



THE PRINCE GEORGE'S COUNTY GOVERNMENT

Office of Audits and Investigation

May 2, 2019

M E M O R A N D U M

TO: Dannielle M. Glaros, Chair
Planning, Housing and Economic Committee (PHED)

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

FROM: Jisun Ahn, Staff Auditor *JA*

RE: Financial Services Corporation
Fiscal Year 2020 Budget Review (Non-Departmental Grants & Transfer Payments)

Budget Overview

The Financial Services Corporation (FSC) is primarily funded through an annual County grant in the Non-Departmental section of the budget. The Corporation's proposed FY 2020 budget reflects County grant funding in the amount of \$1,122,500, which remains unchanged from the FY 2019 County approved funding level.

Approved Fiscal Year 2019 to Proposed Fiscal Year 2020:

Category	FY 2018 Actual	FY 2019 Approved	FY 2019 Estimated	FY 2020 Proposed	Change Amount	Percentage Change
Prince George's County Grant	\$ 897,000	\$ 1,122,500	\$ 1,122,500	\$ 1,122,500	\$ -	0.0%

Budget Comparison - Consolidated Budget

FY 2020 proposed revenues for the Financial Services Corporation total \$1,788,800, an increase of \$79,700, or 4.7%, above the FY 2019 Approved Budget. This net change is attributed mainly to an anticipated increase in the Net Loan Program Income, and Net Fundraising Revenue offset by decreases in other revenue categories. The proposed \$65,300 decrease in Management/Service Fees revenue is due to the projected loss of revenue as a result of loan payoffs and principal reductions.

Approved Fiscal Year 2019 to Proposed Fiscal Year 2020

Category	FY2018 Actual	FY2019 Budget	FY2019 Estimated	FY2020 Proposed	\$ Amount	% Change
REVENUES						
Prince George's County Grant	\$ 897,000	\$ 1,122,500	\$ 1,122,500	\$ 1,122,500	\$ -	0.0%
Net Loan Programs	163,482	227,700	258,800	338,900	111,200	48.8%
Administrative Services	10,030	3,000	4,800	6,000	3,000	100.0%
Net Fundraising Revenue	37,500	20,000	20,000	50,000	30,000	150.0%
Bank & Investment Interest	2,522	1,200	2,000	2,000	800	66.7%
Management/ Servicing Fees	347,199	334,700	275,100	269,400	(65,300)	-19.5%
Other Income	(308)	-	-	-	-	
Total	\$ 1,457,425	\$ 1,709,100	\$ 1,683,200	\$ 1,788,800	\$ 79,700	4.7%
EXPENDITURES						
Compensation	\$ 797,537	\$ 963,900	\$ 929,400	\$ 973,400	\$ 9,500	1.0%
Fringe Benefits	220,455	279,500	267,900	282,300	2,800	1.0%
Operating						
Accounting, Compliance & Auditing Services	71,855	67,000	72,200	84,600	17,600	26.3%
External Marketing Consultant	42,677	42,800	60,000	60,000	17,200	40.2%
IT Maintenance & Service	20,584	38,800	25,900	38,800	-	0.0%
Payroll & Administrative Costs	13,283	7,100	16,700	16,700	9,600	135.2%
Board & Committee Meeting Exp.	1,338	4,200	4,000	4,200	-	0.0%
Copying & Printing	2,221	3,000	2,200	3,000	-	0.0%
Depreciation	11,995	17,100	11,300	17,100	-	0.0%
Subscriptions, Dues, & Misc.	14,627	3,000	14,100	15,000	12,000	400.0%
Insurance Premium/Renewal	14,847	15,500	14,900	15,500	-	0.0%
Licenses & Maintenance Fees	3,710	8,000	6,300	8,000	-	0.0%
Legal Fees	2,956	10,000	3,000	3,000	(7,000)	-70.0%
Loan Loss Reserves	(18,665)	100,000	76,400	100,000	-	0.0%
Liquidation & Collection Expenses	23,163	-	15,000	15,000	15,000	100.0%
Marketing & Public Relations	22,761	17,000	38,000	17,000	-	0.0%
Misc./Other Expenses	2,376	-	2,700	3,000	3,000	100.0%
Office Equipment Lease	15,003	12,500	14,100	12,500	-	0.0%
Interest Expense	73,043	70,000	67,000	70,000	-	0.0%
Office Supplies & Expenses	16,089	14,200	16,300	14,200	-	0.0%
Portfolio Services	13,586	12,000	6,000	12,000	-	0.0%
Staff Development and Training	10,767	10,000	7,500	10,000	-	0.0%
Telephone & Teleconferences	7,277	10,000	9,500	10,000	-	0.0%
Travel	10,284	3,500	2,800	3,500	-	0.0%
Sub-Total	\$ 375,777	\$ 465,700	\$ 485,900	\$ 533,100	\$ 67,400	14.5%
Total	\$ 1,393,769	\$ 1,709,100	\$ 1,683,200	\$ 1,788,800	\$ 79,700	4.7%
Excess Revenue Over (Under) Expenses	\$ 63,656	\$ -	\$ -	\$ -	\$ -	

Source: FY 2020 First Round Responses Attachment D

Staffing Changes and Compensation

- In FY 2020, compensation is proposed at \$973,400, which is an increase of \$9,500, or 1.0%, above the FY 2019 Approved Budget level. The increase is due to salary cost-of-living adjustments (1.5%), and merit increases (3.5%) for all employees.
- The Proposed FY 2020 staffing level remains unchanged at 11 positions. *Please refer to the organization chart in the FY 2020 First Round Responses Attachment G for specifics for these funded positions.*
- As of March 2019, the Corporation has one (1) vacant position, a full-time Specialized Commercial Loan Officer.

Fringe Benefits

- Fringe benefit expenditures are proposed at \$282,300 in FY 2020, an increase of \$2,800, or 1.0%, above the FY 2019 Approved Budget to support the anticipated compensation level.

Operating Expenses

- In FY 2020, operating expenditures are proposed at \$533,100 and are comprised of the following major items:
 - Loan Loss Reserves \$ 100,000
 - Accounting, Compliance & Auditing Services 84,600
 - Interest Expense 70,000
 - External Marketing Consultant 60,000
 - IT Maintenance & Service 38,800
- FY 2020 operating expenses are proposed to increase by \$67,400, or 14.5%, above the FY 2019 Approved Budget. The proposed increase is largely attributed to increases in the following categories:
 - Accounting, Compliance, and Auditing Services – increase in the contracted cost for auditing services;
 - Marketing & Public Relations – increased cost to market the new “Green Bank” and “C-PACE administrator” programs;
- The largest operating expense decreases included in the FY 2020 Proposed Budget are legal fees in the amount of \$7,000.

Mission/Highlights

- FSC is a non-profit organization whose mission is to provide small and minority-owned businesses access to creative, flexible and innovative financing solutions for their operations including direct loans, accounts receivable financing and contract financing (i.e. commercial real estate and equipment loans)
- As of February 2019, FSC has attended 47 events and outreach activities with approximately 4,670 attendees to promote the Corporation's services for FY 2019. *Refer to FY 2020 Second Round Responses Attachment 3 for a detail listing of the events and number of attendees.*
- In FY 2019, FSC anticipates securing \$20,000 in fundraising/grant funding. FSC plans to increase fundraising/grant revenue to \$30,000 in FY 2020.
- In FY 2019, FSC partially achieved the following funding targets:
 - \$710,000 of the \$4.3 million in new Small Business Administration (SBA) 504 Real Estate, Small Business Growth Fund (SBA Community Advantage), VLT Flex Fund, Microenterprise loans and City of Bowie Revolving Loan Fund;
 - \$4,330,000 of the \$6.2 million in new Economic Development Incentive (EDI) Fund loans for businesses that retain or add jobs in the County.
- FSC reported that the Contractor's Cash Flow Fund has been abolished and the remaining funding has been captured in a new program agreement between FSC and EDC under the Business Expansion Fund. This fund has launched April 1, 2019, and will function as bridge funding.
- In FY 2018, FSC selected, through a competitive bid process, a County-based minority woman-owned business (V. Agency) to assist with its marketing and business development strategy. In FY 2020, FSC will continue to utilize V. Agency.
- In FY 2019, FSC has taken on outreach responsibility for the following initiatives:
 - The Commercial Property Assessed Clean Energy (C-PACE) Program
 - Green Energy Loan Programs
 - Metro Purple Line Expansion
- In FY 2017, FSC was selected as 1 of 8 Video Lottery Terminal (VLT) funds managers with the State of Maryland Department of Commerce. With this selection, FSC was awarded \$2 million in lending capacity to provide investment capital and loans to small, minority, and women-owned businesses, of which 50% must be allocated to businesses in jurisdictions and communities surrounding a video lottery facility. However, in FY 2019 funding that supports this program (1.5% of proceeds from VLT's at each video lottery facility) is currently being diverted from small and minority businesses to fund the State's Education Trust Fund.

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, through April 11, 2019, the EDI Fund has had a total of 34 loans close (18 conditional and 16 non-conditional), totaling \$33,586,000. Please refer to *FY 2020 Second Round Responses Attachment 2* for a report of the EDI Fund Loan Summary.
- Since its inception, through December 31, 2018, seven (7) loans, in the amount of \$2,646,438, have been fully or partially forgiven. Please refer to *FY 2020 First Round Responses No. 22b* for a summary of all EDI forgiven loans.
- The current EDI fund portfolio is composed of 23 loans (13 conditional and 10 non-conditional), totaling \$23,705,000. Please refer to *FY 2020 First Round Responses Attachment F-1* for a detailed report of all current EDI fund loans as of March 15, 2019. The report provides information such as the recipient organization name, current principal balance and payment information.
- Below is the calculation for the Corporation's EDI Fund ending available, uncommitted balance for FY 2019 as of March 12, 2019:

EDI Fund Balance and Activity as of 3/12/19:	
Starting Balance	\$50,000,000
Less Loans Committed	(37,916,000)
Sub total	12,084,000
Plus Principal Repayments	11,451,334
Plus Interest Repayments	1,320,473
Projected Ending Balance	\$24,855,807

Note: The \$50 million starting balance is based upon initial assigned amount. Each year \$9 million is estimated to be appropriated for the EDI Fund with each loan amount to be approved by County Council legislation. Please refer to *FY 2020 Second Round Responses Attachment 5* for further detail.

Portfolio Management

- The chart below details the status of the loan portfolio for FY 2019. See attachments A-1 and A-2 for details of FSC's current loan programs.

Program	FUNDED			UNFUNDED				ELIMINATED	
	Closed/Funded in FY 2019 *	# of	Current Outstanding Loan Balance *	# of	In Closing Process/Pending but Approved *	# of	Aggregate Amt of Loans in Pipeline *	Withdrawn in FY 2019 *	# of
Core									
SBA 504	\$ -		\$ 8,536,507	12	\$ 5,100,000	2	\$ 3,726,104	\$ -	
SBA 7(a)	\$ -		\$ 9,684	1	\$ -		\$ -	\$ -	
Small Business Growth Fund	\$ 150,000	1	\$ 1,189,087	14	\$ 500,000	2	\$ 160,000	\$ -	
Sub-Core									
VLTT Flex Fund	\$ 250,000	1	\$ 1,415,067	8			\$ 41,000	\$ 50,000	1
Micro-MD DHCD/Cap One	\$ 50,000	1	\$ 164,998	5	\$ 50,000	1	\$ 50,000	\$ 50,000	1
HUD 108	\$ -		\$ 720,810	1	\$ -		\$ -	\$ -	
City of Bowie Loan Fund	\$ -		\$ 160,632	3	\$ -		\$ -	\$ -	
EDI Fund	\$ -		\$ 15,574,418	23	\$ 4,330,000	6	\$ 1,500,000	\$ 200,000	1
EDL Fund (EDC Loan Fund)	\$ -		\$ 186,071	3	\$ -		\$ -	\$ -	
Green Energy Loan Fund	\$ -		\$ -		\$ -		\$ -	\$ -	
Purple Line Business Assistance	\$ -		\$ -		\$ -		\$ -	\$ -	
C-PACE Loan	\$ -		\$ -		\$ -		\$ -	\$ -	
Total	\$ 450,000	3	\$ 27,957,274	70	\$ 9,980,000	11	\$ 5,477,104	\$ 300,000	3
Note: * All of the above information is as of March 12, 2019									

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

Green Energy Loan Program

The Green Energy Loan Program was created to advance public and private investment in clean energy and other innovative green technologies in Prince George's County.

The County provides a loan guaranty to participating lenders to compel them to provide financing for building energy efficiency improvements, energy conservation, and renewable energy.

The Green Energy Loan Program offers multiple benefits to a broad range of stakeholders including building owners, municipalities, mortgage holders, lenders, energy efficiency/renewable energy contractors and job creation.

- Loan Term: Not to exceed 20 Years
- Loan Guaranty Size: Up to \$250,000.00
- Interest Rate: Market, typically not exceeding 4%
- Energy Audit or Feasibility Study is Required
- Eligible Borrowers: Commercial and Industrial Building Owners
- On-going Servicing/Guaranty Fee: 20 BPS on outstanding principal balance annually

SBA 504 Commercial Real Estate Loan

SBA 504 Commercial Real Estate Loan is targeted towards the more established business that is seeking to purchase owner-occupied commercial real estate (typically to transition from leasing or to improve cash flow).

- Loans for healthy expanding businesses up to \$5.5 million
- Interest Rate: Fixed, below market financing
- Financing for fixed assets: commercial real estate acquisition, construction, machinery and equipment
- Loan Term: 20 years for real estate, 10 years for machinery and equipment
- Down Payment: Typically, 10%-20% cash down payment required
- Personal Guaranties required
- Available Statewide

Commercial Property Assessment for Clean Energy (C-PACE)

CB-29-2018 provides for the financing of energy efficiency, renewable energy, and water conservation upgrades to commercial buildings. Upgrades are financed, up to 20% of appraised value, through an energy lender and then repaid via an annual assessment on the property tax bill over a long term.

Energy conservation measures, including but not limited to:

- Solar energy equipment
- Geothermal energy devices
- Wind energy systems
- Water conservation devices
- Measures or systems or any construction renovation or retrofitting of commercial property to reduce energy consumption including high efficiency lighting and building systems, heating ventilation air conditioning (HVAC) upgrades, high efficiency boilers & furnaces, high efficiency hot water heating systems, combustion & burner upgrades, fuel switching, heat recovery & steam traps

Small Business Growth Fund (SBGF)

Small Business Growth Fund (SBGF) is targeted towards smaller, established businesses (3 - 5 years of operating history). Eligible uses are real estate acquisitions, leasehold improvements, equipment purchases, working capital expenditures, inventory and human capital increases for the purpose of expanding established businesses.

- Loans between \$25,000 - \$400,000 (\$100,000 maximum for start-ups, and over \$250,000 if real estate is involved)
- Loan Term: Up to 10 years
- Interest Rate: Wall Street Journal Prime Rate plus up to 6%
- Collateral: Business and Personal Assets
- Personal Guaranties required
- 10% cash down payment required for existing firms, and 20% cash required for start ups

Economic Development Incentive Loan Fund

Economic Development Loan Fund (EDIF) – Prince George's County has dedicated \$50 million to provide for the retention, expansion and attraction of businesses that will broaden the County's commercial tax base, retain and attract jobs, support small and local enterprises, and promote the development and redevelopment opportunities, transit oriented development and the growth of key industry sectors. The Economic Development Incentive Fund (EDIF) is administered by Prince George's Financial Services Corporation (FSC First) and the Prince George's Economic Development Corporation. Projects should produce significant economic impact through measurable outcomes such as job creation and retention, increasing the commercial tax base, industry and commerce, and promoting local, minority and small business development. The project must demonstrate that "but for" the County offering public incentives, the project would not proceed and that this investment is leveraged with additional private and public dollars.

- Loan Term: 10 years maximum, amortization not to exceed 25 years
- Interest rate: 4% plus pricing depending on credit analysis
- Minimum Loan amount \$250,000
- Eligible Uses: Land and building acquisitions, building construction and improvement, equipment acquisition, and working capital
- Must create jobs and increase the commercial tax base – evaluation is conducted on a case by case basis by the Economic Development Corporation
- Collateral: Business and Personal Assets
- Personal Guaranties required
- Projects located in the County's developed tier, transit-oriented development areas, Transforming Neighborhoods Initiative areas and other focus areas will be given special priority

City of Bowie Loan Fund

City of Bowie Loan Fund provides businesses with assistance for costs associated with leasehold improvements, equipment purchases, working capital expenditures, and human capital increases for the purpose of expanding their already-established business.

- Loans: Up to \$50,000
- Loan Term: 2 to 10 year maximum term
- Interest rate: Wall Street Journal Prime Rate plus up to 6%
- Collateral: Business and Personal Assets
- Personal Guaranties required
- Businesses located in Bowie ONLY

Micro-Enterprise Loan Fund – MD DHCD

Micro-Enterprise Loan Fund – MD DHCD is designed to provide micro loans to businesses located in Sustainable Communities designated by the Maryland Department of Housing and Community Development. Eligible uses are leasehold improvements, equipment purchases, working capital expenditures, and human capital increases for the purpose of expanding their established business and feasible start-ups.

- Loans: Ranging from \$5,000 – \$50,000
- Loan Term: 2 to 5 year maximum term
- Interest rate: Wall Street Journal Prime Rate plus up to 6%
- Collateral: Business and Personal Assets
- Personal Guaranties required
- Sustainable Communities and Priority Funding Areas Statewide

Video Lottery Terminal Fund

The Video Lottery Terminal Fund (VLT), designated by the Maryland Department of Commerce, is designed to provide flexible funding solutions for small, minority, veteran, and woman-owned businesses.

- Loans up to \$250,000
- Flexible interest rate determined after full underwriting
- Loan term 10 years maximum
- Collateral includes business and personal assets
- Personal guaranties required
- Geographical proximity to Maryland casinos