

FINANCE PROGRAMS

**THE ECONOMIC DEVELOPMENT
OPPORTUNITIES PROGRAM
(SUNNY DAY)**

**ANNUAL FINANCIAL STATUS REPORT
FISCAL YEAR 2005
STATE FINANCE & PROCUREMENT
ARTICLE**

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Maryland Department of Business and Economic Development

As of June 30, 2005

THE ECONOMIC DEVELOPMENT OPPORTUNITIES PROGRAM (SUNNY DAY)

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DEPARTMENT OF BUSINESS AND ECONOMIC DEVELOPMENT

ECONOMIC DEVELOPMENT OPPORTUNITIES PROGRAM FUND (SUNNY DAY)

History and Program Description

The Economic Development Opportunities Program Fund (“Sunny Day”) was created by statute in 1988 to enable Maryland to act on extraordinary economic development proposals that required financial assistance beyond the capabilities of other state and local financing programs. The Sunny Day Fund is a non-lapsing revolving fund administered by the Department of Business and Economic Development (the “Department”). Under this program, funds are loaned, granted or invested to assist in the retention and expansion of existing business in Maryland, or the establishment and attraction of new business in Maryland.

Under the program, the Department is required to submit an analysis of each Sunny Day proposal as part of the approval request process to the Legislative Policy Committee of the Maryland General Assembly. The analysis must include, among other things, a description of the projected economic impact and the number and type of jobs to be created and/or retained as a result of the project. The Department focuses significant attention on the analysis of a request and the projected economic impact before approval. The Department must also conduct substantial monitoring actions after an incentive has been approved and funded. Agreements carry strict performance requirements, including; capital investments within specified time frames; job creation over a fixed period of time; maintenance of certain jobs levels for a specified time period, usually 3-5 years; and reporting of financial information, employment information and capital investment information on a periodic basis.

The Statute requires that each Sunny Day project be deemed an extraordinary economic development opportunity, as defined by the following criteria:

- The borrower must maintain a strong financial condition and a minimal risk profile
- The borrower is capable of accessing alternative sources of financing through financial institutions or capital markets
- Minimum of 5:1 capital investment by the company for each \$1 of Sunny Day funds
- The borrower’s business is consistent with the strategic plan of the State for economic development
- The borrower creates or retains substantial employment, particularly in areas of high unemployment

Additionally, the Department requires the local jurisdiction to participate by providing any one or a combination of the following: a loan, a conditional loan, a grant, an in-kind contribution, job training funds, tax credits, tax increment financing or below market contributions.

Actual Program Performance From Inception through June 30, 2005

As of June 30, 2005, the Department had closed a total of one hundred-eleven (111) Sunny Day transactions for a total aggregate original balance of \$151,655,498. Of that total seventy-three (73) transactions totaling \$101,120,944 were structured as loans or conditional loans, thirty-six (36) transactions totaling \$41,534,554 were structured as grants or conditional grants, and two (2) transactions totaling \$9,000,000 were structured as investments. The above assistance has contributed to the retention of 35,022 jobs, the creation of 22,866 new jobs, and capital investment of \$2,224,172,518.

Based on the full or partial achievement of performance requirements for the assistance provided under the program, thirty-three (33) conditional grants or loans totaling \$33,188,121 have been either fully or partial forgiven. In contrast, as a result of not fully achieving all performance criteria, nineteen (19) conditional grants and loans with an aggregate original amount of \$18,732,000 have been subject to clawbacks of \$11,519,499.

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In fiscal year 2005, the program had charge-off activity of one (1) loan for \$2,500,000. The Sunny Day program has had historical total gross charge-offs of \$8,743,889 since inception of the program, comprised of three (3) loans totaling \$6,243,889 charged off in fiscal year 2004 and the above one (1) loan totaling \$2,500,000 charged off in fiscal year 2005. Through the end of fiscal year 2005 there had been no recoveries from the charged off loans.

General economic conditions, combined in some cases with specific industry conditions, have resulted in several credit problems within the active portfolio over the last several fiscal years. At the end of fiscal year 2005 there were three (3) companies within the active portfolio that were in bankruptcy or who had a parent that was in bankruptcy. This involves loans, conditional loans, and conditional grants for a total aggregate original approved amount of \$8,500,000. This amount is comprised of three (3) charged off loans totaling \$6,500,000 and one (1) other conditional grant of \$2,000,000. The Department continues to monitor the business activities of these distressed operations and works to support potential restructures that result in continued employment, which stays within the original scope of the projects.

As of June 30, 2005, the total outstanding active portfolio consisted of thirty three (33) loans, conditional loans, conditional grants, and investments with a total original approved balance of \$69,497,000 and an outstanding balance of \$61,788,793. The portfolio breaks down into twenty-three (23) loans and conditional loans with a total original approved balance of \$45,722,000 and an outstanding balance of \$39,026,523, eight (8) grants and conditional grants having a total original approved balance of \$14,775,000 and an outstanding balance of \$13,762,270, and two (2) investments with both the total original approved balance and the outstanding balance being equal to \$9,000,000. The total outstanding active portfolio continues to be subject to review for compliance with performance requirements.

Program Performance for Fiscal Year 2005

In fiscal year 2005 one (1) project structured as an investment totaling \$5,000,000 was closed and one (1) project totaling \$2,000,000, also structured as an investment, was approved. The reduced level of activity under the program reflects the continued shift to usage of the MEDAAF program for deals that were historically done under this program, as well as the lack of budgeted funds for the program that would permit planning its use for future commitments. The program had charge-off activity of one (1) conditional loan for \$2,500,000 due to the company's bankruptcy, while recovering \$45,297 in claim payments from one (1) conditional grant also in bankruptcy.

Projected Program Performance for Fiscal Year 2006

The Department anticipates that if adequate funds are available, activity for fiscal year 2006 could exceed the prior fiscal year when measured by the total number of approved projects to be closed and the number of new projects to be processed for approval. The nature of a Sunny Day project is such that its lifespan generally straddles two and often three fiscal periods, from project introduction, through approval and final disbursement of the funds. As such, each year the Department handles new projects, which involves receiving inquiries, structuring deals, and processing approvals, while continuing to complete the documentation, funding, and monitoring process on projects that were presented to the Legislative Policy Committee for approval in prior fiscal years. The Department expects to fully encumber all of the remaining funds of the program in fiscal year 2006. Currently, \$13,000,000 is already encumbered for five (5) projects, with the remaining \$10,628,728 earmarked for five (5) projects under discussion.

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Sunny Day 3 Year Activity

<u>SUNNY DAY FUND PROJECTS APPROVED FY05</u>						
Company	Incentive (In Dollars)	County	Amount Disbursed (In Dollars)	FY Disbursed	Measure of Economic Development Goal	Attain By
						Status
UMBC Research Park, Inc.	\$2,000,000	Baltimore County	-0-	N/A	Project to be completed 2009	

The following chart shows the approvals in fiscal years 2003 and 2004 with the status of the transactions updated as of FYE 2005.

<u>SUNNY DAY FUND PROJECTS APPROVED FY04</u>						
Company	Incentive (In Dollars)	County	Amount Disbursed (In Dollars)	FY Disbursed	Measure of Economic Development Goal	Attain By
						Status
The Sunny Day Program did not have any new approvals in fiscal year 2004						

Sunny Day Fund Projects Approved FY03 on next page

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<u>SUNNY DAY FUND PROJECTS APPROVED FY03</u>							
Company	Incentive (In Dollars)	County	Amount Disbursed (In Dollars)	FY Disbursed	Measure of Economic Development		Status
Goal	Attain By						
Morgan Stanley & Company	\$3,500,000 Conditional Grant	Baltimore City	\$1,000,000 Phase I	2004	Phase 1 @ 150 New Jobs \$5.5 million CAPEX	6/30/05	119 jobs as of 11/04
Mack Trucks, Inc.	\$2,000,000 Conditional Loan	Washington County	-0-	N/A	Retain 1,000 Jobs Minimum of \$115 million by	12/31/09 12/31/08	Pending
University of Maryland at Baltimore Health Sciences Research Center	\$4,000,000 Investment	Baltimore City	\$4,000,000	2004	Provide funds incrementally on identifiable need		Closed 5/28/04
University of Maryland at College Park Bioprocess Scale -up Facility	\$775,000 Grant	Prince George's	\$775,000	2004	Annual Reporting of Users of the Renovated Bio-Process Facility		Closed 9/12/03
University of Maryland at College Park Technology Research Center	\$5,000,000 Investment	Prince George's	\$5,000,000	2005	Semi-Annual reporting to include economic and financial data, development progress, tenant occupancy, job creation, capital investment and investment fund usage.		Closed 9/22/04

<u>SCHEDULE OF SUNNY DAY FORGIVEN LOANS FY'05</u>					
Company	Loan Amount	Date Forgiven	Amount Forgiven	Benchmarks	Achievements
Dietz & Watson	\$750,000	11/22/04	\$750,000	150 jobs as of 12/31/01 retain through 10/04 \$5 Million CAPEX	Achieved 155 jobs average 2004 CAPEX of \$9 million
Northrop Grumman Corporation #4	\$1,500,000	07/01/04	\$1,500,000	9,000 Jobs retained	Loan #4 forgiven; CAPEX and job numbers met
Rite Aid of Maryland	\$2,250,000	06/01/05	\$2,250,000	850 jobs by 06/01/02 retain through 06/01/05	05/31/04 – 05/31/05 employed an average of 1063 employees

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SCHEDULE OF SUNNY DAY FORGIVEN LOANS FY'04					
Company	Loan Amount	Date Forgiven	Amount Forgiven	Benchmarks	Achievements
National Association of Securities Dealers, Inc.	\$1,000,000	12/31/03	\$854,000	Retain not less than 1330	Principal forgiven; repaid \$146,000 for jobs short of goal
Northrop Grumman Corporation #3	\$1,500,000	07/01/03	\$1,500,000	9,000 Jobs retained	Loan 3 forgiven; CAPEX and job numbers met
Random House, Inc./Bertlesmann	\$2,500,000	12/31/03	\$2,500,000	900 jobs through 12/31/03 \$30,000,000 CAPEX by 12/31/03	972 jobs as of 2003 \$37 million CAPEX
Telecommunication Systems	\$400,000	02/01/03	\$100,000	Maintain 213 jobs \$800,000 CAPEX	Jobs maintained Totally forgiven in FY '04

SCHEDULE OF SUNNY DAY FORGIVEN LOANS FY'03					
Company	Loan Amount	Date Forgiven	Amount Forgiven	Benchmarks	Achievements
National Association of Securities Dealers, Inc.	\$1,000,000	12/31/02	\$60,833	Retain not less than 1330	Interest Forgiven 1,403 jobs as of 12/31/02
Northrop Grumman Corporation #2	\$1,500,000	7/1/02	\$1,500,000	9,000 Jobs retained	Loan 2 forgiven; CAPEX and job numbers met
Sierra Military Health Services, Inc.	\$350,000	05/30/03	\$350,000	330 New Jobs and retain through 4/30/03 CAPEX of at least \$9 million	559 jobs; \$12.5 million CAPEX
Telecommunication Systems	\$400,000	02/01/03	\$100,000	Maintain 213 jobs \$800,000 CAPEX	Jobs maintained
Unisite/Victor Stanley	\$800,000	10/01/02	\$736,000	Maintain 70 at Victor Stanley and hire 100 new employees at Unisite facility by 12/31/99 and retain through 12/31/00.	Short of job goal; repaid \$64,000

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<u>SUNNY DAY CLAWBACK & EXTRAORDINARY REPAYMENT ACTIVITY FY'05</u>								
Company	Jurisdiction	Financing	Original Amount	Amount Forgiven	Date of Forgiveness	Clawback	Date Repaid	Comments
Digex Incorporated	Prince Georges	Conditional Loan	\$3,000,000			\$3,000,000	11/1/04	Bankruptcy. DBED Claim for payment paid by WorldCom/Intermedia.
RWD Technologies, Inc	Howard	Conditional Loan	\$1,272,000	\$739,880	1/1/00			Remaining balance converted to a term loan with repayment beginning in 4/02. Accelerated Repayment on 4/8/05.

<u>SUNNY DAY CLAWBACK & EXTRAORDINARY REPAYMENT ACTIVITY FY'04</u>								
Company	Jurisdiction	Financing	Original Amount	Amount Forgiven	Date of Forgiveness	Clawback	Date Repaid	Comments
Allied Signal, Inc./Honeywell	Howard	Conditional Loan	1,000,000	-0-		\$1,000,000	12/02/03	Loan converted to a paying loan due to failure to meet job goals
National Association of Securities Dealers Inc.	Montgomery	Conditional Loan	\$1,000,000	\$854,000	12/31/03	\$146,000	02/17/04	Failed to meet job numbers; repaid \$1,000 x 146 jobs plus interest.
Wood Products Inc.	Garrett	Conditional Loan	\$350,000			\$350,000	03/30/04	Failed to meet job numbers; loan converted to a Term loan.

<u>SUNNY DAY CLAWBACK & EXTRAORDINARY REPAYMENT ACTIVITY FY'03</u>								
Company	Jurisdiction	Financing	Original Amount	Amount Forgiven	Date of Forgiveness	Clawback	Date Repaid	Comments
Magellan Behavioral Health Services	Howard	Conditional Grant	\$2,000,000			\$203,553	01/27/03	118 jobs short x \$1,725 per job plus interest; Bankruptcy partial cash pay-out paid DBED \$590,120.51 P & I
Unisite/Victor Stanley	Caroline	Conditional Loan	\$800,000	\$736,000	10/01/02	\$64,000	10/04/02	Failed to meet job numbers; repaid \$8,000 x 8 jobs, plus interest.

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**DOF Listing of Approved
Between 7/1/2004 And 6/30/2005**

Sub-program: Sunny Day - Investment

D/App	#	Industrial Project	Loan Amt	Ins. Amt.	Proj. Cost	J/New	J/Ret.	Status	County
6/14/2005	UMBC	UMBC Research Park	\$2,000,000	\$0	56,850,000	0	0	AP	Baltimore Co.
Group Total:		1	\$2,000,000	\$0	\$56,850,000	0	0		
Program Total:		1	\$2,000,000	\$0	\$56,850,000	0	0		
Report Total:		1	\$2,000,000	\$0	\$56,850,000	0	0		

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DOF Listing of Closed Activity

Between 7/1/2004 And 6/30/2005

Sub-program: Sunny Day - Investment

DTCL:	#	Industrial Project	Loan Amt	Ins. Amt.	Proj. Cost	J/New	J/Ret.	Status	County
9/22/2004	5138IV	Univ. of MD College	\$5,000,000		35,000,000	0		CL	Prince George's
Group Total:		1		\$5,000,000	\$35,000,000	0			
Program Total:		1		\$5,000,000	\$35,000,000	0			
Report Total:		1		\$5,000,000	\$35,000,000	0			