



May 2, 2023

**MEMORANDUM**

TO: Jolene Ivey, Chair  
Planning, Housing and Economic Development (PHED) Committee

THRU: Josh. Hamlin  
Director of Budget and Policy Analysis

FROM: Shalene Miller-Whye  
Budget & Policy Analyst

RE: Financial Services Corporation  
Fiscal Year 2024 Budget Review (Non-Departmental Grants & Transfer Payments)

**Budget Overview**

The Financial Services Corporation (FSC First) is primarily funded through an annual County grant in the Non-Departmental section of the budget. FSC First's proposed FY 2024 budget is \$3,408,100, an increase of \$1,345,700 or 65.2% over the FY 2023 approved budget. FSC First's proposed FY 2024 budget reflects County grant funding in the amount of \$1,177,100, an increase of \$39,800 or 3.5% over the FY 2023 approved budget.

**Actual Fiscal Year 2022 to Proposed Fiscal Year 2024**

| Category                     | FY 2022<br>Actual | FY 2023<br>Approved | FY 2023<br>Estimated | FY 2024<br>Proposed | Change<br>Amount | Percentage<br>Change |
|------------------------------|-------------------|---------------------|----------------------|---------------------|------------------|----------------------|
| Prince George's County Grant | \$ 1,094,800      | \$ 1,137,300        | \$ 1,137,300         | \$ 1,177,100        | \$ 39,800        | 3.5%                 |

**Budget Comparison - Consolidated Budget**

FY 2024 proposed revenues for the Financial Services Corporation total \$3,408,100, an increase of \$1,345,700, or 65.2%, above the FY 2023 Approved Budget. This net change is attributed mainly to the American Rescue Plan Act (ARPA) Grant (\$1,156,3000) and anticipated increases in Net Loan Program Income (\$68,100) and Management/Servicing Fees (\$62,800), offset by decreases in Net Fundraising Revenue (\$17,400).

| Revenue       |                     |                     |                      |                     |                     |              |
|---------------|---------------------|---------------------|----------------------|---------------------|---------------------|--------------|
| Fund          | FY 2022<br>Actual   | FY 2023<br>Approved | FY 2023<br>Estimated | FY 2024<br>Proposed | \$<br>Change        | % Change     |
| County Grant  | \$ 1,094,800        | \$ 1,137,300        | \$ 1,137,300         | \$ 1,177,100        | \$ 39,800           | 3.5%         |
| Other Sources | 1,423,327           | \$ 925,100          | \$ 2,306,700         | \$ 2,231,000        | \$1,305,900         | 141.2%       |
| <b>Total</b>  | <b>\$ 2,518,127</b> | <b>\$ 2,062,400</b> | <b>\$ 3,444,000</b>  | <b>\$ 3,408,100</b> | <b>\$ 1,345,700</b> | <b>65.2%</b> |

**Actual Fiscal Year 2022 to Proposed Fiscal Year 2024**

| Category                                                | FY 2022<br>Actual   | FY 2023<br>Approved | FY 2023<br>Estimated | FY 2024<br>Proposed | \$<br>Change        | %<br>Change  |
|---------------------------------------------------------|---------------------|---------------------|----------------------|---------------------|---------------------|--------------|
| <b><u>REVENUES</u></b>                                  |                     |                     |                      |                     |                     |              |
| Prince George's County Grant                            | 1,094,800           | 1,137,300           | 1,137,300            | 1,177,100           | 39,800              | 3.5%         |
| Net Loan Program Income                                 | 213,860             | 275,000             | 280,000              | 343,100             | 68,100              | 24.8%        |
| Management/Servicing Fees                               | 708,658             | 600,000             | 600,000              | 662,800             | 62,800              | 10.5%        |
| Net Fundraising Revenue                                 | 464,975             | 32,600              | 65,000               | 50,000              | 17,400              | 53.4%        |
| American Rescue Plan Act Grant                          | 0                   | 0                   | 1,343,700            | 1,156,300           | 1,156,300           |              |
| Other Income                                            | 35,834              | 17,500              | 18,000               | 18,800              | 1,300               | 7.4%         |
| <b>Total</b>                                            | <b>2,518,127</b>    | <b>2,062,400</b>    | <b>3,444,000</b>     | <b>3,408,100</b>    | <b>1,345,700</b>    | <b>65.2%</b> |
| <b><u>OPERATING</u></b>                                 |                     |                     |                      |                     |                     |              |
| <b><u>Personnel Costs</u></b>                           |                     |                     |                      |                     |                     |              |
| Compensation                                            | 1,254,689           | 1,129,700           | 1,694,300            | 1,692,400           | 562,700             | 49.8%        |
| Fringe Benefits                                         | 307,821             | 329,900             | 412,500              | 431,700             | 101,800             | 30.9%        |
| <b><u>Contractual</u></b>                               |                     |                     |                      |                     |                     |              |
| IT Maintenance & Service                                | 77,210              | 54,000              | 54,000               | 65,000              | 11,000              | 20.4%        |
| Accounting, Compliance &<br>Auditing Services           | 73,131              | 65,000              | 65,000               | 45,000              | -20,000             | -30.8%       |
| ARPA - Accounting, Compliance &<br>Auditing Services    |                     |                     | 17,500               | 17,500              |                     |              |
| ARPA - Education & Training                             |                     |                     | 204,300              | 266,700             |                     |              |
| ARPA - Professional Services - Support<br>to Businesses |                     |                     | 433,700              | 226,300             |                     |              |
| Payroll & Administrative Costs                          | 26,876              | 18,000              | 18,000               | 20,000              | 2,000               | 11.1%        |
| Marketing & Communications Support                      |                     |                     |                      | 20,000              |                     |              |
| <b><u>Indirect Costs/General</u></b>                    |                     |                     |                      |                     |                     |              |
| <b><u>Administrative Costs</u></b>                      |                     |                     |                      |                     |                     |              |
| Interest Expenses                                       | 64,740              | 84,000              | 82,500               | 90,000              | 6,000               | 7.1%         |
| Legal Fees                                              | 210                 | 1,000               | 1,000                | 2,500               | 1,500               | 150.0%       |
| Travel (Mileage, Hotel Airfare, Meals)                  | 3,703               | 1,900               | 5,000                | 5,000               | 3,100               | 163.2%       |
| Office Supplies & Expenses                              | 9,483               | 14,200              | 14,000               | 14,000              | -200                | -1.4%        |
| ARPA - Office Supplies & Expenses                       |                     |                     | 7,600                | 7,600               |                     |              |
| Office Equipment Lease                                  | 6,001               | 12,700              | 12,700               | 15,000              | 2,300               | 18.1%        |
| Marketing, Supplies & Public Relations                  | 40,960              | 20,000              | 20,000               | 30,000              | 10,000              | 50.0%        |
| Depreciation                                            | 10,563              | 8,500               | 8,500                | 10,500              | 2,000               | 23.5%        |
| Insurance Premium / Renewal                             | 20,063              | 19,500              | 20,300               | 22,000              | 2,500               | 12.8%        |
| Portfolio Services                                      | 30,179              | 17,000              | 18,000               | 40,000              | 23,000              | 135.3%       |
| Software Licenses & Maintenance Fees                    | 36,734              | 30,000              | 33,000               | 43,000              | 13,000              | 43.3%        |
| ARPA - Software Licenses &<br>Maintenance Fees          |                     |                     | 32,500               | 31,900              |                     |              |
| Copying / Printing                                      | 4,815               | 2,000               | 2,000                | 4,000               | 2,000               | 100.0%       |
| Telephone & Teleconferences                             | 9,252               | 9,500               | 9,500                | 10,000              | 500                 | 5.3%         |
| Board & Committee Meeting Exp                           | 138                 | 1,000               | 8,500                | 8,500               | 7,500               | 750.0%       |
| Loan Loss Reserves                                      | 163,862             | 100,000             | 100,000              | 100,000             | -                   | 0.0%         |
| Liquidation & Collection Services                       |                     | 15,000              | 15,000               | -                   | (15,000)            | #####        |
| Staff Development/Training Conferences                  | 23,249              | 4,000               | 8,000                | 20,000              | 16,000              | 400.0%       |
| Subscriptions, Dues, & Misc.                            | 48,972              | 20,000              | 20,000               | 35,000              | 15,000              | 75.0%        |
| Special Program Expenses                                | 98,000              | 105,000             | 105,000              | 125,000             | 20,000              | 19.0%        |
| ARPA - Equipment & Related                              |                     |                     | 20,500               | 7,500               |                     |              |
| Miscellaneous / Other Expenses                          | 1,782               | 500                 | 1,100                | 2,000               | 1,500               | 300.0%       |
| Sub-Total                                               | \$ 749,923          | \$ 602,800          | \$ 1,337,200         | \$ 1,284,000        | \$ 681,200          | 113.0%       |
| <b>Total</b>                                            | <b>\$ 2,312,433</b> | <b>\$ 2,062,400</b> | <b>\$ 3,444,000</b>  | <b>\$ 3,408,100</b> | <b>\$ 1,345,700</b> | <b>65.2%</b> |

### **Staffing Changes and Compensation**

- In FY 2024, compensation is proposed at \$1,692,400, which is an increase of \$562,700, or 49.9%, above the FY 2023 Approved Budget. The increase is due to mandatory salary requirements. Merit increases will be awarded based on performance, with an average award of 3.5%.
- The FY 2024 Proposed Budget includes funding for 14 full-time positions, this includes three (3) positions proposed to be transitioned from County grant funding including an Accountant, Finance, and Operations Analysts, and CLSA. Positions included in this transition assist in building capacity for core portfolio management, credit risk mitigation, accounting, and financial processes and increase capacity in support of business development, economic marketing, and economic analysis, all important to the essential functions and organizational goals of FSC First.

| <b>General Fund Staffing Levels FY 2022 – FY 2024</b> |                |                  |                  |                  |
|-------------------------------------------------------|----------------|------------------|------------------|------------------|
| Position                                              | 2022<br>Actual | 2023<br>Approved | 2023<br>Estimate | 2024<br>Proposed |
| Authorized: Full-Time Regular – On-board              | 9              | 11               | 14               | 14               |
| Authorized: Full-Time Regular - Funded<br>Vacant      | 2              | 0                | 0                | 0                |
| <b>Total</b>                                          | <b>11</b>      | <b>11</b>        | <b>14</b>        | <b>14</b>        |

### **Fringe Benefits**

- Fringe benefit expenditures are proposed at \$431,700 in FY 2024, an increase of \$101,800, or 30.9%, above the FY 2022 Approved Budget, to align with projected costs.

### **Operating Expenses**

- In FY 2024, operating expenditures are proposed at \$1,284,000, an increase of 681,200 or 113%. Operating expenditures for the Financial Services Corporation are comprised of the following major items:
  - Contractual: \$623,500
  - Indirect Costs: \$660,500
- The most significant increase in operating expenses includes costs associated with ARPA, as well as portfolio services, board and committee meetings, and marketing communication.

### **Mission**

- FSC First 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 (e.g., commercial real estate and equipment loans).

### **Economic Development Incentive (EDI) Fund**

- 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 development and development opportunities, transit-oriented development, and the growth of key industry sectors. The Economic Development Incentive (EDI) Fund is administered by FSC First and the Prince George's County Economic Development Corporation (EDC). 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.
- Since its inception and as of June 2022, the EDI Fund has closed 21 conventional loans, totaling \$24,207,500, created 1,346 jobs, and retained 1,3187 jobs for a total of 2,533 jobs. During the same time frame, the EDI Fund closed 28 conditional loans for a total of \$15,111,000 while creating 2,124 and retaining 4,092 jobs for a total of 6,216 jobs. 30% of the jobs were obtained by County residents.
- Below is the calculation for the FSC First's EDI Fund balance and activity as of January 31, 2023:

| <b>EDI Fund Balance and Activity as of 1/31/2023:</b>    |                     |
|----------------------------------------------------------|---------------------|
| Starting Balance                                         | \$50,000,000        |
| Less Loans Committed                                     | (44,308,500)        |
| <b>Sub-Total</b>                                         | <b>\$8,831,500</b>  |
| Plus Principal Repayments                                | \$19,254,982        |
| Plus Interest Repayments                                 | \$2,730,513         |
| Minus EDIF COVID-19 Relief Contribution                  | \$2,500,000         |
| <b>Projected Total to Spend in Loan Fund @ 1/31/2023</b> | <b>\$28,316,995</b> |

**Note:** The \$50 million starting balance is based upon the 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.

| <b>FY 2023 Expenditures @ 1/31/2023</b>                          |                    |
|------------------------------------------------------------------|--------------------|
| 1802 Brightseat LLC & Metropolitan Protective Services           | \$107,000          |
| <b>Total FY 2022 Expenditures</b>                                | <b>\$107,000</b>   |
| <b>FY 2023 Additional Expenditures by 6/30/23</b>                |                    |
| 1802 Brightseat LLC & Metropolitan Protective Services           | \$162,088          |
| Capital Lighting                                                 | \$250,000          |
| Speigner Holdings, LLC                                           | \$150,000          |
| RIZE Zone Rental Assistance                                      | \$150,000          |
| Genesis Engineering Solutions                                    | \$350,000          |
| V&B Ventures Inc. (\$480,000 Conditional, \$850,000 guaranteed). | \$950,000          |
| First Priority Group LLC                                         | \$150,000          |
| <b>Total Additional Expenditures</b>                             | <b>\$2,172,088</b> |
| <b>FY 2022 Pipeline as of 02/28/2022</b>                         | <b>\$1,300,000</b> |
| <b>Total Estimated Expenditures</b>                              | <b>\$3,579,088</b> |

### **Other Loan Programs**

- The Video Lottery Terminal Flex Fund: An estimate of four (4) loans in the amount of \$872,100 were closed/funded in FY 2023. An estimate of three (3) loans in the amount of \$1,073,722 is in the closing and pending but approved process as of February 28, 2023.
- The Micro-MD DHCD/Cap One Fund: An estimate of one (1) loan in the amount of \$50,000 is in the closing and pending but approved process as of February 28, 2023.
- EDI Fund: An estimate of one (1) loan in the amount of \$150,000 was closed/funded in FY 2023. As of February 28, 2023, an estimate of four (4) loans in the amount of \$1,280,000 is in the closing and pending but approved process.
- Business Expansion Fund: An estimate of one (1) loan in the amount of \$50,000 is in the closing and pending but approved process as of February 28, 2023.
- Health Care Capital Fund (UMMS) University of Maryland Medical System: An estimate of one (1) loan in the amount of \$50,000 in FY 2023. An estimate of two (2) loans in the amount of \$100,000 is in the closing and pending but approved process as of February 28, 2023.

|                               | <b>FY 2020<br/>Actual</b> | <b>FY 2021<br/>Actual</b> | <b>FY 2022<br/>Actual</b> | <b>FY 2023<br/>Estimated</b> | <b>FY 2024<br/>Projected</b> |
|-------------------------------|---------------------------|---------------------------|---------------------------|------------------------------|------------------------------|
| <b>Loans Closed</b>           | 17                        | 27                        | 13                        | 30                           | 31                           |
| <b>Jobs Created/Supported</b> | 235                       | 494                       | 111                       | 481                          | 280                          |
| <b>Funded/Closed Loans</b>    | \$3,400,000               | \$5,100,000               | \$3,200,000               | \$7,000,000                  | \$7,000,000                  |

- The loan balance for the entire portfolio is \$38,705,742.55 as of February 28, 2023.
- The amount of unfunded loans is \$3,233,722 as of February 28, 2023.
- The amount of loans in the pipeline is \$2,295,650 as of February 28, 2023.

### **2023 Key Accomplishments and Highlights**

In FY 2023, FSC has:

- Counseled 173 businesses, funded \$10.2 Million in loans, created, and retained 481 jobs, funded \$600,000 in grants, and assisted 100 businesses with grants.
- Implemented an Under Writing Review process to improve loan turnaround time, which allows for applications to be reviewed and pre-packaged. FSC First has incorporated legal counsel that prioritizes loan closings. This new process has helped to reduce the length of the loan turnaround process to under 30 days.

- Based on newly adopted strategies including the underwriting review process and increased marketing, management fees income is expected the reduction in loan closings in FY 2024 as the pipeline of loans closes.
- Partnership with the State of Maryland led to FSC First being approved as a State Small Business Credit Initiative Lender (SSBCI).

#### **Strategic Focus and Initiatives for FY 2024**

- Through a grant awarded from the State of Maryland, expand marketing through developing a marketing plan to increase engagement and outreach, that encourages exposure. This is through targeted events, radio, and print media. This will also include executing an expo to share information on technical assistance and available loans.
- Developing technology to offer upfront assessment of qualification for borrowers which will help to increase cycle time.

#### **Challenges and Opportunities for FY 2024**

- Rising interest rates and inflation have inhibited small businesses from taking on new debt. This is in relation to the impacts of COVID-19 on small businesses. To address this, ARPA funding will assist FSC First in providing technical assistance, in relation to their financial operations, professional services, and preparation towards accessing capital. Technical assistance is having an impact over time but is not leading to loan closures immediately.
- The EDI/Fund Contractors Advantage Program and the Green Energy Fund have not closed any transactions. This is due to the rise in costs for construction materials and energy retrofit components, another impact of COVID-19 which has caused a delay and deferment for projects.