

OFFICE OF FINANCE PROGRAMS
THE ECONOMIC DEVELOPMENT
OPPORTUNITIES PROGRAM
(SUNNY DAY)

ANNUAL FINANCIAL STATUS REPORT
FISCAL YEAR 2014

STATE FINANCE & PROCUREMENT
ARTICLE

SECTION 7- 314

Submitted by:

Maryland Department of Business and Economic Development

As of June 30, 2014

THE ECONOMIC DEVELOPMENT OPPORTUNITIES PROGRAM
(SUNNY DAY)

TABLE OF CONTENTS

History and Program Description..... 1

Actual Program Performance From Inception through June 30, 2014 1

Program Performance for Fiscal Year 2014..... 2

Projected Program Performance for Fiscal Year 2015 2

Sunny Day Supplemental Charts - 3-Year Activity

Approved..... 3

Forgiven/Clawback and Extraordinary Repayments 4

ECONOMIC DEVELOPMENT OPPORTUNITIES PROGRAM FUND (SUNNY DAY)

History and Program Description

The Economic Development Opportunities Program Fund (Sunny Day or Program) 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 (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 Program 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 encourages 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. For more information on how Sunny Day projects are prioritized and structured, please refer to the Sunny Day Guidelines Report in accordance with the State Finance & Procurement Article Section 7-314(j).

Actual Program Performance from Inception through June 30, 2014

As of June 30, 2014, the Department had settled a total of one hundred-twenty-one (121) Sunny Day transactions with a total aggregate original balance of \$180,114,571. Of that total, seventy-five (75) transactions totaling \$112,620,944 were structured as loans or conditional loans, forty-two (42) transactions totaling \$52,493,627 were structured as grants or conditional grants, and four (4) transactions totaling \$15,000,000 were structured as investments. The above assistance has contributed to the retention of 36,272 jobs, the creation of 24,474 new jobs, and capital investment of \$2.4 billion.

Based on the full or partial achievement of performance requirements related to the assistance provided under the program, forty-eight (48) conditional grants or loans with an aggregate original amount of \$65,984,000 had achieved either full or partial forgiveness, totaling \$60,421,585. In contrast, as a result of not fully achieving

DEPARTMENT OF BUSINESS AND ECONOMIC DEVELOPMENT

all performance criteria, twenty-six (26) conditional grants and loans with an aggregate original amount of \$26,979,000 have been subject to clawbacks of \$16,813,615.

As of June 30, 2014, the total number of accounts being managed by the Department consisted of thirteen (13) accounts with a total original approved balance of \$42,896,783 and an outstanding balance of \$26,592,797. The portfolio breaks down into three (3) loans and conditional loans with a total original approved balance of \$13,352,283 and an outstanding balance of \$5,395,067; six (6) grants and conditional grants having a total original approved balance of \$14,544,500 and an outstanding balance of \$9,767,904; and four (4) investments with a total original approved balance of \$15,000,000 and a total outstanding balance of \$11,429,826. The total outstanding active portfolio continues to be subject to review for compliance with performance requirements.

In fiscal year 2014, the program had no charge-off activity or charge-off collections. The Sunny Day program has had a historical total gross charge-off of \$9,654,051 since inception of the Program. It should be noted that the majority of the historical charge off amount is confined to five transactions with entities that were affected by general economic conditions, combined in some cases with specific industry conditions. All five entities declared bankruptcy, which were comprised of one loan of \$3,000,000 (charged off in 2003), three conditional loans aggregating \$5,725,000 (charged off in 2003 and 2005), and one loan of \$929,051 (charged off in 2010). The Department has collected \$815,480 of the total, and continues to work within the bankruptcy guidelines to support potential restructures that result in repayment and continued employment, which stays within the original scope of the projects.

In addition, at the end of fiscal year 2014 there was one other entity within the managed accounts in bankruptcy which owes the Fund \$2,000,000 in the form of a conditional grant. To date, the Department has collected \$1,275,134 of the total.

Program Performance for Fiscal Year 2014

In fiscal year 2014 there were no new projects approved or settled. One project, which settled and partially disbursed in fiscal year 2013, a \$9,500,000 conditional loan to Bechtel Group, Inc., received another disbursement totaling \$2,142,858 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 2015

The Program did not receive a budget appropriation for fiscal year 2015. Any available funds would come from the ongoing repayment of existing projects in the portfolio. 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. Although the Program has not received new funding since fiscal year 2002, the Department continues to be involved in completing the documentation, funding, and monitoring process on projects that were presented to the Legislative Policy Committee for approval in prior fiscal years. The ongoing reduced activity level under the program in favor of using the MEDAAF program is expected to continue through fiscal year 2015.

DEPARTMENT OF BUSINESS AND ECONOMIC DEVELOPMENT

Sunny Day Approval – 3 Year Activity

<i>SUNNY DAY FUND PROJECTS APPROVED FY'14</i>						
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 2014						

<i>SUNNY DAY FUND PROJECTS APPROVED FY'13</i>						
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 2013						

<i>SUNNY DAY FUND PROJECTS APPROVED FY'12</i>						
Company	Incentive (In Dollars)	County	Amount Disbursed (In Dollars)	FY Disbursed	Goal	Measure of Economic Development Attain By Status
Bechtel Group, Inc.	\$9,500,000	Frederick	\$4,142,858	\$2,000,000 FY'13 \$2,142,858 FY'14		The Company is to retain its operations in Frederick County and employ at least 1,250 employees for seven years (12/31/2018). Disbursements are to occur in phases – \$2 MM to be disbursed in calendar year 2012. The remaining funds are to be disbursed in amounts not to exceed \$1,071,429 annually. Annual employment reports are required and a pro-rata of \$857 plus a 3% fee (in lieu of interest) is due for each position short of 1,250.

DEPARTMENT OF BUSINESS AND ECONOMIC DEVELOPMENT

Sunny Day Forgiven and Clawback - 3 Year Activity

<u>SUNNY DAY FORGIVEN/CLAWBACK ACTIVITY FY'14</u>								
KEY CODE: CG – Conditional Grant CL – Conditional Loan L – Loan INV – Investment FTE – Permanent Full-time Employee (s)								
Company	Jurisdiction	Financing	Original Amount	Amount Forgiven	Date of Forgiveness	Clawback Amount	Clawback Date	Comments
Closet Maid		CG	\$1,000,000	N/A	N/A	\$333,615	12/31/13	The Company was required to employ at least 247 FTE by 12/31/2013 and retain that level through 12/31/2016. The Department verified 178 FTEs as of 12/31/2013, creating a shortfall of 69 FTEs, resulting in a pro rata repayment of \$4,000 for each FTE below the goal. The Company repaid \$276,000 and accrued interest in an amount of \$57,615.

<u>SUNNY DAY FORGIVEN/CLAWBACK ACTIVITY FY'13</u>								
KEY CODE: CG – Conditional Grant CL – Conditional Loan L – Loan INV – Investment FTE – Permanent Full-time Employee (s)								
Company	Jurisdiction	Financing	Original Amount	Amount Forgiven	Date of Forgiveness	Clawback Amount	Clawback Date	Comments
No Forgiveness or Clawback Activity occurred during the fiscal year.								

DEPARTMENT OF BUSINESS AND ECONOMIC DEVELOPMENT

SUNNY DAY FORGIVEN/CLAWBACK ACTIVITY FY'12

KEY CODE: CG – Conditional Grant
 CL – Conditional Loan
 L – Loan
 INV – Investment
 FTE – Permanent Full-time Employee (s)

Company	Jurisdiction	Financing	Original Amount	Amount Forgiven	Date of Forgiveness	Clawback Amount	Clawback Date	Comments
MedImmune	Frederick	CG	\$2,500,000	\$2,500,000	12/31/11	N/A	N/A	The Company was required to employ at least 447 FTE by 2002 and reach an employment level of at least 847 by 12/31/2008 and retain a level of 847 FTE through 12/31/2011, expend at least \$50 million in project costs, and maintain its Corporate Headquarters in the State. The Department verified that the company met the requirements and the Department forgave the original amount.