T00A99
Maryland Economic Development Corporation

Executive Summary

The Maryland Economic Development Corporation (MEDCO) is an instrumentality of the State of Maryland created to serve as a statewide economic development engine. MEDCO has real estate development capabilities and bond issuance powers.

Financial Statement Data

Maryland Economic Development Corporation Financial Statement
Fiscal 2019-2021
($ in Thousands)

	2019	2020	2021	Change 2020-2021
Total Assets	$539,020	$596,701	$640,070	$43,369
Total Liabilities	808,900	898,097	967,123	69,025
Net Assets/Deficit	**-$269,880**	**-$301,396**	**-$327,053**	**-$25,656**
Operating Revenues				
Operating Facilities	$139,830	$112,632	$115,682	$3,050
Other	2,262	2,558	2,768	210
Total Operating Revenues	**$142,091**	**$115,189**	**$118,450**	**$3,260**
Operating Expenses				
Operating Facilities	$96,779	$84,217	$85,593	$1,376
Depreciation/Amortization	30,824	26,215	25,167	-1,048
Administrative and Other	2,097	2,227	2,409	182
Total Operating Expenses	**$129,700**	**$112,659**	**$113,170**	**$510**
Net Operating Income	**$12,391**	**$2,530**	**$5,280**	**$2,750**
Net Nonoperating Income	**-$43,422**	**-$34,046**	**-$30,936**	**$3,110**
Change in Net Position	**-31,031**	**-31,516**	**-25,656**	**5,860**
Net Position, Beginning of Year	-238,849	-269,880	-301,396	-31,516
Net Position, End of Year	**-269,880**	**-301,396**	**-327,053**	**-25,656**

Note: Numbers may not sum due to rounding.

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Key Observations

- MEDCO's income from operating projects ($118.5 million) continued to exceed expenses ($113.2 million) in fiscal 2021, with net operating income rebounding slightly from a fiscal 2020 low of $2.5 million.

- The Chesapeake Bay Conference Center (CBCC) remains a nonperforming project and continues to face ongoing challenges due to the COVID–19 pandemic. One of MEDCO's conduit projects became a nonperforming project in August 2021, and two of MEDCO's nonstudent housing projects are currently in "Watch" status – the Baltimore City Garages project operated by MEDCO and the Purple Line conduit project.

- Revenues at many of MEDCO's student housing facilities were negatively impacted by the transition during the pandemic from in-person to remote and hybrid learning environments. The housing project at University of Maryland, Baltimore Campus (UMB) has been particularly slow to recover, and MEDCO engaged a management consultant to make recommendations for improvements.

Operating Budget Recommended Actions

1. Nonbudgeted.

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Maryland Economic Development Corporation

Operating Budget Analysis

Program Description

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 businesses and to attract new businesses to the State. The stated legislative purpose of the corporation 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 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 Commerce (Commerce). 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 Commerce. 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's 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 322 projects through fiscal 2021. Of these, MEDCO currently owns and operates 15 as operating facilities, meaning that the corporation is involved in management decisions and has a hand in ensuring successful daily operations. For most other projects, MEDCO generally serves as an arms-length financing entity.

The corporation is governed by statute under Sections 10-101 through 10-132 of the Economic Development Article. A 12-member board of directors oversees and approves actions pertaining to the corporation's affairs and appoints the executive director. The Secretary of Commerce and the Secretary of Transportation serve as *ex-officio* voting members. MEDCO's activities complement the marketing and financing programs of Commerce. MEDCO currently has 12 full-time employees.

Overall Financial Position

Net Operating Income Rebounds Slightly from Fiscal 2020 Low

MEDCO operated 15 facilities in fiscal 2021, and the revenues from those facilities contribute to the corporation's bottom line. In fiscal 2021, operating revenues ($118.5 million) increased by 3% from fiscal 2020 and continued to exceed operating expenses ($113.2 million). However, the corporation experienced a net income deficit and, as such, the corporation's equity position declined.

With the exception of fiscal 2017 when MEDCO sold a property, this has been the case for at least the last decade of operations. Noncash expenses, such as depreciation, and nonoperating items, such as interest expense, cause the net income and net asset deficits.

The corporation reports that a growing net asset deficit is not a significant concern as long as operating revenues exceed cash operating expenses. MEDCO notes that net losses and net asset deficits are not uncommon for real estate companies. With these companies, the market value of the assets generally exceeds the book value, and MEDCO reports that real estate investors look at market value or, more specifically, cash flow coverage rather than book value. Accordingly, the MEDCO operating position (operating revenues exceeding expenses) continues to be positive, with net operating income increasing to $5.3 million in fiscal 2021, compared to $2.5 million in fiscal 2020. While an improvement, the net operating income remains significantly lower than in prepandemic years. For example, net operating income totaled $12.4 million in fiscal 2019 and $15.6 million in fiscal 2018.

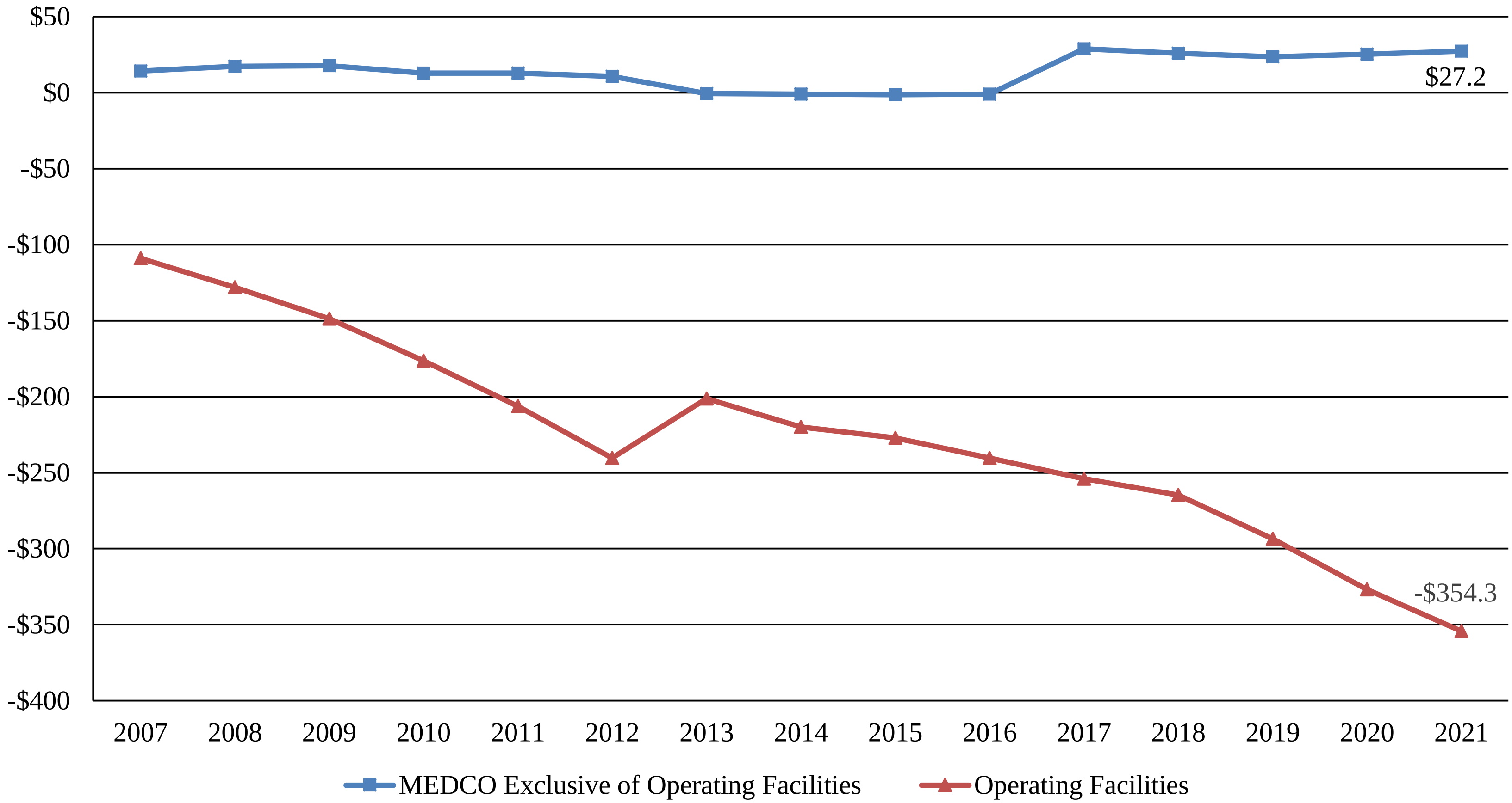
MEDCO issued bonds in December 2020 for a new student housing project at Morgan State University (MSU), known as Thurgood Marshall Hall, which will bring the number of student housing projects operated by MEDCO to 12. The project will include 670 beds and is expected to open by the start of the fall 2022 semester. This project is in addition to the Morgan View student housing project that MEDCO has operated at MSU since 2003.

MEDCO Net Assets in a Negative Position

Historically, MEDCO has been involved in two types of projects: (1) operating projects – where MEDCO is involved in management decisions and has a hand in ensuring successful daily operations; and (2) conduit projects – where MEDCO generally serves only as an arms-length financing entity. **Exhibit 1** shows both the net assets of MEDCO facilities that it operates and those facilities it does not operate. The net assets are comprised primarily of the value of the properties offset by outstanding debt or capital lease obligations. Operating facilities' net assets decreased by $27.1 million in fiscal 2021. The large negative net assets of the operating projects are due to the cumulative effect of year-over-year income deficits, particularly at CBCC. CBCC experienced a decrease in net assets of $21.6 million in fiscal 2021, resulting in a total net asset deficit of $269.1 million for the project at the end of fiscal 2021. MEDCO's net asset deficit also grows as a result of adding new operating real estate projects, which often have net income deficits as explained previously.

MEDCO's involvement in conduit projects, which it does not operate, also impacts the corporation's position as facilities are added to the portfolio or debt is retired. MEDCO's position excluding operating facilities has remained mostly level since fiscal 2017, when the corporation sold the Human Genome Sciences building, resulting in a noncash gain in net assets of $28.3 million.

Exhibit 1
MEDCO Net Assets, Operating and Nonoperating
Fiscal 2007-2021
($ in Millions)



MEDCO: Maryland Economic Development Corporation

Source: Maryland Economic Development Corporation

Operating Facilities Financial Position

Exhibit 2 shows MEDCO operating income and loss by MEDCO-operated projects. This data indicates where projects are bringing in enough revenues to cover annual operating expenses. Operating facilities' net operating income increased to \$3.7 million in fiscal 2021, compared to a low of \$1.0 million in fiscal 2020, but remains significantly below the fiscal 2019 level of \$11.5 million. The increase in fiscal 2021 is driven primarily by \$8.6 million in net operating income at the University of Maryland, College Park Campus (UMCP) student housing project. Six projects posted losses in fiscal 2021.

Exhibit 2
MEDCO Operating Income and Loss by Project
Fiscal 2019-2021

	2019	2020	2021
University Student Housing			
Morgan State University	$1,303,066	$1,600,000	$2,315,798
Bowie State University	748,576	903,521	753,087
Frostburg State University	585,000	808,431	703,484
Salisbury University	1,574,430	1,738,173	1,650,488
Towson West	2,854,797	1,250,869	-766,452
Capitol Technology University	-162,022	190,101	-43,856
University of Maryland, Baltimore Campus	1,400,131	863,569	1,088,215
University of Maryland, Baltimore County	1,539,591	382,075	-239,270
University of Maryland, College Park Campus Housing	5,137,587	3,069,571	8,575,944
University Village at Sheppard Pratt	1,115,547	-46,396	-1,456,114
Subtotal	***$16,096,703***	***$10,759,914***	***$12,581,324***
Other Facilities			
Chesapeake Bay Conference Center (Hyatt Cambridge)	-$5,555,977	-$12,002,978	-$11,453,419
National Cybersecurity Center of Excellence	-155,324	n/a	n/a
Rockville Innovation Center	-94,607	n/a	n/a
Metro Centre	720,594	806,108	780,947
University of Maryland, College Park Campus Energy	-2,209,219	-922,421	-100
Baltimore City Garages	2,678,022	2,371,919	1,797,633
Subtotal	***-$4,616,511***	***-$9,747,372***	***-$8,874,939***
Subtotal Operating Facilities	***$11,480,192***	***$1,012,542***	***$3,706,385***
MEDCO Exclusive of Operating Facilities	**$824,084**	**$1,581,113**	**$1,974,625**
Elimination (Accounting Adjustment)	**-$17**	**-$63,329**	**-$401,009**
Grand Total	**$12,304,259**	**$2,530,326**	**$5,280,001**

MEDCO: Maryland Economic Development Corporation

Note: The figures for Morgan State University include both the Morgan View and Thurgood Marshall Hall projects.

Source: Maryland Economic Development Corporation

Impact of the COVID-19 Pandemic on MEDCO Projects

The COVID-19 pandemic and resulting business and school closures have continued to impact many of MEDCO's projects. MEDCO classifies its projects as "Performing," "Watch," or "Non-performing," and several projects have entered "Watch" or "Non-performing" status during the pandemic.

CBCC was already a nonperforming project prior to the pandemic, and revenues were further reduced by the closure of the facility in March 2020 and the limited capacity following reopening of the hotel in June 2020. CBCC continues to face ongoing challenges due to labor shortages currently affecting the hospitality industry as well as continued reluctance to hold large group events. CBCC was not eligible for federal relief funding such as the Paycheck Protection Program, although the project received an award through the Commerce relief program for hospitality businesses. MEDCO advises that the project is able to cover all operating expenses, but revenues are not sufficient to make full debt service payments. Investors extended a short-term forbearance agreement through the end of December 2021 and are working on a further extension.

One of MEDCO's conduit projects (929 North Wolfe Street in Baltimore City) was classified as "Watch" in fiscal 2019 and entered "Non-performing" status in August 2021. The project failed to meet the required debt service coverage ratio of 1.2 for the second consecutive year, and investors entered into a forbearance agreement through the end of December 2021. The project is in the process of refinancing, which is expected to be complete by the end of January 2022.

The Baltimore City Garages project operated by MEDCO entered "Watch" status in July 2020 when Standard & Poor's downgraded the ratings on several series of bonds for the project to BB-, which is not an investment grade rating. Parking customers in Baltimore City decreased significantly due to pandemic-related closures. The project did not meet required coverage ratios in either fiscal 2020 or 2021, and MEDCO has engaged a parking consultant. Although parking customers have started to increase as economic conditions have improved, MEDCO expects the recovery to be slow.

MEDCO's Purple Line conduit project was classified as "Watch" in August 2020 when Purple Line Transit Partners (PLTP) gave notice of its intent to terminate its agreement with the State. As part of the Settlement Agreement resolving the issues that prompted notice of intent to terminate, the design-build contractor exited the project, and PLTP selected a new design-build contractor in November 2021, pending Board of Public Works approval. To facilitate the transition to a new contractor, PLTP paid off the bonds for the project early in November 2021. It is anticipated that MEDCO will serve as the conduit issuer of new debt to complete construction of the project.

Student Housing

Revenues at student housing facilities, which make up the majority of MEDCO-operated projects, were negatively impacted by the transition during the pandemic from in-person to remote and hybrid learning environments. In March 2020, MEDCO worked with the University System of Maryland (USM) to issue refunds to students living in MEDCO-operated housing projects, and occupancy in some projects remained low through the fall 2020 semester. As a result, several of

MEDCO's student housing projects were classified in "Watch" status during the pandemic: UMCP; University of Maryland Baltimore County (UMBC); UMB; Salisbury University (SU); Towson University (TU); Bowie State University (BSU); and Frostburg State University (FSU). SU, UMCP, and FSU were later removed from "Watch" status.

Most of the projects classified as "Watch" failed to meet the required debt coverage ratio of 1.20 as of the last day of the fiscal year, either at the end of fiscal 2020 or 2021, or both. MEDCO is required to retain a management consultant for these projects. **Exhibit 3** shows the debt coverage ratio at the end of the last three fiscal years, the maximum debt service, and outstanding balance at the end of fiscal 2021 for each housing project. Occupancy at the student housing projects has increased as schools have returned to more in-person learning. Among the four student housing projects still in "Watch" status after fiscal 2021, occupancy at UMB remained the lowest at 65% as of November 2021, while BSU and UMBC had each recovered to 100% occupancy. MEDCO's TU project had 88% occupancy. Although UMB's physical occupancy was 65%, UMB executed resident leases per a contingency agreement, bringing occupancy to 88%.

Exhibit 3
Status of Student Housing Project Debt
($ in Millions)

	Debt Coverage Ratio[1]			Maximum Annual	Outstanding
Project	**Fiscal 2019**	**Fiscal 2020**	**Fiscal 2021**	**Debt Service**	**Balance June 2021**
Bowie State University	1.58	1.33	**1.13**	$1.4	$12.7
Bowie Mixed Use Project	n/a	n/a	n/a	2.6	44.9
Capitol Technology University	1.78	1.66	1.24	0.9	12.8
Frostburg State University	1.57	1.38	1.26	1.2	11.2
Morgan State University	1.56	1.68	1.33	2.4	24.5
Thurgood Marshall Hall (Morgan State University)	n/a	n/a	n/a	6.0	80.8
Salisbury University	2.16	1.49	1.93	2.2	17.5
Towson University	1.59	**1.06**	**0.47**	3.5	36.0
University of Maryland, Baltimore Campus	1.39	**1.16**	**1.15**	1.9	23.2
University of Maryland, Baltimore County	1.79	**1.05**	**0.60**	1.2	15.9
University of Maryland, College Park	1.76	**1.14**	1.41	10.1	113.8
University Village at Sheppard Pratt	2.91	2.27	1.56	1.6	16.2

Note: Bold indicates project that did not meet required coverage ratio.

[1] Debt coverage ratio is the ratio of net operating income to debt service payments. The required coverage ratio is 1.2.

Source: Maryland Economic Development Corporation

MEDCO anticipates that all student housing projects will be able to fund operating expenses and meet their upcoming debt service payments, and MEDCO also expects that all projects with the exception of UMB and FSU will have debt coverage ratios exceeding 1.20 in fiscal 2022. UMB's recovery has been slower than the other schools, and the management consultant hired to evaluate the project made several recommendations for improvement, such as updating furniture and equipment in the units, improved coordination of marketing efforts across UMB schools, targeted marketing to international undergraduate students in the area, and working with UMB to increase security services. Although FSU has exceeded the required debt coverage ratio in each of the last three fiscal years and has not yet failed to meet its financial obligations, MEDCO anticipates that occupancy at the project will decline in the spring 2022 term, and the project is experiencing more bad debt than expected. The project was once again classified as "Watch" in January 2022.

Operating Budget Recommended Actions

1. Nonbudgeted.

Appendix 1
2021 *Joint Chairmen's Report* Responses from MEDCO

The 2021 *Joint Chairmen's Report* (JCR) requested that MEDCO prepare one report. Electronic copies of the full JCR responses can be found on the Department of Legislative Services Library website.

- ***Student Housing Leases:*** The budget committees requested that MEDCO submit a report, in collaboration with USM, on the number of students who have sought and received relief related to the cancellation of leases due to the pandemic at student housing projects owned by MEDCO. The report indicated that MEDCO was able to assist 129 out of the 448 students at TU that sought to cancel their leases, and 162 out of 550 students seeking relief at UMCP. MEDCO noted that agreements reached with these universities were unable to cover certain groups of students, such as those who opted to move into their leased rooms, those who did not provide timely cancellation requests, and students who did not return their keys. Since the report was submitted in July 2021, MEDCO reached additional agreements with the universities to provide further relief to graduating seniors, including 10 additional seniors at UMCP and 15 seniors at TU. MEDCO has not pursued collections for students who did not qualify for relief.