

COVID-19 Recovery Act Testimony

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Like many Vermont businesses, prior to Covid-19, my husband and I, had a successful operation. We experienced year-over-year growth. We paid our bills. We poured hundreds of thousands of dollars back into our community each year -- through payroll, interest payments to our local bank and purchasing. We even invested in additional real estate in our community over the last 15 years. Like many of our fellow businesses we also engaged in community giving.

I believe I am exactly the person that your bill set out to help.

However ---- I have read the bill inside and out. I have done the math. As it currently stands this bill will not give me one penny of help to get to the other side of this.

It will provide a very small amount of help to dig out of the hole IF and WHEN I make it to the other side, but it will not help me GET to the other side as currently written.

Here are five requested changes:

1) **Address the Catch-22 that EIDL rules create (double dipping):**

I get that you have no control over the SBA or Federal Statutes. I get that this is not easy. But addressing this is critical to the success of this bill for so many.

The SBA EIDL conundrum is two fold:

First: The SBA rules require that borrowers pay off their EIDL loans in the amount of any state grant or loan monies received.

Second: The EIDL loan cap was reduced from \$2,000,000 to \$150,000. regardless of need or credit score, or regardless of the amount someone qualified for before the new cap was instituted.

That means that there is no amount of loan or grant money that you can give someone like me, that will help get us to the other side -- unless it is at least \$150,001 dollars.

Or for smaller businesses, at least one dollar over the EIDL loan amount.

Small grants and better loan terms will make it easier to crawl out the hole if and when I make it to the other side, but they will not help me get to the other side.

Vermont has no control over Federal SBA rules, so here are three ideas to consider to help businesses without directly giving them grants or loans.

- a. Expand the **Loan Interest Subsidy Program** (Section B.2. of the bill) to extend beyond the VEDA portfolio. Not every business has a loan through VEDA, so expand this promising program.

Specifically: if a business meets the “suffering criterion” let them go to their bank and ask for a **mortgage extension and tack those payments onto the end of the loan term**. The bank can access a pool of state funds to offset that assistance. Think Bank of Bennington, Heritage Credit Union, VSECU, Union Bank and even out of state banks registered here. etc.

- b. Use the Vermont Unemployment System to directly pay employees to return to work.
- c. For Mom and Pop S-corporations in the hardest hit sectors with revenues declines of 70% or more:
 - use the Vermont Unemployment System to extend the \$600 Federal supplement for officers of those tiny 2-3 person s-corps through year end.

These family run “corporations” invariably plow those funds back into the business to pay property taxes, insurance, and countless other expenses.

For many lodging owners the \$600 supplement has been one of the only means of keeping their business afloat. This is extended for “self employed” but not for Mom and Pop S-corps.

- d. Long term, please work with the Vermont delegation to Lobby the US Treasury to change this crippling Rule. It can be done.

2) **Remove the 6-FTE threshold of the VEDA program**

This has been brushed aside, many times, but it is critical! While the grant formula may be the same for the large and small programs, the maximum loan amounts of the two programs is very different: \$2,000,000 vs. \$20,000.

This rule inadvertently (or purposely) favors labor intensive businesses. For example, a restaurant with revenue of \$500k and 8 employees funnels into the larger loan program.

A Motel with the same \$500k revenue and 4 employees funnels into the smaller program, despite having the expenses associated with a highly capitalized business.

Highly capitalized businesses will need access to larger loans than employee count would suggest!

3. Adjust the Grant Formulas for the hardest hit

So many industries in Vermont have been impacted by COVID-19... And we are truly grateful that some of our friends in different sectors have been able to pivot and will be able to get what they need from these programs. However:

- Lodging cannot pivot to implement a take-out strategy.
- Lodging cannot pivot to creating overnight getaway experience online.
- Lodging cannot make up for lost time by selling yesterday's inventory on a sale table tomorrow. Once that day is gone, it is gone.
- Except for a few pennies from essential travel, most lodging revenues have been ZERO with no end in sight.

Yet, for most small to mid-sized lodging properties throughout Vermont, the current Covid-19 Recovery Act proposal equates to barely one to two months-worth of mortgage payments (and that's if it isn't required to be used to repay an EIDL due to SBA rules.)

To remedy this: For lodging and other sectors with at least a 70% decrease in revenue, increase the grant formula to a flat 10% of annual revenue with a cap of \$62,500 with no subtractions for PPP and EIDL advances.

Get the money in the hands of those who need it most.

4. Phase marketing spending to be able to target out of state guests when it safe to do so.

In Section F.1 (b) Remove the restriction that marketing dollars may only be used to target Vermonters. By legislating a target market you don't give your very capable team at Vermont Travel and Tourism the flexibility to fine tune their programs as the world evolves.

5) Provide more Grants and fewer Loans

This is clearly a trade off, since loans stretch the dollars further. However,

- Grant monies stay in Vermont. The Federal Cares Act requires repayment of loan monies back to the Federal Government.
- Even low interest loans saddle businesses with additional long-term debt. Grants provide immediate, permanent relief.
- And just a note on Moral Hazard. I truly understand comment in Friday's meeting about requiring businesses to have skin in the game. **However, I think many businesses have never had so much skin in the game as now.**

The simpler and less restrictive you can make this the better.

Thank you.