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 2022-2024
($ in Thousands)

	2022	2023	2024	Change 2023-2024
Total Assets	$894,466	$1,019,148	$975,571	-$43,578
Total Liabilities	1,061,975	1,204,896	1,183,203	-21,693
Net Assets/Deficit	***-$167,509***	***-$185,747***	***-$207,632***	***-$21,884***
Operating Revenues				
Operating Facilities	$155,283	$176,948	$182,805	$5,858
Other	15,402	15,730	16,239	509
Total Operating Revenues	**$170,686**	**$192,678**	**$199,045**	**$6,367**
Operating Expenses				
Operating Facilities	$99,775	$111,393	$120,914	$9,521
Depreciation/Amortization	42,684	44,696	46,880	2,183
Administrative and Other	2,594	3,338	4,072	734
Total Operating Expenses	**$145,053**	**$159,427**	**$171,865**	**$12,438**
Net Operating Income	***$25,633***	***$33,251***	***$27,180***	***-$6,071***
Net Nonoperating Income	***$23,842***	***-$38,444***	***-$35,877***	***$2,568***
Change in Net Position	***$49,475***	***-$5,193***	***-$8,697***	***-$3,504***
Net Position, Beginning of Year	-$330,887	-$281,412	-$286,605	-$5,193
Net Position, End of Year	***-$281,412***	***-$286,605***	***-$295,302***	***-$8,697***

Note: Numbers may not sum to total due to rounding. During fiscal 2023, the Maryland Economic Development Corporation adopted Government Accounting Standards Board Statement No. 94, which also resulted in retroactive modifications to prior year figures.

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Key Observations

- Funding is included in the Dedicated Purpose Account (DPA) for two new programs in MEDCO: $10 million for the Strategic Infrastructure Revolving Loan Fund, established by Chapter 449 of 2024; and $7 million for the Certified Sites Program, established by executive order in December 2024.

- MEDCO's net operating income ($27 million) decreased in fiscal 2024, but remained positive, as revenues continued to exceed expenses.

- The Chesapeake Bay Conference Center (CBCC) remains a nonperforming project but posted a positive operating income in fiscal 2024. Since May 1, 2014, CBCC has had a forbearance agreement with the trustee to partially defer interest and principal payments owed. Two student housing facilities are on watch status, while another was taken off the watch list and reclassified as performing.

- The capital budget bill includes funding for two MEDCO projects: a cannabis business incubator, constructed in collaboration with the Maryland Cannabis Administration (MCA); and the Viva White Oak mixed-use development in Montgomery County.

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, 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 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 331 projects since it was established in 1984. Of these, MEDCO currently owns and operates 16 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 §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 19 full-time employees and one temporary part-time employee.

Funding for New Programs

The fiscal 2026 allowance includes funding in DPA for two new programs in MEDCO:

- ***$10 Million for the Strategic Infrastructure Revolving Loan Fund:*** Chapter 449 of 2024 created the fund to make loans for real estate and infrastructure projects in areas designated as sustainable communities, priority funding areas, and transit-oriented development areas.

MEDCO is to prioritize projects that activate underutilized government and institutional property, offer significant development or redevelopment value, leverage private investment, and have the potential for significant job growth or retention. Chapter 449 also allows MEDCO to enter into agreements with local governments to implement tax increment financing (TIF) in certain types of targeted development areas and use TIF alternative revenues for the Strategic Infrastructure Revolving Loan Fund. MEDCO estimates that the $10 million will support three to four major projects, with all funding distributed in fiscal 2026, and anticipates that the fund will require additional funding in future years.

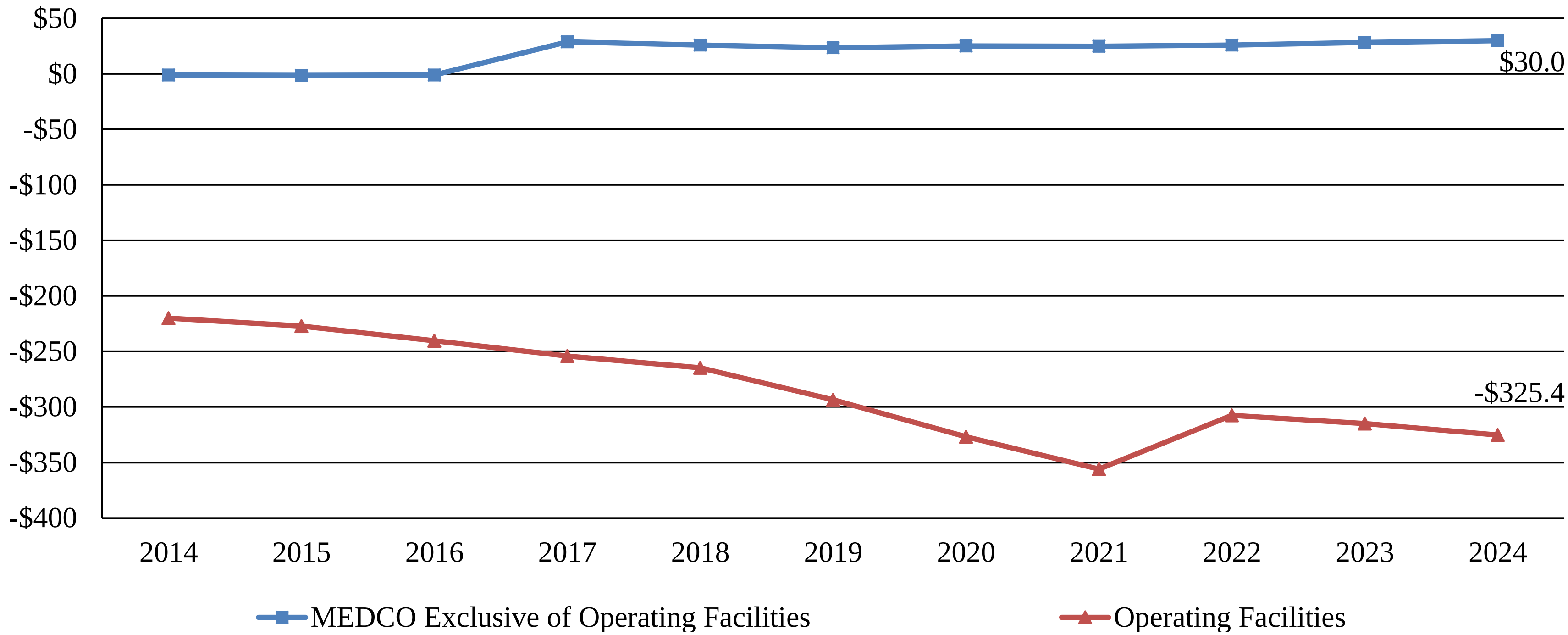
- ***$7 Million for the Certified Sites Program:*** The Certified Sites Program, also referred to as the Maryland Business Ready Sites Program, was established by Executive Order 01.01.2024.39 in December 2024 for MEDCO to identify, invest in, and market sites to businesses. MEDCO reports that the program will be a matching grant program with a 3:1 or 4:1 match to identify strategically valuable commercial and industrial sites that require infrastructure improvements to be immediately offered to new and expanding businesses. The program would aim to increase the availability of such sites to be competitive in attracting and growing businesses. The full $7 million is expected to be expended in fiscal 2026. The executive order, which is discussed in further detail in the budget analysis for T00 – Department of Commerce, also established the Governor's Economic Competitiveness Subcabinet and the Maryland Coordinated Permitting Review Council and appointed the MEDCO executive director to serve as a member of these entities.

Overall Financial Position

MEDCO Net Assets Decrease

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 that 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 2024, the net value of assets decreased overall, attributable to a decrease in the net value of operating facilities.

Exhibit 1
Maryland Economic Development Corporation Net Assets – Operating and Nonoperating
Fiscal 2014-2024
($ in Millions)



MEDCO: Maryland Economic Development Corporation

Note: MEDCO adopted Government Accounting Standards Board Statements (GASB) No. 87 and 94 in fiscal 2022 and 2023, respectively, related to lease accounting, which also resulted in retroactive modifications to prior year figures. The data reflects the adoption of GASB No. 87 beginning with fiscal 2020 and the adoption of GASB No. 94 beginning with fiscal 2021.

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. MEDCO's net operating income is positive overall. 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.

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.

Net Operating Income Decreases

In fiscal 2024, MEDCO's operating revenues ($199 million) increased by 3% from fiscal 2023, and operating expenses ($172 million) increased by 8%. This resulted in a net operating income of $27 million that, while still positive, was lower than the prior year.

Operating Facilities Financial Position

MEDCO operated 16 facilities in fiscal 2024, and the revenues from those facilities contribute to the corporation's bottom line. **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.

Exhibit 2
MEDCO Operating Income and Loss by Project
Fiscal 2022-2024

	2022	2023	2024	Change 2023-2024
University Student Housing				
Bowie State University	$497,759	$1,138,514	$2,130,937	$992,423
Bowie Mixed-Use Project	1,957,884	-435,613	310,652	746,265
Capitol Technology University	-15,577	149,792	436,829	287,037
Frostburg State University	626,387	623,748	666,962	43,214
Morgan State University	1,369,170	6,211,215	5,895,456	-315,759
Salisbury University	1,324,534	1,780,979	1,534,223	-246,756
Towson University	1,637,554	2,961,581	3,047,419	85,838
University of Maryland, Baltimore Campus	1,208,419	1,114,129	1,062,446	-51,683

	2022	**2023**	**2024**	**Change 2023-2024**
University of Maryland Baltimore County	1,960,815	1,552,172	1,480,818	-71,354
UMCP Housing	7,128,738	8,225,455	4,613,475	-3,611,980
University Village at Sheppard Pratt	514,965	80,847	1,424,352	1,343,505
Subtotal	***$18,210,648***	***$23,402,819***	***$22,603,569***	***-$799,250***
Other Facilities				
Annapolis Garage	n/a	$10,528	-$2,446,942	-$2,457,470
Chesapeake Bay Conference Center	$3,569,321	5,459,802	2,068,989	-3,390,813
Metro Centre Garage	1,023,462	1,069,930	1,054,230	-15,700
UMCP Energy	-100	-100	-100	0
Baltimore City Garages	2,712,855	2,931,631	3,498,221	566,590
Subtotal	***$7,305,538***	***$9,471,791***	***$4,174,398***	***-$5,297,393***
Subtotal Operating Facilities	***$25,516,186***	***$32,874,610***	***$26,777,967***	***-$6,096,643***
MEDCO Exclusive of Operating Facilities	**$1,544,424**	**$1,712,884**	**$1,030,624**	**-$682,260**
Elimination (Accounting Adjustment)	**-$122,358**	**-$1,336,443**	**-$628,878**	**$707,565**
Grand Total	**$26,938,252**	**$33,251,051**	**$27,179,713**	**-$6,071,338**

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 2023, MEDCO adopted Government Accounting Standards Board Statement 94, which also resulted in retroactive modifications to prior year figures.

Source: Maryland Economic Development Corporation

MEDCO's net income from facilities declined in fiscal 2024 to about $27 million, which is $6 million less than fiscal 2023, but still slightly higher than fiscal 2022. MEDCO operates the Annapolis Garage project, which includes the Hillman parking garage that opened in June 2023 and some on-street parking, under a concession agreement with the city of Annapolis. Under the agreement, net cash flow is distributed to the city, and that distribution is recorded as an operating expense in MEDCO's books. Although the Annapolis Garage has a positive cash flow, it posted a $2 million loss in fiscal 2024 due to the payments to the city.

Project Status Updates

MEDCO classifies its projects as performing, watch, or nonperforming based on the project's ability to meet its financial obligations. As of September 2024, the CBCC project was nonperforming, and two of MEDCO's student housing projects were in watch status.

CBCC has been classified as nonperforming since fiscal 2014, and revenues were further reduced by the pandemic. Revenues increased in fiscal 2022 and 2023 due to increased travel demand and group sales; however, those increases began to level off in fiscal 2024, and revenue decreased. Residential construction along the golf course that began in April 2022 is expected to have a positive impact on the project as residents would potentially use the golf course and other recreational facilities at the resort. Although revenues are not sufficient to fully fund the project's debt obligations, all of the project's operating expenses are being paid, and payments toward interest have been made, totaling $5.7 million in fiscal 2023 and $602,000 in fiscal 2024. Investors have repeatedly extended six-month forbearance agreements over the past several years, most recently through the end of calendar 2024, and MEDCO expects these agreements to continue to be extended.

Student Housing

Student housing facilities make up the majority of MEDCO-operated projects. A new student housing facility at Morgan State University opened for occupancy in August 2024, shortly after the close of the fiscal year. As of October 2024, housing at the University of Maryland, Baltimore Campus (UMB), and a mixed-use project at Bowie State University were on watch status. The UMB housing has been in watch status since fiscal 2020, and sale of the property is expected to be finalized by the end of January 2025, which will remove the debt for the project from MEDCO's books.

If a property does not meet the minimum debt coverage ratio, MEDCO must hire a consultant to evaluate the project. An evaluation found that the Bowie mixed-use facility's financial challenges came primarily from renters, with contracts for fall 2023, no-showing at the beginning of the semester, leading to low occupancy rates. Leasing management worked to backfill apartments and improve occupancy rates during the semester, and management is changing policies and improving engagement with contracted renters going forward to reduce no-shows and quickly fill empty apartments in the future, consistent with the consultant's recommendations. Frostburg State University housing was removed from watch status in fiscal 2024.

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 2024 for each housing project. Projects are classified under watch status if they do not meet a debt coverage ratio of 1.20 at the end of the fiscal year. 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 2022-2024
($ in Millions)

Project	Debt Coverage Ratio[1] 2022	2023	2024	Maximum Annual Debt Service	Outstanding Balance June 2024
Bowie State University	2.62	2.11	1.42	$1.4	$10.4
Bowie Mixed-Use Project	1.36	1.36	***1.05***	2.6	48.9
Capitol Technology University	1.51	2.11	2.50	0.7	11.3
Frostburg State University	***1.18***	***0.89***	1.73	1.2	9.4
Morgan State University (Morgan View)	1.89	1.23	1.32	2.4	20.9
Morgan Mixed Use Project (Thurgood Marshall)	n/a	n/a	1.32	6.0	83.9
Morgan State University (Legacy Hall)	n/a	n/a	n/a		111.4
Salisbury University	1.97	2.21	2.26	2.2	13.9
Towson University	***1.16***	1.58	1.53	3.5	34.0
University of Maryland, Baltimore Campus	***1.15***	***1.18***	***1.18***	1.9	22.3
University of Maryland, Baltimore County	1.91	1.83	1.85	1.2	13.7
University of Maryland, College Park Campus	1.28	1.58	1.30	10.2	108.0
University Village at Sheppard Pratt	1.66	1.83	2.79	1.6	14.2

[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. Payments for Legacy Hall at Morgan State University are scheduled to begin in fiscal 2029.

Source: Maryland Economic Development Corporation

Capital Budget

Two projects would receive funding through MEDCO in the proposed capital budget: a cannabis business incubator facility developed in partnership with MCA; and a mixed-use development project in Montgomery County. One project that was preauthorized to receive fiscal 2026 funding is not included in the proposed capital budget.

Cannabis Incubator

Chapters 254 and 255 of 2023 required MEDCO to work with the Administration to acquire and construct or refurbish at least one cannabis business incubator space. MEDCO submitted a site report in December 2023, identifying potential sites for incubator spaces and broad cost estimates for establishing incubators. MEDCO received $2 million in general obligation (GO) bonds for the project in the 2023 capital budget; however, the State Treasurer's Office advised that bond funding could not be used for the project as cannabis remains illegal under federal law. The 2025 capital budget bill deauthorizes the $2 million in GO bonds, which the fiscal 2026 budget replaces with a $2 million pay-as-you-go (PAYGO) general fund deficiency appropriation for fiscal 2025 through the Department of General Services (DGS).

The fiscal 2026 allowance also includes $5 million in PAYGO general funds through DGS to renovate the Catonsville Armory building in Baltimore County as a cannabis business incubator. No additional funding is projected for the out-years. Design is anticipated to begin in April 2025, with construction beginning in July 2025 and concluding in July 2026. The Catonsville Armory was not identified in the 2023 site report but was selected because it is already a State-owned facility, is centrally located in the State, and has a reinforced vault. The $7 million total cost for renovating the 29,000-square-foot armory building is close to the site report's sample cost estimate of $7.9 million to equip a hypothetical 30,000-square-foot processing facility. Once constructed, under Chapters 254 and 255, the facility will be transferred to DGS, which will contract with an as-yet-to-be-identified nonprofit organization to operate the incubator. MCA reports that the finished space is expected to serve up to 110 licensed cannabis microprocessors and dispensaries.

Viva White Oak

The 2025 capital budget bill provides $6 million in GO bonds to support the Viva White Oak project, a public-private partnership between Montgomery County and development companies to construct a bioscience-focused mixed-use community on 280 acres in Silver Spring. This funding level matches the amount preauthorized by the legislature in the 2024 capital budget bill. MEDCO is providing project management assistance and expects to begin meeting with the development team and key stakeholders in the first quarter of calendar 2025 to begin project coordination efforts.

Principio Rail Spur

The 2024 capital budget bill provided $1.5 million in GO bonds to MEDCO for the Principio Rail Spur project in fiscal 2025. The rail spur would service planned construction of a calcined clay plant in Cecil County to produce low carbon “clean cement” from by-products of the mining industry. The 2024 capital budget bill also preauthorized $1.5 million for the project in fiscal 2026; however, funding is not included in the capital budget as introduced. MEDCO is providing project management assistance and reports that it is in early discussions with the project developer on capital project planning.

Appendix 1
2024 *Joint Chairmen's Report* Responses from MEDCO

The 2024 *Joint Chairmen's Report* (JCR) requested that MEDCO prepare two reports. Electronic copies of the full JCR responses can be found on the Department of Legislative Services Library website.

- ***Study on Barriers to Accessing Sensitive Compartmented Information Facilities (SCIF) for Small, Woman-, Minority-, and Veteran-owned Businesses:*** Previous MEDCO outreach has found an overall interest in additional SCIF capacity in Maryland and interest in an "as-a-service" model of SCIF access, especially from small businesses that do not have the funding and need for their own facilities. The report did not identify existing barriers for woman-, minority-, and veteran-owned businesses specifically, but MEDCO notes that the main barrier for small businesses is the exorbitant cost for development of SCIF spaces and the limited availability of cost-effective access to such spaces. MEDCO is currently overseeing public-private partnerships to construct SCIFs in Southern Maryland through a total of $5 million in GO bonds provided in the 2022 and 2023 legislative sessions and reports that it continues to receive requests to support the development of SCIF infrastructure in Southern Maryland and statewide. Other State programs that could support SCIF development include the Build Our Future Grant Program and the Employer Security Clearance Costs Tax Credit, both administered by Commerce; however, the grant program has not so far approved any funding for SCIF related projects, and the tax credit program is limited to administrative costs, rather than the capital costs of SCIF construction. MEDCO proposes the creation of a new $10 million Maryland Secure Infrastructure Fund to support SCIF construction and related entrepreneurial programming.

- ***Study on Funding Strategies Related to Redevelopment Projects:*** The JCR requested a report on how different jurisdictions link state revenue streams to redevelopment, specifically on new strategies around bonding specific state revenue streams to large redevelopments and arts entertainment sports (AES) districts. MEDCO's report recommends exploring nontraditional revenue sources to support bonding for AES districts, including State-owned assets such as parking facilities and buildings within the districts, during the beginning of project negotiations. The report also said Maryland should consider expanding its use of TIF to capture revenue generated not just through property taxes but by local consumer spending, tourism, and other economic activities. Finally, the report recommended studying the use of new and re-emerging financing mechanisms such as land value capture and land value tax.