

OFFICE OF FINANCE PROGRAMS
MARYLAND INDUSTRIAL DEVELOPMENT
FINANCING AUTHORITY

(MIDFA)

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FISCAL YEAR 2010
ECONOMIC DEVELOPMENT
ARTICLE

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As of June 30, 2010

MARYLAND INDUSTRIAL DEVELOPMENT FINACING AUTHORITY
(MIDFA)

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MARYLAND INDUSTRIAL DEVELOPMENT FINANCING AUTHORITY (MIDFA)

History and Program Description

The Maryland Industrial Development Financing Authority (MIDFA) was established by the General Assembly in 1965 to promote significant economic development by providing financing support to manufacturing, industrial and technology businesses located in or moving to Maryland. MIDFA stimulates private sector financing of economic development by issuing Bonds and providing credit enhancements that increase access to capital for small and mid-sized companies. The Program has increased its commitment to growth and development of small business by increasing outreach efforts to community banks.

The Fund does not provide direct loans, but insures Bonds, loans and certain other types of transactions from financial institutions. The Program promotes private sector financing by providing insurance to transactions resulting in reduced credit risks, and enabling better terms. As an insurance product, the Fund is allowed a 5:1 leverage of its capital base. Decisions rest with the 9-member board comprised of two ex-officio and seven private business members from throughout the state appointed by the Governor with the advice and consent of the Senate. In addition to credit risk assessment, the statute dictates that consideration be given to the impact that the expansion, retention, and attraction of strategic commercial enterprises has on a balanced economy, employment, and quality of life. The operating expenses of the program are funded through the interest earned on the fund balances, Bond issuance fees and through annual premiums of ½ of 1% of all insured transactions, unless waived in “qualified distressed” (One Maryland) jurisdiction.

CONVENTIONAL LOAN PROGRAM

The Conventional Loan Program primarily insures transactions made by conventional and asset-based financial institutions for working capital, fixed assets, letters of credit, leasing, and other related activities up to 80% of the obligation (90% for Trade) to a maximum of \$2.5 Million.

TAXABLE AND TAX-EXEMPT BONDS

Taxable and Tax-exempt Industrial Revenue Bonds may be issued to finance fixed assets. Tax Exempt Bonds may finance manufacturing, 501(c) (3) non-profit corporations, and certain solid waste recovery projects. The Fund charges a 1/8 of 1% annual issuance fee. To facilitate the issuance of such bonds, the Fund may insure up to 100% of the obligation to a maximum coverage of \$7.5 Million.

Program Performance since Inception

To date, the Program has participated in eight hundred thirty-four (834) loans and bonds, totaling \$2,254,750,475. Currently, fifty-eight (58) transactions remain active, with principal balances totaling \$433,220,671 insured for \$17,509,632.

At June 30, 2010, the Fund balance, net of reserves, of \$33,878,905 was leveraged .56:1 against the \$18,924,632 total insurance exposure consisting of \$17,509,632 outstanding plus the \$1,415,000 of approved commitments. As a practical matter given the economic downturn, and the tightened credit standards in the capital markets, leverage beyond 1.5:1 could diminish the value of this credit enhancement in stimulating private sector participation.

The following is a summary of the current balances and exposure by program capability, excluding pending transactions.

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<i>(Thousands)</i>	Current Insurance Exposure	Principal Balance	Number of Active Accounts	Average Insurance Exposure
Bonds – insured	\$ 3,002	\$9,589	2	\$1,501
Bonds - uninsured	N/A	263,277	24	N/A
Energy Bonds	N/A	102,875	3	N/A
Conventional Loans	13,511	54,680	21	643
Day Care	479	1,118	4	120
Linked Deposits	N/A	0	0	N/A
Small Business	<u>518</u>	<u>1,682</u>	<u>4</u>	<u>130</u>
	\$17,510	\$433,221	58	\$2,394

Program Performance for the Year Ending June 30, 2010

During fiscal year 2010, MIDFA approved nineteen (19) transactions totaling \$101,965,000 insured for \$6,468,750. Eleven (11) transactions, including three (3) approvals from the prior year, settled totaling \$107,584,000 insured for \$7,803,750. Still pending settlement are eleven (11) transactions from 2010 for a total of \$15,400,000 insured for \$1,415,000. The number of approvals in 2010 was up 2.7 times over last year and the number of settlements was up 2.2 times. This, coupled with the eleven (11) pending settlements, is indicative of an early stage recovery driven increase in demand that will intensify as the economy strengthens. Accordingly, the program is well positioned with capacity to stimulate the issuance of the Recovery Zone Facility Bonds and support the Governor's Small Business Credit Recovery Initiative.

Special Assets have remained steady at nine (9) accounts in 2010 and 2009, after increasing from six (6) in 2008, as a result of the weakening economy. Reserves of \$9,692,944 in 2009 were reduced to \$3,831,581 primarily as a result of the unexpected pay off of the two (2) MEDCO/ Human Genome Sciences Bonds that had been fully reserved at \$4,232,319. In 2009 the Authority approved the \$2,500,000 purchase of the Adventure Sports insured bank loan, which occurred in early 2010. This was a Note Purchase, rather than a collateral liquidation and MIDFA Claim. It was a necessary part of an overall debt restructuring to protect the rest of the \$16 million public investment in the overall project. The Note was converted to a cash flow repayment and is expected to be repaid eventually. Given the weakened economy, we expect that reserves will increase and anticipate claim payments commencing in 2011, principally from the new small business initiative.

As a credit guaranty, MIDFA's activity is typically counter cyclical to the economy, being in greater demand during tight credit periods. As a positive, however, in spite of the recession, the continued low interest rates enabled eight (8) credit-seasoned transactions totaling \$114,000,000 to payoff or refinance out of the program. This seasoning of risk and "graduating" to un-enhanced private sector lending is a principal objective of the program and restores capacity to meet future demand. Conversely, the extraordinary tight conditions of 2009 that extended well into 2010 stifled program demand.

This year MIDFA was the focal point of three (3) major economic development initiatives that will place far greater demands on the program:

1. The Governor's Small Business Credit Recovery Initiative provides a rapid response to small loan guarantees in order to unlock bank lending. Additionally, MIDFA was a model for the federal "State Small Business Credit Initiative" (H.R. 5297) to provide federal funding to stimulate state credit enhancement programs for small business lending.

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2. By Executive Order, MIDFA was given responsibility for administrating and stimulating the maximum usage of the State's bond allocation under the American Recovery and Reinvestment Act. MIDFA serves as the principal issuer and may be called upon to provide substantial credit guarantees.
3. MIDFA completed the U.S. Department of Energy (DOE) process to be designated a Development Finance Organization that originates and partners with DOE to provide sizeable credit enhancements to stimulate new and innovative energy project financing in the private sector.

Projected Program Performance for Fiscal Year 2011

The increased activity of 2010 indicates a growing demand for 2011. Presently, there are fifteen (15) transactions under discussion with \$42,050,000 of insurance leveraging \$276,600,000 of new private sector lending. If one-half of these transactions were to settle, the insurance exposure could increase to \$38,546,632 resulting in a 1.14:1 leverage.

Approved Report

7/1/2009 Through 6/30/2010

<i>Approved Date</i>	<i>Client Name</i>	<i>Loan</i>	<i>Loan Amount</i>	<i>Guarantor Percentage</i>	<i>Loan Guarantee</i>	<i>County</i>	<i>Total Project Costs</i>	<i>Trainees Pro /</i>	<i>New Jobs</i>	<i>Retained Jobs</i>
<i>MIDFA Issued Tax Exempt Bonds</i>										
9/24/2009	Occidental Petroleum Corporation	10460101	\$68,200,000.00	0.0%	\$0.00	Baltimore City	\$68,000,000.00	N/A	0	0
6/17/2010	David Rider and David Gochenour	11750101	\$3,500,000.00	0.0%	\$0.00	Washington	\$5,000,000.00	N/A	0	0
6/17/2010	David Rider and David Gochenour	11750201	\$3,000,000.00	0.0%	\$0.00	Washington	\$4,000,000.00	N/A	0	0
Totals:		3 Loans	\$74,700,000.00		\$0.00		\$77,000,000.00	0	0	0
<i>MIDFA Conventional Insurance</i>										
7/23/2009	Machining Technologies, Inc.	3550201	\$8,500,000.00	29.4%	\$2,499,000.00	Wicomico	\$8,500,000.00	N/A	0	250
8/27/2009	Structural Systems, Inc.	10240101	\$750,000.00	66.6%	\$499,500.00	Frederick	\$0.00	N/A	0	140
9/24/2009	Hotel Avon (Tidewater Inn, LLC t/a	10290101	\$6,500,000.00	23.0%	\$1,495,000.00	Talbot	\$8,500,000.00	N/A	20	25
10/5/2009	Tri-County Council Lower Eastern	2890401	\$5,500,000.00	9.1%	\$500,500.00	Wicomico	\$5,500,000.00	N/A	0	0
Totals:		4 Loans	\$21,250,000.00		\$4,994,000.00		\$22,500,000.00	0	20	415
<i>MIDFA-Small Business</i>										
12/15/2009	Bass Machining Company, Inc.	10870101	\$350,000.00	25.0%	\$87,500.00	Baltimore	\$350,000.00	N/A	4	15
1/7/2010	Hawkeye Construction, LLC	11010101	\$850,000.00	25.0%	\$212,500.00	Baltimore City	\$850,000.00	N/A	0	0
1/22/2010	Mahogany, Inc. and Mahogany	4330401	\$1,500,000.00	16.7%	\$249,900.00	Baltimore City	\$2,125,000.00	N/A	0	50
2/1/2010	Kayden Premier Enterprises, Inc.	11030101	\$100,000.00	50.0%	\$50,000.00	Baltimore City	\$100,000.00	N/A	0	0
2/9/2010	MECAG, LLC d/b/a Mobern	11190101	\$100,000.00	45.0%	\$45,000.00	Prince George's	\$100,000.00	N/A	7	36
3/18/2010	National Golden Tissue, Inc.	8410201	\$665,000.00	25.0%	\$166,250.00	Washington	\$950,000.00	N/A	20	30
3/29/2010	Clean Castle, Inc.	11370101	\$370,000.00	25.0%	\$92,500.00	Baltimore City	\$477,000.00	N/A	1	3
4/8/2010	Park Heights Renaissance, Inc.	11470101	\$100,000.00	50.0%	\$50,000.00	Baltimore City	\$100,000.00	N/A	0	0
4/27/2010	Total Engineering And TEI, Inc.	11780101	\$1,000,000.00	25.0%	\$250,000.00	Prince George's	\$1,000,000.00	N/A	70	100
5/7/2010	Family Medical Center, Llc	11540101	\$80,000.00	50.0%	\$40,000.00	Frederick	\$80,000.00	N/A	2	7

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<i>Approved Date</i>	<i>Client Name</i>	<i>Loan</i>	<i>Loan Amount</i>	<i>Guarantor Percentage</i>	<i>Loan Guarantee</i>	<i>County</i>	<i>Total Project Costs</i>	<i>Trainees Pro /</i>	<i>New Jobs</i>	<i>Retained Jobs</i>
5/19/2010	The Terminal Corporation	11650101	\$500,000.00	25.0%	\$125,000.00	Baltimore City	\$500,000.00	N/A	0	70
6/7/2010	AJ & R Petroleum Inc	11660101	\$400,000.00	25.0%	\$100,000.00	Prince George's	\$507,000.00	N/A	2	3
Totals:		12 Loans	\$6,015,000.00		\$1,468,650.00		\$7,139,000.00	0	106	314
Grand Totals:		19 Loans	\$101,965,000.00		\$6,462,650.00		\$106,639,000.00	0	126	729

Settled Report

7/1/2009 Through 6/30/2010

<i>Settled Date</i>	<i>Client Name</i>	<i>Loan</i>	<i>Loan Amount</i>	<i>Guarantor Percentage</i>	<i>Loan Guarantee</i>	<i>County</i>	<i>Total Project Costs</i>	<i>Trainees Pro /</i>	<i>New Jobs</i>	<i>Retained Jobs</i>
<i>MIDFA Issued Tax Exempt Bonds</i>										
11/13/2009	Associated Catholic Charities	9660101	\$5,800,000.00	0.0%	\$0.00	Baltimore City	\$5,800,000.00	N/A	0	0
3/15/2010	Occidental Petroleum Corporation	10460101	\$68,200,000.00	0.0%	\$0.00	Baltimore City	\$68,000,000.00	N/A	0	0
Totals:		2 Loans	\$74,000,000.00		\$0.00		\$73,800,000.00	0	0	0
<i>MIDFA Conventional Insurance</i>										
7/7/2009	Olney Theatre Corporation	9320101	\$6,506,000.00	3.8%	\$247,228.00	Montgomery	\$6,506,000.00	N/A	0	32
9/2/2009	Machining Technologies, Inc.	3550201	\$8,500,000.00	29.4%	\$2,499,000.00	Wicomico	\$8,500,000.00	N/A	0	250
9/23/2009	Recreational Industries, Inc.	1500201	\$8,713,000.00	29.0%	\$2,526,770.00	Garrett	\$10,713,000.00	N/A	0	0
10/1/2009	Structural Systems, Inc.	10240101	\$750,000.00	66.6%	\$499,500.00	Frederick	\$0.00	N/A	0	140
10/15/2009	Hotel Avon (Tidewater Inn, LLC	10290101	\$6,500,000.00	23.0%	\$1,495,000.00	Talbot	\$8,500,000.00	N/A	20	25
Totals:		5 Loans	\$30,969,000.00		\$7,267,498.00		\$34,219,000.00	0	20	447
<i>MIDFA-Small Business</i>										
1/7/2010	Bass Machining Company, Inc.	10870101	\$350,000.00	25.0%	\$87,500.00	Baltimore County	\$350,000.00	N/A	4	15
2/1/2010	Mahogany, Inc.	4330401	\$1,500,000.00	16.7%	\$249,900.00	Baltimore City	\$2,125,000.00	N/A	0	50
4/14/2010	Kayden Premier Enterprises, Inc.	11030101	\$100,000.00	50.0%	\$50,000.00	Baltimore City	\$100,000.00	N/A	0	0
6/28/2010	National Golden Tissue, Inc.	8410201	\$665,000.00	25.0%	\$166,250.00	Washington	\$950,000.00	N/A	20	30
Totals:		4 Loans	\$2,615,000.00		\$553,650.00		\$3,525,000.00	0	24	95
Grand Totals:		11 Loans	\$107,584,000.00		\$7,821,148.00		\$111,544,000.00	0	44	542