

OFFICE OF FINANCE PROGRAMS
MARYLAND INDUSTRIAL DEVELOPMENT
FINANCING AUTHORITY

(MIDFA)

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FISCAL YEAR 2012

ECONOMIC DEVELOPMENT
ARTICLE

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As of June 30, 2012

MARYLAND INDUSTRIAL DEVELOPMENT FINANCING AUTHORITY
(MIDFA)

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DEPARTMENT OF BUSINESS AND ECONOMIC DEVELOPMENT

MARYLAND INDUSTRIAL DEVELOPMENT FINANCING AUTHORITY (MIDFA)

History and Program Description

The Maryland Industrial Development Financing Authority (MIDFA or Program) was established by the Maryland 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 sixty-nine (869) loans and bonds, totaling \$2,510,482,590. Currently, sixty-one (61) transactions remain active, with principal balances totaling \$547,952,431 insured for \$15,724,524.

At June 30, 2012, the Fund balance, net of reserves, of \$37,080,885 was leveraged .57:1 against the \$21,023,824 total insurance exposure consisting of \$15,724,524 outstanding plus the \$5,299,300 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. Accordingly, the Program is well-funded to support the economic upturn.

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	\$ 1,051	\$5,255	1	\$1,051
Bonds - uninsured	N/A	393,097	25	N/A
Energy Bonds	N/A	94,255	3	N/A
Conventional Loans	13,715	52,876	21	653
Day Care	0	0	0	0
Linked Deposits	N/A	0	0	N/A
Small Business	534	1,620	9	180
MIDFA-SSBCI	<u>425</u>	<u>850</u>	<u>2</u>	<u>425</u>
	\$15,725	\$547,953	61	\$2,309

Program Performance for the Year Ending June 30, 2012

During fiscal year (FY) 2012, MIDFA approved nineteen (19) transactions totaling \$94,837,765 insured for \$9,170,340. Thirteen (13) transactions, including four (4) approvals from prior years, settled totaling \$77,930,765 insured for \$4,520,525. There were no settlements for Recovery Zone Facility Bonds as the Program ended during FY2011 with six (6) settlements totaling \$129,173,000. At year-end eight (8) approvals remained pending settlement for a total of \$15,007,000 insured for \$5,299,300. Eight (8) approvals became inactive and were rescinded. Excluding the Recovery Zone Facility Bonds, a one-time nonrecurring stimulus activity, the number of approvals and settlements for FY2012 was about the same in both categories compared to FY2011, with the dollar value nearly doubling.

Special Assets increased from three (3) accounts with reserves of \$2,670,268 to eight (8) accounts with reserves of \$4,076,422 due to the addition of seven (7) accounts and payoff of two (2). Additionally, there was one (1) claim payment for the Bethesda Cultural Alliance in the amount of \$2,000,000. This is the first claim payment since FY2010, and in line with the forecast in last year’s report. Given the continued weak economy, we continue to expect reserves to increase and anticipate future claim payments, both from projects under severe cash flow strains and from the new small business initiative which targets one of the more vulnerable sectors of the economy.

As a credit guaranty, MIDFA’s activity is typically counter cyclical to the economy, being in greater demand during tight credit periods. In spite of the recession, the continued low interest rates enabled fifteen (15) credit-seasoned transactions totaling \$56,062,261 to payoff or refinance. This is a portfolio decline of two (2) accounts but a dollar increase of almost \$9 million from 2011. 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.

Starting with FY2010, continuing through FY2011 and into FY2012, MIDFA was the focal point of major economic development initiatives that placed far greater demands on the program.

1. MIDFA was instrumental in developing the State Small Business Credit Initiative (SSBCI) which was created under the Small Business Jobs Act of 2010. This U.S. Treasury program provides up to \$1.5 billion of federal funding to state programs that can leverage at least 10:1 of private sector small business lending during the program’s seven (7) year life span. By Executive Order in March 2011, MIDFA was given responsibility to apply for and administer the State’s SSBCI allocation of \$23 million. At the end of FY2011 we received the first installment and have been working to deploy the funds.

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2. In support of the initiatives to support small business borrowing, MIDFA was a major participant in the Credit Connections Program created in cooperation with the Maryland Banker's Association and the Risk Management Association to educate lenders and economic development professionals in the use of credit enhancements to stimulate lending. MIDFA partnered with the U.S. Small Business Administration, U.S. Department of Agriculture, and the Maryland Department of Housing and Community Development in conducting nine (9) regional training sessions reaching one hundred seven (107) lenders at thirty-three (33) banks and credit unions. In addition the Program held two (2) high-level meetings with the thirty-three (33) CEOs to solicit the support of their institutions.

Notwithstanding the efforts described above, activity is still thin because of weak borrowing. The Small Business Jobs Act of 2010 contained a provision to increase nationwide availability for lending through the Small Business Lending Fund and provide \$30 billion in capitalization to community banks. Of the \$30 billion that was allotted, only \$4 billion was drawn. As widely reported in the business and popular press, borrowing demand was down significantly as evidenced by:

- Companies have remained cautious about the economy and wary about investing in equipment and hiring. The economy has remained wobbly, and although there are pockets of strength, growth has remained persistently low. While not employing funds, some companies have built up their cash account balances.
- Despite the fact that approvals in the Small Business sector were strong, a lot of transactions never closed and have since been rescinded before settlement or withdrawn by the borrower. The outreach, negotiating and underwriting were all in place, but the borrowers have not been ready to move forward. The uncertainty in the economy has remained a very large factor. Borrowing demand continues to be depressed both here in Maryland and across the country.

Projected Program Performance for Fiscal Year 2013

In spite of increased funding and outreach efforts, 2013 volume is expected to decline to less than \$100 million. It must be understood that last year's (FY2011) record high \$177 million in settlements included \$129 million of Recovery Zone Facility Bonds that are no longer available. While insured transactions will likely remain flat, an unexpected positive experienced last year and continuing into this year, is the number of high quality conduit bond issuances. While these transactions are not dependent on credit enhancements, they are still economic development projects with significant capital expenditures and employment generation.

Since the beginning of FY2013 we have noticed some return to borrowing demand, and we are beginning to see some viable transactions. Currently under discussion are six (6) transactions with \$9.7 million in guarantees leveraging \$23.3 million of private sector lending and resulting in CAPEX of more than \$50 million.

DEPARTMENT OF BUSINESS AND ECONOMIC DEVELOPMENT

Approved Report

7/1/2011 Through 6/30/2012

<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 / Actual</i>	<i>New Jobs</i>	<i>Retained Jobs</i>
<i>MIDFA Tax Exempt Bonds</i>										
7/28/2011	McDonogh School, Inc.	1860201	\$38,000,000.00	0.0%	\$0.00	Baltimore County	\$40,000,000.00	N/A	0	330
5/24/2012	National Aquarium of Baltimore, Inc.	840204	\$25,980,765.00	0.0%	\$0.00	Baltimore City	\$25,980,765.00	N/A	47	260
Totals:			2 Loans		\$63,980,765.00		\$65,980,765.00	0	47	590
<i>MIDFA Conventional Insurance</i>										
7/15/2011	Murphy, Robert & Rose	1610201	\$2,400,000.00	7.0%	\$168,000.00	Dorchester	\$2,925,000.00	N/A	0	6
7/20/2011	Baltimore Racing Development,	9860201	\$1,000,000.00	50.0%	\$500,000.00	Baltimore City	\$1,200,000.00	N/A	0	0
10/27/2011	Kenmare Ent., LLC/DbA Capriotti's	13200101	\$535,000.00	46.5%	\$248,775.00	Talbot	\$535,000.00	N/A	15	15
11/29/2011	George And Maria Protopapas	11880201	\$615,000.00	25.0%	\$153,750.00	Baltimore County	\$696,000.00	N/A	0	0
5/9/2012	Amen Corner LLC	13760101	\$94,000.00	50.0%	\$47,000.00	Worcester	\$0.00	N/A	0	0
5/9/2012	Lambertson, Diane	13810101	\$94,000.00	50.0%	\$47,000.00	Worcester	\$340,000.00	N/A	0	1
4/26/2012	National Golden Tissue, Inc.	8410601	\$5,300,000.00	25.0%	\$1,325,000.00	Washington	\$6,225,000.00	N/A	50	54
5/9/2012	Millenium Farm Partnership	13820101	\$94,000.00	50.0%	\$47,000.00	Worcester	\$340,000.00	N/A	0	3
Totals:			8 Loans		\$10,132,000.00		\$12,261,000.00	0	65	79
<i>MIDFA/SSBCI</i>										
7/28/2011	Adcor Industries, Inc.	2840301	\$5,000,000.00	20.0%	\$1,000,000.00	Baltimore City	\$5,000,000.00	N/A	63	100
8/8/2011	Opinion Works, LLC	12970101	\$100,000.00	50.0%	\$50,000.00	Anne Arundel	\$100,000.00	N/A	2	2
8/22/2011	Healthy Alternatives Community	12940101	\$300,000.00	25.0%	\$75,000.00	Baltimore City	\$400,000.00	N/A	3	0
1/20/2012	Texcell - North America, Inc.	13410101	\$750,000.00	50.0%	\$375,000.00	Frederick	\$1,544,000.00	N/A	23	7
2/23/2012	LWRC International, LLC	9120102	\$5,500,000.00	45.5%	\$2,502,500.00	Dorchester	\$13,000,000.00	N/A	100	80
3/6/2012	Keystone Hospitality, LLC	13500101	\$150,000.00	33.3%	\$49,995.00	Baltimore City	\$1,000,000.00	N/A	5	0
4/26/2012	M. Luis Construction Co Inc./M.	13730101	\$8,600,000.00	29.1%	\$2,500,020.00	Montgomery	\$8,600,000.00	N/A	56	230
5/7/2012	Brooklyn Park Gas, Inc.	13740101	\$150,000.00	25.0%	\$37,500.00	Anne Arundel	\$247,000.00	N/A	5	14
5/17/2012	AAA Standard Company	14090101	\$175,000.00	25.0%	\$43,800.00	Anne Arundel	\$175,000.00	N/A	4	0
Totals:			9 Loans		\$20,725,000.00		\$30,066,000.00	0	0	261
Grand Totals:			19 Loans		\$94,837,765.00		\$108,307,765.00	0	0	373

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Settled Report

7/1/2011 Through 6/30/2012

<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 / Actual</i>	<i>New Jobs</i>	<i>Retained Jobs</i>
<i>MIDFA Tax Exempt Bonds</i>										
10/27/2011	McDonogh School, Inc.	1860201	\$38,000,000.00	0.0%	\$0.00	Baltimore County	\$40,000,000.00	N/A	0	330
6/27/2012	National Aquarium of Baltimore, Inc.	840204	\$25,980,765.00	0.0%	\$0.00	Baltimore City	\$25,980,765.00	N/A	47	260
Totals:		2 Loans	\$63,980,765.00		\$0.00		\$65,980,765.00	0	47	590
<i>MIDFA Conventional Insurance</i>										
7/21/2011	Baltimore Racing Development,	9860201	\$1,000,000.00	50.0%	\$500,000.00	Baltimore City	\$1,200,000.00	N/A	0	0
8/4/2011	Chesapeake Machining &	12540101	\$1,750,000.00	50.0%	\$875,000.00	Baltimore City	\$2,300,000.00	N/A	6	34
9/9/2011	Star Spangled 200, Inc.	12670101	\$1,000,000.00	70.0%	\$700,000.00	Baltimore City	\$25,000,000.00	N/A	1	0
9/12/2011	Murphy, Robert & Rose	1610201	\$2,400,000.00	7.0%	\$168,000.00	Dorchester	\$2,925,000.00	N/A	0	6
12/5/2011	Kenmare Ent., LLC/DbA Capriotti's	13200101	\$535,000.00	46.5%	\$248,775.00	Talbot	\$535,000.00	N/A	15	15
12/8/2011	George And Maria Protopapas	11880201	\$615,000.00	25.0%	\$153,750.00	Baltimore County	\$696,000.00	N/A	0	0
6/28/2012	National Golden Tissue, Inc.	8410601	\$5,300,000.00	25.0%	\$1,325,000.00	Washington	\$6,225,000.00	N/A	50	54
Totals:		7 Loans	\$12,600,000.00		\$3,970,525.00		\$38,881,000.00	0	72	109
<i>MIDFA/SSBCI</i>										
9/23/2011	Opinion Works, LLC	12970101	\$100,000.00	50.0%	\$50,000.00	Anne Arundel	\$100,000.00	N/A	2	2
3/30/2012	Texcell - North America, Inc.	13410101	\$750,000.00	50.0%	\$375,000.00	Frederick	\$1,544,000.00	N/A	23	7
Totals:		2 Loans	\$850,000.00		\$425,000.00		\$1,644,000.00	0	0	25
<i>MIDFA-Small Business</i>										
7/1/2011	Panormitis Incorporated T/A Rodos	12290101	\$180,000.00	25.0%	\$45,000.00	Baltimore City	\$180,000.00	N/A	3	8
10/28/2011	George And Maria Protopapas	11880101	\$320,000.00	25.0%	\$80,000.00	Baltimore County	\$485,000.00	N/A	15	15
Totals:		2 Loans	\$500,000.00		\$125,000.00		\$665,000.00	0	18	23
Grand Totals:		13 Loans	\$77,930,765.00		\$4,520,525.00		\$107,170,765.00	0	0	162