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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 2021-2023
(\$ in Thousands)

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>Change</u> <u>2022-2023</u>
Total Assets	\$944,326	\$894,466	\$1,019,148	\$124,683
Total Liabilities	1,149,560	1,061,975	1,204,896	142,921
Net Assets/Deficit	-\$205,234	-\$167,509	-\$185,747	-\$18,238
Operating Revenues				
Operating Facilities	\$116,037	\$155,283	\$176,948	\$21,664
Other	14,248	15,402	15,730	328
Total Operating Revenues	\$130,285	\$170,686	\$192,678	\$21,992
Operating Expenses				
Operating Facilities	\$79,224	\$99,775	\$111,393	\$11,618
Depreciation/Amortization	41,783	42,684	44,696	2,012
Administrative and Other	2,425	2,594	3,338	743
Total Operating Expenses	\$123,432	\$145,053	\$159,427	\$14,374
Net Operating Income	\$6,853	\$25,633	\$33,251	\$7,618
Net Nonoperating Income	-\$36,134	\$23,842	-\$38,444	-\$62,286
Change in Net Position	-\$29,281	\$49,475	-\$5,193	-\$54,668
Net Position, Beginning of Year	-\$301,606	-\$330,887	-\$281,412	\$49,475
Net Position, End of Year	-\$330,887	-\$281,412	-\$286,605	-\$5,193

Note: Numbers may not sum to total due to rounding. During fiscal 2022 and 2023, MEDCO adopted Government Accounting Standards Board Statements No. 87 and 94 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 facilities (\$176.9 million) continued to increase in fiscal 2023 and continued to exceed operating facilities expenses (\$111.4 million).
- Operations began at two new MEDCO-operated facilities in fiscal 2023: a student housing project at Morgan State University (MSU); and a parking garage in Annapolis. These projects brought in new revenues as well as additional costs, but both posted net positive incomes for the year. Another student housing project at MSU is under construction and expected to open in August 2024.
- The Chesapeake Bay Conference Center (CBCC) remains a nonperforming project, but it posted a positive operating income in fiscal 2023. 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 remain on watch status, while another was taken off the watch list and reclassified as performing.

Operating Budget Recommended Actions

1. Nonbudgeted.

Updates

- Under the Cannabis Reform Act (Chapter 255 of 2023), MEDCO was tasked with identifying potential sites for incubator spaces in certain areas of the State. Following a survey of county partners, MEDCO submitted a report identifying 37 potential incubator sites.

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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 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 330 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 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 15 full-time employees and 2 consultants.

Overall Financial Position

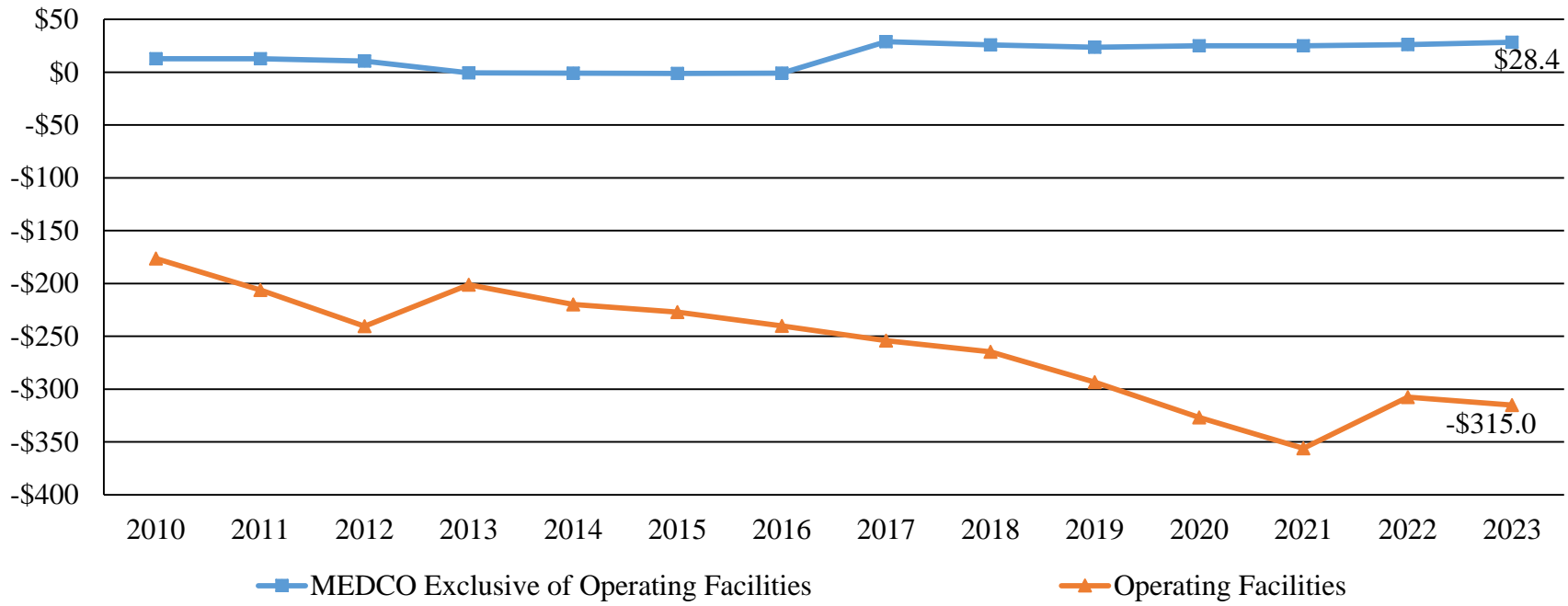
MEDCO Net Assets Decrease

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

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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 2023, the net value of assets decreased overall.

Exhibit 1
Maryland Economic Development Corporation Net Assets – Operating and Nonoperating
Fiscal 2010-2023
(\$ 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

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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. Despite positive operating income, CBCC’s net asset deficit worsened in fiscal 2023 to a total of \$226.8 million.

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.

Net Operating Income Continues to Increase

MEDCO operated 16 facilities in fiscal 2023, and the revenues from those facilities contribute to the corporation’s bottom line. In fiscal 2023, operating revenues (\$192.7 million) increased by 11% from fiscal 2022 and continued to exceed operating expenses (\$159.4 million), for a net operating income of \$33.3 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.

Exhibit 2
MEDCO Operating Income and Loss by Project
Fiscal 2021-2023

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>Change</u> <u>2022-2023</u>
University Student Housing				
Bowie State University	\$753,087	\$497,759	\$1,138,514	\$640,755
Bowie Mixed Use Project	n/a	1,957,884	-435,613	-2,393,497
Capitol Technology University	-43,856	-15,577	149,792	165,369
Frostburg State University	703,484	626,387	623,748	-2,639
Morgan State University	2,315,798	1,369,170	6,211,215	4,842,045
Salisbury University	1,650,488	1,324,534	1,780,979	456,445

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	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>Change 2022-2023</u>
Towson University	-766,452	1,637,554	2,961,581	1,324,027
University of Maryland, Baltimore Campus	1,088,215	1,208,419	1,114,129	-94,290
University of Maryland Baltimore County	-239,270	1,960,815	1,552,172	-408,643
University of Maryland, College Park Campus (UMCP) Housing	8,575,944	7,128,738	8,225,455	1,096,717
University Village at Sheppard Pratt	280,276	514,965	80,847	-434,118
Subtotal	\$14,317,714	\$18,210,648	\$23,402,819	\$5,192,171
Other Facilities				
Annapolis Garage	n/a	n/a	\$10,528	\$10,528
Chesapeake Bay Conference Center	-\$9,332,342	\$3,569,321	5,459,802	1,890,481
Metro Centre	780,947	1,023,462	1,069,930	46,468
UMCP Energy	-100	-100	-100	0
Baltimore City Garages	1,797,633	2,712,855	2,931,631	218,776
Subtotal	-\$6,753,862	\$7,305,538	\$9,471,791	\$2,166,253
Subtotal Operating Facilities	\$7,563,852	\$25,516,186	\$32,874,610	\$7,358,424
MEDCO Exclusive of Operating Facilities	\$1,803,480	\$1,544,424	\$1,712,884	\$168,460
Elimination (Accounting Adjustment)	-\$401,009	-\$122,358	-\$1,336,443	-\$1,214,085
Grand Total	\$8,966,323	\$26,938,252	\$33,251,051	\$6,312,799

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Note: The figures for Morgan State University include both the Morgan View and Thurgood Marshall Hall projects. During fiscal 2022 and 2023, MEDCO adopted Government Accounting Standards Board Statements No. 87 and 94 related to lease accounting, which also resulted in retroactive modifications to prior year figures.

Source: Maryland Economic Development Corporation

MEDCO's income from facilities grew in fiscal 2023 to \$33 million, which is \$7 million higher than the prior year. Two projects posted losses in fiscal 2023. The Bowie Mixed Use project, which is a student housing facility, posted a loss, primarily due to increases in ground rent and property operating costs. Housing at Capitol Technology University, which posted a loss in fiscal 2022, had positive income in fiscal 2023. A new housing facility at MSU opened in August 2022, which accounts in part for the large increase in income there.

Revenue from parking garages also increased over the past couple of years, as more people attended events outside of the home. MEDCO entered into a concession agreement with the city of Annapolis to operate the new Hillman Garage, which opened in June 2023.

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 2023, the CBCC project was nonperforming, and two of MEDCO’s student housing projects were in watch status.

CBCC was already a nonperforming project prior to the COVID-19 pandemic, and revenues were further reduced by the pandemic. Fiscal 2022 revenues increased significantly along with increased travel demand, which had been suppressed during the pandemic, but additional staffing needs, supply chain issues, and inflation led to increased operating costs. Residential construction along the golf course that began in April 2022 is expected to have a positive impact on the project. MEDCO advises that the project is able to cover all operating expenses, but revenues are still not sufficient to make full debt service payments. Investors have repeatedly extended six-month forbearance agreements over the past several years, most recently through the end of calendar 2023, and MEDCO expects these agreements to continue to be extended.

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. As of September 2023, student housing projects at Frostburg State University and the University of Maryland, Baltimore Campus remain in watch status because they have not met the required debt coverage ratio. The student housing at Towson University, which was on watch status as of September 2022, has since been reclassified as a performing project.

During fiscal 2023, MEDCO’s student housing facilities reported more than 97% occupancy, with more than half fully occupied. MEDCO reports that student housing income has fully recovered from the pandemic as of fiscal 2022. A new student housing facility is under construction at MSU and expected to open for occupancy in August 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 2023 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 2021-2023
(\$ in Millions)

<u>Project</u>	<u>Debt Coverage Ratio¹</u>			<u>Maximum</u> <u>Annual</u> <u>Debt</u> <u>Service</u>	<u>Outstanding</u> <u>Balance</u> <u>June 2023</u>
	<u>2021</u>	<u>2022</u>	<u>2023</u>		
Bowie State University	<i>1.13</i>	2.62	2.11	\$1.4	\$11.1
Bowie Mixed Use Project	n/a	1.36	1.36	2.6	44.5
Capitol Technology University	1.24	1.51	2.11	0.9	11.8
Frostburg State University	1.26	<i>1.18</i>	<i>0.89</i>	1.2	9.9
Morgan State University	1.33	1.89	1.23	2.4	20.9
Morgan Mixed Use Project	n/a	n/a	n/a	6.0	80.8
Salisbury University	1.93	1.97	2.21	2.2	14.9
Towson University	<i>0.47</i>	<i>1.16</i>	1.58	3.5	34.2
University of Maryland, Baltimore Campus	<i>1.15</i>	<i>1.15</i>	<i>1.18</i>	1.9	21.6
University of Maryland, Baltimore County	<i>0.60</i>	1.91	1.83	1.2	14.0
University of Maryland, College Park Campus	1.41	1.28	1.58	10.1	104.3
University Village at Sheppard Pratt	1.56	1.66	1.83	1.6	14.5

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

Updates

- Under the Cannabis Reform Act (Chapter 255), MEDCO was tasked with identifying potential sites for incubator spaces in certain areas of the state. The law provided for up to 10 incubator space licenses for incubators that could be used by entities with “micro licenses” to grow, process, or dispense cannabis. Following a survey of county partners, MEDCO identified 37 potential incubator sites; these are included in MEDCO’s site report submitted to the legislature in December 2023. In the future, the law also requires MEDCO to work with the Administration to acquire and construct or refurbish at least one incubator space.

Operating Budget Recommended Actions

1. Nonbudgeted.