

COUNTY COUNCIL OF PRINCE GEORGE'S COUNTY, MARYLAND
2008 Legislative Session

Resolution No. CR-85-2008
Proposed by The Chairman (by request – County Executive)
Introduced by Council Members Dernoga, Knotts and Dean
Co-Sponsors _____
Date of Introduction September 30, 2008

RESOLUTION

1 A RESOLUTION concerning

2 State of Maryland Community Investment Tax Credit Program

3 For the purpose of approving the project submitted by the Prince George's Financial Services
4 Corporation ("FSC First"), to the Maryland Department of Housing and Community
5 Development for participation in the Department's Community Investment Tax Credit Program.

6 WHEREAS, Section 6-401 through Section 6-406 of the Housing and Community
7 Development Article, Annotated Code of Maryland, established the Neighborhood and
8 Community Assistance Program to assist nonprofit organizations in carrying out approved
9 projects in designated revitalization areas, to encourage businesses to invest in priority funding
10 areas, and to strengthen public-private partnerships; and

11 WHEREAS, Section 6-404 of the Housing and Community Development Article,
12 Annotated Code of Maryland, provides for the allocation of tax credits to business entities that
13 contribute to approved projects of nonprofit organizations that provide services to priority
14 funding areas; and

15 WHEREAS, Section 6-405(c) of the Housing and Community Development Article,
16 Annotated Code of Maryland, provides that the Maryland Department of Housing and
17 Community Development may not approve a proposal for participation in the Neighborhood and
18 Community Assistance Program unless the proposal is approved by the governing body of the
19 county in which the designated revitalization area benefited by the project is located; and

20 WHEREAS, Prince George's Financial Services Corporation, trading as FSC First, a
21 501(c)(3) nonprofit organization, proposes to establish and administer an Asset Based Loan
22 Program as more particularly described in Attachment A (the "Project"); and

1 WHEREAS, FSC First has applied to the Maryland Department of Housing and
2 Community Development for approval of the Project and an allocation of tax credits for business
3 entities that contribute to the Project pursuant to the Department's Community Investment Tax
4 Credit Program; and

5 WHEREAS, the County Executive expresses approval of the Project.

6 NOW, THEREFORE, BE IT RESOLVED that the County Council of Prince George's
7 County, Maryland, hereby expresses approval of the Project, as set forth in Attachment A,
8 submitted by the Prince George's Financial Services Corporation to the Maryland Department of
9 Housing and Community Development for participation in the Community Investment Tax
10 Credit Program.

Adopted this 21st day of October, 2008.

COUNTY COUNCIL OF PRINCE
GEORGE'S COUNTY, MARYLAND

BY: _____
Samuel H. Dean
Chairman

ATTEST:

Redis C. Floyd
Clerk of the Council

APPROVED:

DATE: _____

BY: _____
Jack B. Johnson
County Executive

ATTACHMENT A

SUMMARY OF ASSET BASED LOAN PROGRAM (“Project”)

ABOUT FSC FIRST

Prince George’s County Financial Services Corporation (“FSC First”) was founded in 1978 as a 501(c)(3) nonprofit corporation, and was designated by the United States Small Business Administration (“SBA”) as a certified development corporation in 1982. With offices in Largo, Maryland, FSC First is responsible for promoting the availability of SBA and non-SBA economic development financing programs and providing access to conventional financing to support the growth of small and minority-owned businesses in Prince George’s County.

Effective July 1, 2008, FSC First, implemented a new Asset Based Loan (“ABL”) Program. This Program represents collaboration between the FSC First and the 14 participating banks of the Prince George’s County Bankers Task Force. The Bankers Task Force has approved an authorizing resolution allowing FSC First to initially capitalize the ABL Program with up to \$1.0 Million in lines of credit. FSC First is authorized to provide direct financing to eligible small and minority-owned businesses to further grow or sustain their operations with much needed cashflow.

NEED ASSESSMENT

During the current downturn in our economy, many financial institutions have developed uneasiness for financing small businesses; especially the type of financing small businesses need the most “*accounts receivable financing*.” With the recent credit tightening and bank failures, the banks are requiring small businesses to meet a more stringent set of credit and demographic criteria. Some businesses do not qualify for traditional financing due to their size, their credit needs, being leveraged, insufficient track record, or high growth rates.

A small business owner looks at financing with a focus on “*cashflow*.” That is, however, only one of the critical pulls on his or her time to run and manage a successful business. As a result,

their perspective on cashflow is very pragmatic and different than a bank. When a small business owner thinks cashflow, the thought is about the amount of cash that will be realized through the collection of accounts receivable (AR) and flows into a direct deposit account to cover checks written for accounts payable and payroll.

Most banks' analysis of cashflow focuses on the "*past*" performance over a significant period of time, with little attention to the AR cycle. However, the business owner is "forward-focused" on a relatively short time interval with great emphasis on the constraints caused by cash tied up in receivables.

One of the primary goals of both the lender and owner is "*cashflow predictability*." The ABL Program launched by FSC First can address this crossroad by providing small and minority-owned businesses in Prince George's County with predictable cashflow. The ABL Program is financing that is secured with the owner's accounts receivable which are pledged as collateral in exchange for cash. An owner can invoice a company for work performed, come to the ABL Program and receive immediate cash within 24-48 hours, rather than the typical 30-60 day turnaround for most invoices. This Program will allow the owners to remain focused on managing and growing the business, while the ABL Program waits to receive payment for the invoice. The loan is repaid as the receivable are collected.

The primary benefit to the small and minority-owned businesses is as follows:

- Turns accounts receivable into cash immediately
- Makes cashflow predictable
- Takes advantage of supplier discounts to create new opportunities
- Provides owners with key management reports
- Creates an interest bearing reserve account for bad debt
- Creates a relationship with FSC First for future SBA financing needs

Due to specific cashflow needs certain industries will have a greater interest in the ABL Program such as: small businesses serving government contracts; educational services, health care and social assistance, business services, manufacturing, wholesale distribution, transportation, medical practices, and the like. The U.S. Census Bureau's 2006 American Community Survey revealed that Prince George's County consists of the following leading industries: educational

services, healthcare, social assistance 20%; public administration 16%; professional, scientific and management and administrative and waste management services 15%. These industries make the ABL Program a good fit for local small and minority-owned businesses in the County.

The ABL Program targets businesses that are:

- Emerging growth companies
- Experiencing missed discount opportunities
- Needing computerization/automation
- Needing to offer more flexible payment terms to be competitive
- Experiencing slower paying accounts as normal course of business
- Wanting to grow on their own assets but are adverse to additional debt
- Wanting to concentrate on the business rather than money management
- Growing young companies but restricted by their cashflow and borrowing limits

CONCLUSION

FSC First intends to leverage the \$1.0 Million initial allocation from the Bankers Task Force by offering these Community Investment Tax Credits to private sector contributors/investors/donors that make direct investments to FSC First to defray the administrative costs of implementing, marketing, staffing, and establishing a reserve account to further supplement the Program.

This innovative approach will allow FSC First to expand its services to the local business community without any additional fiscal burden on the County's grant contribution to FSC First.