



THE PRINCE GEORGE'S COUNTY GOVERNMENT
Office of Audits and Investigations

April 4, 2016

MEMORANDUM

TO: Robert J. Williams, Jr.
Council Administrator

William M. Hunt
Deputy Council Administrator

THRU: David H. Van Dyke *DHV*
County Auditor

FROM: Inez N. Claggett *INC*
Legislative Auditor

RE: Fiscal Impact Statement
CR-20-2016 Loans to 2U, Inc. from the Maryland Economic Development Assistance
Fund (MEDAF)

Pursuant to your request, we have reviewed CR-20-2016 to estimate its fiscal impact on Prince George's County, Maryland.

CR-20-2016 endorses and authorizes proposed financing of a portion of project costs by the Maryland Department of Commerce (known formerly as the Maryland Department of Business and Economic Development (DBED)) through its Maryland Economic Development Assistance Fund (MEDAF) to 2U, Inc., to support the relocation and leasing of 230,000 square feet of space over a three (3) year period at 7900 Harkins Road, New Carrollton, MD, including construction or acquisition and the costs of furniture, fixtures and equipment (the "Project"). State law requires the governing body of the County to adopt a formal resolution endorsing proposed MEDAF loans.

The Maryland Department of Commerce has provided 2U, Inc. (the "Company") with a letter of intent to offer a conditional loan, not to exceed \$2,000,000, through the MEDAF program, which also requires matching funds from the local government. Prince George's County has offered a matching conditional loan not to exceed \$1,500,000 from the County's Economic Development Incentive Fund (EDI Fund), to satisfy this local match requirement. A letter of intent related to the proposed EDI Fund conditional loan was provided to the County Council on January 14, 2016.

Both the proposed MEDAF and EDI Fund loans will be used to fund Project costs which are estimated at \$15,000,000. On condition of the loan, the Company is required to provide evidence

14741 Governor Oden Bowie Drive, Upper Marlboro, Maryland 20772
VOICE (301) 952-3431; FAX (301) 780-2097; TDD (301) 925-5167

to the Maryland Department of Commerce described as Conditions Precedent to Disbursement within Exhibit A to the Resolution.

The term of the MEDAF loan will be ten (10) years, from the date of disbursement, at an annual rate of three percent (3%) with payments of principal and accrued interest. Principal and accrued interest payments may be deferred or forgiven if 2U, Inc. employs at least six hundred fifty (650) full-time permanent employees during the term of the loan, and increasing employment to one thousand six hundred (1,600) full-time permanent employees by December 31, 2020 and for the remainder of the MEDAF loan term. Further details of the required Performance Criteria are described within Exhibit A to the proposed Resolution. If the performance criteria are not met, the loan becomes repayable as described in the Conditions section of Exhibit A.

In an effort to assess the fiscal impact of the proposed project on the County, we considered the following factors:

- Increases in real property tax revenue for the County may increase as a result of the relocation and leasing of facility space by the Company.
- Personal property tax revenues also can be expected to increase based on acquisition, construction or installation of machinery, equipment, furnishings, fixtures, or leasehold improvements.
- As a result of increasing its workforce according to the agreed upon employment schedule, it is expected that a number of these positions will be held by County residents, thereby increasing income tax revenues for the County.
- The expanded operations of the Company will provide opportunities for contractual and other services offered by other County businesses, including local minority business enterprises, which will contribute to expanded and strengthened operations of these County-based businesses, thereby further enhancing County revenues.
- The proposed project also will generate a number of other indirect impacts, such as consumer spending by the employees working at New Carrollton facility, as well as the multiplier effect associated with daily business interactions as a result of the Company's normal operations.

While the County will initially expend \$1,500,000 from the currently appropriated EDI Fund to support the proposed Project in the form of a conditional loan, when both long-term direct and indirect revenues associated with the project are taken into consideration, total County revenues should be significantly enhanced. This enhancement may more than offset the initial \$1,500,000 conditional loan and, if realized, will result in an overall positive fiscal impact on the County.

If you require additional information or have questions about this fiscal impact statement, please call me.