

DIVISION OF FINANCE PROGRAMS

**THE ECONOMIC DEVELOPMENT
OPPORTUNITIES PROGRAM
(SUNNY DAY)**

**ANNUAL FINANCIAL STATUS REPORT
FISCAL YEAR 2007
STATE FINANCE & PROCUREMENT
ARTICLE**

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As of June 30, 2007

THE ECONOMIC DEVELOPMENT OPPORTUNITIES PROGRAM
(SUNNY DAY)

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ECONOMIC DEVELOPMENT OPPORTUNITIES PROGRAM FUND (SUNNY DAY)

History and Program Description

The Economic Development Opportunities Program Fund (“Sunny Day”) was created by statute in 1988 to enable Maryland to act on extraordinary economic development proposals that required financial assistance beyond the capabilities of other state and local financing programs. The Sunny Day Fund is a non-lapsing revolving fund administered by the Department of Business and Economic Development (the “Department”). Under the program, funds are loaned, granted or invested to assist in the retention and expansion of existing business, or the establishment and attraction of new business in Maryland.

Under the program, the Department is required to submit an analysis of each Sunny Day proposal as part of the approval request process to the Legislative Policy Committee of the Maryland General Assembly. The analysis must include, among other things, a description of the projected economic impact and the number and type of jobs to be created and/or retained as a result of the project. The Department focuses significant attention on the analysis of a request and the projected economic impact before approval. The Department must also conduct substantial monitoring actions after an incentive has been approved and funded. Agreements carry strict performance requirements, including: capital investments within specified time frames; job creation over a fixed period of time; maintenance of certain jobs levels for a specified time period, usually 3-5 years; and reporting of financial information, employment information and capital investment information on a periodic basis.

The Statute requires that each Sunny Day project be deemed an extraordinary economic development opportunity, as defined by the following criteria:

- The recipient must maintain a strong financial condition and a minimal risk profile
- The recipient is capable of accessing alternative sources of financing through financial institutions or capital markets
- Minimum of 5:1 capital investment by the recipient for each \$1 of Sunny Day funds
- The recipient’s project is consistent with the strategic plan of the State for economic development
- The recipient creates or retains substantial employment, particularly in areas of high unemployment

Additionally, the Department requires the local jurisdiction to participate by providing any one or a combination of the following: a loan, a conditional loan, a grant, an in-kind contribution, job training funds, tax credits, tax increment financing or below market contributions.

Actual Program Performance From Inception through June 30, 2007

As of June 30, 2007, the Department had settled a total of one hundred-eighteen (118) Sunny Day transactions with a total aggregate original balance of \$162,614,571. Of that total seventy-four (74) transactions totaling \$103,120,944 were structured as loans or conditional loans, forty-one (41) transactions totaling \$48,493,627 were structured as grants or conditional grants, and three (3) transactions totaling \$11,000,000 were structured as investments. The above assistance has contributed to the retention of 35,022 jobs, the creation of 23,574 new jobs, and capital investment of \$2.2 billion.

Based on the full or partial achievement of performance requirements related to the assistance provided under the program, forty-five (45) conditional grants or loans with an aggregate original amount of \$60,334,000 have been either fully or partial forgiven, totaling \$52,548,166. In contrast, as a result of not fully achieving all performance criteria, twenty-four (24) conditional grants and loans with an aggregate original amount of \$23,479,000 have been subject to clawbacks of \$13,229,334.

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As of June 30, 2007, the total outstanding active portfolio consisted of twenty nine (29) loans, conditional loans, conditional grants, and investments with a total original approved balance of \$54,462,587 and an outstanding balance of \$43,822,795. The portfolio breaks down into sixteen (16) loans and conditional loans with a total original approved balance of \$27,674,978 and an outstanding balance of \$18,901,847, ten (10) grants and conditional grants having a total original approved balance of \$15,787,609 and an outstanding balance of \$14,418,294, and three (3) investments with a total original approved balance of \$11,000,000 and a total outstanding balance of \$10,502,653. The total outstanding active portfolio continues to be subject to review for compliance with performance requirements.

General economic conditions, combined in some cases with specific industry conditions, have resulted in several credit problems within the active portfolio over the last several fiscal years. At the end of fiscal year 2007 there were three (3) companies within the active portfolio that were in bankruptcy or who had a parent that was in bankruptcy. This involves loans, conditional loans, and conditional grants for a total aggregate original approved amount of \$8,856,585. This amount is comprised of one (1) charged off loan totaling \$3,000,000, two (2) charged off conditional loans totaling \$3,500,000, and one (1) conditional grant of \$2,356,585. The Department continues to monitor the business activities of these distressed operations and works to support potential restructures that result in continued employment, which stays within the original scope of the projects. In fiscal year 2007, the program had no charge-off activity and charge-off recoveries of \$29,026. The Sunny Day program has had historical total gross charge-offs of \$8,743,889 since inception of the program, the bulk (\$6,500,000) of which, were discussed above.

Program Performance for Fiscal Year 2007

In fiscal year 2007 three (3) projects totaling \$6,269,500 were closed (settled). Of those projects, one (1) project was structured as a conditional grant totaling \$1,000,000, and two (2) projects were structured as grants totaling \$5,269,500. There were no new projects approved during the fiscal year. The continuing reduced level of activity under the program reflects the ongoing shift to usage of the MEDAAF program for deals that were historically done under this program, as well as the lack of budgeted funds for the program that would permit planning its use for future commitments.

Projected Program Performance for Fiscal Year 2008

The Department anticipates that if adequate funds were available, activity for fiscal year 2008 could equal or exceed the prior fiscal year when measured by the number of new projects to be processed for approval. In general, the nature of a Sunny Day project is such that its lifespan generally straddles two and often three fiscal periods, from project introduction, through approval and final disbursement of the funds. Each year the Department handles new projects, which involves receiving inquiries, structuring deals, and processing approvals, while continuing to complete the documentation, funding, and monitoring process on projects that were presented to the Legislative Policy Committee for approval in prior fiscal years.

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Sunny Day Approved - 3 Year Activity

<u>SUNNY DAY FUND PROJECTS APPROVED FY07</u>							
Company	Incentive (In Dollars)	County	Amount Disbursed (In Dollars)	FY Disbursed	Goal	Measure of Economic Development Attain By	Status
The Sunny Day Program did not have any new approvals in fiscal year 2007							

The following charts show the approvals in fiscal years 2005 and 2006 with the status of the transactions updated as of FYE 2007

<u>SUNNY DAY FUND PROJECTS APPROVED FY06</u>							
Company	Incentive (In Dollars)	County	Amount Disbursed (In Dollars)	FY Disbursed	Goal	Measure of Economic Development Attain By	Status
MedImmune, Inc.	\$7,500,000	Frederick County	-0-	N/A	Create 1,528 new jobs/retain 847 jobs/\$1 billion CAPEX	2014	Construction of Phase I started.
UMBC	\$196,524	Baltimore County	-0-	N/A	The activities to be financed with grant proceeds are part of the Academic Collaboration Extension, a partnership between the University and NSA to support research related to national security. Anticipated completion 3/31/08.		
UM, College Park	\$439,049	Prince George's County	\$439,049	2007	The activities to be financed with grant proceeds are part of the Academic Collaboration Extension, a partnership between the University and NSA to support research related to national security. Completed June 15, 2007		
UM, NanoCenter	\$3,654,500	Prince George's County	\$354,035	2007	The funds will be used to purchase nanofabrication equipment at the NanoCenter's new FabLab clean room located in the new Kim Engineering Building at the UMCP.		
UM Biotechnology Institute	\$1,615,000	Montgomery County	\$666,756	2007	Funds will be used to expand UMBI's small scale contract Good Manufacturing Practices facility and enable UMBI to employ the state-of-the- art facility in workforce training programs designed to meet the diverse needs of the biopharmaceutical manufacturing industry.		
East Baltimore Development, Inc.	\$4,000,000	Baltimore City	-0-	N/A	Funds are to be used as an investment with East Baltimore Development, Inc. to assist in the development of a Life Science and Biotechnology Park in East Baltimore City.		

<u>SUNNY DAY FUND PROJECTS APPROVED FY05</u>							
Company	Incentive (In Dollars)	County	Amount Disbursed (In Dollars)	FY Disbursed	Goal	Measure of Economic Development Attain By	Status
UMBC Research Park	\$2,000,000	Baltimore	\$2,000,000	2006	Project to be completed 2009		

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Sunny Day Forgiven - 3 Year Activity

<i>SCHEDULE OF SUNNY DAY FORGIVEN LOANS FY'07</i>					
Company	Loan Amount	Date Forgiven	Amount Forgiven	Benchmarks	Achievements
General Motors/Allison	\$2,250,000	12/31/06	\$2,250,000	Employ & Retain 420 full time positions and expend \$200MM in CAPEX	Met requirements
Giant of Maryland, LLC	\$1,250,000	12/31/06	\$1,250,000	Retain 495 full time positions and expend \$45 MM in CAPEX	Met requirements
Marriott International	\$12,500,000	01/18/07	\$9,000,000	Employed 3,500+ and expended \$109 MM in CAPEX	The original approval of \$12.5 MM was modified to forgive the \$9 MM disbursed based on employment and CAPEX with the remaining \$3.5 MM terminated.
Sodexo, Inc.	\$500,000	12/31/06	\$485,000	Retain 400 full time positions and expend \$5MM in CAPEX	Met requirements – \$15,432 was clawed back in March 2002.

<i>SCHEDULE OF SUNNY DAY FORGIVEN LOANS FY'06</i>					
Company	Loan Amount	Date Forgiven	Amount Forgiven	Benchmarks	Achievements
Aegon USA	\$1,747,000	12/20/05	\$760,129	1,088 jobs statewide with at least 736 jobs in Baltimore City and \$20 million in CAPEX	The company fell below the 1,088 total employment, but exceeded the 736 jobs in the City and CAPEX was \$30 million. Based on these achievements and the continued commitment to the economic well-being of Baltimore City, they requested and the LPC granted a modification to forgive \$760,129 plus interest on 12/20/05.
Northrop Grumman #5	\$1,500,000	07/01/05	\$1,500,000	11,036 jobs	Loan #5 forgiven – job and CAPEX requirement met.
Phoenix Color Corporation	\$500,000	01/31/05	\$259,430	543 jobs	Partial forgiveness - attained 381 jobs – 162 short. Repayment noted in Clawback section below.
Qiagen	\$2,500,000	12/31/04	\$542,986	300 jobs	Company failed to meet job requirement by 123 jobs. The Department renegotiated transaction to allow for a pro rata repayment vs. full repayment - Modification forgave 5% accrued interest for the period of 4/06/00 – 06/30/05.
U.S. Foodservice, Inc.	\$250,000	09/28/05	\$250,000	418 jobs and Howard County headquarters	Met requirement

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<i>SCHEDULE OF SUNNY DAY FORGIVEN LOANS FY'05</i>					
Company	Loan Amount	Date Forgiven	Amount Forgiven	Benchmarks	Achievements
Dietz & Watson	\$750,000	11/22/04	\$750,000	150 jobs as of 12/31/01 retain through 10/04 \$5 Million CAPEX	Achieved 155 jobs average 2004 CAPEX of \$9 million
Discovery Communications	\$2,400,000	06/30/05	\$2,400,000	\$130 million CAPEX/1400 jobs	Met requirements
Northrop Grumman Corporation #4	\$1,500,000	07/01/04	\$1,500,000	9,000 Jobs retained	Loan #4 forgiven; CAPEX and job numbers met
Rite Aid of Maryland	\$2,250,000	06/01/05	\$2,250,000	850 jobs by 06/01/02 retain through 06/01/05	05/31/04 – 05/31/05 employed an average of 1063 employees

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Sunny Day Clawback - 3 Year Activity

<u>SUNNY DAY CLAWBACK ACTIVITY FY'07</u>								
Company	Jurisdiction	Financing	Original Amount	Amount Forgiven	Date of Forgiveness	Clawback	Date Repaid	Comments
Simon Pearce	Garrett	Conditional Loan	\$500,000	-0-	N/A	\$219,089	Due 08/31/07	Required to meet modified employment requirement of 100 full time employees by 12/31/06 and retain through 12/31/07. As of 12/31/06 reported 47 employees. The Company is required to repay a pro rata portion per employee of \$3,333 (\$3,333 x 53 employee shortfall = \$176,649) plus accrued interest (\$42,440). The Department agreed to defer payment until 8/31/07 due to working capital requirements and cash flow.

<u>SUNNY DAY CLAWBACK ACTIVITY FY'06</u>								
Company	Jurisdiction	Financing	Original Amount	Amount Forgiven	Date of Forgiveness	Clawback	Date Repaid	Comments
Aegon USA Inc.	Baltimore City	Conditional Loan	\$1,747,000	\$760,129	12/20/05	\$986,871		Job goal not met 12/31/04 – Loan converted to a term loan – Company requested and was granted a modification to forgive \$760,129 plus interest on 12/20/05 by the LPC.
Magellan Behavioral	Howard	Conditional Grant	\$2,000,000			\$221,618		Magellan's bankruptcy reorganization has provided repayment of a total \$1,756,710.
Phoenix Color Corp.	Washington	Conditional Loan	\$500,000	\$259,430		\$240,570	02/06/06	Partial forgiveness and clawback for employee shortfall.
Qiagen	Montgomery	Conditional Loan	\$2,500,000	\$532,986	12/31/04	\$1,024,959	12/31/05	Company failed to meet employment goal of 300. The Department renegotiated the transaction to allow a pro rata repayment for job shortfall of 123 jobs. Company repaid \$8,333 per job.

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SUNNY DAY CLAWBACK ACTIVITY FY'05

Company	Jurisdiction	Financing	Original Amount	Amount Forgiven	Date of Forgiveness	Clawback	Date Repaid	Comments
Digex Incorporated	Prince Georges	Conditional Loan	\$3,000,000			\$3,000,000	11/1/04	Bankruptcy. DBED Claim for payment paid by WorldCom/Intermedia.
RWD Technologies, Inc	Howard	Conditional Loan	\$1,272,000	\$739,880	1/1/00	\$532,120	04/08/05	Remaining balance converted to a term loan with repayment beginning in 4/02. Accelerated Repayment paid out on 4/8/05.
Simon Pearce (MD) Inc.	Garrett	Conditional Loan	\$500,000			\$192,050	04/01/04	Required to meet employment goal of 150 full time employees by 12/31/03. The client realized that the original employment goal was too aggressive and requested a modification to the required number of employees. The Department agreed to reduce the number of employees to 100 and extended the term to 12/31/06. The client repaid a pro-rata portion per employee ($\$3,333 \times 50 = \$166,650$) plus accrued interest (\$25,400) for the 50 jobs not created.

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Settled Report

7/1/2006 Through 6/30/2007

<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>New Jobs</i>	<i>Retained Jobs</i>
<i>Sunny Day Cond. Grant</i>									
2/20/2007	ClosetMaid/Garrett County	1050101	\$1,000,000.00	0.0%	\$0.00	Garrett	\$26,000,000.00	708	0
	Totals:	1 Loan	\$1,000,000.00		\$0.00		\$26,000,000.00	708	0
<i>Sunny Day Grant</i>									
8/1/2006	Univ. of MD Biotechnology Institute	5780101	\$1,615,000.00	0.0%	\$0.00	Montgomery	\$1,615,000.00	0	0
12/22/200	Univ. of MD NanoCenter/College Park	5770101	\$3,654,500.00	0.0%	\$0.00	Prince George's	\$3,654,500.00	0	0
	Totals:	2 Loans	\$5,269,500.00		\$0.00		\$5,269,500.00	0	0
Grand Totals:		3 Loans	\$6,269,500.00		\$0.00		\$31,269,500.00	708	0