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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 2020-2022
($ in Thousands)

	2020	2021	2022	Change 2021-2022
Total Assets	$596,701	$687,018	$663,140	-$23,878
Total Liabilities	898,307	1,015,791	941,133	-74,658
Net Assets/Deficit	**-$301,606**	**-$328,774**	**-$277,993**	**$50,781**
Operating Revenues				
Operating Facilities	$112,422	$115,682	$155,283	$39,601
Other	2,558	2,586	2,222	-364
Total Operating Revenues	**$114,980**	**$118,268**	**$157,506**	**$39,237**
Operating Expenses				
Operating Facilities	$84,217	$79,224	$99,420	$20,195
Depreciation/Amortization	26,215	27,752	28,653	901
Administrative and Other	2,227	2,325	2,494	169
Total Operating Expenses	**$112,659**	**$109,302**	**$130,567**	**$21,266**
Net Operating Income	**$2,321**	**$8,966**	**$26,938**	**$17,972**
Net Nonoperating Income	**-$34,046**	**-$36,134**	**$23,842**	**$59,976**
Change in Net Position	**-$31,726**	**-$27,168**	**$50,781**	**$77,948**
Net Position, Beginning of Year	-$269,880	-$301,606	-$328,774	-$27,168
Net Position, End of Year	**-$301,606**	**-$328,774**	**-$277,993**	**$50,781**

Note: Numbers may not sum to total due to rounding. During fiscal 2022, MEDCO adopted Government Accounting Standards Board Statement No. 87 related to lease accounting, which also resulted in retroactive modifications to prior year figures.

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Key Observations

- MEDCO's income from operating projects ($155.3 million) continued to exceed expenses ($130.6 million) in fiscal 2022, with net operating income increasing to the highest level in more than a decade.

- The Chesapeake Bay Conference Center (CBCC) remains a non-performing project, although the project experienced positive operating income of $3.6 million in fiscal 2022 with the rebound in travel demand from pandemic lows. The project's net position also increased significantly due to the waiver of $61.0 million in management fees. As a result, the overall net position for MEDCO's operating facilities also increased for the first time since fiscal 2013.

- Revenues at many of MEDCO's student housing facilities were negatively impacted by the transition from in-person to remote and hybrid learning environments during the pandemic. While facilities at most universities recovered during fiscal 2022, three of MEDCO's student housing projects remain in watch status: Frostburg State University (FSU); Towson University (TU); and the University of Maryland, Baltimore Campus (UMB).

Operating Budget Recommended Actions

1. Nonbudgeted.

Updates

- MEDCO adopted its first strategic plan in June 2022. The plan's key pillars include (1) the development of target industries, in cooperation with the Department of Commerce (Commerce); (2) fostering innovation capacity in partnership with Maryland's federal facilities and higher education institutions; (3) inclusive and equitable growth; and (4) strategic placemaking initiatives.

- Chapter 344 of 2022 (the capital budget bill) included an authorization of $2.5 million in general obligation bonds for MEDCO to undertake the development of sensitive compartmented information facilities (SCIF) in Southern Maryland. MEDCO has identified two projects to receive $1.25 million each: (1) construction of a SCIF colocated with the Maryland Technology Center in Charles County to support the expansion of research and development activities of the U.S. Bomb Technician Association; and (2) construction of a SCIF at the St. Mary's County Regional Airport to support the Office of Naval Research. The 2023 capital budget bill as introduced also includes $2.5 million for MEDCO SCIF projects.

- The fiscal 2024 allowance includes $10 million in Commerce for a grant to MEDCO related to the Innovation Economy Infrastructure Act, which has not been introduced as of the time of writing. The funding is contingent on enactment of the legislation. No further detail on the proposed use of these funds is available at this time.

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 Commerce. MEDCO issues bonds to raise funds for its loans. 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 328 projects through fiscal 2022. 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 Increases to Highest Level in More Than a Decade

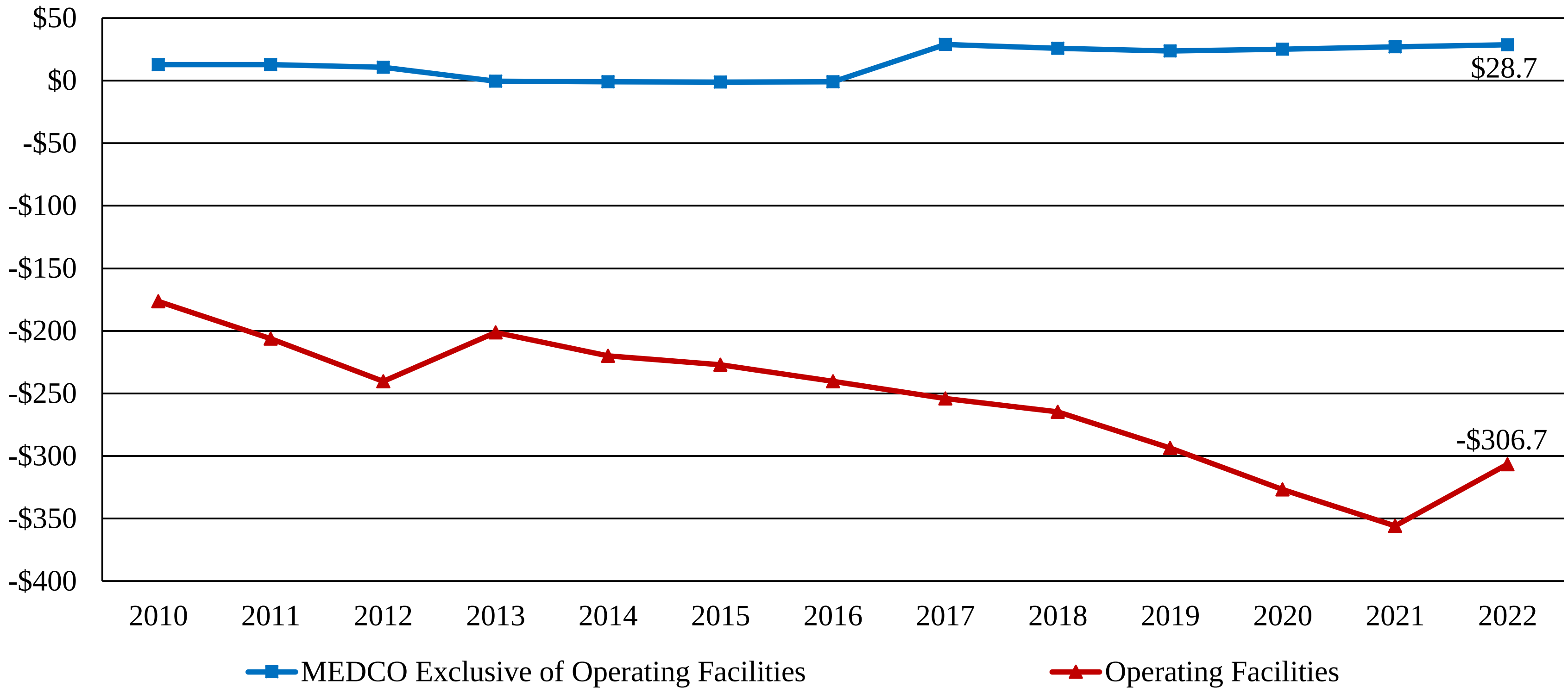
MEDCO operated 15 facilities in fiscal 2022, and the revenues from those facilities contribute to the corporation's bottom line. In fiscal 2022, operating revenues ($155.3 million) increased by 33% from fiscal 2021 and continued to exceed operating expenses ($130.6 million).

The resulting net operating income of $26.9 million represents the highest level in more than a decade of operations, after experiencing a dip in fiscal 2020 and 2021 due to the COVID-19 pandemic.

MEDCO Net Assets Increase but Remain 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** provides information on 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. MEDCO operating projects typically have net asset deficits. In fiscal 2022, operating facilities' net assets increased by $50.8 million, which represents the first increase since fiscal 2013, when MEDCO disposed of its Rocky Gap project. This increase is driven by the recognition of a gain of $61 million at the CBCC project related to a September 2021 agreement with the project manager to waive deferred management fees and interest. Despite the increase, net assets for MEDCO's operating facilities remain in a negative position, with a total net asset deficit of $306.7 million. The net asset deficit is largely due to the addition of new operating real estate projects.

Exhibit 1
MEDCO Net Assets, Operating and Nonoperating
Fiscal 2010-2022
($ in Millions)



MEDCO: Maryland Economic Development Corporation

Note: During fiscal 2022, MEDCO adopted Government Accounting Standards Board Statement No. 87 related to lease accounting, and the data reflect this change beginning with fiscal 2020.

Source: Maryland Economic Development Corporation

The corporation reports that a net asset deficit is not a significant concern as long as operating revenues exceed cash operating expenses, which continues to be the case. 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. The cumulative effect of year-over-year income deficits, particularly at CBCC, also contributes to the net asset deficit. Although CBCC experienced positive operating income and an increase in net assets in fiscal 2022, the project's net asset deficit still totaled $218.9 million at the end of fiscal 2022.

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.

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 $25.5 million in fiscal 2022, compared to pandemic lows of $7.6 million in fiscal 2021 and $1.0 million in fiscal 2020. Two projects posted losses in fiscal 2022, compared to five in fiscal 2021. Net operating income at CBCC, in particular, increased significantly and became positive in fiscal 2022 as travel demand rebounded. The Bowie Mixed Use Project also had positive net operating income of $2.0 million in its first year of operations, contributing to the overall increase.

Exhibit 2
MEDCO Operating Income and Loss by Project
Fiscal 2020-2022

	2020	2021	2022	Change 2021-2022
University Student Housing				
Bowie State University	$903,521	$753,087	$497,759	-$255,328
Bowie Mixed Use Project	n/a	n/a	1,957,884	n/a
Capitol Technology University	190,101	-43,856	-15,577	28,279
Frostburg State University	808,431	703,484	626,387	-77,097
Morgan State University	1,600,000	2,315,798	1,369,170	-946,628
Salisbury University	1,738,173	1,650,488	1,324,534	-325,954
Towson University	1,250,869	-766,452	1,637,554	2,404,006
University of Maryland, Baltimore Campus	863,569	1,088,215	1,208,419	120,204
University of Maryland Baltimore County	382,075	-239,270	1,960,815	2,200,085
UMCP Housing	3,069,571	8,575,944	7,128,738	-1,447,206
University Village at Sheppard Pratt	-46,396	280,276	514,965	234,689
Subtotal	***$10,759,914***	***$14,317,714***	***$18,210,648***	***$3,892,934***
Other Facilities				
Chesapeake Bay Conference Center	-$12,002,978	-$9,332,342	$3,569,321	$12,901,663
Metro Centre	806,108	780,947	1,023,462	242,515
UMCP Energy	-922,421	-100	-100	0
Baltimore City Garages	2,371,919	1,797,633	2,712,855	915,222
Subtotal	***-$9,747,372***	***-$6,753,862***	***$7,305,538***	***$14,059,400***
Subtotal Operating Facilities	***$1,012,542***	***$7,563,852***	***$25,516,186***	***$17,952,334***
MEDCO Exclusive of Operating Facilities	**$1,581,113**	**$1,803,480**	**$1,544,424**	**-$259,056**
Elimination (Accounting Adjustment)	**-$63,329**	**-$401,009**	**-$122,358**	**$278,651**
Grand Total	**$2,530,326**	**$8,966,323**	**$26,938,252**	**$17,971,929**

MEDCO: Maryland Economic Development Corporation
UMCP: University of Maryland, College Park Campus

Note: The figures for Morgan State University include both the Morgan View and Thurgood Marshall Hall projects. During fiscal 2022, MEDCO adopted Government Accounting Standards Board Statement No. 87 related to lease accounting, and the data reflect this change beginning with fiscal 2021.

Source: Maryland Economic Development Corporation

Project Status Updates

MEDCO classifies its projects as "Performing," "Watch," or "Non-performing" based on the project's ability to meet its financial obligations. Currently, the CBCC project is classified as non-performing, and three of MEDCO's student housing projects remain in watch status.

CBCC was already a non-performing project prior to the COVID-19 pandemic, and revenues were further reduced by the closure of the facility in March 2020 and the limited capacity following the reopening of the hotel in June 2020. As noted previously, fiscal 2022 revenues increased significantly along with increased travel demand, which had been suppressed during the pandemic, and as a result, the project had positive net operating income in fiscal 2022. MEDCO reports that occupancy levels at CBCC are at the highest level since calendar 2008. MEDCO advises that the project is able to cover all operating expenses but, despite increases, revenues are still not sufficient to make full debt service payments. The project was able to make additional interest payments of $3.8 million that have not been paid in prior years. Investors have repeatedly extended six-month forbearance agreements over the past several years, and MEDCO anticipates investors will once again extend the agreement through the end of fiscal 2023.

Several of MEDCO's projects that were recently classified as watch or non-performing recovered significantly in fiscal 2022 and have been reclassified as performing:

- MEDCO's conduit project at 929 North Wolfe Street in Baltimore City first entered watch status in fiscal 2019 and became non-performing in August 2021 after failing to meet the required debt coverage ratio for the second consecutive year. The project completed refinancing in 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. Parking customers in Baltimore City decreased significantly due to pandemic-related closures, and MEDCO engaged a parking consultant. Business increased significantly in fiscal 2022, and the project was reclassified as performing as of September 2022.

- 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. To facilitate the transition to a new contractor, PLTP paid off the bonds for the project early in November 2021. In April 2022, MEDCO issued $643.5 million in bonds to complete the project, which has been reclassified as performing.

Student Housing

Revenues at student housing facilities, which make up the majority of MEDCO-operated projects, were negatively impacted by the transition during the COVID-19 pandemic from in-person to remote and hybrid learning environments. Occupancy in several housing projects remained low for an extended period and, as a result, several projects entered watch status. While most watch projects recovered by the end of fiscal 2022, UMB, TU, and FSU have had a slower recovery and were in watch status as of fall 2022. All three projects failed to meet the required debt coverage ratio as of the last day of the fiscal year and, as a result, 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 2022 for each housing project. MEDCO anticipates that all student housing projects will be able to fund operating expenses and meet their upcoming debt service payments.

Exhibit 3
Status of Student Housing Project Debt
Fiscal 2020-2022
($ in Millions)

Project	Debt Coverage Ratio[1] 2020	2021	2022	Maximum Annual Debt Service	Outstanding Balance June 2022
Bowie State University	1.33	***1.13***	2.62	$1.4	$11.9
Bowie Mixed Use Project	n/a	n/a	1.36	2.6	44.9
Capitol Technology University	1.66	1.24	1.51	0.9	12.3
Frostburg State University	1.38	1.26	***1.18***	1.2	10.6
Morgan State University	1.68	1.33	1.89	2.4	21.1
Morgan Mixed Use Project	n/a	n/a	n/a	6.0	80.8
Salisbury University	1.49	1.93	1.97	2.2	16.2
Towson University	***1.06***	***0.47***	***1.16***	3.5	36.0
University of Maryland, Baltimore Campus	***1.16***	***1.15***	***1.15***	1.9	22.4
University of Maryland Baltimore County	***1.05***	***0.60***	1.91	1.2	15.0
University of Maryland, College Park Campus	***1.14***	1.41	1.28	10.1	109.2
University Village at Sheppard Pratt	2.27	1.56	1.66	1.6	15.4

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

Note: Bold and italics indicate projects that did not meet the required coverage ratio.

Source: Maryland Economic Development Corporation

The management consultants hired to evaluate the three watch projects made observations and recommendations for improvement at each project, including:

- ***FSU:*** Declining enrollment at the university is an ongoing challenge for the project, which is not expected to meet the required coverage ratio in fiscal 2023. The consultant recommended minimizing funding for deferred maintenance and cosmetic repairs and exploring the possibility of taking some rooms offline to save on utility costs.

- ***TU:*** The consultant found the project to be well-managed and did not recommend changes and advised that the project continue to develop partnerships with the athletic department, international student services, and admissions in order to maintain the pipeline for residents. The project is leased at 99% as of fall 2022, up from 86% in fiscal 2022, and is expected to meet the required coverage ratio in fiscal 2023.

- ***UMB:*** The project maintains occupancy only a little above 70% and is not expected to meet the required coverage ratio in fiscal 2023. The consultant recommended that the project seek to market the property to a larger audience of students beyond graduate students, including families, international students, or upperclassmen undergraduates. In addition, the consultant recommended utilizing short-term rentals to fill occupancy gaps.

Following the transition to remote learning at the University System of Maryland and Morgan State University in spring and fall 2020, some students living in MEDCO housing projects chose not to return to their campuses and requested refunds. MEDCO reached agreements with each university in order to accommodate these requests and provide relief for qualifying students, and MEDCO did not pursue collections for students that did not qualify for relief. Chapter 183 of 2022 requires MEDCO and universities to provide certain information to students when considering or applying for student housing to clarify the distinction between MEDCO-operated student housing and residence halls owned by the higher education institution.

Operating Budget Recommended Actions

1. Nonbudgeted.