Rocky Gap Has Significant Impact on Net Assets

Exhibit 2 shows the increases and decreases in MEDCO's net assets by project. Operating facilities' net assets increased by $40.2 million in fiscal 2013. The positive position is due largely to the sale of the Rocky Gap Resort. Absent that project, assets decline about approximately $19.7 million. The primary driver of the decreased assets is depreciation. However, in fiscal 2013, the decline in net assets was partially offset by capital improvements at several of the corporation's operating facilities.

Exhibit 2
MEDCO Increase (Decrease) in Net Assets by Project
Fiscal 2011-2013

	2011	2012	2013	Total Net Assets (Deficit) at End of 2013
University Student Housing				
Morgan State University	-$605,226	$713,432	-$270,791	-$6,514,275
Bowie State University	-51,143	86,099	-396,311	-5,597,586
Frostburg State University	40,818	-324,435	-608,304	-3,836,891
Salisbury University	-212,320	-294,519	294,175	-2,745,013
Towson West	-853,684	-755,126	-221,081	-3,507,071
University of Maryland, Baltimore	-867,496	-504,540	-380,896	-10,310,393
University of Maryland Baltimore County	286,207	470,066	152,626	-2,220,137
University of Maryland, College Park	-3,125,429	-1,862,265	-3,044,343	-19,560,685
University Village at Sheppard Pratt	-666,804	-708,274	-146,973	-9,873,376
Subtotal	***-$6,055,077***	***-$3,179,562***	***-$4,621,898***	***-$64,165,427***
Other Facilities				
Chesapeake Bay Conference Center (Hyatt Cambridge)	-$14,526,159	-$13,895,337	-$15,581,030	-$131,960,964
Shady Grove Innovation Center	158,050	-309,850	12,135	5,080,660
Rockville Innovation Center	-551,423	-144,998	-147,757	-344,435
Rocky Gap Golf Resort	-6,147,219	-5,769,162	59,970,699	0
University of Maryland, College Park Energy	-2,807,083	1,081,999	607,246	3,884,427
Subtotal	***-$23,873,834***	***-$19,037,348***	***$44,861,293***	***-$123,340,312***
Subtotal Operating Facilities	***-$29,928,911***	***-$22,216,910***	***$40,239,395***	***-$187,505,739***
MEDCO Exclusive of Operating Facilities	**-$23,132**	**-$1,453,358**	**-$11,271,036**	**$121,160**
Elimination (Accounting Adjustment)	**$32,432**	**$28,364**	**$28,364**	**-$689,403**
Grand Total	**-$29,919,611**	**-$23,641,904**	**$28,996,723**	**-$188,073,982**

MEDCO: Maryland Economic Development Corporation

Source: Maryland Economic Development Corporation

Operating Income Increased Slightly in 2013; Four Projects Posted a Loss

Exhibit 3 shows MEDCO operating income and loss by project. The data indicates whether projects are bringing in enough revenues to cover annual operating expenses. Operating facilities' income increased to $12.1 million in fiscal 2013, compared to $11.6 million in 2012. However, four projects posted a loss in fiscal 2013. All of the university student housing projects posted gains in each year shown, as did the University of Maryland, College Park energy project. In fiscal 2013, the corporation refinanced three university projects for a total savings of $26.1 million over the life of the bonds.

Exhibit 3
MEDCO Operating Income (Loss) by Project
Fiscal 2011-2013

	2011	2012	2013
University Student Housing			
Morgan State University	$1,560,344	$2,851,454	$1,434,152
Bowie State University	567,778	1,149,554	668,185
Frostburg State University	986,950	593,641	355,184
Salisbury University	512,435	417,575	1,448,194
Towson West	909,926	984,468	2,027,330
University of Maryland, Baltimore	998,838	1,330,651	1,420,285
University of Maryland Baltimore County	1,494,918	1,568,526	1,397,647
University of Maryland, College Park	4,865,552	6,089,032	5,500,544
University Village at Sheppard Pratt	1,133,079	1,169,786	1,293,828
Subtotal	***$13,029,820***	***$16,154,687***	***$15,545,349***
Other Facilities			
Chesapeake Bay Conference Center (Hyatt Cambridge)	-$3,577,916	-$3,001,517	-$5,557,686
Shady Grove Innovation Center	102,744	-282,238	-142,991
Rockville Innovation Center	-633,227	-342,328	-412,810
Rocky Gap Golf Resort	-4,307,611	-3,887,819	-279,027
University of Maryland, College Park Energy	3,348,641	2,952,566	2,948,845
Subtotal	***-$5,067,369***	***-$4,561,336***	***-$3,443,669***
Subtotal Operating Facilities	***$7,962,451***	***$11,593,351***	***$12,101,680***
MEDCO Exclusive of Operating Facilities	**$3,529,674**	**$467,061**	**-$143,432**
Elimination (Accounting Adjustment)	**$32,432**	**$28,364**	**$28,364**
Grand Total	**$11,524,557**	**$12,088,776**	**$11,986,612**

MEDCO: Maryland Economic Development Corporation

Source: Maryland Economic Development Corporation

According to the corporation's financial statement, there are four operating projects identified in fiscal 2013 as "watch" projects for failure to meet debt coverage ratios. Each of these and all other MEDCO projects need to be considered on its own merits because no MEDCO projects are cross-collateralized, and each project must support itself with its own revenues.

- **Chesapeake Bay Conference Center:** The Chesapeake Bay Conference Center is located in Dorchester County. It houses a hotel, golf course, and conference facilities. The project has been designated as a "watch" project for the last four years. Occupancy and associated revenues have been in decline, largely due to the impact of federal sequestration and the general decline of business travel. Last year, MEDCO reported that the hotel would require at least another two years to stabilize. MEDCO secured a management consultant to suggest changes in pricing and expense reductions in order to bring the ratio closer into compliance.

- **Shady Grove Innovation Center:** The center is an incubator space designed for biotechnology and information technology companies. The center was involved in a dispute over the applicability of recordation taxes to the property. The resulting legal expenses incurred led to a decline in the profitability of the center in fiscal 2013. Expenses are expected to be limited to fiscal 2013 only; therefore, the designation of "watch" project is expected to be of short duration.

- **University of Maryland, Baltimore:** The housing project at the University of Maryland, Baltimore is the other repeat project that is considered problematic in the financial statements. The project is reported to be close to 100% occupancy; however, rental rates have been depressed in the vicinity and have failed to meet the original projections.

- **Bowie State University:** This housing project initially encountered problems meeting its debt coverage ratio but had rebounded in recent years. However, in fiscal 2013, enrollment declined at the university; therefore, occupancy has declined. In response, the university has agreed to close a small 20-bed residence hall to encourage occupancy in the MEDCO facility. Additionally, the corporation will retain a consultant to suggest other changes to address the coverage shortfall.

MEDCO became involved in university housing projects in 1999 when the University System of Maryland approached the corporation because the customary owner, the Collegiate Housing Foundation, came under investigation by the Internal Revenue Service. MEDCO studied the cash flow potential of the projects and found it to be solid.

MEDCO believes that university housing is a good fit for its financing, and it plans to continue to become involved in such projects. The corporation reports that the universities, in some instances, do not want to own and operate the facilities themselves; yet, a university campus is not necessarily an ideal environment for a traditional private real estate entity.

MEDCO has explained that it is not unusual for its real estate projects to show deficits, and it cautions that in the case of university housing, deficits are essentially guaranteed. There is a provision in the bond issuances that specifies that excess cash goes back to the university as additional rent or a ground lease rather than into the projects' equity. MEDCO reports that university housing bond issuances usually are structured this way, and it is for this reason that housing bonds are at the low end of investment grade ratings.

The Department of Legislative Services recommends that MEDCO comment on its operating projects and specifically on the designation of four projects as "watch" projects.

Recommended Actions

1. Nonbudgeted.