TESTIMONY OF

Robert C. Brennan, Executive Director

Maryland Economic Development Corporation

BEFORE

Senate Budget and Taxation

Subcommittee on Education, Business and Administration

February 5, 2015

1:00PM

Background and History

MEDCO was created by the Maryland Legislature in 1984 to assist the state in its economic development efforts by owning real and personal property. The legislature gave MEDCO broad powers to accomplish its mission including the authority to issue revenue bonds to finance its projects. In 2000, MEDCO's enabling legislation was broadened to allow it to assist other entities of government. MEDCO is managed by an Executive Director who is appointed by its Board with the approval of the Governor, and the Executive Director reports to its 12 member Board who are appointed by the Governor. Included on the MEDCO Board are the Secretaries of the Maryland Department of Transportation and the Maryland Department of Business and Economic Development or their designees.

MEDCO is staffed with nine employees. The activities of MEDCO are divided between financing, project development, project administration and accounting. A significant portion of MEDCO's activities are focused on portfolio maintenance and ongoing oversight of its projects. MEDCO monitors its projects' compliance with the provisions of their financing documents to ensure that all of the terms and conditions of its loans are in compliance.

MEDCO structures its financings on a non-recourse, project-specific basis. The State of Maryland and MEDCO are not guarantors for the repayment of the bonds that are issued by MEDCO. The repayments of MEDCO bonds are limited to the revenues and the resources of each project.

Types of MEDCO Activities

Conduit Bond Issuance

MEDCO is a statewide issuer of conduit bonds. These bonds allow certain businesses that are eligible to borrow on a tax-exempt basis to arrange financing with their bank or access the capital markets and obtain a lower interest rate. The types of eligible borrowers are defined by the IRS and include nonprofits, certain manufacturers and other eligible tax-exempt activities such as port and transportation facilities. Conduit issuance is the core of MEDCO's business, and MEDCO has issued more than 200 of these types of bonds since its inception.

MEDCO-Owned Projects and Bond Issuance

MEDCO issues tax-exempt or taxable revenue bonds for projects that it will own and operate. Examples of these types of project include the Chesapeake Bay Conference Center (Hyatt Cambridge), the University of Maryland College Park energy project, two of the Montgomery County business incubators and student housing projects. These are projects that are, from an accounting perspective, assets of MEDCO, and MEDCO operates each of these projects as a standalone business enterprise. MEDCO closely monitors the operating matrix and performance to assure the projects are financially stable. When a project is not financially stable MEDCO works closely with the day to day management company to take correct measures and in the case of a student housing facilities MEDCO also includes the host university in crafting operating solutions. This activity requires close attention by MEDCO staff, and the Assistant Director of Bonds is tasked with assuring portfolio compliance.

MEDCO-Financed Lease Revenue Bonds

MEDCO has issued both taxable and tax-exempt lease revenue bonds to finance certain project for both State and Federal projects. In these transactions, the bond financing is secured by the lease agreement and, in some instances, the real property. The portfolio of lease revenue bonds includes the MDOT headquarters building, the Southwest Airlines terminal piers A&B, the Laboratory for Telecommunication Sciences on behalf of the US Army Corp of Engineers, the Hilton Street facility for the Department of General Services, the Maryland Public Health Laboratory which is under construction in east Baltimore and most recently the Maryland State Archives warehouse. In all of these projects MEDCO is actively involved through the procurement, development, financing and the construction phases of the project. After construction MEDCO's involvement is dictated by the lease agreements. By example our involvement with the MDOT headquarters building is minimal while our involvement with the State Health Lab will be on going as MEDCO will be actively overseeing the building management and will work with the Department of Health and Mental Hygiene to assure the facilities are functional in an optimal capacity.

Public Private Partnerships (P3's)

MEDCO has been at the forefront when conducting P3's in Maryland. The P3's include student housing projects, the University of Maryland College Park energy project and Seagirt Marine Terminal. P3's can take on a variety of structures depending on how much private sector involvement is desired from design, build, finance, operate and maintain, or as MEDCO has structured, a hybrid transaction where the private sector is only engaged for the operations and maintenance portion of the project. MEDCO has also used private entities to design and build but has retained the financing of the asset using tax-exempt financing. MEDCO has been working with MDOT on the Purple Line where it is anticipated that MEDCO will issue the transportation revenue bonds for the project.

Tax Increment Financing (TIF)

While MEDCO is not an eligible issuer for TIF bonds in most jurisdictions MEDCO was given the authority to issue TIF bonds for Baltimore City. Additionally, the statewide TIF legislation was expanded to provide enhanced features to support Transportation Oriented Development (TOD) projects and in this past session Sustainable Communities. MEDCO was named as an authorized issuer of TIF bonds in these designated areas and was also provided the capability to own certain acquired or improved assets. MEDCO financed and owns a parking garage in the Owings Mills Town Center in Baltimore County using its TOD TIF capabilities. MEDCO has been working closely with MDOT on other TOD opportunities, and there are several projects that MEDCO may be able to assist in developing and/or financing.

DBED Sponsored Projects

MEDCO has developed industrial parks, spec buildings and other types of facilities in areas where private developers will not invest funds and in One Maryland jurisdictions. These projects are oftentimes funded by DBED and MEDCO will, when available, apply for other funding through the host county, USDA, US-EDA and or ARC. MEDCO will hold the property and work collaboratively with the host county and DBED to either lease or sell the property. MEDCO also maintains a portfolio of loans that originated through DBED to industrial and other types of business users. MEDCO is currently working with DBED and Montgomery County to repurpose the Shady Grove Innovation Center into a facility that will be used as the National Cybersecurity Center of Excellence (NCCoE).

Consulting and Advisory Services

MEDCO has worked with local governments in procuring economic feasibility or other technical studies. These studies are usually funded through partner governmental agencies. MEDCO assists the governmental entity by writing the request for proposals and developing the scope of the engagement to assure the proper elements are obtained to make a decision for a project. MEDCO is also working with MDOT on the Purple Line and has procured and contracted the financial transaction advisor and will work closely with MDOT to assist with the structuring of the project. MEDCO is involved in several state organizations such as the Bainbridge Development Corporation and Penmar Development Corporation.

Below are highlights from MEDCO's 2014 Annual report

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Annual Activities Report

Fiscal Year Ending:

June 30, 2014

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BOARD OF DIRECTORS AND OFFICERS

The Honorable Mike Gill (Ex-Officio)
Secretary, MD Department of Business & Economic Development

Mr. Robert C. Brennan
Executive Director and Secretary

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, 2014, MEDCO provided bond financing for the following projects:

Washington Research Library Consortium Series 2013: On August 1, 2013, MEDCO issued its non-recourse, tax-exempt revenue bonds in the amount of $9,600,000.00 Maryland Economic Development Corporation Revenue Bonds (The Washington Research Library Consortium Project) Series 2013 for Washington Research Library Consortium, a District of Columbia non-profit corporation.

Proceeds of the Bonds were used (a) to finance the cost of capital improvements to the facilities owned by the Washington Research Library Consortium located at 901 Commerce Drive, Upper Marlboro, Prince George's County, Maryland 20774 (the "Site"), consisting primarily of the acquisition, construction, improvement, furnishing and equipping of an approximately 13,500 square foot addition to its existing library storage facilities located at the Site, and any related ground, infrastructure or other real property improvements and rights appurtenant thereto; (b) refinance an existing conventional loan previously incurred by the Washington Research Library Consortium to finance a separate 12,000 square foot addition to such library storage facilities at the Site (which 12,000 square foot addition was completed in 2010); (c) fund, if necessary or appropriate, capitalized interest and other reserves; and (d) pay costs of issuance of the Bonds (collectively, the "Project").

The Washington Research Library Consortium will use the Project to provide high-density, humidity-controlled storage for library materials (books, audiovisual or microform media, and archival boxes) of its member institutions in furtherance of its charitable mission of providing proactive and responsive, innovative, cost-effective access to shared information resources, services and expertise. Washington Research Library Consortium currently has 19 employees and plans to add one more permanent position as a result of the Project (in addition to the temporary construction jobs that will be created).

Santa Barbara Court, LLC Series 2013: On September 3, 2013, MEDCO issued its non-recourse, tax-exempt revenue bonds in the amount of $5,871,000 at the request of Santa Barbara Court to refund its outstanding Maryland Economic Development Corporation Economic Development Refunding Revenue Bond (Santa Barbara Court, LLC Project) Series 2007 and to pay all or a portion of the costs of issuances and other costs related to the transaction.

MEDCO loaned the proceeds of the 2013 Bond to the Santa Barbara Court, LLC to (1) refund all outstanding Maryland Economic Development Corporation Variable Rate Demand Revenue Bonds (Santa Barbara Court, LLC Project) Series 2006 (the "Prior Bonds"), and (2) pay all or a portion of the costs of issuance and other costs related to the 2013 Bond.

Proceeds of the Prior Bonds were issued to refinance a portion of a conventional loan made to Santa Barbara Court to finance the costs of the acquisition of (i) the real property known as 6685 Santa Barbara Court, Elkridge, Maryland 21075, containing 8.89 acres, more or less (the "Land"), including existing improvements thereon containing approximately 167,490 gross square feet of gross leasable area (the "Building"), (ii) certain necessary or useful furnishings, fixtures, equipment and machinery installed in, or used at the foregoing, (iii) the acquisition of such other rights related to the Land, 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 foregoing (collectively, the "Project").

Santa Barbara Court owns the Project and leases approximately 85,000 square feet of the Building to ATEC Industries for use in its manufacturing of panels and other materials designed to shield facilities from electromagnetic/radio frequency interference. Approximately 45,000 square feet of the Building is leased to an unrelated tenant who is in the business of manufacturing and installing modular wall and furniture systems for office buildings. The remainder of the Building is leased to non-manufacturing entities. ATEC Industries employs between 35 and 45 people in the Building.

Chesapeake Bay Foundation Series 2013: On October 1, 2013, MEDCO issued its non-recourse, tax-exempt revenue bond in the amount of $6,195,000 at the request of the Chesapeake Bay Foundation to refund its outstanding Maryland Economic Development Corporation Revenue Bonds (The Chesapeake Bay Foundation) Series 1998 and to pay all or a portion of the costs of issuance and other costs related to the transaction.

MEDCO loaned the proceeds of the 2013 Bond to the Chesapeake Bay Foundation to (1) refund all outstanding Maryland Economic Development Corporation Economic Development Revenue Bonds (The Chesapeake Bay Foundation, Inc. Facility Project) 1998 Issue (the "Prior Bonds"), and (2) pay all or a portion of the costs of issuance and other costs related to the 2013 Bond.

MEDCO issued the Prior Bonds in the original aggregate principal amount of $10,000,000 and loaned the proceeds thereof to the Chesapeake Bay Foundation to finance the purchase of a parcel of land containing approximately 30 acres in Anne Arundel County, Maryland and the acquisition and construction thereon of a headquarters facility containing approximately 30,000 square feet (the "Project") and paying the costs of issuance of the Prior Bonds and other transaction-related costs.

The Chesapeake Bay Foundation uses the Project as their headquarters in furtherance of their charitable mission of restoring and protecting the Chesapeake Bay and employs approximately 105 people at the Project and over 220 in the Chesapeake Bay region. The issuance of the 2013 Bond will afford the Chesapeake Bay Foundation a more stable, low-cost source of long-term financing which will help them continue their operations in the State.

Hospice of the Chesapeake Series 2013: On December 18, 2013, MEDCO issued its non-recourse, tax-exempt revenue bonds in the amount of $5,235,000 named Maryland Economic Development Corporation Economic Development Revenue Bonds (Hospice of the Chesapeake Project) and in the following series and amounts: $1,217,888.91 of Series 2013A (Project Bond) and $4,017,111.09 Series 2013B (Loan Refinancing Bond) for Hospice of the Chesapeake, Inc. a Maryland non-profit corporation.

MEDCO loaned the proceeds of the Bonds to the Hospice of Chesapeake for the purpose of (1) refinancing a taxable loan the proceeds of which were used to purchase the commercial property located at 90-92 Ritchie Highway, Pasadena, Anne Arundel County, Maryland (the "Premises") and to finance, in part, the renovation of and relocation costs to the Premises (such uses, the "Original Project"); (2) financing or refinancing the development, construction, equipping and furnishing of an in-house hospice facility on the Premises (the "New Project"; the Original Project and the New Project, collectively, the "Project"); and (3) paying all or a portion of other costs related to the transaction.

The Hospice of Chesapeake will use the Project in furtherance of its charitable mission of providing medical, nursing, social work and spiritual care to people with life-limiting illnesses. Specifically, the Hospice of Chesapeake will use the Original Project as a new headquarters facility accommodating administrative staff as well as field employees who provide services to other facilities of the Hospice of Chesapeake, private households and other health care facilities throughout the region. The Original Project will also accommodate some programmatic elements of the Hospice of Chesapeake, and the New Project will expand these offerings by providing additional palliative care services upon its completion.

The Hospice of Chesapeake currently has 260 employees throughout Maryland and utilizes approximately 600 volunteers annually. In 2012, the Hospice of Chesapeake provided services (exclusive of bereavement and spiritual care services) to approximately 2,500 individuals in Anne Arundel and Prince George's Counties. Additionally, the new construction component of the Project will allow the Hospice of Chesapeake to bring in additional employees to expand palliative services in the region

Allegany College Housing Series 2014: On February 6, 2014, MEDCO issued its non-recourse, tax-exempt revenue bonds in the amount of $6,350,000 named Maryland Economic Development Corporation Student Housing Refunding Revenue Bonds (Allegany College of Maryland Project) Series 2014 (the "Series 2014 Bonds") for Allegany College Housing, LLC. a Maryland limited liability company the sole member of which is Somerset County Campus Foundation for Allegany College of Maryland (the "Foundation"), a Pennsylvania corporation that has been determined to be an organization described in Section 501(c)(3) of the Internal Revenue Code.

MEDCO loaned the proceeds of the Bonds to the Allegany College Housing, LLC (i) to currently refund the outstanding Maryland Economic Development Corporation Student Housing Revenue Bonds (Allegany College of Maryland Project) Series 2000A (the "Series 2000A Bonds") originally issued in the principal amount of $8,035,000 and (ii) to pay the costs associated with issuing the Series 2014 Bonds.

The proceeds of the Series 2000A Bonds were used to (i) to finance a portion of the cost of acquiring constructing, furnishing and equipping a 236-bed student housing facility located adjacent to the campus of Allegany College of Maryland (the "College") in Cumberland, Maryland on land owned by the College (the "Project"), (ii) to fund a debt service reserve fund for the Series 2000A Bonds, (iii) to fund capitalized interest, (iv) to pay working capital and marketing costs associated with the Project, and (v) to pay the costs of issuing the Series 2000A Bonds. The Allegany College of Maryland has used and will continue to use the Project to provide necessary housing for students of the College.

Metro Centre at Owings Mills Series 2014: On April 30, 2014, MEDCO issued its non-recourse, taxable special obligation revenue bonds in the amount of $33,050,000 named Maryland Economic Development Corporation Special Obligation Bonds (Metro Centre at Owings Mills Project) Series 2014 (Taxable) (the "Bonds").

MEDCO will use the proceeds of the Bonds to (i) pay the costs of the acquisition, construction, furnishing and equipping of stormwater management improvements, water improvements, sewer improvements, roads, site grading relating to the foregoing, landscape and hardscape improvements and a parking garage containing approximately 2,089 spaces (the "Project") (including reimbursement of expenditures previously incurred in connection therewith), (ii) pay certain capitalized interest, (iii) establish a debt service reserve fund for the Bonds, (iv) pay certain administrative expenses, and (v) pay the costs of issuing the Bonds.

MEDCO has entered into a development agreement and construction contract with Metro Centre Garage II LTD (the "Developer") to construct the Project on land in Baltimore County (the "County") owned by the Maryland Transit Administration, leased to Owings Mills Transit LLC (the "Master Developer"), sub-leased to the Developer, and sub-sub-leased to MEDCO. MEDCO will own the Project for the term of the sub-sub-lease through April 30, 2054, after which time the ownership of the Project will revert to the Developer.

The Bonds are tax increment financing bonds and will be paid from the incremental increase in real property tax receipts (the "Tax Increment") collected by the County on property located within a development district (the "TIF District") in the area surrounding the Project. The Bonds will also be supported by special tax receipts (the "Special Tax A") collected by the County on property located within a special taxing district (the "South Parcel Special Taxing District") which will be assessed on property owners in the South Parcel Special Taxing District if the Tax Increment is insufficient to pay debt service on and other administrative costs of the Bonds.

The Bonds were initially issued in a taxable, draw-down mode and will be held by the Developer for a period of time while the Master Developer completes other mixed-use development within the TIF District. The Developer has obtained third-party financing to construct the Project and will submit draw-down requests to MEDCO to accrete the balance of the Bonds to match the progress made in constructing the Project. The Developer intends to remarket the bonds once sufficient Tax Increment is available to pay costs of the Bonds, at which time the Developer will be repaid for the costs of constructing the Project, and a debt service reserve fund will be funded from remarketing proceeds to further support the Bonds.

The Bonds have a final maturity of April 1, 2044 and were initially issued as taxable, variable-rate bonds. The Bonds will be taxable as long as they are held by the Developer, but they are expected to be converted into tax-exempt, fixed-rate and fully-amortizing bonds once remarketed.

MEDCO has entered into a garage operating agreement with the Developer to manage the Project while under MEDCO-ownership. The costs of operating the Project will be funded from special tax receipts (the "Special Tax B") collected by the County on property located within the South Parcel Special Taxing District which will be assessed on property owners in the South Parcel Special Taxing District annually based on a budget to be approved by MEDCO and the County

One Maryland Projects

The General Assembly intends that MEDCO assist governmental units as well as State and local economic development agencies in contributing 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 the Maryland State Department of Business and Economic Development (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: Developed by MEDCO and located south of Cumberland on US Route 220, the project initially included land acquisition, permitting, installation of utilities and site preparation. In June of 2004, approximately 40 acres were sold to American Woodmark. MEDCO, Allegany County and DBED continue to market the remaining property to technology based businesses looking to relocate to the Western Maryland region. Within the next six to twelve months, the County intends to purchase approximately 27.5 acres of land from MEDCO in order to construct a flex building to attract businesses to the project.

Pocomoke Flex Building, Worchester County: Constructed by MEDCO in 2002, this 43,000 square foot industrial shell building provides the County with marketable flex space. In 2006, Mid-Atlantic Institute for Space and Technology (MIST) master leased the entire building. In 2007, MIST and MEDCO co-applied for and MIST was awarded an EDA grant totaling $200,000.00. The award provided for interior improvements to expand existing work space within the building. In February 2012, MIST relinquished its master lease of the facility and MEDCO, the County and DBED continue to market the building to prospective Lessees and potential purchasers.

Maryland Economic Development Assistance Authority and Fund (MEDAAF) Project

MEDCO is enabled by statue to receive funds from the Department of Business and Development under MEDAAF in furtherance of its economic development activities.

MEDCO's recent involvement in MEDAAF projects include:

Patuxent Business Park: In 2000, MEDCO, with DBED financing, purchased approximately 92 acres of land for the development of a business park in Calvert County, Maryland. The park is designed for Class A office and flex space. In 2005, MEDCO secured additional DBED funding for the continued ongoing costs of engineering, design, permitting and construction of infrastructure. Infrastructure work for the business park is completed and MEDCO, with the collaborative efforts of the County, has obtained the services of a commercial broker to assist with marketing efforts and increase exposure of the park. MEDCO and the County are in negotiations with two prospective purchasers for lots within the park. MEDCO and the County are in ongoing discussions with two businesses interested in purchasing and developing lots within the business park.

Student Housing Projects

MEDCO provides assistance to Maryland's higher education entities through the bond financing and ownership 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 and the debt outstanding for each project as of June 30, 2014:

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

- **Bowie State University, Prince George's County** - $17,650,000– 460 beds
- **Frostburg State University, Allegany County** - $15,095,000– 406 beds
- **Salisbury University, Wicomico County**- $25,305,000- 890 beds
- **Towson University, Baltimore County** - $46,902,000- 1,088 beds
- **University of Maryland, Baltimore** - $30,095,000– 337 beds
- **University of Maryland, Baltimore County** – $24,875,000– 581 beds
- **University of Maryland, College Park** - $153,370,000– 2929 beds

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

- **Morgan State University, Baltimore City** - $31,420,000– 796 beds

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

- **University Village at Sheppard Pratt, Baltimore County** - $21,110,000– 615 beds

Information and Biological Technology Incubator Projects

In the legislative findings which were part of the basis for MEDCO's creation, the General Assembly of Maryland determined 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:

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. The County subleases the second floor (roughly 35,000 SF) from the College for the GIC. The GIC includes 12 labs, two clean room facilities and 8,500 square feet of office. GIC companies have access to business resources including training, development, and best practices seminars led by industry experts, free counseling and legal services. MEDCO assisted in the construction of the GIC and continues to assist the GIC as its conduit manager.

Currently the GIC accommodates 25 companies that support 105 employees.

Rockville Innovation Center (RIC): On July 12, 2007 MEDCO obtained a loan in the amount of $4,700,000 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. RIC companies have access to business resources including training, development, and best practices seminars led by industry experts, free counseling and legal services. The RIC is backed by an operational grant agreement between MEDCO and Montgomery County. MEDCO is the owner and conduit manager of the RIC.

Currently the RIC accommodates 22 companies that support 105 employees.

Shady Grove Innovation Center (SGIC, formerly the Maryland Technology Development Center): Originally funded in July 1998, by way of a combination of MEDCO bonds and State grants, the SGIC was refinanced under a commercial loan to MEDCO from PNC Bank in March 2009. The SGIC 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. SGIC companies have access to business resources including training, development, and best practices seminars led by industry experts, and free counseling and legal services. The SGIC is backed by an operational grant agreement between MEDCO and Montgomery County. MEDCO is the owner (by way of a ground lease with Montgomery County) and conduit manager of the SGIC.

The SGIC facility is currently in the process of being renovated into the National Cyber Center of Excellence.

Silver Spring Innovation Center (SSIC): The SSIC is a 40,000 square foot building located in and owned by Montgomery County. The SSIC is an information technology incubator and excels in providing fast and efficient telecommunication connections for all of its companies. SSIC companies have access to business resources including training, development, and best practices seminars led by industry experts, and free counseling and legal services through the Maryland Intellectual Property Legal Resource Center. MEDCO is the conduit manager of the SSIC.

Currently, the SSIC accommodates 19 companies and supports 127 employees.

Wheaton Business Innovation Center (WBIC): The WBIC opened in 2006 and contains approximately 10,000 square feet of office space and conference rooms. WBIC companies have access to business resources including training, development, and best practices seminars led by industry experts, free counseling and legal services, networking conferences, and business counseling. MEDCO is the conduit manager of the WBIC.

Currently the WBIC accommodates 14 companies that support 36 employees.

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 20 virtual licensees.

Emerging Technology Center @ Johns Hopkins Eastern (ETC Eastern): MEDCO received financial commitments from DBED, 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 in building out space within the former Eastern High School in Baltimore City. MEDCO leases one floor of the facility from Johns Hopkins University to accommodate the ETC Eastern and is also the conduit manager for the ETC Eastern.

The ETC Eastern facility contains approximately 45,800 square feet of office space, distributed over 35 separate offices and 10 cubicle spaces. 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.

ETC Eastern graduated 9 companies in FY2013. Currently the ETC Eastern accommodates 33 companies and supports 244 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. MEDCO leased one floor of the facility from Struever Brothers, Ecceles & Rouse to accommodate the ETC Can and was the conduit manager of the ETC Can. ETC Can contained approximately 48,909 square feet of office space, distributed over 27 separate offices. ETC Can was managed and financially supported by the Baltimore Development Corporation and provided its companies with the same business assistance services that are made available at ETC Eastern, including NASA fast tracking.

The original term of the lease ended and the ETC Can successfully relocated without MEDCO's assistance.

bwtech@UMBC Incubator and Accelerator: The bwtech@UMBC Incubator and Accelerator is a nationally-recognized life-science and technology business incubation program that is home to over 30 early-stage bioscience and technology companies. bwtech@UMBC is managed by the University and owned by MEDCO. Companies enjoy 165,000 square feet of affordable office and wet lab space, flexible lease arrangements, as well as access to resources and networking opportunities to help their businesses succeed. An experienced entrepreneurial services staff provides resident companies with general business support services and access to an active network of mentors and investors.

Since its inception in 1989, the bwtech@UMBC Life Science and Technology Incubator has graduated 65 companies, including Celsis/InVitro Technologies, Next Breath LLC, AVIcode Inc. and Noxilizer, Inc. and currently accommodates 46 companies that support 260 employees.

Advisory Capacity

MEDCO, through the involvement of its staff, 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.

Maryland Economic Development Association: MEDCO's Executive Director is a member of MEDA's Past Presidents. Past Presidents provide economic development consulting services to parties requesting services. Additionally, MEDCO's Assistant Director for Real Estate Development is a member of the Board and co-chair of the business development committee and MEDCO's Associate Director for Development and Information Technology serves on MEDA's program committee.

Maryland Department of Housing and Community Development (DHCD), Revenue Bond Advisory Board: The purpose of the Revenue Bond Advisory Board is to provide independent advice and expertise to the Department of Housing and Community Development on the issuance of revenue bonds by the Department, and the policies and procedures related to the issuance of those revenue bonds. MEDCO's executive director serves as a member of the Revenue Bond Advisory Board.

Public Private Partnership, Working Group and Subcabinet: MEDCO's Executive Director and Associate Director for Development and Information Technology participate in these activities and are working to promote P3's in Maryland.

University of Baltimore, Real Estate Advisory Board: MEDCO's Assistant Director for Real Estate Development, serves as a member of UB's Real Estate Advisory Board and is on the government and economic development committee.

Baltimore Development Work Group: MEDCO's Assistant Director for Real Estate Development sits on the steering committee of the BDW, an ad hoc group of real estate professionals working with elected and appointed officials on real estate and economic development matters.

Greater Baltimore Committee's Bike Coalition Work Group: MEDCO's Associate Director for Development and Information Technology is a member of the GBC's Bike Coalition Work Group, which has been providing comments and recommendation to Baltimore City as it updates and revises its Bicycle Master Plan.

Green Branch Athletic Complex Workgroup: MEDCO's Associated Director for Development and Information Technology is a member of the Green Branch Complex Workgroup, a workgroup established to study the feasibility of building a multi-sport stadium at or near the Green Branch Athletic Complex.

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.

The Department of Health and Mental Hygiene's State Health Lab Project, under construction at 1770 Ashland Ave in East Baltimore, has committed to a 27% MBE, 8% WBE and 20% LBE participation in the project's overall construction contract amount. The construction contract totals $103,116,043 and participation as of 2014 FY End was as follows: 32.67% or $36,786,941 MBE (goal of 27%), 6.37% or $7,187,730 WBE (goal of 8%) and 30.03% or $33,881,681 LBE (goal of 20%). The project has committed to 100 new local hires (defined as within Baltimore City). To date, the project has 127 verified new local hires. In addition 81.08% of the workforce is from Maryland. In addition, MEDCO and the developer, Forest City New East Baltimore Partnership along with EBDI and local officials, have collaborated in establishing an employment pipeline for East Baltimore and Baltimore City residents whom desire employment at the Project site. The pipeline identifies potential employees and matches their skill sets with the needs of contractors, subcontractors, vendors and installers at the project. As of FY 2014, the pipeline has brought 118 local individuals to the project.

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.

Member Maryland Washington Minority Contractor's Association since 2012.

Member Maryland Minority Contractors Association since 2012.

Closed Projects since the 2014 FYE

Maryland State Archives

On October 3, 2014, MEDCO issued its non-recourse, tax-exempt revenue bond in the aggregate principal amount of $9,200,000 named Maryland Economic Development Corporation Revenue Bond (Maryland State Archives Project) 2014 Series (the "Bond") and used the proceeds thereof along with $2,300,000 of MEDCO funds (the "MEDCO Contribution") to acquire approximately 5.9 acres of land located at 2255 Rolling Run Drive, Woodlawn, Maryland 21244 containing an approximately 134,240 square foot building previously used by the Social Security Administration as a record retention facility (the "Project").

MEDCO owns the Project and has entered into an Intergovernmental Lease Agreement (the "Lease") with Maryland State Archives ("MSA") for use of the entire project for an initial fifteen year term. Additionally, MSA has the option to renew the Lease for up to two additional ten year terms. MSA will pay for operating expenses associated with the Project and will make payments to MEDCO in sufficient make debt service payments on the Bond and repay the MEDCO Contribution. MSA will use the Project to consolidate the storage of State archival materials from multiple locations.

The Bond was purchased and will be held by TD Bank, NA (the "Bank"). The Bond has a twenty-five year maturity and will amortize fully over that term. The Bond bears interest at a fixed rate of 2.74% for an initial fifteen year period, after which time the rate will be renegotiated by the MEDCO and the Bank. The Bank has the right to require MEDCO to purchase the Bond on October 1, 2029. Payments on the Bond are secured by the Project and payments under the Lease.

Details on other DBED/MEDCO transactions

DBED:

UMBC Research

MEDCO borrowed $650,000 from DBED in connection with its MICRF program and made a re-loan to UMBC Research Park Corporation, a Maryland corporation formed to lease 36.4 acres of raw land in Baltimore County, Maryland from the State of Maryland and to develop the land into a research and development park to be named "University of Maryland Baltimore County Research Park". In addition to the MICRF funding, the UMBC Research Park Corporation received grants from the Economic Development Administration and Baltimore County, Maryland as well as a loan from the Abell Foundation.

UMBC Tech

October 15, 1996, MEDCO purchased the former Martin Marietta (Lockheed Martin) Building on 1450 South Rolling Road, Baltimore County, Maryland, for $9.5 million for use of the University of Maryland Baltimore County (UMBC). MEDCO paid $5.5 million and gave a mortgage to Lockheed Martin for $4.0 million. MEDCO received the $5.0 million from the State and $500,000 from UMBC. MEDCO had until October 15, 1998 to pay the $4.0 million mortgage. There was no interest charged to MEDCO for this two year mortgage. Because interest rates are attractive, MEDCO borrowed $3,812,360 (the $4 million less a present value calculation), plus the $500,000 that UMBC paid, plus closing costs for a total of $5,100,000. The interest rate is fixed at 7.55%. UMBC has entered into an operating lease with MEDCO for 30 years. The MEDCO debt will be paid through lease payments by year 20. UMBC will use the facility for educational purposes, a technology incubator, and as market rate space for private companies that want a university presence.

Harbor East

$2,850,000 Loan from MEDCO to Harbor East-Office LLC in conjunction with the MICRF Program of the Department of Business and Economic Development

Inner Harbor East LLC, a partnership, is redeveloping 20 acres of land strategically located between the Inner Harbor and Fells Point and is in the Empowerment Zone. Inner Harbor East LLC will develop a 123,400 sq. ft. office building on top of a 204 space parking garage. Total planned development of the area is forecast at $350 million. The MEDCO re-loan is a MICRF loan from DBED in the amount of $2.85 million for 20.5 years at an interest rate of 3%. The first three years are interest only. The MEDCO loan is secured by a second mortgage on the office building. The project financing will be fully guaranteed by John Paterakis. Following the construction, the guaranty may be released upon satisfaction of certain lease-up provisions. Northeast Foods, Inc., a bakery operation of Mr. Paterakis, will execute a master lease agreement for all remaining rentable space not leased to primary tenant Sylvan Learning Systems, Inc. In addition to the MEDCO loan, there is a $10,000,000 bond which is purchased by First National Bank ($2.75 million insured by MIDFA). Baltimore City has deferred for 20 years the cost of the land valued at $2.0 million, and the owner has contributed $4.756 million in equity. Total project cost: $19.6 million.

TRA

The Department of Natural Resources leased a portion of the Fair Hills Equestrian Center to MEDCO for development of the national headquarters of the Thoroughbred Racing Associations and its wholly owned subsidiaries, including the Thoroughbred Racing Protective Bureau. Using the proceeds of a MILA loan in the original principal amount of $1,396,239 MEDCO improved the property with an 11,218 sq. ft. building, and leased it to TRA. The MEDCO ground lease has a term of 25 years with 2 renewal terms each having 25 yrs so long as not less than 12 months nor more than 18 months notice is given of the intention to exercise the option. MEDCO pays annual rent of $1.00.

The TRA lease commenced on 5-31-91 and continues until 1-31-2018; rental is payable monthly per schedule. TRA has an option to purchase the building for $1.00 after notice within 6 months of expiration of lease so long as TRA assumes the MEDCO DNR lease and TRA is not in default. Rental income from TRA is sufficient to repay the MILA loan.

Chesapeake College

Board of Trustees of Chesapeake College, a community college of the State of Maryland (Tenant) of a facility owned by MEDCO and purchased with the proceeds of a $1,013,962.51 loan from the Department of Business and Economic Development in conjunction with its MICRF Program

On September 13, 1995, MEDCO purchased from the County Commissioners of Dorchester County a fully renovated former two-story department store in downtown Cambridge, Maryland using a $1,013,962.51 loan from the MICRF program of DBED. The facility is leased to Chesapeake College for use as an adult education and industrial training center as an adjunct to its academic program. Lease payments are sufficient to pay debt service on the MICRF financing and to repay MEDCO for certain cost overruns incurred in the renovation. MEDCO's purchase completes more than two years of extensive state and local development efforts to utilize a large, empty structure in the downtown area and to stimulate job creation by providing an attractive workforce.

Simon Pearce

DBED requested MEDCO to purchase the former Bausch and Lomb Corporation's Garrett County facility after Bausch and Lomb vacated the facility. DBED loaned MEDCO $1.5 million through the MILA program. The facility is is almost 200,000 square feet on 98+ acres. Not much of the land is developable due to terrain. The purchase coincided with a lease to Simon Pearce (US), Inc. MEDCO purchased the facility with the Simon Pearce lease in place.

Simon Pearce manufactures high quality glass and pottery for the consumer marketplace. Simon Pearce has an option to purchase the facility for $1.00 after completing a 25 year lease.

HGS

On December 30, 1997, MEDCO closed on a taxable $30,000,000 financing. MEDCO purchased land, constructed a pilot scale facility for production, and leased the facility and land back to HGS. The construction and land acquisition cost approximately $30,000,000. The land for this project was sold to Montgomery County by Johns Hopkins University and Montgomery County sold the land to MEDCO for the HGS project. Montgomery County financed the infrastructure improvements necessary for the HGS Project and the rest of the Hopkins land. MEDCO issued $23,000,000 of non-recourse taxable bonds which have $5,000,000 in Maryland Industrial Development Financing Authority insurance and an M&T Bank Letter of Credit. MEDCO also closed on a $3,000,000 MICRF Loan, a $2,000,000 MILA Loan, and a $2,000,000 Sunny Day Loan. The HGS lease is structured to be an operating lease so that HGS does not have to show this transaction on their balance sheet. The lease to HGS was for an initial period of 10 years with a ten year renewal option. The Letter of Credit was for 10 years which is renewable at the option of the bank. The State loans are all for a period of 20 years. HGS has purchase options every six months beginning on June 30, 2003.

Esskay

MEDCO was asked to participate by DBED on the redevelopment of the former Esskay property at 3600 E. Baltimore Street, Baltimore City. DBED's MICRF program loaned $1.6 million to MEDCO to acquire, demolish, and environmentally clean-up the property. DBED's Brownfield's Revitalization Incentive Program (BRIP) will grant $300,000 to the MEDCO to assist in the cost of the clean-up. MEDCO will be the beneficiary of the State's Voluntary Clean-up Program and will have no liability for the environmental conditions of the Esskay facility and grounds. Baltimore City will loan $150,000 and grant $100,000 to MEDCO for the project. The available $2,150,000 in funds will match the cost of the project up to redevelopment. The land is being ground leased to H&S Bakery where they constructed a bakery and house their trucking operations.

National Cybersecuirty Center of Excellence (partnership between the state and Montgomery County)

TESTIMONY OF

Robert C. Brennan, Executive Director
Maryland Economic Development Corporation

BEFORE

Senate Budget and Taxation
Subcommittee on Education, Business and Administration

February 5, 2015

1) **The Department of Legislative Services recommends that MEDCO comment on its operating projects and specifically on the designation of three projects as "watch" projects**

   Response: MEDCO utilizes a loan classification system, designating its projects as performing, watch, or non-performing.

   A **"Watch"** project is one that is making its payments where no event of default has occurred, although the project may not have met all of its financial covenants. A **"Non-performing"** project is one that is in payment default or is not making its payments on a timely basis and is not in compliance with its financial covenants.

CBCC "Non-Performing"

The Chesapeake Bay Conference Center (CBCC) was classified as a "Watch" in 2010 as the project failed to achieve the required minimum debt service coverage ratio of 1.25 and the project was reclassified as "Non-performing" in 2014 after the June debt service payment was only partially made. With the downturn in the economy in 2008, resort hospitality facilities have suffered a loss in business, and at the CBCC the loss of business has had an impact its financial operating performance.

During the economic downturn, CBCC revenues declined over 30% from their peak to a low of $35,434,000 for the fiscal year ended 6/30/10. The resort's efforts to increase revenues have been stalled for various reasons including a stagnant market for resort conference facilities. While resort conference facilities around the country have rebounded from the recession, resort conference facilities in our market area have continued to struggle. The single largest loss of business has been in the large group business segment which has not rebounded to its pre-2008 performance level. The resort needs to increase revenues to its pre-great recession levels of over $45,000,000 to achieve the 1.25 coverage ratio. The daily operating costs at the project are being paid on a timely basis and have not been impacted by the loss in revenue. The financial impact has been absorbed by the bondholders who received a partial payment on the interest due on the bonds starting with the June 2014 payment. The bondholders have been active in the financial review and oversight of the project. The bond trustee has retained a consultant to assist in the review and oversight of the project. Additionally the bondholders have continued to work with MEDCO and have supported the ongoing operations through a forbearance arrangement which has brought in additional oversight and management. As part of the additional oversight, the property hired a new Marketing Director in May of 2014 and a new General Manager started in January 2015. MEDCO has also retained a turnaround consultant, in May of 2014, with a strong track record in working with underperforming hospitality projects. The consultant meets at the property at least monthly and has regular communications with MEDCO and onsite management to track current marketing, financial performance and other operational issues. The project retains a healthy capital replacement reserve totaling more than $4,944,000 which is more than adequate to support the facility's capital projects for the remainder of this year and the next two fiscal years. More importantly, the CBCC customer experience remains at a four star quality as the resort continues to deliver an excellent customer experience.

MEDCO is committed to work with this project to once again achieve strong market and financial outcomes. While this facility was publicly financed with tax-exempt bonds issued by MEDCO, the repayment of those bonds is solely from the resources of the project. There are no public guaranties of the debt nor is there a moral obligation by the State to repay the bonds. None of the debt from the project are owed to the State of Maryland

University of Maryland, Baltimore " Watch"

MEDCO is the owner of a student housing project for graduate students at the University of Maryland, Baltimore in Baltimore City. The project has underperformed since it opened in fall 2004 relative to the initial pro forma and has required subsidization from the University, MEDCO, and manager to pay operating expenses and debt service. Since the Project has never met its 1.2:1 debt service coverage ratio covenant, it is a classified as a "Watch" project.

MEDCO works closely with the University and property manager to maximize net operating income at the site. In FY14, the project was able to maintain occupancy of approximately 95% throughout the year and was able to make debt service payments without drawing on the debt service reserve fund and achieved a coverage ratio of 1.00:1. Rental rates were increased approximately 3% on a weighted average basis across various unit types for FY15 and the project has achieved occupancy of approximately 94% for the fall semester.

At the recommendation of a management consultant, MEDCO and the University are exploring a current refunding of the outstanding senior bonds which will potentially reduce debt service by up to $500,000 per year and should allow the project to operate without subsidy in FY16 and beyond.

Bowie State University "Watch"

MEDCO is the owner of a student housing project at Bowie State University in Prince George's County. The project got off to a slow start as a result of poor development and early mismanagement. The original project manager was terminated in May 2006, and after the management transition the project exhibited year-over-year improvement in debt service coverage. The project finally achieved the required 1.2:1 debt service coverage in FY11 and again in FY12. However, declining enrollment at the University and the relative high costs of living in the project caused occupancy and bad debt issues in FY13, and the project once again failed to achieve the required coverage ratio. Since the project failed to meet its debt service coverage ratio covenant, it has been classified as a "Watch" project.

MEDCO, the University and the property manager collaborated on a successful strategy to improve operations in FY14 that resulted in the project achieving near 100% occupancy and a debt service coverage ratio of approximately 1.5:1. The project has been operating at approximately 99% occupancy for the fall of 2014 and is expected to exceed its debt service coverage covenant for FY15. MEDCO expects that this project will be reclassified as "Performing" during our July portfolio review.

2) **The Department of Legislative Services (DLS) recommends that MEDCO comment on its involvement with State agency projects and how it addresses the concerns related to accountability and costs for these types of projects.**

Response: The 2001 amendment, as noted within the DLS analysis, modified MEDCO's statute to conform to the Maryland Economic Development Revenue Bond Act. The amendments also expanded and clarified MEDCO's authority and capability to assist governmental entities. MEDCO acknowledges this was a change from its originally designed mission, but these changes are consistent with an economic development driven entity. The core disciplines of MEDCO activities are financing, development and ownership of real estate and personal property. The legislative intent for MEDCO to assist entities of government is no less a priority than to service private and nonprofit business entities. MEDCO will strongly assert it is operating well within the legislative intent as articulated in its statute when it is assisting state agencies.

In regards to accountability, the State has processes in place that require MEDCO to obtain certain approvals from certain legislative bodies before it enters into a transaction with a State entity. Those processes and procedures were not in place at the time the MDOT headquarters building or the Maryland Aviation Administration Southwest Airlines Terminal were undertaken. The Department of Health and Mental Hygiene Public Health Lab, the garage for the State Center complex and the Maryland State Archives (MSA) have all followed a legislative review process and, where necessary, a review by the Capital Debt Affordability Committee (CDAC). The Maryland State Archives project was structured by MEDCO and characterized for accounting purposes as an operating lease and did not require CDAC approval. All of the leases between MEDCO and the State have been presented to the Board of Public Works for official approval. When MEDCO is brought in by a State Agency we work with the appropriate agency to provide clear communication of our activities and intentions.

All of the noted transactions undertaken by MEDCO assisted the State with unique real estate acquisition issues and provided an accelerated project delivery mechanism of critical state assets that otherwise would have been either deferred for an unacceptably long period of time or would not have occurred as the seller of the property would not have waited for the State to arrange funding from its traditional mode of operations.

DHMH in conjunction with DGS requested MEDCO assistance to finance the new state health lab project after being instructed by the legislature to consider alternative financing and ownership arrangements. The DHMH study concluded that MEDCO could offer the most cost effective alternative to using state GO bonds which were not an option at the time as the facility was not in the existing Capital Improvement Plan (CIP) and the ability to schedule the project in the CIP would have deferred the project to at least a 2019 start.

The MEDCO Health Lab project was reviewed and approved by the Senate Budget and Tax Committee as well as the House Appropriations Committee. The project was presented to the CDAC committee and MEDCO was authorized to move forward in structuring the transaction as a capital lease versus an operating lease. By financing the transaction as a capital lease, a favorable borrowing rate of 3.6% was obtained for a twenty-year term.

DGS contacted MEDCO in June of 2013 to assist Maryland State Archives in the procurement of a warehouse that could be renovated into an archives storage facility to meet their storage requirements beyond 2030. MSA was utilizing rented warehouse space that was not properly condition to store State and other governmental records. MSA initiated their warehouse consolidation project in 2002 and had been unsuccessful in gaining support for their project. MSA had a capital plan to accomplish their goal and projected a total cost and budget between $25M and $30M.

In early 2014 DGS's commercial real estate firm identified a warehouse facility in Baltimore County that was formerly used by the Social Security Administration (SSA) for their archived materials. SSA moved from the facility in late 2013 and the owner was about to remove all of the shelving, racking and specialty improvements to repurpose the facility to a generic warehousing operation. At the time MEDCO toured the facility, the owner was days from having their demolition contractor remove all of the improvements that MSA could readily use. MEDCO requested the owner to delay there demolition plan and asked for time to obtain a plan to acquire and finance the purchase the facility. Since those actions were occurring during the legislative session approval was sought to procure the building. The alternatives included financing the building using GO bonds. In the last days of the 2014 legislative session, the legislature decided to have MEDCO participate in the transaction. MEDCO entered into a purchase agreement with a closing date of mid-October. MEDCO conducted appropriate due diligence and found the building to be in generally good condition but noted certain repairs would need to be made to the roof and HVAC. None of the deficiencies were reasons not to proceed. MEDCO arranged to finance the facility through the issuance of its tax-exempt bonds. The bonds were secured by the MSA lease and the real property. The $9,200,000 loan has a 25-year term and a balloon at its 15-year anniversary; the interest rate on the bonds is 2.74% for a 15-year term. The purchase price of the building was $10,500,000 and MEDCO has a total cost of $11,500,000 into the project MEDCO invested $2,300,000 of its capital in the project. In addition to the purchase price the other proceeds covered the closing costs and provided funds to make improvements to the roof and HVAC. The improvements will be made through late spring of 2015. This transaction is characterized as an operating lease and does not impact the state debt affordability.

MEDCO also believes it provides a cost effective project delivery capability. MEDCO readily acknowledges the State's ability to finance projects with GO bonds is the most cost effective approach to real estate procurement. However, the true cost of a transaction is not always determined by the cost of funds. In the case of the MSA project, MEDCO had the flexibility and the credibility to work with a seller and bring the transaction to a closure in a time frame acceptable to a private business. MEDCO will contend that its projects for the State actually save the State money either due to the speed to deliver or by taking advantage of market opportunities that would not be available to the State due to timing purposes. MEDCO also structures its transactions to have the flexibility to adequately maintain its facilities such that ongoing maintenance and life cycle costs can be provided on a timely basis.