

TESTIMONY OF

**Robert C. Brennan, Executive Director
Maryland Economic Development Corporation**

BEFORE

**Senate Budget and Taxation
Subcommittee on Health, Education and Human Resources**

**February 21, 2009
3:00PM**

Legislation

The Maryland Economic Development Corporation (MEDCO), which functions under the provision of Article 83A, Sections 5-201 through 5-216 of the Annotated Code of Maryland 1984, as amended in 2005, is a body politic and corporate and is constituted as a public instrumentality of the State of Maryland. The purpose of the Corporation is to assist in the expansion, modernization and retention of existing Maryland business and to attract new business to the State. The Corporation also assists, upon request, local jurisdiction projects and other Governmental and State entities. The Corporation borrows money and issues bonds for the purpose of financing assistance.

MEDCO issues Revenue Bonds and structures its transactions on a non-recourse basis. Neither the State of Maryland, state agencies, nor MEDCO are responsible for the repayment of the bonds that are issued by MEDCO. The Bonds are repayable solely from the revenues of the project.

MEDCO is staffed with nine fulltime employees and two part-time employees. MEDCO's responsibilities are ongoing for transactions on its books. Maintaining financial records, including MEDCO's monthly balance sheet and income statements, are a significant portion of the ongoing work requirements. MEDCO also ensures that various requirements of the Internal Revenue Service, the Securities and Exchange Commission and other legal requirements of the transactions are being met by the borrower/lessor. These requirements

include ensuring that current financials of the borrower/lessor are available and that current and appropriate insurance requirements are being met. Transactions between the MEDCO and the Maryland Department of Business and Economic Development may also include requirements that job counts and other performance criteria are collected from the borrowers/lessors and validated in order to ensure that borrowers/lessors meet the covenants required by the transactions.

MEDCO has a web site which lists all of MEDCO's projects, presents MEDCO's annual financials, describes many MEDCO projects, lists MEDCO's Board Members, and provides other useful information at www.medco-corp.com.

For the fiscal year ending June 30, 2008, MEDCO was been able to provide tax-exempt financing to (3) manufacturers, (6) not-for-profit entities, and one (2) utility companies. The following is an alphabetical list of the projects initiated during the fiscal year:

Bakery De France- On October 18, 2007, MEDCO issued its non-recourse, tax-exempt revenue bonds in the aggregate principal amount of \$10,000,000 for Riverside Bakery II, LLC, a Maryland limited liability company (the "Borrower"). MEDCO loaned the proceeds of the bonds to the Borrower to finance the acquisition, construction and equipping of a manufacturing facility in Frederick, Maryland (the "2007 Facility", as further described below) to be owned by the Borrower and leased to Bakery De France, Inc., a Delaware corporation (the "Facility User").

The 2007 Facility will consist of approximately 11.61 acres of land located at 1721 Monocacy Boulevard in the Riverside Corporate Park in the City of Frederick, Maryland and the following improvements to be located thereon: (a) a new, two-story building containing approximately 110,000 square feet of space, and (b) necessary or useful furnishings, fixtures, equipment and machinery, including manufacturing equipment. The Facility User will use the 2007 Facility for the manufacture and production of its par-baked and frozen bread products. More information on Bakery De France is available at: www.bakerydefrance.com.

Constellation Energy Group, Inc.- On December 12, 2007, MEDCO issued its non-recourse, tax-exempt revenue bonds in the aggregate principal amount of \$65,000,000 for Constellation Energy Group, Inc., a Maryland profit corporation (the "Borrower"). MEDCO loaned the proceeds of the Bonds to the Borrower to finance the acquisition, construction, installation and equipping of certain sewage and solid waste disposal facilities of the Borrower (the "Project")

The Project consists of the acquisition, construction and installation and equipping of certain sewage and solid waste disposal facilities related to the installation of a flue gas desulfurization system at the Borrower's Brandon Shores Power Plant located in Anne Arundel County, Maryland. The Project includes, without limitation, sludge dewatering equipment, ash handling and disposal equipment and wastewater treatment facilities related to the flue gas desulphurization system at the Brandon Shores Power Plant. For more information on the Borrower, visit their website at: www.constellation.com.

Federation of American Societies for Experimental Biology- On June 11, 2008, MEDCO issued its non-recourse, tax-exempt revenue bonds in the aggregate principal amount of \$15,500,000 for FASEB, a 501(c)(3) nonprofit corporation (the "Borrower"). MEDCO loaned

the proceeds of the Bonds to the Borrower (a) to refund the Maryland Economic Development Corporation Variable Rate Economic Development Revenue Bonds (Federation of American Societies for Experimental Biology Project) Series 2002A and 2002B, initially issued in the aggregate principal amount of \$13,000,000 (the "Prior Bonds"), which Prior Bonds (i) financed the costs of the acquisition, construction, installation and equipping of an office building, a parking garage and an atrium located at the Borrower's headquarters campus located in Bethesda, Montgomery County, Maryland, and (ii) refinanced the costs of the acquisition, construction, installation and equipping of an office building located at the Borrower's headquarters campus by refunding the Montgomery County, Maryland Industrial Development Revenue Bond (Federation of American Societies for Experimental Biology Project) 1984 Series (the "2002 Project"); (b) to finance the costs of the acquisition, construction, installation, renovation and equipping of certain improvements to existing facilities and related improvements at the Borrower's headquarters campus located in Bethesda, Maryland, as more fully described in the Loan Agreement (the "2008 Project" and together with the 2002 Project, the "Project"); and (c) to pay certain costs of issuing the Bonds. For more information on the Borrower please visit their website at: www.faseb.org.

Howard Hughes Medical Institute- On February 21, 2008, MEDCO issued its non-recourse, tax-exempt revenue bonds in the aggregate principal amount of \$83,500,000 for Howard Hughes Medical Institute, a Delaware nonprofit corporation (the "Borrower"). MEDCO loaned the proceeds of the Bonds to the Borrower to finance, refinance and reimburse all or a portion of the costs incurred in connection with the Series 2008A Project as defined below.

The Series 2008A Project consists of the following: (i) the development and construction of an approximately 65,000 square-foot expansion of new office space to the Borrower's existing headquarters and conference facilities, including approximately 85,000 square feet of underground parking areas, and certain renovations to existing facilities located at 4000 Jones Bridge Road, Chevy Chase, Maryland; (ii) the purchase of land, buildings, equipment and furnishings, together with other property, real and personal, functionally related to the facilities; (iii) capitalized interest on the Series 2008A Bonds; and (iv) certain financing costs.

On May 15, 2008, MEDCO issued its non-recourse, tax-exempt revenue bonds in the aggregate principal amount of \$76,500,000 for Howard Hughes Medical Institute, a Delaware nonprofit corporation (the "Borrower"). MEDCO loaned the proceeds of the Bonds to the Borrower to finance, refinance and reimburse all or a portion of the costs incurred in connection with the Series 2008B Project as defined below.

The Series 2008B Project consists of the following: (i) currently refunding all of the outstanding Montgomery County, Maryland Economic Development Revenue Bonds (Howard Hughes Medical Institute Facility), 1990 Series A, the Montgomery County, Maryland Economic Development Revenue Bonds (Howard Hughes Medical Institute Facility), 1990 Series B and the Montgomery County, Maryland Economic Development Revenue Bonds (Howard Hughes Medical Institute Facility), 1990 Series C (collectively, the "Prior Bonds"), the proceeds of which were used to finance the acquisition, construction, development, equipping and furnishing of the Borrower's existing headquarters facilities located at 4000 Jones Bridge Road, Montgomery County, Maryland; and (ii) pay certain financing costs (collectively referred to herein as the "Series 2008B Project"). For more information on the Borrower visit their website: www.hhmi.org.

Lutheran World Relief -On July 26, 2007, MEDCO issued its non-recourse, tax-exempt revenue bonds in the aggregate principal amount of \$5,805,000 for Lutheran World Relief and Lutheran Immigration and Refugee Services (the "Borrowers"). MEDCO loaned the proceeds of the Bonds to the Borrowers to (a) refund all outstanding Maryland Economic Development Corporation Economic Development Revenue Bonds (Lutheran World Relief/Immigration and Refugee Service Headquarters Facility), Series 2000 and (b) pay a portion of the costs of issuance of the Bonds.

The proceeds of the refunded bonds were used to pay the costs associated with the acquisition, development and construction of a facility consisting of an approximately 21,192 net rentable square foot portion of a six-story office building containing approximately 35,588 net rentable square feet (the "Building") on a parcel of land located at 700 Light Street in Baltimore City, Maryland (the "Land") owned by Lutheran Center Corporation (the "Guarantor"), together with a proportionate share of the common areas and infrastructure of the Building, which are occupied by the Borrowers and used by the Borrowers solely in connection with their non-sectarian, charitable activities, and certain furnishings and equipment acquired and used by the Borrowers in connection with such activities (the "Facility"). The Facility is complete and has

been fully occupied since 1999. For more information on the Borrowers, visit their website at: www.lwr.org.

Opportunity Builders, Inc.- On October 17, 2007, MEDCO issued its non-recourse, tax-exempt revenue bonds in the aggregate principal amount of \$6,260,000 for Opportunity Builders, Inc., a Maryland nonprofit corporation (the "Borrower"). MEDCO loaned the proceeds of the bonds to the Borrower (i) to finance the costs of the acquisition, construction and equipping of the 2007 Facility as defined below and (ii) to pay administrative, legal, financing and miscellaneous expenses related to the issuance of the bonds.

The 2007 Facility consists of the following improvements: (a) a new building containing approximately 41,000 square feet of space, and (b) necessary or useful furnishings, fixtures, equipment and machinery. The 2007 Facility will be located on a parcel of land recently purchased by the Borrower, which contains approximately 14 acres located at 8855 Veterans Highway, Millersville, Maryland. The 2007 Facility will serve as the Borrower's headquarters and services facility. For more information on the Borrower, visit their website at: www.oppbuidinc.org.

Potomac Electric Power Company (PEPCO)- On April 17, 2008 the interest rate on the original series 2006 bonds issued on behalf of PEPCO changed from auction rate to variable rate. The IRS considers this a reissuance of the original bonds. The original bonds were issued in the aggregate principal amount of \$109,500,000 on behalf of PEPCO for the purpose of refinancing the Prince George's County, Maryland, Pollution Control Revenue Refunding Bonds (Potomac Electric Project) Series 1992 outstanding in the principal amount of \$30,000,000, the Prince George's County, Maryland, Pollution Control Revenue Refunding Bonds (Potomac Electric Project), Series 1993 outstanding in the principal amount of \$37,000,000, and the Montgomery County, Maryland, Pollution Control Revenue Refunding Bonds (Potomac Electric Project), Series 1994 outstanding in the principal amount of \$42,500,000 (collectively, the "Prior Bonds"), issued for the benefit of the Borrower to finance certain pollution control facilities located in Prince George's County, Maryland. For more information on PEPCO please visit their website at: www.pepco.com.

Ravenwood – On February 29, 2008, pursuant to a court order entered by the U.S. Bankruptcy Court for the District of Maryland confirming Debtor's Revised Amended Plan of Reorganization (the "Amended Plan") entered by the United States Bankruptcy Court for the District of Maryland on January 19, 2007, in In Re Ravenwood Healthcare, Inc. dba Ravenwood Health and Rehabilitation Center (the "Borrower"), Case No. 02-5-9516-JS (Chapter 11), Maryland Economic Development Corporation Nursing Facility Mortgage Revenue Bonds (Ravenwood Healthcare, Inc. Facility) Series 1996A and 1996B were exchanged through the facilities of the Depository Trust Company for one or more of Maryland Economic Development Corporation Nursing Facility Mortgage Revenue Bonds (Ravenwood Healthcare, Inc. Facility) Series 2007A, 2007B, 2007C and 2007D (the "2007 Bonds"), pursuant to an Indenture of Trust and a Subordinate Trust Indenture. For more information on the Borrower please visit their website at: www.rwhhealth.org.

Tulkoff Holabird, LLC- On September 27, 2007, MEDCO issued its non-recourse, tax-exempt revenue bonds in the aggregate principal amount of \$6,000,000 for Tulkoff Holabird LLC (the "Borrower"). MEDCO loaned the proceeds of the Bond to the Borrower to finance or refinance all or a portion of the costs of (a) the acquisition, construction and equipping of a building, containing approximately 79,255 square feet of space on a parcel of land containing approximately 5.9 acres located at 2301 Chesapeake Avenue, in the City of Baltimore, Maryland (the "Land"); and (b) the acquisition of such other rights related to the Land including appurtenances, rights of way, franchises, easements and other interests in land and will be leased to Tulkoff Food Products, Inc., a Maryland corporation for use as a manufacturing facility in its business of processing condiments and sauces (the "Project"). For more information on Tulkoff Food Products, visit their website at: www.tulkoff.com

United States Bullet Proofing, Inc.- On December 10, 2007, MEDCO issued the following non-recourse, revenue bonds for Ken & Cyndy Sampson, LLC, a Maryland limited liability company (the "Borrower"): \$3,500,000 Maryland Economic Development Corporation Revenue Bond Series 2007A and \$1,700,000 Maryland Economic Development Corporation Taxable Revenue Bond Series 2007B (the "Bonds"). MEDCO loaned the proceeds of the Bonds to the Borrower (i) to finance the costs of the acquisition, construction and equipping of the 2007 Facility as defined below and (ii) to pay administrative, legal, financing and miscellaneous expenses related to the issuance of the Bonds.

The Borrower owns 7.9 acres of land located at 16201 Branch Court, Upper Marlboro, MD 20774 (the "Land") and intends to (a) construct an approximately 95,000 square foot one-story building on the Land (the "Building"), (b) to acquire and install certain necessary or useful furnishings, fixtures, equipment and machinery to be installed in, or used at, the Building, (c) to acquire such other rights related to the Land, including appurtenances, rights-of-way, franchises, easements, and other interests in land as may be necessary or useful in connection with the construction of the Building, and (d) to acquire such other land and facilities which are functionally related and subordinate to the Land and Building (collectively, the "2007 Facility").

The 2007 Facility will be subjected to a condominium regime to create three separate real property interests – two pieces comprising a 58,000 square foot portion of the Building to be financed solely from proceeds of the tax-exempt bonds (the "Tax-Exempt Facility") and a 38,000 square foot portion to be financed solely from proceeds of the taxable bonds (the "Taxable Facility"). The Borrower intends to lease the Tax-Exempt Facility to United States Bullet Proofing, Inc. to be used as a manufacturing facility and to sell the Taxable Facility to an unrelated third party. Proceeds from the sale of the Taxable Facility will be used to retire the taxable bonds. For more information on United States Bullet Proofing visit their website at: www.usbulletproofing.com.

Your Public Radio Corporation- On November 27, 2007, MEDCO issued its non-recourse, tax-exempt revenue bonds in the aggregate principal amount of \$5,600,000 for Your Public Radio Corporation, a Maryland nonprofit corporation (the "Borrower"). MEDCO loaned the proceeds of the Bonds to the Borrower, to finance or refinance (a) all or a portion of the cost of (i) the acquisition of a radio station, including radio broadcasting licenses, transmitting equipment and facilities, and other real and personal property used in the broadcasting business (the "Property"), (ii) the acquisition and installation of certain necessary or useful furnishings,

fixtures, equipment and machinery to be installed in, or used at, the Property, (iii) the acquisition of such other rights related to the Property, including appurtenances, rights-of-way, franchises, easements, and other interests in land, and (iv) land and facilities which are functionally related and subordinate to the Property (collectively, the "Project"), (b) refund the outstanding principal of MEDCO's Revenue bond (Your Public Radio Corporation Project) Series 2004 (the "2004 Bond"), and (c) to pay for the costs of issuing the Bonds, including costs of credit enhancement and interest rate protection.

The Borrower's FM radio broadcasting facilities located in Baltimore City and Frederick and Worcester Counties, Maryland, comprise the Facility. The Borrower or an affiliate is the licensee of both WYPR, 88.1 FM in Baltimore, Maryland, and WYPF, 88.1 FM in Frederick, Maryland. The Borrower intends to acquire WRXS, 106.9 FM in Ocean City, Maryland, thereby expanding its statewide footprint to cover Ocean City and Salisbury, Maryland and Rehoboth and Bethany Beach, Delaware. The Borrower broadcasts public radio, community news and original programming and is affiliated with National Public Radio. For more information visit: www.wypr.org.

ONE MARYLAND

In 2000, MEDCO initiated the first projects under the **One Maryland Program**. MEDCO continues to work on existing projects. The One Maryland Program is funded by the Maryland Department of Business and Economic Development and provides economic development assistance to economically distressed jurisdictions. Projects have been completed in Allegany County, Garrett County, Dorchester County, Worcester County, Caroline County, Somerset County and Baltimore City.

1. MEDCO developed with **Allegany County** the **Barton Farms Industrial Park** located south of Cumberland on US Route 220. The project included land acquisition, permitting, providing all utilities including water and sewer, and site preparation. Allegany County has limited industrial land for industrial use that has access to water and sewer service. In June of 2004, approximately 40 acres were sold to American Woodmark. The Allegany facility assembles wood cabinet components received from other AWC plants and ships completed cabinets to customers located in the Northeast and Midwest regions of the United States. Since its inception on January 5, 2005, the plant has created jobs for 338 employees. The company expects to employ to ultimately grow to 500 people once the plant is fully developed over the next four years. American Woodmark Corporation, located in Winchester, VA, is the third largest manufacturer of kitchen and bath cabinets in the United States. Offering more than 230 cabinet lines in a wide variety of designs, materials and finishes, American Woodmark products are sold through a network of dealers and distributors and directly to home centers and major home builders. MEDCO, the County and DBED are actively offering the remaining property for development to attract technology based businesses to the Western Maryland region.

2. In 2001 MEDCO constructed a 30,000 square foot industrial building in the **Princess Anne, Somerset County** industrial park to attract new employment to the County. While the building was on the market for approximately three years it provided immediate available industrial space to attract a new employer to the County. In 2005, ODDI, a packaging manufacturer from Iceland purchased the building for their North American expansion. ODDI has ceased operating at the Somerset County Facility and has laid off its workforce beginning in October 2008. ODDI is in discussion with several interested parties in purchasing the building.

3. In 2002, MEDCO had a 43,000 square foot industrial shell building constructed in **Pocomoke City, Worcester County**. MEDCO contracted to have the building designed and built. The project provides the town and county with new marketable flex space. Mid-Atlantic Institute for Space and Technology (MIST) has master leased the entire building. MIST works with educational institutions and representatives from Maryland's aerospace industry to provide engineering, technology and system development for small to medium size payload and orbital launch vehicles. MIST has been awarded an EDA grant in September 2007, totaling \$200,000.00; these funds were applied for by MEDCO on behalf of MIST. The award provides for interior improvements to expand existing work space. In 2008, MIST continues to make interior improvements and infrastructure upgrades to the facility in order to assist companies needing space in the area that complement the aerospace industry. MIST is currently in discussion to lease the remaining half of the office space at this location.

4. MEDCO assisted the Baltimore Development Corporation in financing and constructing a 514-space parking garage opened in November of 2003 in the **City of Baltimore**. The 210 St. Paul Street Garage is located between Charles Street and St. Paul Place. This project was part of the State's and City's contribution to assist in retaining CitiFinancial in Baltimore City and provides additional parking opportunities to the general public. This project was completed and turned over to the City of Baltimore in November 2003.

5. MEDCO along with the Baltimore Development Corporation arranged for the construction of The Fleet-Eden Garage, located in the Inner Harbor East of **Baltimore City** to serve Sylvan Learning Systems as well as providing needed parking for the growing business community in the area. The completed project was turned over to the City of Baltimore in May of 2006.

6. In 2005, MEDCO constructed a 30,000 square foot building (expandable to 50,000) in **Mountain Lake Park**, located in Garrett County's Southern Industrial Park. MEDCO contracted to have the building designed and built. The County lacks available industrial buildings for immediate occupancy and this building assists in adding needed flexible/industrial space to the County inventory. In 2007 the original tenant ceased operations and the building is again available for lease/purchase. MEDCO, the County and DBED are currently in discussions with several companies interested in expanding into the building, due primarily to increase in business in the region.

7. In 2003, MEDCO assisted **Garrett County** by purchasing land just off Interstate 68 at **Kaiser Ridge** for the purpose of developing a new industrial park. The County had no available or developed industrial land available in the northern part of the County. The new park consists of 261 acres and the roadways and infrastructure has been completed. The development of this park assisted in attracting American Woodmark to an adjacent parcel accessed through the property. American Woodmark plans to build a dimensional lumber mill in the near future. MEDCO continues to work with the County and State to attract other industrial and commercial users to the site.

8. In 2004 MEDCO had a 30,000 square foot (expandable to 80,000) building constructed in **Cambridge, Dorchester County**. ABC Supply, a national building supply company has entered into a lease/purchase contract for an initial 5 year term beginning in November 2004.

9. MEDCO, Dorchester County and The Department of Business and Economic Development (DBED) entered into discussions to finance and develop a 113 acre Technology Park. Dorchester County identified suitable property for the development of the Technology Park and purchased the property. The property is adjacent to ongoing airport improvements within the County. MEDCO and the County were able to secure financing through DBED using a One Maryland Loan in the amount of \$1,750,000.00. MEDCO received \$250,000.00 to begin predevelopment tasks and fund items such as legal, survey, engineering, environmental etc. These tasks are necessary to determine site suitability for the project physically. The project continues to work through predevelopment tasks.

HIGHER EDUCATION FINANCING

MEDCO has provided assistance to Maryland's public colleges and universities by taking ownership of multiple student housing projects. MEDCO assisted in the financing of these projects through the issuance of revenue bonds to enable the funding of the construction or refinancing of the student housing facilities. A MEDCO revenue bond is non-recourse to MEDCO and is not back by the State of Maryland or the university or college on behalf of which such bonds are issued and is payable solely through the revenues of the project. The financing is for 100% of the cost of the project and is accomplished through the issuance of tax-exempt bonds which provide a low cost of capital. In all instances, the ownership of the project will ultimately revert to the host university or college after the bonds are fully repaid.

Owned by MEDCO – University System Projects

1. **University of Maryland, Baltimore County – \$37,500,000 – 581 beds**

2. **Frostburg State University, Allegany County** - \$17,915,000 – 406 beds
- 3.. **University of Maryland, Baltimore** - \$34,400,000 – 337 beds
4. **Bowie State University, Prince George's County** - \$21,470,000 – 460 beds
5. **University of Maryland, College Park** - \$133,645,000 – 2,529 beds
6. **Salisbury University, Wicomico County**- \$16,410,000- 312 beds
7. **Towson University, Baltimore County (West Village)** - \$33,485,000- 668 beds
8. **University of Maryland, College Park (Building #7)**- \$38,200,000 – 368 beds
(under construction, to be completed 8/09)

Owned by MEDCO – will be owned by Sheppard Pratt Health System

1. **University Village at Sheppard Pratt, Baltimore County** - \$27,725,000 – 615 beds

Owned by MEDCO- will be owned by Morgan University

1. **Morgan State University, Baltimore City** - \$38,025,000 – 796 beds

Previous "Issuance Only" Student Housing Bond Issues

1. **Salisbury University – Collegiate Housing Foundation**
2. **Towson University (Millenium Hall) – Collegiate Housing Foundation**
3. **Allegany College – Somerset Educational Foundation**
4. **Garrett Community College- Garrett Community College Foundation**

MEDCO InfoTech and Biotech Incubators Overview

MEDCO initiated its involvement with technology incubators in October 1996, with the inception of the UMBC Technology Center Project, in which MEDCO received a grant from the State of Maryland, a loan from the Maryland State Department of the Business and Economic Development and UMBC to purchase the old Lockheed Martin building on South Rolling Road. Since that time, MEDCO has expanded its role in financing and owning technology incubators and presently owns seven incubators. MEDCO has contracted with property managers to run and oversee the day to day aspects of these projects. MEDCO maintains oversight and sets new policy for these projects through periodic reviews and communications with project managers.

Here is an overview of those seven incubators and an overview of MEDCO's virtual licensee program:

Maryland Technology Development Center (MTDC)

On June 18, 1998, MEDCO issued \$4,490,000 in 20 year, taxable, non-recourse bonds and in combination with the \$3,314,414.00 from a Maryland grant the construction of the MTDC was funded. The MTDC contains approximately 57,000 square feet of space and is specifically designed to meet the requirements of both information technology and biological technology

startup companies. Overall, the MTDC creates an environment in which entrepreneurs involved in info and bio technology can share experiences and best practices, and develop partnerships, joints ventures or other collaboration.

Since its inception, the MTDC has successfully graduated over 85 bio and info tech companies. The 85 successful graduates, still in business in the State of Maryland, have created approximately 1500+ jobs.

Currently the MTDC has approximately 49 companies licensing space, 18 info tech companies and 31 bio tech companies. Companies in the MTDC presently employ over 150 employees.

Silver Spring Innovation Center (SSIC)

The SSIC is a free standing building, located in Montgomery County and owned by the County that contains approximately 40,000 square feet of space and offers 40 individual offices of virtually every shape and size. The SSIC offers the same business support services made available at the MTDC and excels in providing fast and efficient telecommunication connections for all of its companies.

Since its inception in the summer of 2004, the SSIC has graduated 3 info tech companies that currently employ 40 employees.

Presently the SSIC hosts 21 info tech companies which employ over 75 employees.

Emerging Technology Center @ Johns Hopkins Eastern (ETC Eastern)

MEDCO received financial commitments from Maryland Department of Business and Economic Development, the Maryland Technology Development Corporation, US Department of Commerce-Economic Development Administration, U.S. and Maryland Historic Tax Credits, Baltimore Development Corporation, and The Johns Hopkins University to assist MEDCO in building out space located in Baltimore City.

The ETC Eastern facility contains approximately 45,000 square feet of fully wired office space distributed over 37 separate offices. ETC Eastern is managed and financially supported by the Baltimore Development Corporation and provides its companies with an assortment of business assistance services.

Currently ETC Eastern has 34 companies licensing space at the facility. The 34 companies at ETC Eastern currently employ 208 employees. ETC Eastern has graduated 13 companies, 10 of which are still in business and currently employing 41 employees.

Emerging Technology Center @ Canton (ETC Can)

Early in 1999, renovation began on improvements at the Emerging Technology Center at the old Can Company building on Boston Street in Baltimore City. ETC Can contains

approximately 48,909 square feet of fully wired office space distributed over 27 separate offices. ETC Can is managed and financially supported by the Baltimore Development Corporation and provides its companies with the same business assistance services that are made available at ETC Eastern, including NASA fast tracking.

Currently ETC Can has 28 companies licensing space at the facility. Those 28 companies presently employ 315 employees. ETC Can has graduated 34 companies, 30 of which are still in business and currently employ 385 employees.

Techcenter @ UMBC

The Techcenter @ UMBC contains approximately 170,000 square feet of space, including 75,000 square feet of specialized laboratory space. Techcenter @ UMBC offers a variety of office and business support services. The Tech Center is managed by the University and focuses on creating collaborative relationships between the incubator businesses and the University.

Currently the Techcenter @ UMBC has more than 20 start-up and emerging high-tech and bioscience companies. Techcenter @ UMBC also operates an Idea Lab to help UMBC students and faculty develop businesses.

Techcenter @ UMBC has graduated more than 35 companies from the incubator program and has accommodated over 100 tenants since its inception. Two of the most successful are Celsis In Vitro Technologies, winner of a Maryland Technology Development Corporation (TEDCO) Award as Best Incubator Graduate and Receptor Biology, which was sold to another life science company.

The companies in the Techcenter @ UMBC support over 250 jobs, including more than 50 UMBC students. Most of the companies work closely with UMBC faculty and staff. Techcenter @ UMBC has successfully helped companies acquire Small Business Innovation Research (SBIR), Maryland Technology Development Corporation (TEDCO) and Maryland Industrial Partnerships (MIPS) funding.

Wheaton Business Innovation Center (WBIC)

On April 6, 2006 MEDCO entered into a Management Agreement with Montgomery County, Maryland for the management oversight of several business and technology incubators within Montgomery County, including the WBIC. MEDCO acts as a conduit property manager in this transaction and has hired SPI Asset Management, LLC to perform the day to day management details necessary for the Center. SPI Asset Management and County representatives

work closely and collectively to administer the tasks necessary for the operations of the WBIC, which is located at 11002 Veirs Mill Road, Wheaton, Maryland.

Currently the WBIC has 18 companies which employ 100 employees.

Rockville Innovation Center (RIC)

On July 12, 2007 MEDCO obtained a loan in the amount of \$4,700,000.00 with Mercantile Potomac Bank for the construction of a two story information technology incubator as part of a five story mixed use building in Rockville, Maryland. The other stories of said building shall be occupied by a local cultural center, retail spaces and condominium space. The RIC is backed by a reimbursable construction grant agreement (by and between TEDCO, Montgomery County and MEDCO) and an operational grant agreement (by and between MEDCO and Montgomery County). MEDCO acts as owner and as conduit property manager in this transaction and has hired SPI Asset Management, LLC to perform the day to day management details necessary for the Center. SPI Asset Management and County representatives work closely and collectively to administer the tasks necessary for the operations of the RIC. Currently the RIC has 24 companies licensing 53 of the 53 office at the facility. RIC currently employs 75 employees.

Montgomery College Germantown Innovation Center

Montgomery College and the County (DED) are renovating a vacant 67,000 square foot commercial building adjacent to the Germantown Campus. The Montgomery College Foundation will lease the entire building until 2011. In 2011, the Foundation will purchase the building for \$13 million, plus interest. The College will renovate the first floor to create classroom space and office space for the Provost. The County will sublease the second floor (roughly 35,000 SF) from the College and renovate it for the Germantown Innovation Center at a cost of 5.3 million dollars. This incubator will include 12 labs, two clean room facilities, 8,500 SF of office space and typical incubator common areas including a multi-purpose room, smaller conference rooms, a lunch room, mail/copy room. Montgomery County has requested MEDCO's assistance in the construction and project management to complete this project. The project is expected to be completed in the fall of 2008.

Virtual Licensees

In the spirit of Great Britain's HUB concept, MEDCO and Montgomery County collectively designed a concept that would allow researchers, scientist and entrepreneurs with limited capital to have usage of certain incubator resources on a scheduled basis for a minimal monthly fee. Such resources include mailbox space, shared office resources (phone, fax, copy machine, computers, etc.), conference rooms and access to programs offer at the various incubators located in Montgomery County (business advice counseling, intellectual property/legal advice, etc.). This program presently extends to the MTDC, SSIC, WBIC and RIC

incubator facilities, but shall extend into future Montgomery County incubators as well. There are currently 21 virtual licensees.



ADVISORY CAPACITY

MEDCO, through the direct attendance of its executive director, assists in the expansion, modernization and retention of existing Maryland business by maintaining board memberships and advisory positions with various organizations throughout the State. Such organizations include:

1. **Maryland Industrial Partnership (MIPS)** – Initiated in 1987, MIPS is an organization which promotes the development and commercialization of products and processes through research partnerships between universities and industries. Since its inception, 687 projects, 286 companies and 11 University System of Maryland institutions have participated. MEDCO's executive director is a member of MIPS' advisory board.
2. **Maryland Technology Development Corporation (TEDCO)**- Created by the State legislature in 1998, TEDCO facilitates the creation of businesses and fosters their growth through the commercialization of technology. MEDCO's executive director serves as a member of TEDCO's Technical Advisory Board for Small Business Incubation.
3. **PenMar Development Corporation**- Established in 1997 as a public instrumentality of the State, the purpose of the PenMar Development Corporation is the redevelopment of the Fort Richie site, located in Washington County, as a corporate conference and training center. MEDCO's executive director serves as an ex-officio member of the board of directors.

4. **Bainbridge Development Corporation-** Established in 1999 as a public instrumentality of the State, the purpose of the Bainbridge Development Corporation is to develop the Bainbridge Naval Training Center, which closed in 1976, and to accelerate the transfer of the site to the private sector. MEDCO's executive director is an ex-officio member of the board of directors.
5. **Emerging Technology Centers (ETC)-** The ETC is a non-profit business incubator venture of the Baltimore Development Corporation that helps early-stage companies grow and prosper. As part of the Baltimore Development Corporation, the ETC also uses its resources to promote economic development specifically in Baltimore City. MEDCO's executive director serves as a member of the ETC's advisory board.
6. **Adventure Sports Center International (ASCI)-** ASCI was created in order to establish an International Adventure Sports Center (the "Center") as a focal point in the emerging and expanding adventure sports industry worldwide. The Center is designed to promote, educate and facilitate participation in a wide range of adventure-based recreational activities while simultaneously creating a unique destination that serves to support local economic development and as a model for communities wishing to capitalize on their intrinsic natural resource base while protecting its integrity. MEDCO's executive director serves as a member of the ASCI board of directors.
7. **Germantown Incubator-** MEDCO's Director of Development has been providing an advisory role for Montgomery County's Economic Development Office to assist in developing an appropriate scope of work through MEDCO's retention of a Construction consultant. MEDCO expects to be requested to provide additional services once the scope of work and budget is completed.

PROBLEM PROJECT REPORT

MEDCO Owned Projects

1. **Rocky Gap Lodge and Golf Resort:** MEDCO is the owner of the facility, which continues to generate sufficient cash to cover its operating expenses but is not able to generate sufficient cash to pay all of its debt service. The difficulties with making this facility successful remain the same; a challenging environment in creating and building a tourist market to the area, and extreme seasonal fluctuations in operations. The 2008 operational period is also being adversely impacted by the national economic slowdown. MEDCO, the Maryland Department of Business and Economic Development (DBED) and the Maryland Department of Natural Resources (DNR) have participated in negotiations with an institutional investor in restructuring the facility under private debt. At this time the

transaction has not closed but has been agreed to by the current facility investors, MEDCO, DBED and DNR. It is generally believed by such parties, that restructuring will provide the debt relief necessary to allow the operations to be sustainable and provide the current investors an opportunity to recoup their investment over a longer period of time. Rocky Gap has also been designated as one of the sites for a VLT operation. Management believes if the votes approve the e slots referendum in November the Rocky Gap facility will be afforded the opportunity to be financially viable.

2. **University of Maryland, Baltimore:** MEDCO is the owner of a student residence designed to provide living quarters for students at the Baltimore City graduate school complex. The original manager was new to student housing management and was not achieving the required performance goals and agreed to be replaced in March 2006. The new manager, the University and MEDCO created a turnaround plan to stabilize the project and have realized occupancy of over 95% since August 2006. Rental rates have been raised 7% and 6% the last two years placing the project's rates near the top of the Baltimore City Westside market. A glut of housing inventory in the area will likely hinder MEDCO's ability to raise rates in the future, so it will likely be at least five years before the required coverage ratio of 1.2 can be met. The University of Maryland, Baltimore has committed to support the project to the extent necessary by deferring payment of electricity and security services to the University in an effort to prevent further draws on the debt service reserve. MEDCO has also deferred its issuer's fee for three years totaling \$75,000.00.
3. **Bowie State University:** MEDCO is the owner of a student residence designed to provide living quarters for students at the Prince George's County institution. The original developer/manager (selected by the University) was terminated in May 2006 on MEDCO's recommendation due to poor performance in its ability to provide adequate operational and financial management to the project, and Capstone was brought in as the new manager. The project has achieved high occupancy indicating strong demand for student housing in the area, but it has been plagued by construction-related building issues and high levels of bad debt and poor financial reporting. Capstone and MEDCO have already streamlined the operating budget to remove many of the inefficiencies inherited from the prior manager. A major roof repair project was completed this past year which has eliminated water infiltration into the building and allowed four beds to be brought back on-line. To address the bad debt problem, MEDCO has worked with the University and the manager to implement a financial aid transfer program which allows the University to apply student financial aid awards directly to the project with student consent. We hope to encourage more participation in the financial aid program next year by requiring payment of rent upfront each semester. In lieu of a lease agreement the project will be using licensing agreement which will allow the manger to take quicker action to evict for nonpayment and other housing violations. Additionally, the University has agreed to provide internet service to the project at no cost to ensure no use of the debt service reserve will be required. If we are successful in reducing bad debt, we believe the project will be able to meet the required coverage ratio of 1.2 within the next one to two years. Currently, MEDCO has deferred two years of issuer fees totaling

\$50,000. MEDCO has retained the services of John Wolf and Jeff Regner, from the law firm Ober Kaler, to address the problems associated with the developer/prior manager. More detail is included in the Status of Litigation report.

4. **Morgan State University:** MEDCO is the owner of a student residence designed to provide living quarters for students at the Baltimore City institution. The original manager was new to student housing management, was not achieving the required performance goals, and agreed to be replaced in April 2006. Since the management transition, occupancy at the project has been strong but high turn costs, maintenance expense, and bad debt have caused the project to miss the required 1.2 coverage ratio in 2006/2007 and likely again in 2007/2008. MEDCO, the University, and the manager have developed a strategy to better integrate the project into the University's housing plan which should allow for smoother lease up and lower turn costs. Bad debt has been addressed by implementing a financial aid transfer program similar to that at Bowie, and we hope to increase participation in the program by requiring students to pay two month's rent upfront at move-in. In lieu of a lease agreement the project will be using licensing agreement which will allow the manager to take quicker action to evict for non payment and other housing violations. The project's lease rates have been increased 5% this year and are projecting to meet the coverage ratio.
5. **Chesapeake Hills:** MEDCO has been working in cooperation with the Calvert County Commissioners to keep the golf course facility open. Calvert County has provided operational funding this past year and has evaluated the prospect of acquiring the facility. An offer to purchase the facility was presented to the investors of the facility and that offer was rejected. When an offer from a private party was made for the purchase of the facility in early May 2008, Calvert County exercised its right of first refusal and made an offer for the purchase of the facility. The closing of the purchase is contemplated to take place in early November 2008.

Conduit Issuances

6. **RockGlen Healthcare Inc:** RockGlen has experienced financial difficulties which have been consistent within the public pay nursing home industry due to the federal government revised reimbursement rules, and additionally experienced cash flow problems when its working capital provider filed for bankruptcy. RockGlen has been operating under a Forbearance Agreement with the bondholders and the forbearance expires in July; under this agreement all payments, other than a portion of the interest payable under the bonds, are deferred. Because of federal tax law requirements which require the consent of the issuer, RockGlen has asked MEDCO to consent to a solicitation of bondholders to enter into another Forbearance Agreement. MEDCO is awaiting bond holders to consent to further Forbearance provisions and the most recent Forbearance Agreement has since expired. All outstanding fees have been brought current and remain current and discussion for a continued forbearance is in process.
7. **Gull Creek:** Gull Creek is a retirement living facility located in the Town of Berlin with independent and assisted living units. Since 2001, the facility has been operating under a series of forbearance agreements which have allowed the facility to remain open and make partial payments to the bondholders. The existing 2006 forbearance agreement will terminate

in October 2008. The borrower has requested that MEDCO consent to a new two-year forbearance agreement. MEDCO has agreed to consent if the bondholders vote to extend the forbearance period. The trustee has distributed ballots to the bondholders which are due back in mid-September 2008.

8. **Ravenwood:** MEDCO issued tax exempt bonds for this nursing care facility, which provides critical care to the aged and to HIV patients in the Baltimore City area. Ravenwood is a debtor in possession in the process of bankruptcy reorganization, with a confirmation order in place which contemplates the issuance by MEDCO of new bonds to refund the original bonds, and replace them with bonds having different, extended repayment terms. Bondholders and other secured claimants approved the debtor's plan for reorganization during the confirmation process. MEDCO retained Abramoff, Neuberger and Linder, LLP as special bond counsel to provide opinions with respect to its ability to issue the requested bonds, the form of the proposed transaction and the continued tax exempt status of the new bonds. MEDCO also retained David Musgrave of Ober Kaler as bankruptcy counsel to assist MEDCO in collecting unpaid prepetition and post petition issuance fees and in the deposition and proposed court appearances of MEDCO personnel requested by the creditors' committee. The new bonds were issued in February 2008. MEDCO received 50% of unpaid issuance fees at closing and will recover attorney's fees and the remainder of its unpaid issuance fees through monthly installments spanning a twelve month period.

MBE Report

Maryland Economic Development Corporation (MEDCO) was formed by State statute and is a 501-C-4 not for profit public corporation. MEDCO was created for the purpose of assisting with the expansion and retention of Maryland business as well as to attract new business to Maryland with the objective of expanding the State economy and tax base and to provide employment. MEDCO also assists with local jurisdictions projects as requested. MEDCO borrows money and issues bonds to support these activities. Transactions are structured with no recourse to MEDCO or the State from either Bondholders or Lenders.

MEDCO is not supported by State appropriations. MEDCO supports 100 percent of its operations from fees charged to its projects. All administrative activities are directed and supervised by the Executive Director who is appointed by its Board of Directors and approved by the Governor.

During fiscal year 2008 MEDCO's direct operating expenses included rent, consulting fees, insurance, attorney fees, and auditing fees, telephone expenses, equipment and supplies. In the purchase of these services and equipment MEDCO secured the services of The Canton Group (MBE, SBE, & DBE) for data base restructuring at a cost of \$14,802.73, Five L, a Human Resources consulting firm (WBE) was paid \$70.00, AMG (WBE) was paid \$12,269.78 for computer programming and installation, Catonsville Framing (WBE) was paid \$789.20. Our major equipment purchase during fiscal year 2008 was the replacement or upgrading of computer equipment for all staff. The equipment was purchased through AMG a WBE at a cost of

\$26,960.32. Additionally, MEDCO directed its projects to use Minority firms such as Millane, another WBE, who was paid \$41,001.45 during fiscal year 2008.

New projects for 2008 included a student housing project, Towson West and a new incubator project, Germantown, which is being undertaken in cooperation with Montgomery County. These construction projects are required to be in compliance with state and municipal requirements of at least twenty five percent for minority participation.

MEDCO staff attends MBE networking/procurement events where minority businesses promote their products and services. The Governors' Office of Minority Affairs and various directories are checked monthly, at a minimum, for upcoming exhibitions that could be beneficial to MEDCO.