



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

May 16, 2018

MEMORANDUM

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

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

FROM: Larry Whitehurst, Audit Manager *LW*

RE: Economic Development Corporation - Fiscal Year 2019 Budget Review
(Non-Departmental Grants & Transfer Payments)

Budget Overview

The Economic Development Corporation (EDC) is partially funded through an annual County grant in the Non-Departmental section of the budget. The EDC's Proposed FY 2019 Budget reflects County grant funding in the amount of \$3,443,100, a decrease of \$14,500, or 0.4%, below the FY 2018 County approved funding level.

Approved Fiscal Year 2018 to Proposed Fiscal Year 2019

Category	FY 2017 Actual	FY 2018 Approved	FY 2018 Estimated	FY 2019 Proposed	Change Amount	Percentage Change
Prince George's County Grant	\$ 3,237,700	\$ 3,457,600	\$ 3,457,600	\$ 3,443,100	\$ (14,500)	-0.4%

Budget Comparison - Consolidated Budget

FY 2019 proposed revenues for the Economic Development Corporation total approximately \$4 million, a decrease of \$7.4 million, or 65.1%, below the FY 2018 Approved Budget. The decrease is mainly attributed to the proposed separation of Workforce Services Division (WSD) and its associated funding from EDC operations.

Approved Fiscal Year 2018 to Proposed Fiscal Year 2019

Category	FY 2017 Actual	FY 2018 Approved	FY 2018 Estimated	FY 2019 Proposed	Change Amount	Percentage Change
<u>REVENUES</u>						
County Grant	\$ 3,237,700	\$ 3,457,600	\$ 3,457,600	\$ 3,443,100	\$ (14,500)	(0.4)%
Workforce Investment Act (WIA) Grants	5,990,844	7,500,000	7,500,000	-	(7,500,000)	(100.0)%
Enterprise Zone Grant	65,000	65,000	65,000	65,000	-	0.0%
EDI Grant Processing Fees	35,000	10,000	10,000	10,000	-	0.0%
Event/Sponsorship Revenue	333,844	100,000	250,000	275,000	175,000	175.0%
Small Business Services Revenue	-	500	500	1,000	500	100.0%
Fundraising Revenue	28,160	175,000	50,000	75,000	(100,000)	(57.1)%
Incubator Revenue	46,569	75,000	65,000	100,000	25,000	33.3%
Miscellaneous Income	34,438	3,500	60,000	1,000	(2,500)	(71.4)%
Total Revenues	\$ 9,771,555	\$ 11,386,600	\$ 11,458,100	\$ 3,970,100	\$ (7,416,500)	(65.1)%
<u>EXPENDITURES</u>						
Salaries & Wages	\$ 2,079,804	\$ 2,161,700	\$ 2,173,100	\$ 2,056,600	\$ (105,100)	(4.9)%
Fringe Benefits	703,047	713,400	762,200	740,400	27,000	3.8%
Operating						
Professional Services	50,540	129,000	184,000	70,360	(58,640)	(45.5)%
Outreach/Conference	512,186	666,300	605,900	826,600	160,300	24.1%
Facilities Expenses	210,125	145,200	151,700	149,400	4,200	2.9%
Staff & Board Expenses	71,437	67,000	70,200	114,740	47,740	71.3%
Other Operating Expenses	85,232	4,000	11,000	12,000	8,000	200.0%
Sub-Total	\$ 929,520	\$ 1,011,500	\$ 1,022,800	\$ 1,173,100	\$ 161,600	16.0%
Workforce Services and Other Grants	5,850,020	7,500,000	7,500,000	-	(7,500,000)	(100.0)%
Total Expenses	\$ 9,562,391	\$ 11,386,600	\$ 11,458,100	\$ 3,970,100	\$ (7,416,500)	(65.1)%

Authorized Staffing Count - County Funded Positions

	FY 2018 Approved	FY 2019 Proposed	Change Amount	Percentage Change
Full-Time	27	25	-2	-7.4%
Part-Time	0	0	0	0.0%
Total	27	25	-2	-7.4%

Staffing Changes and Compensation

- In FY 2019, compensation is proposed at approximately \$2.1 million, which is a decrease of \$105,100, or 4.9%, below the FY 2018 Approved Budget level. The FY 2019 compensation costs include a 1% cost-of-living adjustment, and 3.5% merit increases for all eligible employees. Employee merit increases will be made based upon each employee's overall score using EDC's Performance Pro Appraisal System.
- There are 25 full-time positions funded in the Proposed FY 2019 Budget, which is a net decrease of 2 full-time positions when compared to the FY 2018 staffing level. The net decrease in staffing is primarily the result of the proposed separation of WSD from EDC. A summary of EDC's proposed staffing changes are as follows.
 - The addition of a Director of Economic Development to target the healthcare industry and new Regional Medical Center, with an anticipated hiring date of January 1, 2019;
 - The transition of the Director of Human Resources, Senior Accountant, and Fiscal Monitor/Analyst positions to WSD;
 - The mid-year elimination/conversion (December 31, 2018) of the Chief Operating Officer position to a Controller position due to the decrease in the staffing level and budget oversight responsibilities. The Controller position will initially be vacant in FY 2019, but will be eventually filled during the latter part of the fiscal year.

Fringe Benefits

- In FY 2019, fringe benefit expenditures total \$740,400, an increase of \$27,000 above the FY 2018 Approved Budget level due to aligning these costs with the anticipated compensation level.

Operating

- In FY 2019, operating expenditures are proposed at approximately \$1.2 million and are comprised of the following major items:
 - Outreach/Conference \$ 826,600
 - Facilities Expenses 149,400
 - Staff and Board Expenses 114,740

- FY 2019 Operating Expenditures are proposed to increase by \$161,600, or 16.0%, over the FY 2018 Approved Budget level. The proposed increase is largely attributed to the increases in the following categories:
 - Other Operating Expenses- credit card processing fees for sponsorship/event payments;
 - Outreach/Conference- to support the County's Branding Campaign;
 - Staff and Board Expenses- to increase staff development and commuting expenses for unpaid interns.

Highlights

EDC Mission and Core Services

EDC's mission is to market and promote the County to businesses and provide services that support business development, high-quality job creation, and expansion of Prince George's County's commercial tax base.

EDC's core services are as follows:

- Marketing and promoting the County as a superior regional and global business location, provide business intelligence and assist with site selection;
- Provide business services, technical assistance, financing, networking and partnering opportunities;
- Organize international seminars/networking events, and business missions; and
- Nurturing start-ups and international firms in the Business Accelerator/Incubator.

FY 2018 Key Accomplishments

- EDC helped attract and retain 13 businesses, which resulted in the creation and retention of 2,344 jobs with an estimated monetary impact of \$1.7 million of annual revenue to the County.
- EDC assisted in the generation of EDI closed/funded loans of \$5.5 million and a current pipeline of \$5.4 million as of February 28, 2018.
- EDC assisted a medical device manufacturer undertake a business mission to India, which resulted in the company obtaining a partnership and funding commitment.

Technology Assistance Center (TAC) Accelerator (formally known as "Incubator") Program

The Prince George's County TAC Accelerator program was established to foster the creation and growth of early stage technology companies in Prince George's County. The program promotes economic development by fostering the successful growth of its incubator companies through the provision of affordable facilities and a broad range of business and technical services. The TAC encourages and supports high-growth potential technology companies, with a preference for those developing proprietary products and services. The program was rebranded in FY 2017 into

an “Accelerator” program, to be called “Innovation Station” for businesses to remain in the program for 6 months before being encouraged to leave the program. TAC centers are located at EDC and the Bowie Innovation Center. There are currently sixteen (16) companies in the program (twelve (12) occupying space, and four (4) virtual tenants), with seven (7) companies in the pipeline awaiting entry into the program. The program has had eleven (11) companies graduate and three (3) companies removed from the program. *For more details on the actual companies, industries, and year of entry into the program, refer to EDC’s second round questions pg.1.*

Workforce Services Division (WSD)

In FY 2019, the WSD is planned to be separated from EDC to form as its own independent non-profit corporation. The planned separation will enable each entity to concentrate on their own specific core missions, goals, and objectives. For EDC these goals will focus on economic development by promoting the County to business and providing services to support business development, job creation, and the expansion of the County’s commercial tax base. While the newly created WSD will focus on improving the skills and qualifications of the County’s job seekers with a workforce mission-driven governing and management structure to ensure compliance with Federal/State regulations.

The newly created WSD will primarily be funded by Federal and State grants and other sources in the amount of \$8.2 million. However, in FY 2019, WSD is proposed to receive additional funding through a County grant in the amount of \$760,100. This additional funding will be used to support the following:

Purpose*	Amount
Senior Human Resources Generalist	\$ 120,900
Chief Financial Officer	100,000
Policy & Compliance Manager	70,000
Fiscal Monitor	15,000
Fringe Benefits	110,100
Contractual Grant Writer	50,000
Other Operation Expenditures	44,100
Working Capital Funds	<u>250,000</u>
TOTAL	\$ 760,100

** For more details/explanations for these proposed expenditures refer to Attachment 4 of EDC’s First Round Responses*

Branding Campaign

After receiving and reviewing 30 proposals, on December 4, 2017, EDC awarded LMD Agency the contract to begin phase 2 of the branding campaign. The launching of the campaign began on January 17, 2018, with the following initiatives:

- Radio campaign (scheduled to run on three stations for a total of four weeks) to promote the business climate and successes of the County at a cost of \$24,867;
- Digital Advertising campaign in the Washington Business Journal online to run for one month at a cost of \$4,212;
- A plan development and redesign of EDC's website at a cost of \$50,000 once completed;
- Targeted Geo-fencing marketing campaigns at a cost of \$8,000 for each campaign.

International Business and Marketing Missions

Historically, EDC representatives have stated that their international business and marketing missions are designed to (1) promote the County globally through events, conferences, trade shows, and U.S. Embassy briefings, (2) raise the profile of the County in the eyes of foreign investors, (3) attract foreign direct investment (FDI) and EB-5 investment, (4) attract international companies to the County, (5) help companies in the County identify markets and contracting opportunities in other countries, (6) grow exports and business opportunities, and (7) provide ExportMD grants, Gold Key Services (USDOC), and B2B meetings in other countries.

In FY 2018, EDC led a business mission to Korea and China, which resulted in 15 companies winning business opportunities and finding local partners. EDC also assisted several companies in obtaining funding from Federal and State agencies (ExportMD grants and "Gold Key" service). In FY 2019, EDC plans to organize a business mission to Nigeria at "Zero Net Cost". The mission will target 12-15 businesses to take part in a large procurement conference in Lagos, Nigeria.

EDC reports the following critical issues:

- Outreach to the growing healthcare and life science industry;
- Continued funding for marketing and branding; and
- Replenishment of the EDI Fund.

Use of Unrestricted Funds

The FY 2018 Unrestricted Assets balance is projected to be \$1,850,750, an increase of \$121,800 over the FY 2017 balance. EDC has no plans to utilize these funds.

Economic Development Incentive (EDI) Fund Overview

The Economic Development Incentive Fund was established in FY 2012 to provide financial assistance in the form of loans, guarantees, and grants to benefit existing and potential industrial and commercial businesses in the County. The primary goal of the fund is to create and retain jobs, broaden the local tax base, promote economic development opportunities, and assist in the retention of existing businesses and the attraction of new businesses. Some of the results of the fund's operations are as follows:

- To date, 400 businesses have inquired about the program, which has led to 12 actual loan applications in FY 2018;
- In total, \$33.4 million in EDI Funding loans have closed, 18 conditional and 16 non-conditional.
- In FY 2018, 3 loans totaling \$5.5 million have closed, 2 conditional loans totaling \$4.3 million and 1 non-conditional loan for \$1.2 million.
- *Refer to the Financial Services Corporation (FSC) report for more details on the EDI loan activity*