



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 (PZED) Committee

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

FROM: Larry Whitehurst, Audit Manager *LW*

RE: Financial Services Corporation
Fiscal Year 2019 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 2019 budget reflects County grant funding in the amount of \$1,122,500, an increase of \$225,500, or 25.1%, over 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	\$ 860,000	\$ 897,000	\$ 897,000	\$ 1,122,500	\$ 225,500	25.1%

Budget Comparison - Consolidated Budget

FY 2019 proposed revenues for the Financial Services Corporation total \$1,709,100, an increase of \$266,400, or 18.5%, above the FY 2018 Approved Budget. This net change is attributed mainly to an increase in the Prince George's County Grant, and Management/Service Fees offset by decreases in other revenue categories. The proposed \$106,600 decrease in EDI Fund loan processing fees revenue is due to this category being combined with management and servicing fees revenue category. *For an explanation of reductions in other revenue categories please refer to Attachment A-3 of the FSC's First Round responses.*

Approved Fiscal Year 2018 to Proposed Fiscal Year 2019

Category	FY 2017 Actual	FY 2018 Budget	FY 2018 Estimated	FY 2019 Proposed	\$ Amount	% Change
REVENUES						
Prince George's County Grant	\$ 860,000	\$ 897,000	\$ 897,000	\$ 1,122,500	\$ 225,500	25.1%
Net Loan Programs	111,404	264,000	180,100	227,700	(36,300)	-13.8%
EDI Fund Loan Processing Fees	-	106,600	-	-	(106,600)	-100.0%
Gross Grant Revenue	20,000	70,000	37,500	20,000	(50,000)	-71.4%
Management/ Servicing Fees	261,453	100,900	183,000	334,700	233,800	231.7%
Other Income	26,395	4,200	44,700	4,200	-	0.0%
Total	\$ 1,283,579	\$ 1,442,700	\$ 1,342,300	\$ 1,709,100	\$ 266,400	18.5%
EXPENDITURES						
Compensation	\$ 621,303	\$ 830,000	\$ 784,400	\$ 963,900	\$ 133,900	16.1%
Fringe Benefits	156,524	249,000	227,500	279,500	30,500	12.2%
Operating						
Accounting, Compliance & Auditing Services	120,811	49,500	53,950	67,000	17,500	35.4%
External Marketing Consultant	38,531	42,800	24,000	42,800	-	0.0%
IT Maintenance & Service	28,067	28,800	20,000	38,800	10,000	34.7%
Payroll & Administrative Costs	48,123	6,100	7,019	7,100	1,000	16.4%
Board & Committee Meeting Exp.	4,431	4,200	1,578	4,200	-	0.0%
Copying & Printing	12,744	2,000	7,025	3,000	1,000	50.0%
Depreciation	11,906	15,800	11,995	17,100	1,300	8.2%
Subscriptions, Dues, & Misc.	11,374	3,000	9,100	3,000	-	0.0%
Insurance Premium/Renewal	12,098	15,500	13,000	15,500	-	0.0%
Licenses & Maintenance Fees	6,413	13,600	5,000	8,000	(5,600)	-41.2%
Legal Fees	11,056	10,000	10,000	10,000	-	0.0%
Loan Loss Reserves	11,995	100,000	(31,978)	100,000	-	0.0%
Liquidation & Collection Expense	24,353	-	15,000	-	-	0.0%
Marketing & Public Relations	30,863	7,000	12,000	17,000	10,000	142.9%
Misc./Other Expenses	25,819	-	40,615	-	-	0.0%
Office Equipment Lease	15,835	12,500	13,054	12,500	-	0.0%
Interest Expense	-	-	70,542	70,000	70,000	100.0%
Office Supplies & Expenses	15,113	14,100	13,393	14,200	100	0.7%
Portfolio Services	13,334	15,000	1,000	12,000	(3,000)	-20.0%
Staff Development and Training	9,345	10,000	5,097	10,000	-	0.0%
Telephone & Teleconferences	9,705	10,300	6,510	10,000	(300)	-2.9%
Travel	3,980	3,500	5,000	3,500	-	0.0%
Sub-Total	\$ 465,896	\$ 363,700	\$ 312,900	\$ 465,700	\$ 102,000	28.0%
Total	\$ 1,243,723	\$ 1,442,700	\$ 1,324,800	\$ 1,709,100	\$ 266,400	18.5%
Excess Revenue Over (Under) Expense	\$ 39,856	\$ -	\$ 17,500	\$ -	\$ -	

Staffing Changes and Compensation

- In FY 2019, compensation is proposed at \$963,900, which is an increase of \$133,900, or 16.1%, above the FY 2018 Approved Budget level. The increase is to support the creation of a new position and salary cost-of-living (2%), and merit adjustments (3.5%) for all employees.
- There are 11 positions funded in the Proposed FY 2019 Budget, which is an increase of one (1) position when compared with FY 2018 staffing level. The additional position is a commercial loan underwriter for the SBA 504 program. *Please refer to the organization chart in the First Round responses attachment A-8 for specifics for these funded positions.*
- As of March 2018, the Corporation has one (1) vacant position, which is a receptionist position.

Fringe Benefits

- Fringe benefit expenditures are proposed at \$279,500 in FY 2019, an increase of \$30,500, or 12.2%, above the FY 2018 Approved Budget to support the anticipated compensation level.

Operating Expenses

- In FY 2019, operating expenditures are proposed at \$465,700 and are comprised of the following major items:
 - Loan Loss Reserves \$ 100,000
 - Interest Expense 70,000
 - Accounting, Compliance & Auditing Services 67,000
 - External Marketing Consultant 42,800
 - IT Maintenance & Service 38,800
- FY 2019 operating expenses are proposed to increase by \$102,000, or 28.0%, above the FY 2018 Approved Budget. The proposed increase is largely attributed to increases in the following categories:
 - Interest Expense – this expense was previously netted against loan program income but will now be presented separately;
 - Accounting, Compliance, and Auditing Services – increase in the contracted cost for auditing and tax preparation services;
 - Marketing & Public Relations – increased cost to market the new “Green Bank” and “C-PACE administrator” programs;
 - IT Maintenance and Services – budgeted increase in this contracted service.
- The largest operating expense decreases included in the FY 2019 Proposed Budget are for Licenses & Maintenance Fees Expense and Portfolio Services in the amounts of \$5,600, and \$3,000, respectively.

Highlights

- As of February 28, 2018, FSC has attended 38 events and outreach activities with approximately 2,007 attendees to promote the Corporation's services for FY 2018. *Refer to Attachment A-4 of the First Round Questions for a detail listing of the events and number of attendees.*
- In FY 2018, FSC was able to secure the following additional sources of funding:
 - Capital One Grant - \$20,000;
 - SunTrust Bank Grant - \$15,000;
 - WoodForest Bank Grant - \$2,500.
- In FY 2019, FSC plans to achieve the following funding targets:
 - \$4.3 million in new Small Business Administration (SBA) 504 Real Estate, Small Business Growth Fund (SBA Community Advantage), VLT Flex Fund and Microenterprise loans;
 - \$6.2 million in new Economic Development Incentive (EDI) Fund loans for business that retain or add jobs in the County.
- 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. This agency will assist FSC with the following goals:
 - Drive measurable traffic and leads to FSC both through direct digital channels and through qualified sales lead targeting by using a marketing mix that spans digital, public relations, event support and targeted offline communications;
 - Build greater industry awareness of FSC's programs and custom solutions and position FSC as an innovator and thought leader in the space;
 - Build a direct sales channel for FSC's core loan programs;
 - Create and implement a customer engagement plan that significantly increases customer referrals.
- In FY 2018, FSC was designated as the County's "Green Bank" and "C-PACE administrator", with these designations FSC has the following responsibilities:
 - Green Bank - FSC was allocated \$6 million from the Pepco/Exelon merger to be used as a loan guarantee program to leverage private lenders that finance loans to local companies that qualify as "clean energy" companies as defined by the State of Maryland.
 - C-PACE administrator – FSC is responsible for marketing, qualifying and administering the Commercial-Property Assessed Clean Energy Program (C-PACE). The program allows commercial property owners to obtain traditional financing for clean energy enhancements to their property on an extended debt repayment plan.
- 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, 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 March 30, 2018, the EDI Fund has had a total of 34 loans close (18 conditional and 16 non-conditional), totaling \$33,386,000. Only one conditional loan in the amount of \$70,000 has been totally forgiven.
- The current EDI fund portfolio is composed of 27 loans (11 conditional and 16 non-conditional), totaling \$23,336,000. Please refer to *Attachment A-6 of FSC's First Round Responses* for a detailed report of all EDI loans as of February 28, 2018. 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 2018 as of January 31, 2018:

EDI Fund Balance and Activity as of 1/31/18:	
Starting balance	\$50,000,000
Less Loans Committed	(33,836,000)
Sub total	16,164,000
Plus repaid Principal	5,647,763
Plus Interest Earned	942,337
Projected Ending Balance	\$22,754,100

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.

Portfolio Management

- The charts below detail the status of loans approved and the loan portfolio for FY 2018:

Program	FUNDED			UNFUNDED				ELIMINATED	
	Closed/Funded in FY 2018 *	# of	Current Outstanding Loan Balance *	# of	In Closing Process/Pending but Approved *	# of	Aggregate Amt of Loans in Pipeline *	# of	Withdrawn in FY 2018 *
Core									
SBA 504	\$ -		\$ 9,875,284	14	\$ 4,890,000	1	\$ 9,576,240	8	\$ 3,329,900
SBA 7(a)	\$ -		\$ 19,631	1	\$ -		\$ -		\$ -
Small Business Growth Fund	\$ 80,000	1	\$ 1,527,425	17	\$ 782,000	3	\$ 1,613,000	9	\$ -
Sub-Core									
Micro-MD DHCD/Cap One	\$ -		\$ 157,769	5	\$ 50,000	1	\$ 90,000	2	\$ -
HUD 108	\$ -		\$ 2,216,853	2	\$ -		\$ -		\$ -
City of Bowie Loan Fund	\$ -		\$ 170,919	3	\$ -		\$ -		\$ -
EDI Fund	\$ 5,500,000	3	\$ 17,304,905	27	\$ 450,000	2	\$ 5,411,427		\$ -
EDL Fund (EDC Loan Fund)	\$ -		\$ 307,592	4	\$ -		\$ -		\$ -
VLT Flex Fund	\$ 300,000	2	\$ 715,123	6	\$ 200,000	2	\$ -		\$ 50,000
Total	\$ 5,880,000	6	\$ 32,295,501	79	\$ 6,372,000	9	\$ 16,690,667	19	\$ 3,379,900
Note: * All of the above information is as of February 28, 2018									

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