

July 26, 2021

The Honorable Guy Guzzone  
Chair, Senate Budget & Taxation Committee  
3 West Miller Senate Office Building  
Annapolis, MD 21401

The Honorable Maggie McIntosh  
Chair, House Appropriations Committee  
121 House Office Building  
Annapolis, MD 21401

RE: 2021 Joint Chair's Report – Report on resolution of student housing lease cancellations (T00A99), Page 210

Dear Chair Guzzone and Chair McIntosh:

The General Assembly and Governor provided a deficiency appropriation of \$1,000,000 in 2021 to the University System of Maryland (USM) to reduce losses by the Maryland Economic Development Corporation (MEDCO) relating to financial stresses and lost revenues associated with student housing projects under its control and management at USM institutions.

Language in the 2020 Joint Chairmen's Report states (T00A99, page 210):

*Student Housing Leases: The committees are concerned about students and families still seeking resolution from the cancellation of leases at student housing owned by the Maryland Economic Development Corporation (MEDCO) at University System of Maryland (USM) institutions due to the pandemic. The committees request that MEDCO, in collaboration with USM, submit a report on the number of students and families who have sought relief, the number with issues still outstanding, and the reasons for any remaining outstanding issues. The report is due to the committee chairs by August 1.*

I hope that you find that the enclosed report is responsive to your request. Let me know if you have any additional questions.

Sincerely,



Robert C. Brennan  
Executive Director  
Maryland Economic Development Corporation

Enclosures

cc: Sarah Albert, Department of Legislative Services  
Sara J. Baker, Department of Legislative Services  
Jay Perman, Chancellor, University System of Maryland  
Patrick Hogan, Vice Chancellor for Governmental Relations, University System of Maryland  
Ellen Herbst, Vice Chancellor for Administration and Finance, University System of Maryland  
Carlo Colella, Vice President for Administration and Finance, University of Maryland College Park  
Ben Lowenthal, Vice President for Administration and Finance, Towson University

## **Joint Chairs Report on Resolution of student housing lease cancellations**

In 1984, the Maryland General Assembly established MEDCO to relieve unemployment; encourage, attract and retain business activity and commerce; promote economic development and promote the health, safety right of gainful employment and welfare of residents of the State. To fulfill these legislative purposes, MEDCO was given broad financing capabilities and the ability to own and develop real estate and personal property. In 2000, the State broadened MEDCO's powers, authorizing it to partner with other State and local government entities to provide greater financing flexibility.

Over MEDCO's 37-year existence, it has provided innovative financing solutions to state and local governmental entities and aided in real estate development by financing, constructing and operating facilities and properties for the benefit of Maryland taxpayers. A key to MEDCO's long-standing success has been its partnerships with USM institutions. Through public-private partnerships, MEDCO has financed, constructed, and managed student housing projects at 7 USM institutions providing more than 6,500 student residence beds. These public-private partnerships are structured with funding from the private sector and utilize private sector contractors, developers, and operators to manage the projects. Contracts with the private sector parties are structured to incentivize high performance to satisfy the needs of each project.

Each MEDCO student housing project is structured to stand on its own financially, with no monetary support from the universities. Revenues collected from student rents are used to pay operating expenses, principal and interest payments to bondholders, and fund necessary reserves for the project such as the capital reserve funds. MEDCO's student housing projects are known as project financing and are beneficial to USM because they do not require any pledge or guarantee from the universities which reduces or has minimal impact on the USM's bond rating, enabling USM to devote its limited ability to issue its own debt to other projects central to its mission that are not susceptible to public-private partnership. Major rating agencies use certain methodologies to assign ratings to institutions. Through these methodologies, guarantees or direct financial support to the public private partnerships increase those projects' impacts on USM's bond rating and can therefore impact USM's future borrowing capacity.

MEDCO's student housing projects are financed with tax-exempt bonds sold to accredited institutional investors seeking investment grade fixed income investments. The strength of any particular project financing depends on the student demand for housing at the institution and the cost of room rents appropriate for the projects, taking into account the surrounding markets both off-campus and university-owned and operated housing. When the student housing projects are consistently not leased up to budgeted levels, project revenues decline, reserves are reduced or used to cover normal annual operating costs, and payment of the debt service obligations is jeopardized.

In March 2020 at the start of the COVID-19 Pandemic and in response to the Governor's COVID-related public safety measures, all USM campuses were closed. USM and MEDCO responded to the challenges and guidelines swiftly, closing the public private partnership MEDCO student housing projects at all USM institutions.

At the request of the USM, MEDCO cooperated with System institutions' requests and provided refunds to students and their families for the remainder of their 2019-2020 academic year leases, as students were not allowed to live at the projects for the remainder of their leases. Refunds were provided from each projects' operating and/or reserve funds. Neither the universities nor USM provided financial support to the projects to pay student refunds. Due to lack of revenues at the projects after providing refunds to the students, operating expenses, as well as principal and interest payments to bondholders, had to be paid out of reserve funds. This led to inquiries and concerns from bondholders regarding MEDCO's ability to pay its obligations.

Student lease provisions and requirements for public-private partnership student housing vary for each campus, reflecting differences in enrollment trends, the demand for on-campus housing relative to off-campus options, and rental rates. The University of Maryland, College Park (UMCP), and Towson University both have a high supply of off-campus housing options relative to on-campus options. Due to the highly competitive market, student leases at the public private partnership student housing projects, which are located on-campus at the universities, include the requirements that students who seek to terminate an executed lease find a replacement student lessee, or satisfy the entire years financial commitment for the lease.

In July 2020, USM institutions made plans for hybrid models of education for the Fall 2020 semester, though the proportion of in-person and on-line education remained undefined until later in the Fall. As a result, students entered into student housing lease commitments, both for university-owned and operated, as well as public private partnership student housing, with an expectation of a hybrid education model and some degree of in-person learning justifying on-campus housing. As the public safety requirements and needs of campuses evolved last Fall, changes were made to the education delivery arrangements, and some number of students at each campus sought to terminate their student housing commitments. Universities made refunds or terminated lease commitments for university-owned and operated student housing offerings. However, due to the financing structure of the public-private partnership student housing projects, MEDCO's student housing projects were bound by contractual obligations to bondholders, and having already depleted the projects' reserve in providing refunds in the spring, MEDCO's student housing projects were unable to do similarly and allow for further refunds or terminations for students at UMCP or Towson University.

In Fall of 2020 approximately 448 students at Towson University and approximately 550 students at UMCP sought to cancel their lease obligations at the projects without facing lease termination provisions. During this time, MEDCO's student housing projects at Towson University and UMCP were 89% and 99% leased, respectively, and had physical occupancy levels of 57% at Towson University and 82% at UMCP. In early December, both Towson University and UMCP individually reached agreements with MEDCO to assist students seeking financial relief associated with lease terminations. MEDCO agreed to repurpose certain projects funds, to the extent available, defer certain deposits into reserve funds, and agreed to forego its management fee, while the universities agreed to defer payments from the projects to the university for services provided, such as utilities and public safety. These agreements allowed MEDCO and its operator of the projects, Capstone On-Campus Management, to assist approximately 129 students at Towson University and approximately 162 of the students at UMCP seeking relief. Though MEDCO and the universities sought to provide comprehensive relief, the agreements reached did not provide relief to certain groups of students, such as students that moved in and retained occupancy of their rooms, students who did not provide timely cancellation requests, and students who picked up and did not return keys.

MEDCO and USM remain committed to working with all students to resolve any issues in accordance with the agreements. There were certain groups of students who did not qualify for relief under the agreements and owe outstanding balances. MEDCO and the universities are working to amend the agreements to provide relief for graduating seniors. Additionally, should the projects meet their financial obligations, MEDCO will not actively pursue the collections of outstanding balances of those students who did not qualify for relief under the agreements, as amended, if the projects' cash flows adequately fund their obligations.