Maine Economic Recovery Committee Business Support Recommendation – DRAFT

The Maine ERC is nearing completion of its July 15th recommendations on how to support and stabilize the Maine economy, and will then be moving onto making recommendations about economic recovery.

The Maine DECD has been working with the Maine CDC to manage the state’s response to the pandemic and the reopening. Similarly to the Maine ERC, Maine DECD is working on how to support the economy and begin recovery.

This document is a draft of a recommendation developed by the Maine ERC in consultation with the Maine DECD. This recommendation allocates state CARES Act funding to sustain and support Maine’s economy through direct business financial support ($300MM).

Economic Stabilization: 2020 Maine Business, Economy, and Recovery Grant Programs (Maine BEARS)

Many Maine businesses have not been able to access the federal Payroll Protection Program (PPP). Some businesses are at risk of “falling through the cracks” and need help in order to remain viable. Other business have successfully accessed the PPP, but are so deeply impacted that they won’t survive without help. Most of these businesses will be sustainable when the pandemic ends, if they survive until that point. Some of these businesses include sectors hardest hit from the global pandemic, including the tourism/hospitality industry, businesses in York, Cumberland, Androscoggin, and Penobscot Counties who remained closed for longer, businesses that rely on seasonal cash flows or have other factors that hinder access to traditional financing, and businesses with decreased revenues due to declines in consumer spending or declining global markets. Other sectors hard hit by the crisis include fisheries, the forest industry, and day care centers, among others.

Additional debt support is problematic, as it impacts their exiting bank covenants, reducing their access to needed debt leverage from banks and credit unions when they need it most.

We propose that Maine DECD and the Finance Authority of Maine (FAME) plan, execute and monitor an economic relief grant program totaling $300MM, largely through Maine’s Banks, Credit Unions, and Community Development Financial Institutions (CDFIs) with the application window opening on July 10th, and 75% of the funds approved and distributed by August 31st. Those financial institutions, for a fee, verify eligibility, size the grant, perform a state tax lien and anti-money laundering check, disburse the funds, and record keep.

ECONOMIC RELIEF GRANT PROGRAM GOALS: This program proposes to provide grants for businesses and non-profits that, without financial support, will be unable to be financially viable
by the end of calendar year 2020. This program hopes to assist in the stabilization of Maine’s economy with the aim to ease the transition from short-term relief to shifting our state’s focus back to Maine’s 10-year Economic Development Strategy, anchored in talent and innovation. The program is intended to be fast, have only objective criteria with a low eligibility threshold, and be highly distributed via financial institutions already interacting with small businesses in Maine.

PROGRAM ELIGIBILITY:

- Demonstrated need for financial relief based on lost revenues or expenses incurred since March 1, 2020 and/or lost revenues/anticipated expenses through December 30, 2020.
- For-profit organizations and non-profit organizations (except 501(c)(4) and 501(c)(6) organizations who lobby) are eligible for the program.
- Must have significant operations in Maine (majority of employees based in Maine)
- Must be current in all Maine tax income and sales/use tax obligations through Tax Year 2018 (and Tax Year 2019 for applications received after August 15, 2020).

PROGRAM MECHANICS:

1. DECD to engage several non-profits with $500,000 of program funds to conduct business to business outreach to apply and navigate the process, with goal of having participants represent all Mainers, including socially disadvantaged groups.
2. In consultation with DECD, FAME will publish program rules, including eligibility criteria, financial institution participation agreement and the model small business grant agreement for participating financial intuitions to use on the FAME website by July 3rd. Award criteria shall be objective and quickly measurable.
3. Participating banks, credit unions and CDFIs are required to provide online application portal. Applicants may file with only one financial institution.
4. Participating banks, credit unions and CDFIs are required to check for State of Maine tax liens before disbursing funds.
5. Participating banks, credit unions and CDFIs are required to deposit awarded funds into a checking account at their institution, or in the case of CDFIs, into an account at the Maine headquartered financial institution of their choice. Participating financial institutions shall ensure that deposited funds are segregated from any automatic sweep facility that would use the funds to automatically repay indebtedness, without the grantees additional written consent.
6. By July 15th, 2020, Maine DECD and FAME shall set up a direct award application and appeals process for businesses that fail to qualify under the program rules with a Maine financial institution, and if granted, can receive funds directly from FAME. Evidence of a denial from a participating bank, credit union or CDFI is a criterion to use this process.
7. Participating banks, credit unions and CDFIs can charge 2% of grant award amount as a fee to the program, [with a minimum of $500/grant and capped at $2,000].

8. The program window for the smaller business opens 10-days earlier to give the business and banks in that category.

9. A grant maker may rely on any certification or documentation submitted by an applicant and will be held harmless and shall not be subject to any penalties as a result of making a grant so long as they have made a good faith effort to comply with the terms of this program.

AWARDS AVAILABLE:

- **Small Business and Non-Profit Grants:** for businesses and organizations with < 50 employees or with revenues < $5M (based on 2019 Performance, either screen is qualifying), or similar. Emergency assistance grants for fixed cost operating expenses (rent, mortgage payments, utilities, essential operating expenses, working capital, etc.) incurred from March 1, 2020 and anticipated until December 30, 2020. Grants up to $50,000, based on forward-looking three months of non-payroll fixed costs.
  - ERC will identify priority sectors most at risk (hospitality, tourism, retail, seasonal, hot spot counties, etc.), current economic stability of the organization, funding availability, and businesses that have exhibited the greatest economic need.
  - $200 million allotted

- **Maine Economic Stability Grants:** for for-profit businesses and non-profits with 50 employees and revenues of $5M or greater but not more than $10M (based on 2019 Performance). Emergency assistance grants for fixed cost operating expenses (rent, mortgage payments, utilities, essential operating expenses, working capital, etc.) incurred from March 1, 2020 and anticipated until December 30, 2020. Grants up to $200,000, based on three months of forward-looking non-payroll fixed costs.
  - Priority shall be determined by sectors most at risk (hospitality, tourism, retail, seasonal, hot spot counties, etc.), current economic stability of the organization, funding availability, and businesses that have exhibited the greatest economic need.
  - $100 million allotted

Undersubscribed funds after August 15th can be rolled into the program with greater need.
Attachment A: CARES Act Summary

Title V and VI – Coronavirus Relief Fund; Section 601:

(d) Use of Funds.¹

- Necessary expenditures resulting from COVID-19
- Were not accounted for in the budget most recently approved for the State/government
- Costs were incurred from March 1, 2020 – Dec 30, 2020

Important information for Maine businesses (highlights of CARES Act):

SBA Paycheck Protection Program:
100% federally guaranteed loans to small businesses and non-profits with 500 employees or fewer (per physical location), self-employed individual contractors to prevent workers from losing their jobs and businesses caused by COVID-19.

- Loan Terms:
  - Loan of 2.5 times the average monthly payroll (usually from 2019) or $10 million (whichever is less).²
  - Loans may be used for payroll, mortgage interest, rent, utilities, and interest on debt obligations.³
  - Payment-deferment of principal and interest from 6 months to 1 year and then up to 4% interest rate thereafter.⁴

- Loan Forgiveness:
  - Money spent within first 8 weeks of loan receipt will be forgiven except for payments on pre-existing debt interest.⁵
  - SBA will reduce amount forgiven if a business reduces number of employees (reduces forgiveness by the same percentage) or if a business reduces the salary of an employee making less than $100,000 by more than 25% (reduces forgiveness on a dollar-for-dollar basis). If salaries and

² Courtney. https://www.congress.gov/bill/116th-congress/house-bill/748/text#HB7794EF7D0A34671AE7C32B77538ACF2 ($1102(a)(E)-ii), H.R. 748 – 9, 10)
employment numbers are restored by June 30, 2020 then there will be no forgiveness reductions. 6

Additional SBA Provisions:

- SBA Express loans maximum amount increased from $350,000 to $1 million. 7
- Small businesses of less than 500 employees that have applied for an Economic Injury Disaster Loan (EIDL) may request for an advance within three days of the application of up to $10,000 to cover paid sick leave, payroll, increased supply chain costs, and repaying obligations that cannot be met due to lost revenue. 8

Tax Deferment:

Self-employed individuals and businesses may defer payroll tax payments for 2020 (except for those benefiting from SBA Paycheck Protection Program’s forgivable loans). 9 50% will be due on December 31, 2021 and the remaining 50% will be due on December 31, 2022 with 2021 and 2022 tax payments remaining unchanged. 10

Large Business Opportunities and Parameters:

Federal Reserve allocated resources to make loans to businesses, states, and municipalities. Application process is provided by Secretary of Treasury.

- Loans eligible for businesses with majority operations in the United States and did not receive adequate relief from elsewhere in the CARES Act (SBA Paycheck Protection Program, etc.)
- Throughout the loan period plus one year, the business cannot do the following:
  - Pay dividends, make capital distributions, or repurchase an equity security of the business (or parent company) unless fulfilling a pre-existing contract
  - Increase total compensation of an employee who made more than $425,000 in 2019
  - Provide an employee with benefits (including severance) which is greater than twice their maximum total compensation
  - Provide more than $3 million plus 50% of the excess over $3 million for employees whose total compensation exceeded $3 million in 2019

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7 Courtney. https://www.congress.gov/bill/116th-congress/house-bill/748/text#H996DEC594B844B01836DB1FCA7B64F0 (§ 1102(c), H.R. 748 – 14)
Financing provided to banks and other lenders to make direct loans to non-profits and mid-sized businesses (500 to 10,000 employees) with following conditions:

- Interest rate (annualized) not to exceed 2% with payment-deferment on principal and interest for, at least, the first 6 months
- Loan must be necessary to support ongoing operations
- Loan must go to retain at least 90% of employees (full compensation and benefits) until September 30, 2020.
- Business intends to restore at least 90% of the workforce that existed as of February 1, 2020 with all compensation and benefits by no later than 4 months after the termination of HHS’ COVID-19 public health emergency.
- Not a debtor in an existing bankruptcy proceeding