

TESTIMONY OF

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

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

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1:00PM**

Corporate Overview

MEDCO is staffed with ten full-time employees and one part-time employee. Reviewing and maintaining financial statements, are a significant portion of MEDCO's ongoing project management responsibilities. MEDCO monitors the legal requirements of its projects to better assure compliance by its participants. These legal requirements include ensuring that current financials of participants are available, that required financial benchmarks are achieved and that current and appropriate insurance requirements are being met. MEDCO also collects and reviews the monthly financials for its owned projects. Projects between MEDCO and other State and governmental entities may also include requirements that employment counts and other performance criteria are collected from participants in order to ensure that participants meet the covenants required by those projects.

MEDCO structures its projects on a non-recourse basis. The State of Maryland, any State agency and MEDCO are not responsible for the repayment of the bonds that are issued by MEDCO. The repayment of MEDCO bonds is limited to the revenues generated by the applicable project.

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

Bond Financed Projects

MEDCO's bond financed projects encourage business activities, retain businesses, relieve unemployment, promote the welfare of State residents, and generally promote economic development in the State.

For the fiscal year ending June 30, 2009, MEDCO provided bond financing for the following projects:

ARC of Prince George's County: On November 10, 2008, MEDCO issued its non-recourse, tax-exempt revenue bond in the aggregate principal amount of \$658,350 and loaned the proceeds to the ARC of Prince George's County to finance or refinance all or a portion of the cost of (a) the acquisition of certain properties, (b) capital improvements to and renovations of those properties, (c) the acquisition and installation of certain necessary or useful furnishings, fixtures, equipment and machinery at those properties, (d) the acquisition of such other rights related to the properties, including appurtenances, rights-of-way, franchises, easements, and other interests in land, (e) land and facilities which are functionally related and subordinate to the properties and (f) the issuance costs of the bond. The properties are located at: 6502 Springbrook Lane, Clinton, MD 20735; 9414 Sheridan Street, Lanham, MD 20706; 10500 Riverview Road, Ft. Washington, MD 20744; and 16027 Pond Meadow Lane, Bowie, MD 20716.

Linemark Printing: On December 4, 2008 MEDCO issued its non-recourse, variable rate demand revenue bonds in the principal amount of \$9,000,000 and loaned the proceeds to Linemark Printing, Inc. and 501 Prince George's Boulevard, LLC in order to finance (a) the acquisition and renovation of an existing approximately 85,949 square-foot building on a parcel of land containing approximately 6.7 acres located at 501 Prince George's Boulevard, in Upper Marlboro, Prince George's County, Maryland; (b) the acquisition and installation of equipment related to the Linemark Printing's printing business; and (c) the payment of bond issuance costs and other eligible costs.

Recycle 1 C&D Processing, Inc.: On November 13, 2008, MEDCO issued its non-recourse, tax-exempt revenue bonds in the aggregate principal amount of \$2,000,000 and loaned the proceeds to Recycle 1 C&D Processing Inc. to finance or refinance (a) the acquisition, construction, installation and equipping of certain solid waste disposal facilities at a recycling plant, to be located at 4700 Lawrence Street, Hyattsville, Maryland 20781; (b) the acquisition of furnishings, fixtures and equipment in connection with the foregoing, and landscaping, roads or other rights of access, utilities and other facilities as may be necessary or suitable for the foregoing; and (c) the payment of bond issuance costs (collectively, the "Project"). The facility is included as part of Prince George's County 10-year Solid Waste Plan.

Rocky Gap 2008: On December 1, 2008, MEDCO issued its non-recourse, revenue bonds, series 2008 A, B, C and D, in the aggregate principal amount of \$45,242,100.28 to restructure the Maryland Economic Development Corporation (Rocky Gap Golf Course and Hotel/Meeting Center) series 1996 A and B revenue bond debt associated with the construction of the Rocky Gap Golf Course and Hotel in Allegany County.

United States Pharmacopeial: On November 20, 2008, MEDCO issued its non-recourse, tax-exempt revenue bonds in the aggregate principal amount of \$98,650,000 and loaned the proceeds of the bonds to United States Pharmacopeial Convention, Inc. to refund all of the MEDCO multi-modal revenue bonds (United States Pharmacopeial Project) Series 2004A and

Series 2004B and the MEDCO Multi-Modal Revenue Bonds (United States Pharmacopeial Project) Series 2006 and to pay certain costs of issuing the 2008 bonds.

University of Maryland, College Park: On August 28, 2008, MEDCO issued its non-recourse, tax-exempt student housing revenue bonds in the aggregate principal amount of \$38,200,000. The proceeds from the bonds will be used by MEDCO to (a) pay the costs of the acquisition, construction, furnishing and equipping of a 368-bed student housing facility on a parcel of land located in College Park, Maryland, and ground leased to MEDCO by the State of Maryland for the use of the University System of Maryland on behalf of its constituent institution, University of Maryland, College Park, (b) fund certain required deposits, (c) pay the interest expected to accrue on the bonds through June 1, 2010, (d) pay working capital and marketing costs associated with the opening of the facility, and (e) pay the costs of issuing the bonds.

MEDCO previously issued its student housing refunding revenue bonds (University of Maryland, College Park Projects), Series 2006 in the aggregate principal amount of \$133,645,000 for the purpose of refinancing certain existing student housing facilities located at the University of which \$130,455,000 currently remains outstanding. The 2008 bonds are being issued and secured on parity basis with the 2006 bonds.

One Maryland Projects

The General Assembly intends that MEDCO assist governmental units as well as State and local economic development agencies to contribute to the expansion, modernization, and retention of existing enterprises in the State as well as the attraction of new business to the State. MEDCO follows through on these intentions through its continued involvement with One Maryland projects. The One Maryland Program is funded by DBED and provides economic development assistance to economically distressed jurisdictions. MEDCO assisted One Maryland projects have been completed in Allegany County, Garrett County, Dorchester County, Worcester County, Caroline County, Somerset County and Baltimore City.

MEDCO's recent involvement in One Maryland Projects includes:

Barton Farms Business Park, Allegany County:

Pocomoke Flex Building, Worcester County:

Southern Garrett Flex Building, Garrett County:

Keyser's Ridge Business Park, Garrett County:

Dorchester Cambridge Flex Building, Dorchester County:

Dorchester Technology Park, Dorchester County:

Student Housing Projects

MEDCO provides assistance to Maryland's higher education entities through the ownership and bond financing of student housing projects. These projects enable Maryland's higher education entities to attract and house students without adversely affecting their State mandated debt capacities.

In these student housing projects, MEDCO assumes project ownership by way of a ground lease that terminates contemporaneously with the repayment of the bonds issued by MEDCO to finance each project. Upon repayment of the bonds, the ownership of these projects reverts to the ground lessor.

The following is a brief summary of the student housing currently owned/ground leased by MEDCO:

Projects that revert to University System Projects upon repayment of MEDCO bonds:

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)

Projects that revert to Morgan University upon repayment of MEDCO bonds:

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

Projects that revert to Sheppard Pratt Health Systems upon repayment of MEDCO bonds:

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

Information and Biological Technology Incubator Projects

The General Assembly of Maryland finds that the State's economy continues to experience technological change and that such change may result in economic contraction and dislocation, but affords opportunities to expand productive employment and expand the State's

economy and tax base. MEDCO capitalizes on these opportunities through its continued ownership of and involvement in information and biological technology incubator projects.

Here is an overview of those eight incubators, as well as an overview of the virtual licensee program:

Maryland Technology Development Center (MTDC, recently renamed the Shady Grove Innovation Center): Originally funded in July 1998, by way of a combination of MEDCO bonds and State grants, the MTDC was refinanced under a commercial loan to MEDCO from PNC Bank in March 2009. Since its inception, the MTDC has successfully graduated over 85 companies. The 85 successful graduates, still in business in the State of Maryland, support over 1500 jobs.

Currently the MTDC accommodates approximately 49 companies and is home to Maryland's Biotechnology Center. Companies within the MTDC presently support over 150 employees.

Silver Spring Innovation Center (SSIC): The SSIC is a 40,000 square foot building located in and owned by Montgomery County. Since its inception in the summer of 2004, the SSIC has graduated 3 info tech companies that currently support 40 employees. Currently, the SSIC accommodates 21 companies and supports over 75 employees.

Emerging Technology Center @ Johns Hopkins Eastern (ETC Eastern):

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

Currently the ETC Eastern accommodates 24 companies and supports 141 employees. ETC Eastern has successfully graduated 84 companies that support 141 employees.

Emerging Technology Center @ Canton (ETC Can): ETC Can contains approximately 48,909 square feet of 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 27 companies licensing space at the facility. Those 27 companies presently support 283 employees. ETC Can has graduated 41 companies which currently support 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 Techcenter@UMBC is managed by the University, owned by MEDCO, and focuses on creating collaborative relationships between incubator businesses and the University.

Techcenter@UMBC has graduated 38 companies from its incubator program and has accommodated over 110 tenants since its inception. Overall, Techcenter@UMBC graduates support 310 jobs.

Currently the Techcenter@UMBC accommodates 35 companies and supports 294 jobs. Techcenter@UMBC also operates an Idea Lab to help UMBC students and faculty develop businesses.

Wheaton Business Innovation Center (WBIC): The WBIC contains approximately 10,000 square feet of office space and conference rooms.

Currently the WBIC accommodates 18 companies which support 100 employees.

Rockville Innovation Center (RIC): On July 12, 2007 MEDCO obtained a loan in the amount of \$4,700,000.00 from Mercantile Potomac Bank (now PNC Bank) for the construction of a two story information technology incubator as part of a five story mixed use building in Rockville, Maryland. The RIC is backed by an operational grant agreement by and between MEDCO and Montgomery County. MEDCO is the owner and conduit manager of the RIC.

Currently the RIC accommodates 24 companies which support 75 employees.

Montgomery College Germantown Innovation Center (GIC): In September 2008, Montgomery College and Montgomery County Department of Economic Development renovated a vacant 67,000 square foot commercial building adjacent to Montgomery College's Germantown Campus.

Currently the GIC accommodates 22 companies.

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 the 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.

There are currently 21 virtual licensees.

Advisory Capacity

MEDCO, through the involvement of its executive director, directly promotes economic development in the State and assists in maximizing new economic opportunities in the State by active service in board memberships and advisory positions within various organizations throughout the State.

These organizations include:

Maryland Industrial Partnership (MIPS): MIPS promotes the development and commercialization of products and processes through research partnerships between universities and industries. MEDCO's executive director is a member of MIPS' advisory board.

Maryland Technology Development Corporation (TEDCO): 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.

PenMar Development Corporation: The PenMar Development Corporation is solely focused on the redevelopment of the Fort Richie site. MEDCO's executive director serves as an ex-officio member of the board of directors.

Bainbridge Development Corporation: The purpose of the Bainbridge Development Corporation is to develop the Bainbridge Naval Training Center 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.

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. MEDCO's executive director serves as a member of the ETC's advisory board.

Adventure Sports Center International (ASCI): ASCI was created in order to establish an International Adventure Sports Center as a focal point in the emerging and expanding adventure sports industry worldwide. MEDCO's executive director serves as a member of the ASCI board of directors.

Matapeake Business Park: Queen Anne's County requested MEDCO's assistance in preparing and selecting prospective developers for the Matapeake Business Park. MEDCO's executive director continues to assist with ongoing inquiries, financing, and design concerns, as well as serving on the selection committee.

Tri-County Council for the Lower Eastern Shore: Tri-County requested MEDCO's assistance in the purchase of an existing building for the use by the Tri County Council's Shore Transit headquarters and One Stop Job Market in Salisbury. MEDCO has applied for and accepted federal funding on behalf of the Council for the purchase and provides development consulting.

Bay Bridge Airport: Queen Anne's County requested MEDCO's assistance with appraisals and marketing studies for County owned property surrounding the Bay Bridge Airport. MEDCO has agreed to assist the County with its request.

Minority Business Enterprises Participation

MEDCO seeks to implement its statutory purpose of promoting economic development in the State by purchasing supplies and services from entities with operations in the State. While the majority of its projects are funded privately, MEDCO complies in practice with applicable minority business enterprise requirements for projects that involve governmental funding sources.

MEDCO conducts outreach to small and minority business communities by participating in regional or statewide procurement fairs or other organized outreach efforts by the Governor's Office of Minority Affairs, regional chambers of commerce, or at other appropriate venues. MEDCO is committed to using Small and Minority Businesses during procurement where possible. MEDCO accepts certification from the Governor's Office of Minority Affairs, the Maryland Department of Transportation, or the United States Small Business Administration as proof of a business's minority status.

During fiscal year 2009, MEDCO directly purchased \$7,697.91 in goods and services for its corporate operations from minority business enterprises, retained project construction consulting services in the amount of \$127,000.00 from a minority business enterprise, and spent \$7,332,815 in project bond proceeds on construction materials and services from minority business enterprises.

Challenging Projects

The following are projects that have presented challenges to MEDCO during the 2009 fiscal year.

Rocky Gap Golf and Resort: The project began construction in 1996, on land ground leased to MEDCO by DNR, with a combination of MEDCO bonds and State and Allegany County funding. From its inception the project, experienced operating difficulties that resulted in its inability to meet required debt service payments.

In order to address these operating difficulties, as well as the project's need for additional capital improvements to enhance operational competitiveness, MEDCO (a) negotiated MIDFA's purchase of a series of the 1996 bonds in 2001, (b) secured a MEDAAF operational loan in 2003, (c) continues to coordinate, with the project's manager, monthly efforts to adjust rates, approve capital improvements and reduce expenses to maximize operational efficiency, (d) consults with bondholders, DBED and DNR on effective ways to improve and sustain a balance between operations and debt service requirements, (e) restructured and refinanced project debt in December of 2008 to eliminate default risks, (f) purchased \$3,000,000 in 2008 project bond debt, and (g) contributed \$500,000 towards the project's working capital and capital improvements. The project is now able to fund its operations from its own revenue stream.

