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

May 17, 2017

M E M O R A N D U M

TO: Andrea C. Harrison, Chair
Planning, Zoning and Economic Development (PZED) Committee

THRU: David H. Van Dyke, County Auditor DHV

FROM: Amy Lee, Staff Auditor AL

RE: Financial Services Corporation
Fiscal Year 2018 Budget Review (Non-Departmental Grants & Transfer Payments)

**Budget Overview**

The Financial Services Corporation (FSC) is funded through an annual County grant in the Non-Departmental section of the budget. The Corporation's proposed FY 2018 budget reflects County grant funding in the amount of $897,000 an increase of $37,000, or 4.3%, over the FY 2017 County approved funding level.

Approved Fiscal Year 2017 to Proposed Fiscal Year 2018:

| Category | FY 2016 Actual | FY 2017 Approved | FY 2017 Estimated | FY 2018 Proposed | Change Amount | Percentage Change |
|---|---|---|---|---|---|---|
| Prince George's County Grant | $ 739,800 | $ 860,000 | $ 860,000 | $ 897,000 | $ 37,000 | 4.3% |

**Budget Comparison - Consolidated Budget**

FY 2018 proposed revenues for the Financial Services Corporation total $1,442,700, an increase of $105,500, or 7.9%, above the FY 2017 Approved Budget. This net change is attributed mainly to an increase in the Prince George's County Grant, EDI Fund Loan Processing Fees, Gross Grant Revenue, and Management/Servicing Fees.

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**Approved Fiscal Year 2017 to Proposed Fiscal Year 2018**

| Category | FY 2016 Actual | FY 2017 Budget | FY 2017 Estimated | FY 2018 Proposed | $ Amount | % Change |
|---|---|---|---|---|---|---|
| REVENUES | | | | | | |
| Prince George's County Grant | $ 739,800 | $ 860,000 | $ 860,000 | $ 897,000 | $ 37,000 | 4.3% |
| Net Loan Programs | 174,828 | 264,000 | 264,000 | 264,000 | - | 0.0% |
| EDI Fund Loan Processsing Fees | 110,171 | 90,000 | 106,600 | 106,600 | 16,600 | 18.4% |
| Gross Grant Revenue | 10,859 | 20,000 | 180,000 | 70,000 | 50,000 | 250.0% |
| Management/ Servicing Fees | 52,240 | 90,200 | 30,200 | 100,900 | 10,700 | 11.9% |
| Other Income | 1,955 | 13,000 | 100 | - | (13,000) | -100.0% |
| Administrative Services | 3,175 | - | 3,000 | 3,000 | 3,000 | 100.0% |
| Bank & Investment Interest Income | 1,136 | - | 1,000 | 1,200 | 1,200 | 100.0% |
| **Total** | $ 1,094,164 | $ 1,337,200 | $ 1,444,900 | $ 1,442,700 | $ 105,500 | 7.9% |
| EXPENDITURES | | | | | | |
| Compensation | $ 558,445 | $ 809,500 | $ 737,900 | $ 830,000 | $ 20,500 | 2.5% |
| Fringe Benefits | 183,995 | 242,900 | 221,400 | 249,000 | 6,100 | 2.5% |
| Operating | | | | | | |
| Accounting, Compliance & Auditing Services | 117,032 | 29,000 | 112,750 | 49,500 | 20,500 | 70.7% |
| Consulting Fees, Grant Writer & Fund Development | 16,124 | - | 40,900 | - | - | N/A |
| External Marketing Consultant | 10,500 | 10,000 | 52,000 | 42,800 | 32,800 | 328.0% |
| IT Maintenance & Service | 17,427 | 18,000 | 22,500 | 28,800 | 10,800 | 60.0% |
| Payroll & Administrative Costs | 7,610 | 2,000 | 4,000 | 6,100 | 4,100 | 205.0% |
| Board & Committee Meeting Exp. | 4,140 | 1,000 | 1,750 | 4,200 | 3,200 | 320.0% |
| Copying & Printing | - | 2,000 | 4,250 | 2,000 | - | 0.0% |
| Credit Reports/UCC Searches | - | 2,600 | - | - | (2,600) | -100.0% |
| Depreciation | 15,760 | - | 18,330 | 15,800 | 15,800 | 100.0% |
| Subscriptions, Dues, & Misc. | 2,792 | 6,500 | 5,000 | 3,000 | (3,500) | -53.8% |
| Insurance Premium/Renewal | 10,412 | 16,400 | 15,468 | 15,500 | (900) | -5.5% |
| Licenses & Maintenance Fees | 13,592 | 15,000 | 10,000 | 13,600 | (1,400) | -9.3% |
| Legal Fees | 32,488 | 10,000 | 18,700 | 10,000 | - | 0.0% |
| Loan Loss Reserves | 23,600 | 100,000 | 100,000 | 100,000 | - | 0.0% |
| Liquidation & Collection Expense | - | 8,000 | - | - | (8,000) | -100.0% |
| Marketing & Public Relations | 16,221 | 7,000 | 10,000 | 7,000 | - | 0.0% |
| Memberships (NADCO & NAGGL) | - | 1,500 | - | - | (1,500) | -100.0% |
| Office Equipment Lease | 12,106 | 10,800 | 11,032 | 12,500 | 1,700 | 15.7% |
| Office Maintenance & Remodeling | - | - | 5,000 | - | - | N/A |
| Office Supplies & Expenses | 14,079 | 8,000 | 12,000 | 14,100 | 6,100 | 76.3% |
| Portfolio Services | 1,705 | - | 13,500 | 15,000 | 15,000 | 100.0% |
| Postage, Delivery & Courier | - | 2,500 | - | - | (2,500) | -100.0% |
| Referral Fees & Commissions | - | - | - | - | - | N/A |
| Staff Development and Training | 932 | 17,000 | 10,000 | 10,000 | (7,000) | -41.2% |
| Telephone & Teleconferences | 10,292 | 14,000 | 14,400 | 10,300 | (3,700) | -26.4% |
| Travel | 2,061 | 3,500 | 4,000 | 3,500 | - | 0.0% |
| Sub-Total | $ 328,873 | $ 284,800 | $ 485,580 | $ 363,700 | $ 78,900 | 27.7% |
| **Total** | $ 1,071,313 | $ 1,337,200 | $ 1,444,880 | $ 1,442,700 | $ 105,500 | 7.9% |
| Excess Revenue Over (Under) Expense | $ 22,851 | $ - | $ 20 | $ - | $ - | |

**Staffing Changes and Compensation**

- In FY 2018, compensation is proposed at $830,000 which is an increase of $20,500, or 2.5%, above the FY 2017 Approved Budget level.

- There are 10 positions funded in the Proposed FY 2018 Budget, which is consistent with FY 2017 staffing level. *Please refer to the organization chart in the First Round responses attachment #7 for specifics for these funded positions.* The Corporation has made several staffing changes in FY 2017. These changes are expected to remain in FY 2018. The staffing changes that were made include the following:

    - The reclassification of a Bookkeeper to a contracted Controller;
    - The reclassification of the Accounting Manager/Chief Financial Officer position to a Senior Accountant;
    - The conversion/elimination of the vacant Office Manager position to a newly created Administrative Assistant/Receptionist position that is currently vacant.

- In an effort to enhance employee retention and morale, compensation adjustments for two employees (Executive Assistant and Senior Accountant) were completed in FY 2017. The FY 2018 compensation costs include proposed adjustments for all funded positions in accordance with comparative salaries in the industry and region.

**Fringe Benefits**

- Fringe benefit expenditures are proposed at $249,000 in FY 2018, an increase of $6,100, or 2.5%, above the FY 2017 Approved Budget.

**Operating Expenses**

- FY 2018 operating expenses are proposed at $363,700, an increase of $78,900, or 27.7%, above the FY 2017 Approved Budget. Operating expenditures comprises the following major items:

| | |
|---|---|
| Loan Loss Reserves | $ 100,000 |
| Accounting, Compliance & Auditing Services | 49,500 |
| External Marketing Consultant | 42,800 |
| IT Maintenance & Service | 28,800 |
| Depreciation | 15,800 |
| Insurance Premium/Renewal | 15,500 |

- The proposed FY 2018 budget includes increases in the following categories:

| | |
|---|---|
| Accounting, Compliance & Auditing Services | $20,500 |
| External Marketing Consultant | $32,800 |
| Depreciation | $15,800 |
| IT Maintenance & Service | $10,800 |

- The largest operating expense decreases included in the FY 2018 Proposed Budget are for Liquidation & Collection Expense and Staff Development and Training in the amounts of $8,000, and $7,000, respectively.

- A schedule of contractual costs included in the proposed FY 2018 budget are listed below:

| Contractual Costs | FY 2018 Proposed |
|---|---|
| Accounting, Compliance & Auditing | $49,500 |
| IT Maintenance & Service | $28,800 |
| External Marketing Consultant | $42,800 |
| Payroll & Administrative Cost | $6,100 |
| **Total Contractual Cost** | **$127,200** |

**Highlights**

- As of February 28, 2017, FSC has attended 37 events and outreach activities with approximately 2,178 attendees to promote the Corporation's services for FY 2017.

- FSC First obtained additional sources of funding to attain financial viability
  - Capital One Grant - $20,000
  - VLT Fund Stand-up Grant - $160,000 (reimbursable expenses)

- In FY 2018, FSC plans to achieve the following funding targets:

  - $3.1 million in new Small Business Administration (SBA) 504 Real Estate, Small Business Growth Fund (SBA Community Advantage), VLT Flex Fund and Microenterprise loans;
  - $7.0 million in new Economic Development Incentive (EDI) Fund loans for business that retain or add jobs in the County;

- FSC's strategies to enhance prospects for success include:

  - Increase business development and marketing efforts focusing on programs which result in increased revenue;
  - Continuing to address financial literacy challenges of loan applicants by providing a technical assistance program;
  - Collaboration with the members of the Business Resource Coalition (Economic Development Corporation, Office of Central Services' Supplier Development and Diversity Division, Minority Business Enterprise (MBE) Compliance Manager for Prince George's County, Maryland's Women Business Center, Bowie Business Innovation Center, Meridian Management Group), the Entrepreneurial Development Center at Prince George's County Community College, local chambers of commerce, and other business organizations to increase awareness of FSC First's programs and services;
  - Maintain a diverse and quality loan portfolio by proactively monitoring client files for compliance through the automated Loan Management System and conducting quarterly site visits to existing clients.

**Portfolio Management**

- The charts below detail the status of loans approved and the loan portfolio for FY 2017:

| | FUNDED | | | | UNFUNDED | | | | ELIMINATED | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Program** | **Closed/Funded in FY 2017 *** | # of | **Current Outstanding Loan Balance *** | # of | **In Closing Process/Pending but Approved *** | # of | **Aggregate Amt of Loans in Pipeline *** | # of | **Withdrawn in FY 2017 *** | # of |
| **Core** | | | | | | | | | | |
| SBA 504 | $ - | | $ 10,730,559 | 14 | $ 4,890,000 | 1 | $ - | | $ - | |
| SBA 7(a) | $ - | | $ 29,427 | 1 | $ - | | $ - | | $ - | |
| Small Business Growth Fund | $ 152,000 | 1 | $ 1,913,460 | 18 | $ - | | $ 595,000 | 3 | $ - | |
| Contactor Cash Flow Fund | $ - | | $ 48,264 | 1 | $ - | | $ - | | | |
| **Sub-Core** | | | | | | | | | | |
| Micro-MD DHCD | $ 34,000 | 1 | $ 67,701 | 3 | $ 40,000 | 1 | $ - | | $ 40,000 | 1 |
| HUD 108 | $ - | | $ 2,372,736 | 2 | $ - | | $ - | | $ - | |
| City of Bowie Loan Fund | $ - | | $ 129,005 | 2 | $ - | | $ - | | $ - | |
| EDI Fund (includes CAP**) | $ 2,491,000 | 3 | $ 14,091,832 | 22 | $ 7,770,000 | 7 | $ 11,700,000 | 11 | $ - | |
| EDI Fund (EDC Loans) | $ - | | $ 379,031 | 4 | $ - | | $ - | | $ - | |
| VLT Flex Fund | $ 750,000 | 2 | $ 124,441 | 1 | $ 452,000 | 2 | $ - | | $ - | |
| **Total** | **$ 3,427,000** | **7** | **$ 29,886,456** | **68** | **$ 13,152,000** | **11** | **$ 12,295,000** | **14** | **$ 40,000** | **1** |

Note: * All of the above information is as of February 28, 2017
** The asset based loan program was eliminated and replaced with the CAP prgoram.

**Category Definitions**
***Closed/Funded***- the loan was approved, closed with loan documented executed and funds disbursed
***Current Outstanding Loan Balance***- Current amount due including principal and/or interest
***In Closing Process/Pending but Approved***- the loan is approved but not closed and no funds have been disbursed
***Aggregate Amount of Loans in Pipeline***-applications/loans packages in varying stages of the intake/pre-qualification/underwriting/approval process
***Withdrawn***-the loan will not close as a result of the applicant request or non-compliance with the terms of the commitment letter

**Economic Development Incentive (EDI) Fund**

- FSC assumed the role of underwriter with the launch of the $50 million Economic Development Incentive Fund in FY 2013. The program has afforded FSC the opportunity to collaborate with other funds and combine resources to fund larger projects.

- Since its inception, the EDI Fund has had a total of 28 loans close, totaling $21,166,000 in EDI funding. As of February 28, 2017, three conditional loans, in the amount of $1,640,000, have been totally forgiven.

- The current EDI fund portfolio is composed of 22 loans (10 conditional and 12 non-conditional), totaling $14,091,832. Please refer to *Attachment 1* of this report for a detailed portfolio of all EDI loans as of February 28, 2017. The attachment provides information such as the recipient organization name, funding date, and current balance and status.

- Below is the calculation for the Corporation's EDI Fund ending available, uncommitted balance for FY 2017 as of February 28, 2017:

| **EDI Fund Balance and Activity as of 2/28/17:** | |
|---|---|
| Starting balance | $50,000,000 |
| Less Loans Committed | (32,076,000) |
| **Sub total** | **17,924,000** |
| Plus repaid Principal | 4,656,915 |
| Plus Interest Earned | 715,846 |
| **Ending Balance*** | **$23,296,761** |

** Does not allow for any unknown withdrawals unrelated to EDIF loans*

Attachment A

## PORTFOLIO REPORT including EDIF as of 02/28/2017

3/1/2017



| Borrower | Loan Number | Date Funded | Closing Date | Loan Request | Rate | Maturity Date | Balance | Guarantee Amt | Reserve Requirements | Date Due | Status | Servicing Comments |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Loan Type: | EDIF | | | | | | | | | | | |
| Loan Type: | EDIF | | | | | | | | | | | |
| Shankra, LLC | 237231116840 | 1/31/2013 | 1/31/2013 | 1,200,000.00 | 5.000 | 10/3/2023 | 938,611.90 | | | 3/1/2017 | Current | 11/24/2014 - Rec'd all requested items detailed |
| Man & Machine, Inc | 341672834914 | 12/6/2012 | 12/4/2012 | 500,000.00 | 5.000 | 12/7/2022 | 348,754.91 | | | 3/1/2017 | 1 - 30 Days | 10/24/14 - Compliance letter to Borrower via US Postal mail & e-mail. 4/30/14 - Paying as agree |
| Information Management Services, Inc | 171280764310C | 12/24/2013 | 12/20/2013 | 110,000.00 | 0.000 | / / | 110,000.00 | | | / / | Funded | 10/24/2014: Annual compliance letter to borrower. 12/20/13 - conditional loan closed, fully funded 12/24/13; |
| Hampton Park | 610188881848 | 11/4/2015 | 11/3/2015 | 1,800,000.00 | 5.000 | 11/4/2016 | 1,400,000.00 | | | 3/1/2017 | Foreclosure Pending | 9/6/16 - rec'd 12 month lo extension req; 11/3/15 - loan closed (doc date), wi sent 11/4/15 &11/5/15; |
| Bozzuto & Associates, Inc | 526707476785C | 11/5/2013 | 11/4/2013 | 500,000.00 | 0.000 | / / | 500,000.00 | | | / / | Funded | 11/4/14 - rec'd updated insur certs & 3/31/14 annual f/s; awaiting 12/31/14 YE job numbers 10/31/2014 - Compliance letter e-mailed & US Mai to S. Strazzella @ Bozzut 11/4/13 - conditional loan closed, fully funded 11/13/13; |
| Echo - UTC, LLC | 647214042455 | 8/6/2014 | 8/6/2014 | 2,000,000.00 | 2.000 | 8/5/2019 | 2,000,000.00 | | | 3/5/2017 | Current | 8/6/14 - loan closed fully funded |
| F. G. Development Corporation, LLC | 521785500732C | 11/7/2014 | 11/7/2014 | 570,000.00 | 0.000 | 11/7/2024 | 570,000.00 | | | / / | Funded | 11/17/2016: Loan is fully drawn. authorization to release funds resolved pe law office. 8/29/16 - OOL working o consent order in cooperation w/borr couns lender and Cty - scheduli update for B. Hunt - tryin to get |

| Borrower | Loan Number | Date Funded | Closing Date | Loan Request | Rate | Maturity Date | Balance | Guarantee Amt | Reserve Requirements | Date Due | Status | Servicing Comments |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Loan Type: | EDIF | | | | | | | | | | | |
| | | | | | | | | | | | | approval to pay Nardi giv bk |
| Leuterio Thomas, LLC | 646233286834 | 8/11/2014 | 8/11/2014 | 500,000.00 | 5.000 | 8/11/2024 | 352,104.35 | | | 4/1/2017 | Current | 8/11/14 - loan closed and fully funded; |
| Little Caesars 2 | | 10/2/2014 | 10/2/2014 | 200,000.00 | 5.000 | 10/2/2019 | 112,850.67 | | | 3/1/2017 | Current | 10/2/14 - loan closed; full funded |
| Still I Rise Comprehensiv e Support Services and Training, LLC | 281291545746C | 11/14/2014 | 7/21/2014 | 100,000.00 | 0.000 | / / | 100,000.00 | | | / / | Funded | 07.18.16 - Rec'd SIR 201 & 2015 BTR & Dr. Hodg 2014 & 2015 PTR. PTR 07.08.16 - Compliance Lt to Dr. Hodges - BTR, Insurance & Employee Certification. 12/16/2014 Site visit scheduled. 11/21/14 - Compliance Lt to Dr. Hodges; 7/21/14 - loan clos |
| Bates Trucking & Trash Removal, Inc | 696769589990 | 4/29/2015 | 4/29/2015 | 2,700,000.00 | 3.500 | 4/29/2015 | 2,684,602.63 | | | 3/1/2017 | Current | 4/4/16 - fully disbursed; 4/29/15 loan closed; parti disbursement |
| Berman Enterprises Construction Group Inc. | 423047733543 | 10/15/2015 | 10/15/2015 | 2,250,000.00 | 0.000 | / / | 2,250,000.00 | | | / / | Funded | 10/15/15 - conditional loa closed & fully funded; |
| Bowie Marketplace Harris Teeter | 423047733543C | 3/28/2016 | 3/28/2016 | 1,000,000.00 | 0.000 | 3/28/2022 | 1,000,000.00 | | | / / | Funded | 3/28/16 - wired 3/25 - fin doc signing/dating on 3/28/16 |
| Lyon Bakery, Inc. | 936985418753 | 11/24/2014 | 11/24/2014 | 1,000,000.00 | 2.750 | 6/24/2035 | 935,668.05 | | | 3/1/2017 | Current | 6/30/15 - no response fro OOL; req update & ETA; 6/24/15 - no response fro OOL; req update & ETA; 6/19/15 - no response fro OOL; 5/20/15 - req OOL review and provide Cty signature for new subordination agreement; 5/19/15 - req from borr to resubor |
| Blueline Security Services, Inc. | 516672829253C | 12/23/2014 | 12/23/2014 | 50,000.00 | 0.000 | 12/23/2019 | 50,000.00 | | | / / | Funded | 12/23/14 - conditional loa closed; |

| Borrower | Loan Number | Date Funded | Closing Date | Loan Request | Rate | Maturity Date | Balance | Guarantee Amt | Reserve Requirements | Date Due | Status | Servicing Comments |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Loan Type:** | **EDIF** | | | | | | | | | | | |
| Golden Leaf Farm, LLC T/A Romano Vineyard & Winery | 610301064824 | 1/20/2015 | 1/20/2015 | 75,000.00 | 4.000 | 2/1/2040 | 74,508.31 | | | 3/1/2017 | Current | 11/01/2016: made a principal payment to the account in the amount of $358.35 (overpayment frc 04/01/-11/01/16).1/20/20 -Loan closed and fully funded. |
| Thompson Creek Window Company | 991880640667 | 4/22/2016 | 4/22/2016 | 250,000.00 | 0.000 | 4/22/2016 | | | | / / | Funded | |
| Golden Leaf Farm, LLC T/A Romano Vineyard & Winery | 610301064824C | 1/20/2015 | 1/20/2015 | 70,000.00 | 0.000 | / / | 70,000.00 | | | / / | Funded | 3/31/16 - conditional loan forgiven; 1/20/2015-Loan closed and fully funded |
| Susan Gage Caterer, Inc. | 955060496808 | 11/24/2015 | 11/24/2015 | 300,000.00 | 4.000 | 11/24/2020 | 230,514.68 | | | 4/1/2017 | Current | 11/24/15 - loan closed & fully funded; |
| Flexel, LLC | 552780793375C | 4/8/2016 | 4/8/2016 | 250,000.00 | 0.000 | 4/8/2016 | | | | / / | Funded | 4/8/16 - loan closed & ful funded; |
| Susan Gage Caterer, Inc. | 955060496808C | 11/24/2015 | 11/24/2015 | 300,000.00 | 0.000 | / / | 300,000.00 | | | / / | Funded | |
| F. G. Development Corporation, LLC | 2016120001C | 12/2/2016 | 12/2/2016 | 91,000.00 | 0.000 | / / | 64,216.26 | | | / / | Funded | 12/8/16 - disbursing proceeds; 12/2/16 - grant agreement circulating for signatures; fully executed |
| **Totals for EDIF: 22 records** | | | | **15,816,000.00** | | | **14,091,831.76** | | | | | |