ERC – Innovation Subcommittee
Input/feedback since last meeting, organized by connection to themes
June 30, 2020

Access to Capital Specifics/Grants and Bridge Capital – Bruce Wagner, FAME

1. Best short-term option is to fund FAME’s business loan refinance program. This allows lenders to refinance uninsured existing commercial loans with a 50% guarantee. A FAME refinance guaranty (50% or greater) will allow our banking partners more flexibility to maintain reserve levels and utilize their underwriting abilities amongst more Maine companies. These could be structured in numerous ways, and percentages, but should only be available to those Maine businesses who have seen a revenue decrease since March. FAME has already set aside reserves to support this program and other commercial loan guarantee programs. In discussions with our lending partners, they believe this mechanism would be heavily utilized once the current period of forbearance expires. We hope the State could at least match the FAME commitment and hopefully significantly more.

2. The Regional Economic Development Revolving Loan Program can be revitalized and funded with either more state funding or, at the federal level, with new funding for the now-dormant State Small Business Credit initiative (SSBCI). This program was very effective in the Great Recession.

3. The Seed Capital Tax Credit is a very worthwhile program, but improvements are not as fast-acting, as they require legislative approval and a fiscal note. Additionally, the Legislature recently made changes last session to the program, including boosting the annual tax credit cap from $5 million/year to $15 million/year.

Overall input -
“Thanks for the opportunity to give feedback on Maine’s Economic Recovery plan and FAME’s perspective. In the near term, our potential to help is constrained by our role as a lending institution or assisting lending institutions. Our overall view is that businesses cannot take on more debt at this stage of the recovery. We do think there will be a later stage requirement for debt, and I’ll comment on that shortly.

While FAME does not make or administer grants, they are the most immediate need. We have developed a cooperative relationship with the Maine Technology Institute to underwrite grant applications and can act in that capacity again or with another organization. I’d also comment that a considered evaluation of grants has merit to ensure that the funds can be effective in saving the business and its jobs. It is not a popular philosophy, but some discernment of the ability of the business to recover should be made before releasing new funds.

FAME was able to underwrite about 300 direct loans last month when we normally do about twenty/year. Therefore, one gap we see is the capacity to rapidly underwrite or at least qualify grants. We expect at least 5,000 grants or other type of funding would be made to have an impact with Maine’s CARES Act funding. Banks and credit unions could be helpful in this role. One idea on the grant front is to provide monies for working capital as well as fixed costs. This could help businesses bridge the near-term cash flow gap and perhaps help attract employees back to work.

FAME believes grant programs will eventually need to be supplemented by more permanent debt and equity finance. The most popular current programs are the special COVID-19 Direct Loans. FAME set
aside $5.0 million to provide loans up to $50,000 at prime minus 1%. These were well used by businesses that did not have existing bank relationships and might have missed out on the PPP program. There is a gap in our ability to continue as I project, we will fully utilize the $5.0 million in July. The demand for FAME direct loans will skyrocket if there isn’t a new tranche of federal funding soon.

FAME has a lot of flexibility with the Direct Loan program (formerly Economic Recovery Loan Program – ERLP). It can be used as subordinated debt in a start-up or dire turnaround situations. These loans are underwritten so the probability of a successful outcome is greater than just shot-gunning money into the economy. I strongly recommend an investment of $10.0 - $20.0 million to replenish and continue this workhorse program.

Some larger companies will need capital and turn to banks for support for larger amounts than are available in CARES. FAME can currently guarantee loans up to $10.000 million at a 75% guarantee level. We see two to three worthy requests for greater amounts each year from paper mills and other large employers. It is not an immediate need, but eventually the state might want to fund FAME reserves to enable these more significant investments. I advocate for an additional $10.0 million to $20.0 million for this very effective program.

Start-ups, particularly technology start-ups, will be a priority. For this reason, we support an expansion of the seed capital tax credit program. Pushing from $15.0 million/year to $30.0 can draw private capital into the state.

FAME also supports Maine’s New Market Tax Credit program and a refunding of this worthwhile mechanism should be considered.”

**Access to Capital – under-served business owners and founders – Tim Agnew based on feedback and input he sought and received**

Micro-loans and other vehicles for immigrant-led and Black and brown-owned businesses beyond those already available and known.

**Innovation opportunities identified through COVID – John Burns, MVF**

The State could resource immediate solutions from Maine’s startup and tech sector that have products or services to bear for the benefit of Maine's public sector. This could happen by merging the MTAF application list and the Startups Step Up database.

**Innovating the Innovation System – from a variety of inputs**

*Reimagine the education system by focusing the higher ed system on innovation and K-12 on “creating your own optimal life”

*Can we include the outdoor industry with innovation? Outdoor recreation is an opportunity for Maine especially during COVID, since transmission doesn’t happen much outdoors. Additional ideas include promotion of the outdoor sports, potentially making state parks free, opening more trailheads and boat ramps, and hiring unemployed summer camp counselors to work on outdoor assets.*
*we need to fund projects at the intersection of fields if we are going to catalyze meaningful growth in the new economy. We have funded in channels that are too deep and narrow - I’d suggest starting with a biotech-aquaculture interface as a standing committee within some structure, and a deliberate biotech-forest interface. I know there is a little work on these, but we need more all hands-on deck to innovate in these base industries.

*we need the state to identify health/public health challenges and invite a wide sector of actors to weigh in on these. The health systems are really entrenched behemoths not really built to solve the biggest health problems the state faces. We need to avoid telehealth being pulled back by large systems. What can the State do to really define 'challenges' - almost as innovation challenges, that commit to untraditional actors? More progress was made to deploy telehealth in three months than had been made in ten years, and that is by design. THERE IS NO OTHER WAY TO ADEQUATELY SERVE THE HEALTH NEEDS OF OUR POPULATION, AND WE NEED THE STATE TO FIGURE A WAY TO MAKE SURE THAT CONTINUES. The health systems are differently incentivized.

*we need a smart tight focus on circular economies - to really train a team to focus radically on procurement gaps and really lean on the use of local. At all levels - this should be examined, starting with the state as a big purchaser of many things.

*simplify programs that forgive student debt to come work here. they are not transparent or compelling enough embedded in tax refunds.

*the State needs a volunteer army of actors - more non-traditional ones - to put together untraditional teams to catalyze more meaningful growth.

*Tech Transfer program -might there be a recommendation we could make to publicize research that is potentially commercializable and offer matching service with experienced entrepreneurs? Would it make sense to have a dedicated staff person at DECD who can identify both projects and entrepreneurs and help them get started?

*Broadband- Support passage of the $15MM bond issue; PUC adoption of “one-touch make ready rules” like those in VT, use language around “gigabit fiber optic network” – this is more than broadband but key infrastructure for internet and cell connection.

*Mentorship - Broaden, coordinate, increase pool of mentors as businesses of all kinds must restart and reimagine

*Centralized “go to” source of information for businesses that is inclusive of multiple business types and founders.

*Innovate the workforce programs to include a retraining program for unemployed restaurant workers to do the various trades where shortage of workers is holding back the economy.

*One-day quarantine/COVID test requirement “pass” to come into the State if they are going to a park, hiking, sailing or other outdoor low risk activities.