

T50A99
Maryland Economic Development Corporation

Financial Statement Data

Maryland Economic Development Corporation Financial Statement
Fiscal 2003 – 2005
(\$ in Thousands)

	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>	<u>Change FY 04-05</u>
Net Assets	\$1,538,451	\$1,689,613	\$1,702,562	\$12,949
Net Liabilities	1,541,414	1,712,806	1,754,417	41,611
Fund Equity	-\$2,963	-\$23,193	-\$51,854	-\$28,661
Total Revenue	\$68,302	\$77,172	\$97,753	\$20,581
Total Expenditures	93,941	99,151	124,665	25,514
Net Income	-\$25,639	-\$21,979	-\$26,911	-\$4,932

- The Maryland Economic Development Corporation (MEDCO) removed \$1,750,000 in capital grants from government agencies for the Eastern High School incubator project in Baltimore City from MEDCO financial statements. The \$1,750,000 project was added to MEDCO financial statements in fiscal 2004.

Maryland Economic Development Corporation Financial Statement
Change in Fund Equity and Net Income by Source
Fiscal 2003 – 2005
(\$ in Thousands)

	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>	<u>Change FY 04-05</u>
Operating Facilities	-\$24,104	-\$46,895	-\$67,776	-\$20,882
Other Operations	21,140	23,702	15,922	-7,780
Fund Equity	-\$2,964	-\$23,193	-\$51,854	-\$28,661
Operating Facilities	-\$25,210	-\$22,791	-\$20,882	\$1,909
Other Operations	-429	811	-6,030	-6,841
Net Income/-deficit	-\$25,639	-\$21,980	-\$26,911	-\$4,932

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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Analysis in Brief

Major Trends

Revenue Bonds: Revenue bonds issued by MEDCO have increased from \$321 million in 1999 to just under \$2 billion.

Issues

Audited Financial Statements for Fiscal 2005 Not Completed: MEDCO should terminate the financial statement and audit contract with KPMG for non-performance and retain a new accounting firm for fiscal 2006 financial statements.

Rocky Gap Losses Continue to Mount: Currently, the Rocky Gap Lodge and Golf Resort is not generating enough revenue to cover operating expenses and debt service.

Chesapeake Bay Conference Center Deficit: The Hyatt Cambridge Chesapeake Bay Conference Center opened in 2002. MEDCO needs to explain when this project will be profitable for the State.

Student Housing Projects: The student housing projects collectively show a net income deficit with four of eight projects experiencing management problems.

Recommended Actions

1. Nonbudgeted.

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Operating Budget Data

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 (DBED) and Transportation serve as ex-officio voting members. MEDCO's activities complement the marketing and financing programs of DBED. There are currently eight full-time and two part-time professional staff members.

Enacted as emergency legislation, Chapter 338, Acts of 2001 amended MEDCO's corporate powers to conform to current practices. In addition, MEDCO's statutory authority was amended to be more consistent with the Maryland Economic Development Revenue Bond Act (MEDRBA) and economic development revenue bond enabling legislation in effect in other states which are competing with the State for economic development opportunities. For example, Chapter 338 amended MEDCO's legislative purpose to be virtually identical to those of the MEDRBA which governs all local bond issuing authorities (1) relieving the conditions of unemployment in the State; (2) encouraging the increase of business activity and commerce and a balanced economy in the State; (3) assisting in the retention and attraction of new business activity in the State; (4) promoting economic development; and (5) generally promoting the present and prospective health, happiness, safety, right of employment, and general welfare of State residents.

MEDCO's 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. The debt consists primarily of revenue bonds issued by the corporation – which are not obligations of the State – and notes payable to government agencies such as DBED. The debt represents non-recourse obligations of the corporation because MEDCO is not liable to bondholders and lenders in the event of project or borrower default. Because MEDCO debt is not debt of the State or of MEDCO and each project has to support itself from its own revenues and no projects are cross-collateralized, there is no implied State guaranty or State obligation to protect bondholders from losses.

Fiscal 2005 Financial Statements

Based on the financial statements prepared by KPMG, as shown in the first table on page 1 of this analysis, MEDCO's total revenues increased \$20.6 million from fiscal 2004 to 2005, but the total expenditures increased \$25.5 million more than the total revenues. This resulted in the indicated \$4.9 million increase in the net income deficit to \$26.9 million in fiscal 2005.

MEDCO's equity position declined an additional \$28.7 million while MEDCO incurred a \$26.9 million net income loss in fiscal 2005. The difference is reflected in a \$1,750,000 capital project grant, received in fiscal 2004, that was returned in fiscal 2005.

MEDCO received \$750,000 from the City of Baltimore, Baltimore Development Corporation (BDC) and \$1,000,000 from the Maryland Technology Development Corporation for the development of an incubator project in the former Eastern High School. During the course of the 2005 financial audit, MEDCO reviewed the documents associated with the deal and decided that the city through BDC has all of the risks and possible rewards of ownership including the requirement to fund operating cash flow needs, debt repayment, and grant repayments if required. Accordingly, MEDCO decided to remove this project from its financial statements in fiscal 2005.

In fiscal 2005, net liabilities increased \$41.6 million while net assets increased \$12.9 million. The \$26.9 million net income deficit and the return of the \$1,750,000 resulted in a \$51.9 million write-down of MEDCO's fund equity in fiscal 2005. As recently as fiscal 2002, MEDCO had a positive equity position of \$22.7 million.

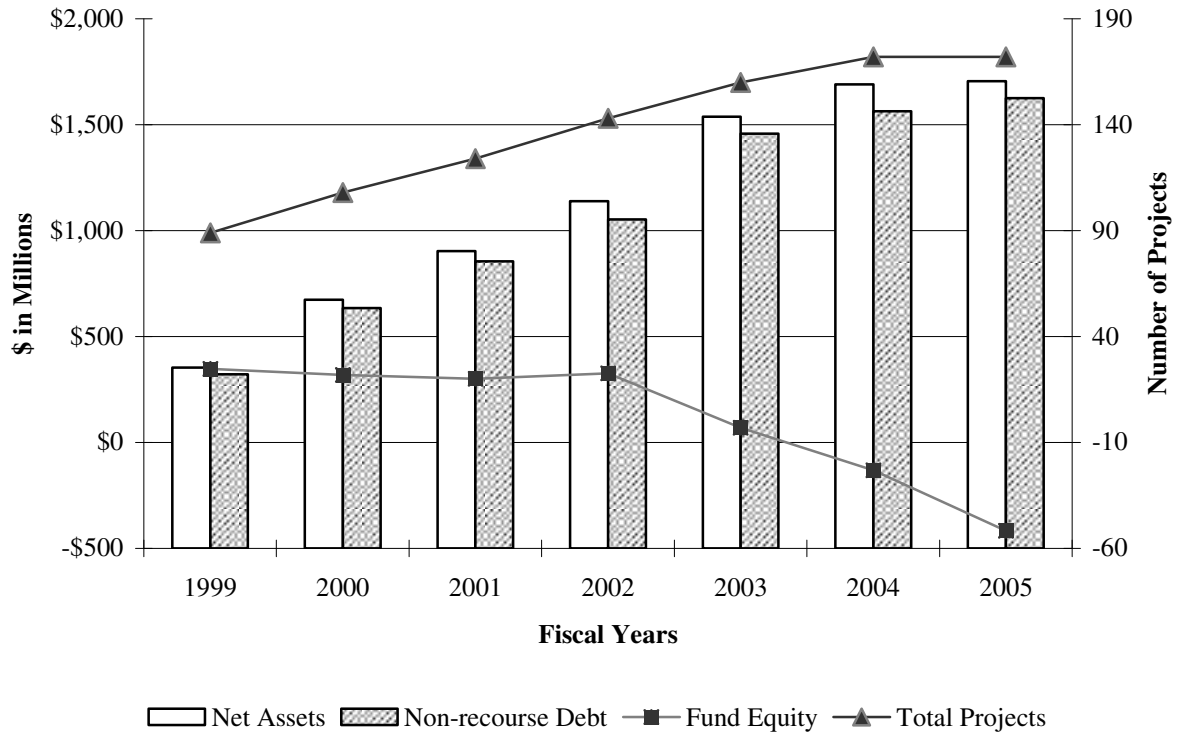
As indicated in the second table on page 1 of this analysis, most of MEDCO's operating deficit can be attributed to the accumulated losses of its operating facilities, but \$6 million of the loss can be attributed to losses in MEDCO's non-operating facilities. Collectively, the losses in its operating facilities increased dramatically to \$25.2 million in fiscal 2003 from \$4.9 million in fiscal 2002, and there has been little improvement in the last three years.

Losses from operating facilities decreased approximately \$2.4 million in fiscal 2004 and \$1.9 million in fiscal 2005, primarily due to reduced losses at the Chesapeake Bay Conference Center (CBCC) in Cambridge and the Rocky Gap Lodge and Golf Resort.

Performance Analysis: Managing for Results

There has been a significant increase in MEDCO's financial assistance activity since fiscal 1999. The cumulative number of projects assisted by MEDCO has increased from 88 to 172 from 1999 through 2005. As a result, the corporation's debt has also increased significantly. As shown in **Exhibit 1**, the corporation's non-recourse debt has increased from \$321.0 million in fiscal 1999 to \$1.624 billion in fiscal 2005. **Appendix 1** provides a listing of all MEDCO bonds and notes payable. Appendix 1 indicates that MEDCO's debt was \$1.665 billion on June 30, 2005, when

**Exhibit 1
MEDCO Assets/Non-recourse Debt/Fund Equity
Fiscal 1999 – 2005**



Source: Maryland Economic Development Corporation

notes are included. It should be noted that three obligations on the bottom of page 16 of this analysis – Eastern HS Hopkins, \$1,701,097; Eastern HS EDA and Eastern HS DBED, \$500,000 – related to the Eastern High School incubator project, will be removed from Appendix 1. This compares to growth in net assets from \$352.8 million in fiscal 1999 to \$1.7 billion in fiscal 2005. Since 1999 the rate of growth in the corporation’s non-recourse debt has exceeded the rate of growth in net assets.

MEDCO’s non-recourse debt includes two bond issues related to Baltimore/Washington International Thurgood Marshall Airport (BWI) noted in Appendix 1 – a \$223,660,000 Maryland Aviation Administration (MAA) 2003 revenue bond issue and a \$33,000,000 Maryland Department of Transportation (MDOT) headquarters 2002 revenue bond issue. The MAA revenue bond is rated AAA, and the MDOT headquarters issue is rated AA+ by Standard & Poor’s. Both issues have been converted to lease/purchase leases.

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The MAA issue financed construction of piers A & B for Southwest Airlines at BWI, while the MDOT headquarters revenue bond financed construction of MDOT headquarters at an alternative site so that the former MDOT headquarters site could be used for the construction of additional BWI parking garages.

The corporation’s total fund equity has decreased from positive \$24.7 million in fiscal 1999 to negative \$51.9 million in fiscal 2005 as a result of continued and growing operating losses at its operating facilities, primarily CBCC, Compass Pointe, and Rocky Gap. However, all of MEDCO’s operating facilities are stand-alone projects; no projects are cross collateralized, and each project must support itself by its own revenue generation.

Exhibit 2 – Statement of Net Change in Assets – indicates that MEDCO’s net assets declined overall by \$4,931,700 in fiscal 2005. MEDCO’s non-operating assets were \$894,987 in fiscal 2004 but declined to a deficit of \$6,005,409 in fiscal 2005. However, the \$6,005,409 deficit reflects the loss of \$6,747,050 from the sale of the Kelly Springfield headquarters in Cumberland and the Shire Pharmaceuticals facility in Owings Mills. MEDCO will argue that in both cases it walked away from the settlement table with cash. MEDCO attributes the losses in both cases from the debt being repaid faster than the buildings were depreciated, leaving more assets than liabilities on the balance sheet at the time of sale.

Exhibit 2
Maryland Economic Development Corporation
Statement of Net Change in Assets
Fiscal 2004 – 2005

<u>Projects</u>	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>	<u>Change 04-05</u>
MEDCO Non-operating Projects⁽¹⁾	\$894,987	-\$6,005,409	-\$6,900,396
University Student Housing			
Morgan State University (MSU)	-1,427,792	-947,843	479,949
Bowie State University (BSU)		-195,615	-195,615
Frostburg State University (FSU)	-530,983	-877,825	-346,842
Salisbury University (SU)		-114,900	-114,900
University of Maryland, Baltimore (UMB)		-1,482,195	-1,482,195
University of Maryland Baltimore County (UMBC)	132,703	-891,384	-1,024,087
University of Maryland, College Park (UMCP) Housing	-195,570	-539,956	-344,386
University Village	-1,544,504	-1,454,519	89,985
Subtotal	-\$3,566,146	-\$6,504,237	-\$2,938,091

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<u>Projects</u>	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>	<u>Change 04-05</u>
Chesapeake Bay Conference Center (CBCC) (Hyatt Cambridge)	-\$13,898,041	-\$7,894,846	\$6,003,195
Chesapeake Hills Golf Course	-372,236	-526,601	-154,365
Compass Pointe Golf Course	-1,186,771	-2,203,613	-1,016,842
Maryland Technology Development Center	-25,174	181,833	207,007
Rocky Gap Golf Course	-5,573,876	-4,316,759	1,257,117
University of Maryland, College Park Energy Elimination	1,831,319	382,578	-1,448,741
Total	-\$21,979,740	-\$26,911,440	-\$4,931,700

⁽¹⁾ The fiscal 2005 deficit reflects the loss of \$6,747,050 relating to the disposition of the former Kelly Springfield Headquarters in Cumberland and the Shire Pharmaceuticals facility in Owings Mills. MEDCO non-operating projects would have a net gain of \$761,641 if the loss is ignored.

Source: Maryland Economic Development Corporation

The remaining problem projects include four of eight university student housing losses (where collectively the deficit increased by \$2,938,091) and the increased loss of \$1,016,842 from the Compass Pointe Golf Course project in Anne Arundel County. The remaining two problem projects are the CBCC Hyatt Cambridge project and Rocky Gap. While there was a \$6,003,195 improvement in the CBCC and a \$1,257,117 improvement in Rocky Gap performance, both projects have substantial deficits – a \$7,894,846 deficit for CBCC and a \$4,316,759 deficit for Rocky Gap.

The changes in net deficit analysis in **Exhibit 3**, indicates that three projects – CBCC, Compass Pointe, and Rocky Gap – account for \$14,415,218 of the deficit while the university housing projects collectively account for \$6,504,237 of the \$26,911,440 net deficit and decrease in MEDCO’s net assets. Since the close of fiscal 2005, Anne Arundel County has taken over the Compass Pointe Golf Course project and provided a \$26 million payment to MEDCO, sufficient to defease the \$17,600,000 obligations on the Compass Pointe bonds. MEDCO will argue that most of the deficit can be attributed to depreciation expense. Exhibit 3 indicates that when depreciation expenses are added back, the overall deficit is \$1,378,124. When the \$1,438,079 deficit for Compass Pointe is deducted, MEDCO is basically a breakeven operation on a net cash basis. It should be noted that the depreciation allowance for university housing (\$8,679,658), CBCC (\$6,817,288), and Rocky Gap Lodge and Golf Resort (\$882,583) are real expenses for these facilities. Reserves for depreciation are needed for facility renewal, equipment, and furniture replacements in these facilities.

Exhibit 3
Maryland Economic Development Corporation
Statements of Revenue, Expenses, and Changes in Net Deficit by Project
Fiscal 2005

	Operating		Income (Loss)	Non-operating		Net Assets	Add Back	Net Cash
	Revenue	Expenses		Revenue	Expenses	Increase (Decrease)	Depreciation	
MEDCO Exclusive of Facilities	\$13,824,004	-\$6,240,746	\$7,583,258	\$22,040,789	-\$35,629,456	-\$6,005,409	\$3,910,744	-\$2,094,665
Student Housing								
MSU	4,418,284	-3,219,732	1,198,552	198,147	-2,344,542	-947,843	1,391,792	443,949
BSU	2,548,048	-1,894,263	653,785	102,660	-952,060	-195,615	800,411	604,796
FSU	1,816,647	-1,684,888	131,759	76,326	-1,085,910	-877,825	569,350	-308,475
SU	1,593,863	-1,109,681	484,182	66,150	-665,232	-114,900	611,288	496,388
UMB	2,245,420	-2,318,294	-72,874	221,215	-1,630,536	-1,482,195	1,217,567	-264,628
UMBC	3,696,908	-3,404,337	292,571	217,303	-1,401,258	-891,384	1,632,091	740,707
UMCP Housing	5,209,972	-3,412,670	1,797,302	255,330	-2,592,588	-539,956	1,396,240	856,284
University Village	4,443,571	-3,809,168	634,403	70,440	-2,159,362	-1,454,519	1,060,919	-393,600
Subtotal	\$25,972,713	-\$20,853,033	\$5,119,680	\$1,207,571	-\$12,831,488	-\$6,504,237	\$8,679,658	\$2,175,421
CBCC (Hyatt Cambridge)	\$39,751,060	-\$36,857,891	\$2,893,169	\$2,190,299	-\$12,978,314	-\$7,894,846	\$6,817,288	-\$1,077,558
Chesapeake Hills Golf Course	668,456	-851,001	-182,545	13,558	-357,614	-526,601	105,741	-420,860
Compass Pointe Golf Course	2,011,920	-2,723,583	-711,663	104,964	-1,596,914	-2,203,613	765,534	-1,438,079
Maryland Technology Development Center	1,343,222	-1,145,508	197,714	292,962	-308,843	181,833	250,366	432,199
Rocky Gap Golf Resort	9,572,614	-11,042,475	-1,469,861	6,131	-2,853,029	-4,316,759	882,583	-3,434,176
UMCP Energy	5,602,684	-9,752,070	-4,149,386	7,496,531	-2,964,567	382,578	4,145,048	4,527,626
Elimination	-993,398	969,012	-24,386	0	0	-24,386	-23,646	-48,032
Grand Total	\$97,753,275	-\$88,497,295	\$9,255,980	\$33,352,805	-\$69,520,225	-\$26,911,440	\$25,533,316	-\$1,378,124

Source: Maryland Economic Development Corporation

Issues

1. Audited Financial Statements for Fiscal 2005 Not Completed

Article 83A Title 5-212 requires MEDCO to provide a financial statement on or before November 1 following the end of each fiscal year. MEDCO has not provided the required financial statement for fiscal 2005 which ended June 30, 2005, as of February 16, 2006. Furthermore, MEDCO has failed to meet the statutory deadline in at least the last five years beginning with fiscal 2001. MEDCO provided a draft financial statement on January 27, 2006, to the Department of Legislative Services (DLS). MEDCO has since provided DLS with additional documents – a cash flow analysis dated February 10, 2006, and revised combined divisional combining financial statements on February 13, 2006. The more recent documents indicate that there have been substantial revisions to the draft financial statement provided on January 27, 2006. The lack of a completed financial statement by the required deadline makes it nearly impossible for DLS to provide the budget committees with an accurate analysis of MEDCO operations when the numbers are constantly changing for a fiscal year that closed on June 30, 2005.

MEDCO has indicated that even though KPMG has failed to provide the required financial statements to meet the statutory deadline, KPMG still gets paid for their work without penalty. If KPMG is not paid, KPMG would do no work for MEDCO. There is some evidence to suggest that KPMG overcharges for its work. MEDCO indicated that KPMG charged \$48,000 to prepare the CBCC statements. Hyatt has indicated to MEDCO that these statements usually cost \$28,000 for Hyatt's other properties.

DLS recommends that MEDCO terminate the contract with KPMG for non-performance after the financial statements for fiscal 2005 are completed and retain a new accounting firm for fiscal 2006 financial statements.

2. Rocky Gap Losses Continue to Mount

Rocky Gap Lodge and Golf Resort consists of a 220-room hotel and conference center and an 18-hole Jack Nicklaus Signature golf course situated on approximately 260 acres within Rocky Gap State Park. MEDCO's accounting systems control several operating facilities including Rocky Gap. The financial statement for Rocky Gap, shown in **Exhibit 4**, indicates a significant net income loss each year from fiscal 2001 through 2005. Net losses decreased approximately \$1.9 million in fiscal 2005, but revenue still falls short from covering operating expenses and debt service. The decrease in net loss is primarily due to improved bookings that resulted from the expansion of meeting and banquet facilities as well as other improvements such as upgrades to the pool, spa, and restaurant. Prior to these improvements, the hotel did not have sufficient meeting and conference room space if the hotel were fully booked.

Exhibit 4
Rocky Gap Financial Statement
Fiscal 2001 – 2005
(\$ in Thousands)

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>Change FY 04-05</u>
Revenue	\$9,730 *	\$8,707	\$8,212	\$7,727	\$9,573	\$1,846
Total Expenditures	13,194	14,156	14,798	13,301	13,889	13,889
Net Income (Loss)	-\$3,464	-\$5,449	-\$6,586	-\$5,574	-\$4,317	\$1,257
Assets	\$38,027	\$35,757	\$34,958	\$34,458	\$33,458	-\$1,000
Liabilities	38,995	42,186	47,972	53,036	56,353	3,317
Equity	-\$968	-\$6,429	-\$13,014	-\$18,578	-\$22,895	-\$4,317

*Additional revenue of \$890,847 derived from capital project grants from various government agencies reduced net income losses to \$3.5 million for fiscal 2001.

Numbers may not sum to total due to rounding.

Source: Maryland Economic Development Corporation fiscal 2001 through 2004 financial statements and preliminary financial statement tables for 2005

Currently, Rocky Gap is not generating sufficient cash flow to service interest payments on its \$26.3 million senior priority debt held by bond investors, and the bonds are in default. In addition to the senior debt, there is a second bonded debt of \$3,470,000 in default together with \$8,454,837 in public fund loans advanced to Rocky Gap. The bondholders have agreed not to exercise their rights to foreclosure, and the interest holiday was again extended through June 30, 2006, to protect working capital. In addition, in previous years, Rocky Gap has been forced to borrow short-term funds to cover payroll during the slow winter months.

DLS recommends that MEDCO brief the committees on the losses associated with the Rocky Gap project and the financial outlook for fiscal 2006 through 2007. MEDCO should also comment on the potential impact these losses may have on MEDCO and the State’s investment and on options for the State if Rocky Gap is unable to become profitable.

3. Chesapeake Bay Conference Center Deficit

The Hyatt Cambridge CBCC opened in 2002. MEDCO needs to explain when this project will be profitable for the State.

CBCC shows a net deficit or decrease in net assets of \$7,894,846 in fiscal 2005. While this is a vast improvement from the \$13,898,041 net deficit in fiscal 2004, this is still a problem project four years after opening. While net income improved dramatically in 2005 after a \$2,033,927 loss in 2004, CBCC's net operating income of \$2,893,169 in 2005 did not cover \$10,788,015 in net interest expenses in fiscal 2005. The situation would have been much worse but for a bookkeeping adjustment. Actual interest expenses were \$12,978,314 in fiscal 2005, but MEDCO offset this by a \$1,509,500 unrealized gain on investment securities and interest earnings of \$680,799. The \$1.5 million gain is not a recurring revenue.

Even after adding back the \$6,817,288 depreciation expenses, Exhibit 3 indicates that CBCC net cash is \$1,077,558 short of covering interest expenses for the year and would have been short \$2,587,058 without the bookkeeping adjustment. CBCC is able to meet interest payments through cash flow by deferring management fees and other deferred expenses. However, interest payments only cover the camel's nose; CBCC is not currently repaying principal on outstanding debt. Appendix 1 indicates that outstanding debt for CBCC is \$179,181,568 and that fiscal 2005 debt service did not include repayment of principal. This will be reduced by \$6 million to reflect a recent sale of land to a developer.

One unusual provision should be noted. The replacement of furniture, fixtures, and equipment has priority over the payment of principal and interest.

DLS recommends that MEDCO brief the committees on when net operating income will become sufficient to cover principal and interest payments on this debt and how capital facility renewal expenses and replacement of furniture and equipment will be replaced if reserves are used to cover debt service.

4. Student Housing Projects

Due to the State's scarce resources in 2002, Maryland colleges turned to student housing revenue bonds to finance the construction of student housing that did not use the State AAA general obligation or revenue bonds issued by the University Auxiliary Enterprise Accounts that have traditionally financed student housing in the past. MEDCO has issued \$245.3 million in non-recourse revenue bonds for the eight projects listed in **Exhibit 5**.

The student housing projects listed in Exhibit 5 collectively show a net income deficit of \$6,504,237 but a positive balance of \$2,175,421 when the \$8,679,658 depreciation expense is added back in as previously noted in Exhibit 3. Each of the projects is a different deal, stands on its own

Exhibit 5
MEDCO-owned – To Be Owned by Institutions When Debt Is Extinguished

<u>Student Housing</u>	<u>Beds</u>	<u>Debt (\$ in Millions)</u>	<u>Occupancy Rate</u>
UMBC, Baltimore County	581	\$37.5	97%
FSU, Allegany County	400	17.9	95%
MSU, Baltimore City	796	38	87%
UMCP, College Park	788	51.9	100%
UMB, Baltimore City	337	34.4	69%
BSU, Prince George’s County	470	21.5	100%
SU, Wicomico County	312	16.4	100%
University Village at Sheppard Pratt, Baltimore County	615	27.7	96%
Total	4,299	\$245.3	

Source: Maryland Economic Development Corporation

with a separate non-recourse bond issue, and should be analyzed on its own merits. Each of the bond indentures requires funding of equipment replacement and facility renewal reserves. All of the projects have sufficient cash flow to currently meet debt service by deferring the payment of management fees to MEDCO and ground rent or by diverting reserves funds for maintenance, capital facility renewal and equipment and furniture replacement. Annual depreciation expenses are used to fund reserves for facility renewal, equipment, and furniture replacement. In addition, the projects typically have reserves outside the annual revenue stream for capitalized interest expenses in the first year or so to cover debt service until the project revenue stream is stabilized.

Four of the eight projects are currently experiencing management problems. MEDCO has replaced, or is currently replacing, the managers for Bowie State University (BSU), Frostburg State University (FSU), Morgan State University (MSU), and University of Maryland, Baltimore (UMB) student housing projects.

BSU, with a positive cash flow after adding back depreciation, only includes 10 months of interest payments in fiscal 2005, and the audit of the project is not complete. The occupancy rate for BSU is 100%. It is likely that net income will be reduced because of problems collecting receivables from students who are not paying their room and board. Many of the students are receiving federal assistance, and when the students receive their checks, many are using the money for other expenses. MEDCO and BSU need to take steps to intercept these payments to collect room and board.

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UMB, which shows a net income deficit of \$1,482,195 and a \$264,628 deficit after adding back depreciation, is in fact struggling. The developer is also the manager for the project and has a competing apartment complex that provides student housing near the campus that has a 90% occupancy rate while UMB is struggling with a low 69% occupancy rate.

FSU with a \$877,825 net income deficit and a \$308,475 deficit after adding back depreciation, is another project where MEDCO has replaced the project manager. The FSU project had a low occupancy rate because of competing in-town housing but now has a 95% occupancy rate.

The MSU project with a net income deficit of \$947,843 is another problem project with a low occupancy rate of 87% and where MEDCO is attempting to replace the project manager.

The University Village project has a net income \$1,454,519 deficit that includes ground rent and management fees paid to MEDCO as an annual expense. Since inception, nearly \$1,150,000 in ground rent and over \$100,000 in deferred management fees have not been paid, and the cash flow generated has been used to pay debt service. MEDCO reports all reserves for University Village are fully funded, and payments on ground rent and management fees will commence when excess reserves meet a prescribed level which is projected to happen in fiscal 2007.

All of the student housing projects were undertaken based on a feasibility study that demonstrated a need for additional student housing. All of the projects are now completed and open with at least a full year of occupancy. The common thread on the entire student housing problem projects is the lack of school involvement to insure the success of the project.

- School finances were not in jeopardy so the universities are not working to insure project success; MEDCO is responsible for financing the project, but MEDCO likely did not select the manager and probably not the developer.
- Two projects – UMB and MSU – do not have a high occupancy rate to provide sufficient funds to cover reserves and debt service.
- At BSU and MSU, many students receiving federal financial assistance checks are not paying their room and board bills.
- Schools are not taking action to hold students accountable for paying room and board bills.
- The schools have not implemented or enforced regulations to require students to live on campus when there are vacant campus housing units.
- Project managers are not aggressively getting students to sign room and board contracts before the fall term begins.

It is recommended that MEDCO brief the committees on what steps it is taking to address the above problems. It is also recommended that MEDCO provide a detailed spreadsheet on each student housing project that fully and separately discloses all revenue including accounts receivables and all obligations including debt service, management fees, ground rent, and reserves.

Recommended Actions

1. Nonbudgeted.

**Maryland Economic Development Corporation Long-term Debt
Bonds and Notes Payable**

<u>Description</u>	<u>Balance 6/30/2004</u>	<u>Amortization Premium/ Discount</u>	<u>Proceeds from Issuance/Draws</u>	<u>Principal Payments</u>	<u>Unadjusted Balance 6/30/2005</u>
Marble Source	\$710,265			-\$24,058	\$686,207
UMBC Research	727,238			-39,123	688,115
Maryland Brush	1,012,198			-66,892	945,306
Harbor East	2,153,965			-542,719	1,611,246
Bagby/Skylar	878,876			-79,974	798,902
Gene Logic	233,897			-32,143	201,754
Allegany County	1,265,885			-1,265,885	0
TRA Loan	1,036,885			-47,646	989,239
Allegheny County	180,000			-180,000	0
MDOT	788,541			-788,541	0
Osiris	19,839			-4,870	14,969
Chesapeake College	863,044			-36,627	826,417
Honeywell	1,567,019			-66,379	1,500,640
Honeywell	1,247,856			-221,259	1,026,597
UMBC Tech Center	4,171,788			-178,060	3,993,728
Simon Pearce	1,804,986			-66,966	1,738,020
Sunny Day HGS	1,569,741			-96,017	1,473,724
DBED HGS	2,250,000			-157,895	2,092,105
MILA HGS	1,658,713			-82,611	1,576,102
Allegheny Tech	632,524			-52,478	580,046
GM MICRF	1,589,892			-130,397	1,459,495
Esskay MICRF	287,326			-30,117	257,209
Merkle	1,147,664			-31,838	1,115,826
Esskay BRIPP	300,000				300,000
HGSI	3,000,000				3,000,000
DBED Hyatt	6,000,000				6,000,000
DBED Giant	1,250,000				1,250,000
Merkle Conditional	32,000				19,757
Eastern HS Hopkins	1,701,097				1,626,690
Eastern HS EDA	1,075,000				1,075,000
Eastern HS DBED	500,000				400,000

<u>Description</u>	<u>Balance 6/30/2004</u>	<u>Amortization Premium/ Discount</u>	<u>Proceeds from Issuance/Draws</u>	<u>Principal Payments</u>	<u>Unadjusted Balance 6/30/05</u>
Kelly Springfield	3,700,000			-3,700,000	0
NIRO	9,782,693			-9,782,693	0
Guilford	470,588			-470,588	0
DHMH 92	3,560,000			-3,560,000	0
DHMH #3	3,355,000			-95,000	3,260,000
Gull Creek	7,755,000				7,755,000
GRAFCO	2,400,000			-600,000	1,800,000
Rock Glen	8,835,000				8,835,000
Osiris	1,389,683			-288,428	1,101,255
Chimes	1,030,389			-151,338	879,051
Ravenwood	16,225,000				16,225,000
UniSite	1,955,000			-340,000	1,615,000
Southern Galvanizing	1,698,777			-166,666	1,532,111
COPS Caroline County	3,615,000			-110,000	3,505,000
Jenkins Memorial	4,150,000			-215,000	3,935,000
J.C. Parry	1,862,573			-442,126	1,420,447
Human Genome	37,910,000			-735,000	37,175,000
Crescent Cities	9,190,000			-100,000	9,090,000
Dixon Valve	1,815,000			-425,000	1,390,000
Chimes 96	641,669			-73,333	568,336
Cinder Block & Concrete	255,396			-50,185	205,211
Catterton Printing	2,330,000			-175,000	2,155,000
Morrison Health Care	2,750,000				2,750,000
Dixie Printing	4,223,815			-292,030	3,931,785
Dietz & Watson	3,300,000			-160,000	3,140,000
Assoc. Jewish Charities	18,990,000			-340,000	18,650,000
Chesapeake Bay	9,440,000			-300,000	9,140,000
Corporate Press	1,141,628			-247,095	894,533
Monocracy Assoc.	1,213,543			-54,287	1,159,256
Victor Graphics A	4,175,000			-990,000	3,185,000
Vintage Lumber	486,617			-247,494	239,123
Salisbury State A	17,475,000			-300,000	17,175,000
University Court A	25,350,000			-425,000	24,925,000
Towson University A	18,415,000			-200,000	18,215,000
Catholic Charities A	2,655,000			-130,000	2,525,000

<u>Description</u>	<u>Balance 6/30/2004</u>	<u>Amortization Premium/ Discount</u>	<u>Proceeds from Issuance/Draws</u>	<u>Principal Payments</u>	<u>Unadjusted Balance 6/30/05</u>
Catholic Charities B	1,575,000			-75,000	1,500,000
Goodwill Ind. of Chesapeake	3,090,000			-75,000	3,015,000
BWI	11,220,000			-135,000	11,085,000
Lenmar	4,720,000			-4,720,000	0
BARC	5,545,000			-185,000	5,360,000
E.J. Schmitz Printing	2,135,000			-2,135,000	0
Lutheran Relief	5,825,000			-90,000	5,735,000
MD Soccer Plex	13,115,000			-330,000	12,785,000
South Campus	58,150,000			-1,130,000	57,020,000
Hunter Douglas	6,800,000				6,800,000
Erickson 2000	29,901,343			-2,852,676	27,048,667
AFCO II	4,200,000			-700,000	3,500,000
Taylor Property	1,360,000			-169,000	1,191,000
Allegany Dorms	8,190,000			-105,000	8,085,000
Joe Corbi	1,425,000			-175,000	1,250,000
Chesapeake Eng	3,105,000			-315,000	2,790,000
ARC of Howard Co	1,037,132			-381,015	656,117
Legal Aid	2,700,000			-110,000	2,590,000
Mt. St. Joseph	3,806,025			-82,623	3,723,402
Pharmaceutics	6,200,000			-430,000	5,770,000
Todd Allen	1,795,000			-360,000	1,435,000
Bindagraphics	4,500,000			-500,000	4,000,000
CWI	6,730,000			-195,000	6,535,000
Gamse	3,555,000			-385,000	3,170,000
American Health	3,435,000			-185,000	3,250,000
Goodwill Monocracy Valley	1,917,954			-42,356	1,875,598
HGSI	73,000,000				73,000,000
Linemark Printing	2,018,092			-334,290	1,683,802
UCP	2,309,500			-80,000	2,229,500
Industrial Refrigeration	1,600,833			-85,000	1,515,833
Waste Mgmt	10,200,000				10,200,000
Chimes/Intervals	2,193,785			-133,334	2,060,451
CCC Industries	2,434,667			-99,200	2,335,467
MDOT	34,655,000			-1,380,000	33,275,000
Premium on MDOT	390,206			-21,779	368,427
FASEB	13,000,000			0	13,000,000

<u>Description</u>	<u>Balance 6/30/2004</u>	<u>Amortization Premium/ Discount</u>	<u>Proceeds from Issuance/Draws</u>	<u>Principal Payments</u>	<u>Unadjusted Balance 6/30/05</u>
Catholic Charities	5,265,000			-275,000	4,990,000
Mirage Tucker	2,725,000			-100,000	2,625,000
American Urological	10,200,000			-200,000	10,000,000
Phoenix Technologies	2,500,000			-100,000	2,400,000
Associated Jewish 2002	25,000,000			-25,000,000	0
Town Square	25,010,000			-1,630,000	23,380,000
Town Square premium	766,607	-63,009			703,598
Wayne Avenue A	30,280,000			-2,140,000	28,140,000
Wayne Avenue premium	1,200,882	-98,703			1,102,179
Wayne Avenue B	750,000			-240,000	510,000
YMCA	16,300,000			-1,750,000	14,550,000
MD Science Center	14,000,000			0	14,000,000
Stromberg Sheet Metal	890,536			-109,464	781,072
Hilton St 2003	2,790,000			-150,000	2,640,000
LTS	28,160,000				28,160,000
LTS discount	-17,040	835			-16,205
AFCO 2003	2,690,000			-50,000	2,640,000
UM Alumni	11,270,000				11,270,000
Hardwood Mills	2,951,345			-180,781	2,770,564
Blind Industries	10,000,000			-200,000	9,800,000
Goodwill International	3,700,000			-400,000	3,300,000
WYPR	4,616,693		1,096,112	-382,981	5,329,824
Bechdon	1,160,039			-109,432	1,050,607
American Red Cross	4,250,000				4,250,000
Schmitz re-issue	0		2,135,000	-150,000	1,985,000
US Pharmacopeial	0		87,495,000		87,495,000
Ottenberg Bakers	0		73,863		73,863
Providence Center	0		5,000,000		5,000,000
ACC 2004	0		7,735,000		7,735,000
Assoc Jewish 2004/2004	0		10,000,000	25,000,000	35,000,000
Arundel Lodge	0		2,329,078		2,329,078
Prologue	0		3,500,000		3,500,000
Har/Bel	0		780,000	-27,857	752,143
YMCA Washington	0		419,526		419,526
Subtotal MEDCO Only	\$819,492,210	-\$160,877	\$120,563,579	-\$55,767,196	\$884,127,715

<u>Description</u>	<u>Balance 6/30/2004</u>	<u>Amortization Premium/ Discount</u>	<u>Proceeds from Issuance/Draws</u>	<u>Principal Payments</u>	<u>Debit</u>	<u>Credit</u>	<u>Adjusted Balance 6/30/2005</u>
UM Baltimore	\$34,400,000						\$34,400,000
UM Baltimore Series B	510,000						510,000
UM Baltimore discount	-574,313	\$19,634					-554,679
Bowie State	21,470,000			-\$395,000			21,075,000
Bowie Bond Discount	-133,880	4,630					-129,250
UM Capstone	51,535,000			-895,000			50,640,000
UM Capstone Premium	788,323	-25,498					762,825
North Arundel Golf/Compass	416,300						416,300
Compass Pointe	17,600,000						17,600,000
Frostburg	17,220,000			-240,000			16,980,000
Frostburg discount	-365,760	12,505					-353,255
Frostburg Series B	695,000						695,000
Calvert County	0		\$375,776		-\$33,029		342,747
Chesapeake Hills	3,940,000			-65,000			3,875,000
FF&E Hyatt	12,836,400						12,836,400
Operating Loan Clark	3,000,000						3,000,000
Operating Loan Hyatt	3,000,000						3,000,000
FF&E Hyatt	1,213,600						1,213,600
Operating Loan Quadrangle	3,000,000						3,000,000
Hyatt N/P Pre-opening Loan	2,000,000						2,000,000
Chesapeake Hyatt	1,966,568						1,966,568
Hyatt surcharge bonds			12,000,000				12,000,000
Hyatt Resort	134,165,000						134,165,000
MAA B/P	223,660,000						223,660,000
MAA Premium on B/P	7,335,190	-283,030					7,052,160
Morgan State	38,025,000						38,025,000
Contra B/P Morgan State	-735,732	24,524					-711,208
Morgan Series B	1,007,000			-707,000			300,000
MTDC	3,820,000			-165,000			3,655,000
Rocky Gap N/P- MEDAAF	3,954,837						3,954,837
Rocky Gap DEED	3,000,000						3,000,000
Rocky Gap	1,500,000						1,500,000
Rocky Gap 96A	26,300,000						26,300,000
Rocky Gap 96B	3,470,000						3,470,000
Salisbury B/P	16,410,000			-265,000			16,145,000
Salisbury Bond Discount	-320,081	10,699					-309,382

<u>Description</u>	<u>Balance 6/30/2004</u>	<u>Amortization Premium/ Discount</u>	<u>Proceeds from Issuance/Draws</u>	<u>Principal Payments</u>	<u>Debit</u>	<u>Credit</u>	<u>Adjusted Balance 6/30/2005</u>
Sheppard Pratt- LOC Payable	538,290			-215,778			322,512
Sheppard Pratt	3,589,542			-132,204			3,457,338
Sheppard Pratt	27,735,000			-360,000			27,375,000
B/P Contra Sheppard Pratt	-312,069	10,761					-301,308
UMBC Dorms	37,500,000			-640,000			36,860,000
UMCP Energy B/P	72,675,000			-3,130,000			69,545,000
UMCP Bond Premium Adjustments	1,301,020	-86,734					1,214,286
Separate Companies and State Agencies	\$779,135,235	-\$312,509	\$12,375,776	-\$7,209,982	-\$33,029		\$783,955,491
Subtotal MEDCO Only	\$819,492,210	-\$160,877	\$120,563,579	-\$55,767,196	-\$3,101,690	\$6,563	\$881,032,589
Grand Total MEDCO Bond Funds	\$1,598,627,445	-\$473,386	\$132,939,355	-\$62,977,178	-\$3,134,719	\$6,563	\$1,664,988,080