



DATE: April 21, 2014

TO: Bradford L. Seamon, Chief Administrative Officer
Benjamin J. Birge, County Stat Manager

FROM: Gwen McCall, President, Economic Development Corporation
Vennard Wright, Director, Office of Information Technology
M. Andree Green, County Attorney, Office of Law

RE: Economic Development Incentive Fund Follow-Up Memo

On behalf of the Office of Information Technology and the Office of Law, the Economic Development Corporation would like to respond to the Economic Development Incentive Fund Follow-Up Memo dated March 20, 2014.

EDI Fund applicant database.

1.a. Providing all applicant information to FSC First, regardless of eligibility;

Currently all requests for funding that does not meet the criteria for the EDI Fund are referred to FSC First for financing.

1.b. Migration to a paperless application system;

While the ultimate goal is to migrate all applicants to a paperless system, we remain sensitive to applicants who do not wish to submit their application online. Some applicants are hesitant to upload their personal and confidential information online so we continue to accept hardcopy application package. Applications not initially submitted online are later input by EDC for tracking purposes. During the review and approval process, applicants are encouraged to submit their documentation electronically and most comply.

1.c. How information can be strategically used to increase participation and access to the Fund; and

1.d. Developing an application process that provides information in a way that is easy to understand and increases the percentage of applicants who complete the form

The data collected in the application process is necessary for determining if a project is eligible and is in accordance with the purpose and uses of the EDI Fund. This data helps to determine the economic impact and credit worthiness of an applicant without prolonging the application process. The documentation required to complete a request for EDI financing are standard and consistent with the requirements of traditional and non-traditional lending institutions.

EDC has implemented procedures that “flag” applicants that suspend their application upload. Applicants receive both an email and a phone call from EDC to assist them with completing the application and answering any questions they have about the EDI Fund program. This direct contact allows prospects who are good candidates for the Fund to continue with the application process. Applicants who may be a better fit for FSC First’s financing programs are able

to save time by applying for FSC’s programs directly. After contact has been made, an additional step can be included to forward an electronic survey in order to receive feedback from applicants that did not continue to pursue EDI financing.

MARKETING PLAN UPDATE

Customers

2.a.i. Who are the current customers?

Customers for the EDI Fund are companies that are expanding within the County, considering relocating to the County, or are seeking incentives to remain in the County. A company that is successful in getting EDI financing is a company that meets the statutory purposes of the program in promoting economic development primarily through capital investment and job growth. Consistent with the broad flexibility of the EDI Fund statute, companies applying for EDI Funds could be in any industry sector, gross revenue bracket, or size category. Applicants can be an existing business, a start-up with under three years in operation, for-profit or non-profit. However, approval decisions are strongly guided by the adopted Strategic Plan for Economic Development (May 2013) which prioritizes four specific industry sectors, as well as by LSMBE commitments and targeted locations for development (developed tier, TOD, TNI, gateway communities, priority funding areas, enterprise zones, etc.).

To date, we have funded hospitality, information technology, manufacturing, real estate development projects, franchises, education, and more. Projects ranged from a mere \$100,000 to \$40 million and employees from 20 to over 500.

2.a.ii. Are these the customers that fit the goals of the Fund?

Because all types of businesses are eligible to apply for the Fund, only the projects that best meet the purposes and uses of the EDI Fund move forward in the application process. Projects that do not meet the goals of the Fund are referred to FSC First for the various financing tools that they have available.

As the program has matured, applicants that are a better fit for the program have been increasing. Applicants are now able to see what projects we’ve funded and get a better understanding of the goals and uses of the Fund.

Financing tools/products:

2.b.i. Are the appropriate financing tools being provided?

Yes, there are multiple financing products administered by FSC First that are available to County businesses with EDI Fund being one of them. Applicants also have the opportunity to qualify for the Small Business Growth Fund, SBA 504 Commercial Real Estate Program, Contractors Cash Flow Fund, the Maryland Casino Business Investment Fund and the Microenterprise Loan Fund.

2.b.ii. How are the products communicated?

The products are communicated through marketing (print ad, e-newsletter, FSC First’s website etc.), strategic partnerships, and outreach events. In FY 2014, the EDC has held 26 events in which the financial tools were marketed. EDC’s Business Development Specialists talk about the EDI Fund and other financial products at each business consultation and site visit. Companies that are interested in applying for the Fund meet with the EDI Fund Business Development Specialist. Supplier Development and Diversity Division (SDDD) also advertises the EDI Fund. FSC First also markets the program as a part of its regular outreach effort, including social media and events and programs.

2.b.iii. Is there enough awareness of the products?

There can never be too much awareness, education and outreach as new entrepreneurs enter the market and existing businesses expand and enhance their growth strategies. Non-bank business financing programs, as a whole, are often overlooked by the public as a “first-thought” resource when they are seeking capital. Subsequently, constant and sustained messaging is necessary for the programs continued success and usage.

Other financing options:

2.c.i. What competing lending options are available to the customer base?

Since banks are relaxing some of their credit policies, traditional financing institutions are now competing for transactions that formerly only programs such as the EDI Fund and other programs administered by FSC First would consider. In addition, credit unions were recently authorized by NCUF and therefore have entered the market with attractive terms and rates.

2.c.ii. Is the EDI fund competitive?

The EDI Fund competes and compliments traditional lending institutions. As a program designed to leverage projects, the EDI Fund’s flexibility allows the fund to participate in the total project cost and thereby dilute the risk over multiple lenders. The same flexibility allows the fund to structure flexible loan terms thus making the fund competitive with what a traditional bank can offer in term, rate and collateral coverage.

2.c.iii. What is the feedback from people who have interacted with the application process?

Applicants have shared how pleased they are with the flexibility and competitiveness of the EDI Fund loan terms. While the due diligence conducted to protect the County’s investment is very thorough and comprehensive, the Fund is able to achieve a positive outcome. As the Fund has matured, stakeholders have been able to commit funds to a diverse portfolio of business types. The Fund has followed best practices in the finance industry when it comes to providing feedback to applicants that were not eligible for the program either for program administration legislation or credit policy or were not eligible for conditional loans.

Office of Law

The memo from CountyStat states that the OOL “is responsible for providing legal approval of lending documents.” The OOL’s role of providing “legal approval of lending documents” comprises of a series of complicated activities, some of which require appropriate timely coordination and input from other members of the program. The OOL is tasked with (1) reviewing the terms of the transaction, (2) determining the appropriate loan documents that should be part of the loan package, (3) generating loan documents that incorporate the terms of the transaction and the necessary liens on borrower’s assets serving as collateral for the loan, (4) supervising the closing process, and (5) ensuring that the loan is funded in a timely manner.

1. What are the options available for ensuring sufficient follow-up is provided to complete deals in as short of a time period as possible?

- (1) If there are any additional documents necessary to close the transaction after receiving the loan packages, this may cause a delay in drafting loan documents and closing.
- (2) EDIF should eventually evolve its program into standard terms and provisions. This would eliminate the customization that occurs with every loan which, in turn, causes considerable delays. In order to expedite the closing of the transaction, the borrower could be notified via the commitment letter, proposal or letter of intent that the loan documents are non-negotiable unless related to a material change in terms.

(3) The OOL's current library of loan documents should be converted into standard templates that will automatically populate the relevant data into the loan documents. The time and process of generating loan documents would be greatly diminished. OOL could train our administrative staff to input the relevant data (such as the name of the borrower, the name of the officer executing the document, interest rates, loan amount, etc.) and the assigned attorney could review and finalize the loan package. The OOL turnaround time to generate loan documents would be substantially faster.

2. Could some of the work, particularly involving smaller loans, be contracted out?

Yes. However, if the recommendations above are implemented, the need and desire to outsource the loan drafting and closing process to outside counsel would be unnecessary.

3. What costs might be incurred to outsource this process?

The OOL has not obtained cost estimates from outside counsel experienced in performing the tasks enumerated above. The costs will be contingent on the complexity of the transaction, type of collateral, and the amount of documents that will be required and whether the terms of the loan vary. The cost of outside counsel could range from \$3,500-\$20,000 per loan.

CC: Thomas M. Himler, Deputy Chief Administrative Officer, Budget, Finance and Administration
Aubrey D. Thagard, Interim Deputy Chief Administrative Officer, Economic Development and Public Infrastructure
David Iannucci, Assistant Deputy Chief Administrative Officer, Economic Development and Public Infrastructure
Sean G. Dixon, Deputy County Attorney
Josue Pierre, Associate County Counsel, Office of Law
Shelly Gross-Wade, President & CEO, FSC First
Dawn Medley, Vice President of Business Financing Programs, FSC First
Ebony Stocks, EDI Fund Business Development Specialist, Economic Development Corporation

1801 MCCORMICK DRIVE, SUITE 350 * LARGO, MARYLAND 20774 * 301-583-4650 *
WWW.PGCEDC.COM