

Financial Services Corporation - Fiscal Year 2021 Budget Review Summary

Proposed FY 2021 Operating Budget

Revenue							
Fund	FY 2020 Approved	FY 2020 Estimated	FY 2021 Proposed	4/20/2020 CEX Adjustment	FY 2021 Revised Proposed	\$ Change	% Change
County Grant	\$ 1,122,500	\$ 1,122,500	\$ 1,215,100	\$ (12,000)	\$ 1,203,100	\$ 80,600	7.2%
Other Sources	666,300	657,700	680,000	-			
Total	\$ 1,788,800	\$ 1,780,200	\$ 1,895,100	\$ (12,000)	\$ 1,883,100	\$ 94,300	5.3%

FY 2021 Proposed Budget – Key Highlights

- In FY 2021, compensation is proposed at \$1,112,500, which is an increase of \$139,100, or 14.3%, above the FY 2020 Approved Budget level. The increase is due to salary cost-of-living adjustments and merit increases for all employees (\$89,100), and funding of a new Communications Specialist position that was created in FY 2020 (\$50,000).
- The Proposed FY 2021 staffing level of 12 positions includes the new Communications Specialist position that was created through reallocation of the contracted marketing consultant function into a FTE in FY 2020. As of March 2020, the Corporation has one (1) vacant position, a full-time Commercial Closing Assistant.
- FY 2021 operating expenses are proposed at \$460,000, a decrease of \$73,100, or 13.7%, below the FY 2020 Approved Budget.
- In FY 2020, FSC:
 - attended 61 events and outreach activities with approximately 4,650 attendees to promote the Corporation’s services for FY 2020.
 - established ad hoc committees to address its Action Strategy goals.
 - received \$55,500 in non-County grants and corporate sponsorships.
 - Retained or established six (6) loan program partnerships and established a partnership with the Maryland Small Business Development Center to provide on-site loan packaging and technical assistance for small and minority/woman/veteran-owned businesses.
- FSC administers the County’s Economic Development Incentive Fund.
- For FY 2021, FSC intends to:
 - hire a Chief Lending Officer to help generate leads for SBA 7(a) and SBA 504 loan programs, the latter of which is a primary source of revenue for FSC; and
 - implement an automated loan intake and approval process.
- FSC anticipates challenges in FY 2021 due to impacts of the Novel Coronavirus (COVID-19) pandemic.

County Executive’s Recommended Adjustments

- Reduce County Grant (\$12,000).

Category	FY 2020 Approved	FY 2020 Estimated	FY 2021 Proposed	FY 2021 Revised Proposed
Compensation	\$ 973,400	\$ 981,000	\$ 1,112,500	1,112,500
Fringe Benefits	282,300	282,300	322,600	322,600
Operating Expenses	533,100	516,900	460,000	460,000
Reduction per CEX adjustment	-	-	-	(12,000)
Total	\$ 1,788,800	\$ 1,780,200	\$ 1,895,100	\$ 1,883,100

Proposed FY 2021 -FY 2026 Capital Improvement Program

N/A



**THE PRINCE GEORGE'S COUNTY GOVERNMENT
Office of Audits and Investigation**

May 4, 2020

MEMORANDUM

TO: Todd M. Turner, Chair
Committee of the Whole (COW)

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

FROM: Josh Hamlin, Senior Legislative Budget and Policy Analyst *JH*

RE: Financial Services Corporation
Fiscal Year 2021 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 2021 budget reflects County grant funding in the amount of \$1,215,100, which is an increase of 92,600 over the FY 2020 County approved funding level.

Approved Fiscal Year 2020 to Proposed Fiscal Year 2021:

Category	FY 2019 Actual	FY 2020 Approved	FY 2020 Estimated	FY 2021 Proposed	Change Amount	Percentage Change
Prince George's County Grant	\$1,122,500	\$ 1,122,500	\$1,122,500	\$ 1,215,100	\$ 92,600	8.2%

Budget Comparison - Consolidated Budget

FY 2021 proposed revenues for the Financial Services Corporation total \$1,895,100, an increase of \$106,300, or 5.9%, above the FY 2020 Approved Budget. This net change is attributed mainly to anticipated increases in the County Grant, Management/Servicing Fees and Net Fundraising Revenue, offset by a decrease in Net Loan Program Income. The expected \$120,300 decrease in Net Loan Program Income revenue reflects impact of early payoff of loans and projections based upon expected pipeline activity. The FY 2021 proposed budget provides a more realistic reflection of the portfolio income; however the impact of the recent COVID-19 crisis cannot yet be projected.

Approved Fiscal Year 2020 to Proposed Fiscal Year 2021

Category	FY 2019 Actual	FY 2020 Budget	FY 2020 Estimated	FY 2021 Proposed	\$ Amount	% Change
<u>REVENUES</u>						
Prince George's County Grant	\$ 1,122,500	\$ 1,122,500	\$ 1,122,500	\$ 1,215,100	\$ 92,600	8.2%
Net Loan Programs	271,996	338,900	250,500	218,600	(120,300)	-35.5%
Administrative Services	5,550	6,000	6,000	6,000	-	0.0%
Net Fundraising Revenue	26,000	50,000	37,500	75,000	25,000	50.0%
Bank & Investment Interest	3,879	2,000	2,000	2,000	-	0.0%
Management/ Servicing Fees	344,760	269,400	361,700	360,100	90,700	33.7%
Other Income	20,742	-	-	18,300	18,300	
Total	\$ 1,795,427	\$ 1,788,800	\$ 1,780,200	\$ 1,895,100	\$106,300	5.9%
<u>EXPENDITURES</u>						
Compensation	\$ 823,055	\$ 973,400	\$ 981,000	\$ 1,112,500	\$139,100	14.3%
Fringe Benefits	219,676	282,300	282,300	322,600	40,300	14.3%
<u>Operating</u>						
Accounting, Compliance & Auditing Services	68,119	84,600	72,600	60,000	(24,600)	-29.1%
External Marketing Consultant	60,000	60,000	25,500	-	(60,000)	-100.0%
IT Maintenance & Service	22,691	38,800	38,800	54,100	15,300	39.4%
Payroll & Administrative Costs	17,663	16,700	17,000	17,000	300	1.8%
Board & Committee Meeting Exp.	2,421	4,200	8,800	2,500	(1,700)	-40.5%
Copying & Printing	2,726	3,000	3,000	3,000	-	0.0%
Depreciation	8,701	17,100	9,500	9,500	(7,600)	-44.4%
Subscriptions, Dues, & Misc.	16,522	15,000	15,000	15,000	-	0.0%
Insurance Premium/Renewal	16,788	15,500	17,000	17,000	1,500	9.7%
Licenses & Maintenance Fees	4,870	8,000	21,700	9,710	1,710	21.4%
Legal Fees	700	3,000	3,000	1,090	(1,910)	-63.7%
Loan Loss Reserves	90,542	100,000	100,000	100,000	-	0.0%
Liquidation & Collection Expenses	14,276	15,000	15,000	15,000	-	100.0%
Marketing & Public Relations	42,194	17,000	17,000	17,000	-	0.0%
Misc./Other Expenses	268	3,000	3,000	300	(2,700)	100.0%
Office Equipment Lease	13,763	12,500	12,700	12,700	200	1.6%
Interest Expense	77,344	70,000	77,000	77,000	7,000	10.0%
Office Supplies & Expenses	15,663	14,200	14,200	14,200	-	0.0%
Portfolio Services	14,276	12,000	19,100	16,900	4,900	40.8%
Staff Development and Training	5,720	10,000	10,000	6,000	(4,000)	-40.0%
Telephone & Teleconferences	7,185	10,000	10,000	8,500	(1,500)	-15.0%
Travel	4,320	3,500	7,000	3,500	-	0.0%
Sub-Total	\$ 506,752	\$ 533,100	\$ 516,900	\$ 460,000	\$ (73,100)	-13.7%
Total	\$ 1,549,483	\$ 1,788,800	\$ 1,780,200	\$ 1,895,100	\$106,300	5.9%
Excess Revenue Over (Under) Expenses	\$ 245,944	\$ -	\$ -	\$ -	\$ -	

Source: FY 2021 First Round Responses Attachment 4

Staffing Changes and Compensation

- In FY 2021, compensation is proposed at \$1,112,500, which is an increase of \$139,100, or 14.3%, above the FY 2020 Approved Budget level. The increase is due to salary cost-of-living adjustments and merit increases for all employees (\$89,100), and funding of a new Communications Specialist position that was created in FY 2020 (\$50,000).
- The Proposed FY 2021 staffing level of 12 positions includes the new Communications Specialist position that was created through reallocation of the contracted marketing consultant function into a FTE in FY 2020.
- FSC also reallocated funds in FY 2020 to convert the Senior Accountant position into a FTE Chief Financial Officer and Temp – Junior Accountant.
- As of March 2020, the Corporation has one (1) vacant position, a full-time Commercial Closing Assistant. An assessment is currently underway to determine whether this position will be filled or changed to fit the demands of the planned strategic focus.

Fringe Benefits

- Fringe benefit expenditures are proposed at \$322,600 in FY 2021, an increase of \$40,300, or 14.3%, above the FY 2020 Approved Budget to support the anticipated compensation level; the fringe benefits rate remains at 29.0%.

Operating Expenses

- In FY 2021, operating expenditures are proposed at \$460,000 and are comprised of the following major items:

▪ Loan Loss Reserves	\$ 100,000
▪ Interest Expense	77,000
▪ Accounting, Compliance & Auditing Services	60,000
▪ IT Maintenance & Service	54,100
- FY 2021 operating expenses are proposed to decrease by \$73,100, or 13.7%, below the FY 2020 Approved Budget. The proposed decrease is primarily due to:
 - External Marketing Consultant decreasing by \$60,000; and
 - Accounting, Compliance, and Auditing Services decreasing by \$24,600.
- The largest operating expense increase included in the FY 2021 Proposed Budget is IT Maintenance and Service, which increases by \$15,300.

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 (e.g., commercial real estate and equipment loans).
- As of March 2020, FSC has attended 61 events and outreach activities with approximately 4,650 attendees to promote the Corporation's services for FY 2020.
- The Board of Directors of FSC has established ad hoc committees to address the following Action Strategy goals:
 - Research historical trends and economic impact realized from core lending services.
 - Develop a marketing message for each class of stakeholders.
 - Develop collaborative partnerships.
 - Raise funds for increased marketing of the value principles identified.
- In FY 2020 (as of February 29, 2020), FSC received \$55,500 in non-County grants and corporate sponsorships.
- In FY 2020 (as of February 29, 2020), FSC has retained loan program partnerships with Bankers Loan Pool, the City of Bowie, and the Prince George's County EDC Business Expansion Fund. FSC has established new loan program partnerships with the City of Mount Rainier, the City of New Carrollton, and Washington Gas Strive for 35 Fund. FSC is also partnering with the Maryland Small Business Development Center to provide on-site loan packaging and technical assistance for small and minority/woman/veteran-owned businesses.
- FSC reported that the Business Expansion Fund, which launched in April 2019 to replace the Contractor's Cash Flow Fund, has funded one bridge loan in the amount of \$300,000.
- As of February 29, 2020, FSC reports 32 jobs created and 188 jobs retained in FY 2020.
- For FY 2021, FSC intends to:
 - hire a Chief Lending Officer to help generate leads for SBA 7(a) and SBA 504 loan programs, the latter of which is a primary source of revenue for FSC; and
 - implement an automated loan intake and approval process to eliminate the need for voluminous paper submissions while keeping the applicant informed of their progress in the loan review, approval and closing cycle.
- FSC anticipates challenges in FY 2021 due to impacts of the Novel Coronavirus (COVID-19) pandemic, the duration and recovery cycle of which are as yet unknown.
- 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, FSC reports that its funds were exhausted within eight (8) months and that the Corporation has been without an allocation for over a year.

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.
- For the period of March 1, 2012 through March 17, 2020, the EDI Fund has had a total of 42 loans close with disbursements totaling \$26,141,970.03, and a total remaining outstanding principal balance of \$17,628,075.05.
- Since the inception of the EDI Fund:
 - seven (7) loans, in the amount of \$2,646,438, have been fully or partially forgiven; and
 - eight (8) loans totaling \$7,400,000 have been paid in full.
- Below is the calculation for the Corporation’s EDI Fund balance and activity as of February 29, 2020:

EDI Fund Balance and Activity as of 2/29/20:	
Starting Balance	\$50,000,000
Less Loans Committed	(38,216,000)
Subtotal	11,784,000
Plus Principal Repayments	12,315,783
Plus Interest Repayments	1,688,081
Projected Ending Balance	\$25,787,864

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 chart below details the status of the loan portfolio for FY 2020. 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 *	# of	Withdrawn in FY 2020 *	# of
Core										
SBA 504	\$ 4,890,000	1	\$ 12,368,911	13	\$ 2,284,250	3	\$ 4,648,000	4	\$ -	
SBA 7(a)	\$ -		\$ -		\$ -		\$ -		\$ -	
Small Business Growth Fund	\$ 400,000	2	\$ 1,516,830	15	\$ 260,000	3	\$ 745,000	7	\$ 240,000	1
Sub-Core										
VLT Flex Fund	\$ 566,000	3	\$ 1,667,383	10			\$ -		\$ -	
Micro-MD DHCD/Cap One	\$ 50,000	1	\$ 195,437	5	\$ -		\$ -		\$ -	
HUD 108	\$ -		\$ 598,425	1	\$ -		\$ -		\$ -	
City of Bowie Loan Fund	\$ -		\$ 210,794	4	\$ 50,000	1	\$ -		\$ -	
EDI Fund	\$ 3,230,000	3	\$ 17,415,416	26	\$ 650,000	2	\$ -		\$ -	
EDL Fund (EDC Loan Fund)	\$ -		\$ 71,588	2	\$ -		\$ -		\$ -	
Business Expansion Fund	\$ 300,000	1	\$ 296,861	1						
Total	\$ 9,436,000	11	\$ 34,341,645	77	\$ 3,244,250	9	\$ 5,393,000	11	\$ 240,000	1

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. Still needs Council approval

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

Attachment A-1

SBA 504 COMMERCIAL REAL ESTATE LOAN

This loan is ideal for more established business owners who desire to purchase owner-occupied commercial real estate. Interests in commercial real estate may include accommodations, warehouses, retail centers, office buildings, and venues for use by public and private entities. Loans are guaranteed by the U.S. Small Business Administration (SBA).

- Loans: Up to \$5.5 million for healthy expanding businesses
- Loan Term: 25 years for real estate, 10 years for machinery and equipment
- Interest Rate: Fixed, below market financing

SMALL BUSINESS GROWTH FUND (SBGF)

The Small Business Growth Fund (SBGF) is a public-private revolving loan fund targeted towards smaller, established businesses (at least 3 – 5 years of operating history). This may be used towards smaller real estate acquisitions, leasehold improvements, equipment purchases, working capital expenditures, and inventory and human capital increases for the purpose of expanding established businesses.

- Loans: \$25,000 – \$250,000 (\$100,000 maximum for start-ups)
- Loan Term: Up to 10 years
- Interest Rate: Wall Street Journal Prime Rate plus up to 6%
- Collateral: Business and Personal Assets
- Personal Guarantees required
- 10% cash down payment required for existing firms, and 20% cash required for start ups
- Prince George's County-based businesses ONLY

VIDEO LOTTERY TERMINAL FUND (VLT)

FSC First is a designated Fund Manager for 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.

MICRO-ENTERPRISE LOAN PROGRAM (MD DHCD)

FSC First is a designated Fund Manager for the Maryland Department of Housing & Community Development (MD DHCD). Eligibility includes leasehold improvements, equipment purchases, working capital expenditures, and human capital increases for the purpose of expanding an established business and feasible start-up.

- 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%

CITY OF BOWIE LOAN FUND

FSC First is the designated Fund Manager for the City of Bowie Revolving Loan Fund which 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 Guarantees required
- Businesses located in Bowie ONLY
- Loan terms ranges 2-10 years max

ECONOMIC DEVELOPMENT INCENTIVE (EDI) FUND

FSC First is the designated Fund Manager for the Prince George's County EDI Fund. \$50 million has been allocated 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, promote development and redevelopment opportunities, transit oriented development and the growth of key industry sectors.

- Loans: \$250,000 minimum
- Loan Term: 10 years maximum, amortization not to exceed 25 years
- Interest Rate: 4% plus, depending on credit analysis
- 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 EDC
- Collateral: Business and Personal Assets
- Personal Guarantees 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
- Prince George's County ONLY

GREEN ENERGY LOAN PROGRAM

FSC First is the designated Fund Manager for the Green Energy Loan Program which 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 to participating lenders to compel them to provide financing for building energy-efficient 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 and renewable energy contractors.

- Loans: Up to \$250,000
- Loan Term: Not to exceed 20 Years
- Interest Rate: Market, typically not exceeding 4%
- Energy Audit or Feasibility Study is Required
- Eligible Borrowers: Commercial and Industrial Building Owners
- 1% Application Fee
- 1% Issuance/Closing Fee
- .20% Annual Guaranty Fee

Attachment A-2

COMMERCIAL PROPERTY ASSESSMENT FOR CLEAN ENERGY

FSC First is a designated Fund Manager for the Commercial Property Assessed Clean Energy (C-PACE) Program assists commercial property owners in accessing financing up to 20% of the appraised value to make qualifying energy efficiency and clean energy improvements to commercial properties with loans that are repaid through an annual surcharge on the owner's property tax bill. Eligible energy conservation measures include but are 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
- Building shell or envelope improvements
- Fenestration improvements
- Building energy management systems and process equipment upgrades

STRIVE FOR 35 LOAN FUND

FSC First is a designated Fund Manager for the Washington Gas Strive for 35 Loan Fund. This loan is geared towards diverse vendors who are interested in working in the natural gas industry and may have difficulty obtaining capital through traditional sources. The fund is provided to assist minority-owned, women-owned and service-disabled veterans interested in serving the natural gas industry such as underground pipe and fitting, paving, engineering, hauling and removal, general construction, catering, staffing and employment agencies and other businesses whose services are needed by natural gas utilities.

- Loan Amount: \$10,000-\$50,000
- Loan Term: Up to 5 years (depending upon fund availability)
- Interest: Up to 7%
- Personal Guaranty: Required
- Prepayment Penalty: No
- Application Fee: 1% of Loan Amount

MOUNT RAINIER MILLION DOLLAR INCENTIVE FUND

FSC First is a designated Fund Manager for the Mt. Rainier Million Dollar Incentive Fund which may be used for the purchase of real estate or expansion, machinery, equipment, furniture, fixtures, construction, leasehold improvements, inventory and working capital for business purposes.

- Loans: Up to \$50,000
- Loan Term: Shall be tailored to suit the projected cash flow with the intent to minimize the terms to fewer than 5 – 7 years in most cases. Generally, loans will be fully amortized however, balloon payments may be set on a case-by-case basis
- Interest Rate: Shall be determined by the application and all underwriting criteria
- Property/business must be located in the City of Mount Rainier
- Property must be for commercial/business use. The property cannot be owned by the government
- Applicant must be 100% legal owner of the property as recorded on title or lease holder
- Applicant must have a City business license, be current on all license fees and taxes, and not have any outstanding City Code violations
- Applicant must demonstrate that recent taxes, surcharges and charges on the property have been paid
- Applicant must establish that the business or property owner is able to repay the loan provided under the MDIF program or has the ability to comply with the terms of the incentive agreement
- Applicant must be in good standing with the Maryland State Department of Assessments and Taxation

CITY OF NEW CARROLLTON ECONOMIC DEVELOPMENT INCENTIVE REVOLVING LOAN FUND

FSC First is a designated Fund Manager for the City of New Carrollton Economic Development Incentive Revolving Loan Fund. These funds are used towards funding interior and/or exterior improvements to commercial buildings, reconstructing or remodeling existing buildings, constructing new commercial buildings, furniture, fixtures and equipment purchases, inventory and working capital.

EDI FUND CONTRACTORS ADVANTAGE PROGRAM (CAP)

FSC First is a designated Fund Manager for the EDI Fund Contractors Advantage Program (CAP) utilizes \$1 million of EDI Funds to support County-based contractors seeking lines of credit to finance working capital, equipment, labor and materials.

- Loans: \$250,000 maximum
- Loan Term: 10 years max; amortization not to exceed 25 years
- Interest Rate: to be determined by the underwriting bank
- Collateral to be determined by the Bank
- Interest rate to be determined by the underwriting bank
- Maximum 25% Guarantee (not to exceed \$62,500) to be provided by FSC First (CAP)
- Personal Guaranties required
- Preference for Local Small Minority Business Enterprises (LSMBEs) requiring assistance for Prince George's County-based projects only
- Fee: 1% of guaranteed portion of loan