June 4, 2020

House Committee on Commerce and Economic Development

Testimony submitted by:
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On behalf of Vermont Businesses for Social Responsibility (VBSR) and Main Street Alliance of Vermont (MSA-VT), we want to begin by thanking the Committee for your tireless work to combat the COVID-19 pandemic and equitably channel resources to Vermonters in need. The COVID-19 Economic Recovery Plan marks yet another important step forward in this process and would provide much-needed financial lifelines to struggling employers across the state. We applaud the Administration for putting together the initial proposal and appreciate the opportunity to provide direct feedback from local businesses as well as offer recommendations on how this package may be improved to best serve our communities.

VBSR and MSA-VT represent a diverse range of businesses from around the state who recognize the critical importance and interconnectivity of our small businesses and the role they play in creating a vibrant, prosperous Vermont. From supply chain disruptions to complete business closures, the public health and economic impacts of the COVID-19 pandemic have created a ripple effect throughout our economy--where impacts go far beyond the four walls of brick and mortar storefronts and into the very communities we strive to support. The road to recovery from this crisis will be long and arduous, but we must do everything we can in the interim to support our small businesses and provide them with the time and resources they need to weather this storm and not shutter for good.

To that end, our organizations partnered together in surveying our membership to assess their current needs and asked them to share their perspectives on the Recovery Plan; including the various eligibility requirements, formulas, terms, and overall award sizes for each of the financial assistance programs detailed therein.

The results painted a stark picture. For businesses able to access key funding sources like the Paycheck Protection Program (PPP) and Economic Injury Disaster Loans (EIDL), unclear guidelines for loan forgiveness and spending limitations on overhead costs have left many unsure of how they can utilize these dollars and they continue to be woefully under-resourced as expenses mount. Others are going so far as to use their Pandemic Unemployment Assistance to keep their businesses afloat. All told, the majority of respondents said that without immediate funding, they are looking at closing within 6-12 months and a considerable amount said they'll be forced to close in as little as 1 month.

> *"I only have days left. I am not able to refund deposits, or continue payroll, or pay other obligations. I have asked for deferred payments on loans, credit cards, any place I can find to conserve. I will attempt to sign up for the self-employed unemployment insurance. I am struggling to find resources."*

Using both quantitative and qualitative data we have developed a number of recommended changes in the hopes that we can create more flexibility, efficiency, and equitable access to the critical funding sources needed during these challenging times.

Topline Recommendations

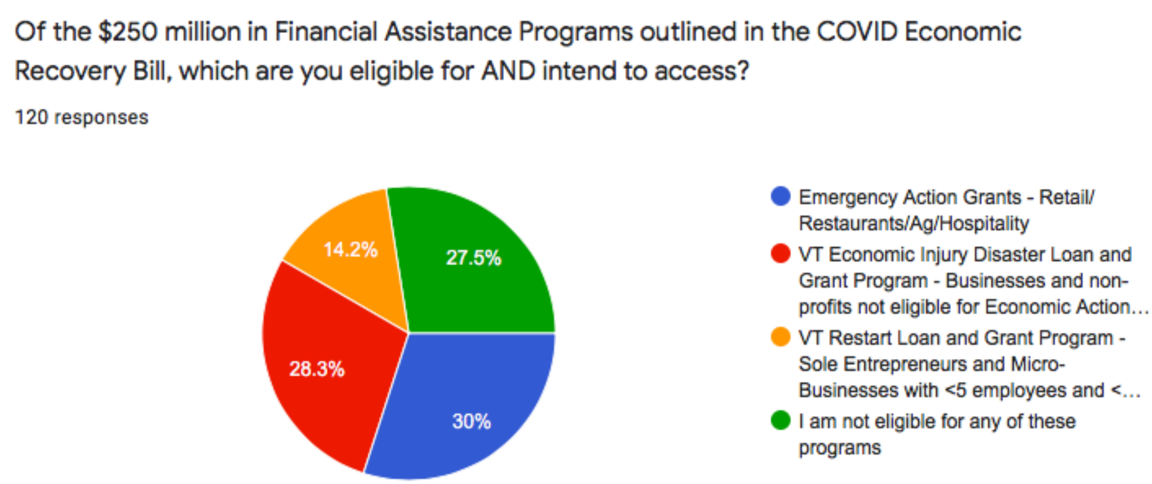
Grants vs. Loans: We appreciate the complexity and limitations on the Coronavirus Relief Funds but want to stress that **the overwhelming majority of Vermont businesses need grants not loans.** In this moment of financial insecurity, we continue to hear from businesses that more debt will not help them, but further dig them into a hole that they didn't create.

> *"We've lost so much. I don't know if we will take a loan. It's too much of a burden, too scary to think that if the economy doesn't recover, or restaurants aren't allowed to reopen fully, that we would have this on top of the loss of everything else. We would just walk away from our business instead. We need grants. We need help."*
>
> *"We need IMMEDIATE CASH GRANTS. We are already in SIGNIFICANT DEBT acquired by fixed costs during forced closure. Not only do we need money to pay current debt, but re-opening expenses are nowhere near feasible."*
>
> *"Loans, even no interest, are problematic for many businesses that are already leveraged and have such an uncertain future. This was such an unprecedented and unexpected situation, businesses need forgivable loans or one-time grants to keep them from digging a bigger ditch to be buried in."*

Businesses are doing everything they can to make sound financial decisions, do right by their valued employees, their customers, and their families all while adhering to and paying for new standards of operation for running their businesses. Additionally, we hear that in this time of "major uncertainty" taking on debt is just too risky. They understand that the state must make decisions that put the health and safety of our communities first AND they need a bridge to get through this. With a slow reopening and running on incredibly slim margins as it is and fixed costs not going down, debt only adds to that financial burden and risks potential financial bankruptcy.

Develop statewide outreach to businesses to connect with lenders and technical assistance programs: We appreciate efforts to decentralize the administration of these technical and financial assistance initiatives by delegating authority over said programs to agencies and lenders throughout the state. While this will help to distribute resources and prevent system overload, it is critical that the state commits to a comprehensive outreach and education plan for businesses and lenders to make sure that there is both awareness of these programs and equitable access. For example, of the businesses surveyed for the Restart Vermont Loan and Grant Program, 63% said that they didn't have previous relationships with the lenders provided.

New Businesses: In what ways can these programs support employers who have opened in late 2019 or early 2020? We are hearing from several fledgling businesses who have spent savings and incurred loans in an effort to start or expand their operations just before the pandemic struck Vermont. As a small state looking to attract new and diverse businesses into our economy, we have an obligation to meet their needs and ensure the risks they've taken do not result in a total loss. This would mean greater flexibility in the eligibility requirements and assistance calculations for the financial assistance programs.



Program-Specific Recommendations

Vermont Economic Injury Disaster Loans (VEIDL)

- **Remove the program eligibility criteria requiring businesses to employ five or more full time employees (FTEs):** As noted in our survey, the majority of our businesses employ less than 10 FTEs, with 56% of respondents retaining 4 or less full-time staff. Connecting employee count to program eligibility creates inequitable access for businesses who may not require 5 or more FTEs to effectively operate yet are still in critical need of financial assistance. For example, our agricultural sector, particularly small farms who support our local food systems, may only hire seasonal or part time workers to sustain operations. But with restaurant closures and a subsequent decrease in demand for local meat, veggies, and grains, they have been left in dire straits. Removing this requirement will allow both capital and labor intensive employers greater access.

- **Remove personal guarantee and collateral requirements for loans over $50,000:** In this moment, businesses don't need the added financial burden of losing additional assets. Requiring employers to provide guarantees and put their personal assets on the line would create inequitable access to this program, especially for non-profits, new businesses, new Americans, business owners of color, and women owned businesses who may not have the level of collateral needed to meet this guarantee but who are just as deserving of these financial resources.

  > *"One chart shows collateral and personal guarantee for over $50,000. THIS WILL BE A PROBLEM FOR A LOT OF NON-PROFITS (and other small companies)."*
  >
  > *"With existing debt, I do not have enough collateral. Very uncomfortable with a personal guarantee that would put my home at risk."*
  >
  > *"More debt, my home at stake, variable interest... that'll be a hard pass."*

- **Extend deferral of payments and interest to two years and create a fixed interest rate at 2% upon repayment:** In these uncertain times, businesses have little to no control over if/when they will resume full operations. By creating a longer runway for them to get back on their feet and offering a fixed interest rate we can provide businesses with clear parameters for their loan term and a better understanding of the potential risks they face in pursuing this option.

- **Increase grant allocation:** Based on the formula provided in the bill text (Annual revenue x 10%) x 25%, the grant allocation isn't sufficient to provide a meaningful benefit for businesses. If an employer makes an average of $500,000/year they are only eligible for a grant up to $12,500. We recommend that you create an alternative formula to maximize grant awards and better serve the scale of need at this moment. Respondents reported between 33% and 100% revenue losses for 2020, we recommend that you channel investments away from the loan program and into this grant program.

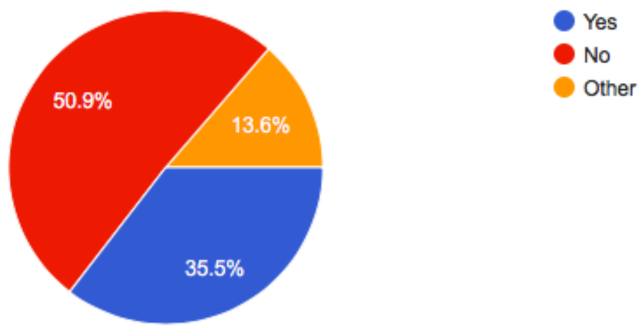
  > *"Not eligible. But If we were, we'd only be eligible for $5,000 based on revenues. That's not even one month of overhead. That's a band aid, not a restart."*

Restart Vermont Emergency Action Grant Program

- **Increase grant allocation:** Similar to our recommendations for the grant portion of the VEIDL program, the grant formula does not reflect the needs of those it would serve. As a program intended to assist food and accommodation services, retail and agriculture businesses that were severely impacted by closure or business disruption, this amount is wholly insufficient to meet their needs considering the significant overhead costs associated with their sector and the known challenges they faced with SBA program requirements.

For the Vermont Emergency Action GRANT - if you are eligible, the grant total will be reduced if you received Loss of Income Insurance money or PPP funds. Do you agree with this model?

110 responses



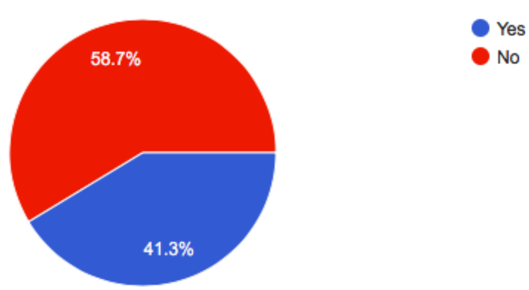
- **Remove grant principal reduction based on Loss of Income Insurance or PPP funding:** Of business respondents, 50% disagreed with the reduction in grant awards due to PPP or Loss of Income Insurance funding. It has become abundantly clear that the PPP was a short-term financial fix for what has now become a much longer-term challenge. For those who were able to access it, the first wave of PPP funding is now coming to an end and provided many with much needed support over the last two months. As our state continues to grapple with the COVID-19 pandemic, it is clear that they will need continued financial support moving forward and should not be penalized for the financial assistance they have already received.

> *"It is important to not penalize businesses who have taken the risk of PPP or debt of EIDL. PPP and EIDL spending means spending into the VT economy at the risk of the business entity. These businesses should not be penalized for taking that risk which helps our State. Additionally, PPP and EIDL won't be enough funding to get us through a year. We will need additional funds to make it through to the end of the pandemic."*

Restart Vermont Loan and Grant Program

Vermont Restart GRANTS will be available to those who apply for Restart LOAN provided they were closed for at least 30 days or have seen a 40% reduction in sales for any one month period between March and September 2020 AND have applied for either and EIDL or a PPP. Do you anticipate that your business would qualify?

104 responses



- **Remove FTE program eligibility requirements:** While we appreciate the intent of these parameters, we recommend that you remove the full-time employee Requirement - this stands to leave many Vermont businesses, who are more labor-intensive, out of this program and without a viable alternative.

- **Provide additional guidance on process and structure of loans vs. grants**: As noted by ACCD, the intent of this program is to vet potential grant recipients via the loan application process, however additional clarifying language is needed as to whether one needs to accept a loan in order to receive a grant. We recommend a process in which employers apply for a grant *with the option* to take out a loan instead of the inverse, as the appetite for grants is significantly greater.

- **Remove applicant credit score threshold**: As noted in national data, business owners of color, women owned businesses, rural businesses and underbanked businesses have not been able to access federal programs because of systemic challenges within the banking system as well as a lack of existing relationships with lenders. We advocate to remove this eligibility requirement to allow more Vermont business owners, particularly those in our most marginalized communities, to participate in this program. Additionally, significant financial losses inflicted on local businesses have adversely impacted business owner credit scores. Removing this criterion would not only increase program accessibility but lessen the administrative burden on our lenders who would need to pay to run credit checks for each individual applicant.

  > *"My credit score was damaged by the shutdown"*

  > *"Low credit score due in part to inquiries when funding the business last year"*

- **Increase grant allocation:** Similar to our recommendations for the grant portion of the VEIDL program, the grant formula (Annual Revenue x 10%) x 25% with a maximum of $25,000 does not reflect the needs of those it intends to serve. As a program meant to assist those who do not qualify for the other two programs detailed above, this allocation is once again, not enough.

- **Remove eligibility for grant based on application to EIDL or PPP:** Considering the noted challenges with both accessibility and uses of SBA programs, many businesses either failed to qualify for PPP and EIDL funding or chose not to utilize these resources. This was largely due to confusion surrounding potential loan forgiveness, lack of previous lender relationships, and/or fear of taking on additional debt. This proposed requirement creates barriers to access to these critical funds for Vermonters.

- **Remove penalties in grant amounts for accessing PPP funds and/or EIDL Advance Grants:** As noted above, these SBA funds were intended to provide short term financial relief, however the COVID-19 pandemic is a long-term challenge. For those who were able to access the EIDL Advance or the first wave of PPP, that funding is quickly drying up as expenses continue to mount. It is clear that they will need additional financial support moving forward and should not be penalized for the financial assistance they have already received.

  > *"We have received PPP of $5,700. The formula above would give us a $4,000 grant based on $200,000 annual revenues. We have received an EIDL advance of $3,000. We anticipate giving it back because it can't be doubled up with PPP forgiveness. But if we kept it, we'd be entitled to $1,000. That's not even worth the paperwork."*

  > *"There is a lack of recognition that even with PPP or other support in March or April, there is an ongoing inability of many businesses to access previous revenue sources primarily because of government restrictions on how businesses can operate."*

Additional Comments

Essential Employee Hazard Grant Program: We are disappointed to see that the proposed $60 million essential employee hazard grant program was not included in this bill. Additional pay for Vermont's frontline workers is the least we can do to show our gratitude for the risks and challenges frontline workers are facing to help their fellow Vermonters endure this unprecedented crisis. By limiting the benefit to only those facing significant risk of infection, the Program would put money in the hands of those at the forefront of the pandemic while also ensuring the federal funding Vermont received via the CARES Act is spent wisely. These grants would also boost household buying power and circulate federal dollars back into Vermont's economy.

Additionally, there is a significant equity component to this proposal as well, as women make up the majority of Vermont's essential workers. We are concerned that the historical inequities women have faced when it comes to employment and wages will only worsen during this crisis and hazard pay may tangentially help to bridge the gap.

Investment in Childcare: Main Street Alliance of Vermont and VBSR recognize that early care and education is essential to our state's families and to our business economy. Without critical investment into the care infrastructure, our valued employees will not have access to the childcare that they need and this will have devastating impacts on our businesses and their ability to bounce back. Additionally, if childcare providers close, this will have a disproportionate impact on women in the workforce as they typically take on the vast majority of caregiving within their respective households.

As noted by the Economic Mitigation and Recovery Task Force in their recent recommendations to the state "Childcare is a critical foundation for families and is key to reopening our economy. While providing an essential service to families across the state, childcare and youth-serving programs face a daunting challenge to provide quality care in a safe environment to minimize the spread of COVID-19. To support re-opening this essential industry, Restart Grants and other services should be generous and flexible for programs that reopen, when they reopen, to support increased costs such as the purchase of supplies, deep cleaning, structural changes to facilities, staffing, and lost income due to limited attendance. Vermont should allow providers to take the time they need to allow for transition to safe reopening and provide an additional round of funding for programs that are unable to open immediately. Funds allocated must be sufficient to cover operations for both childcare, and afterschool and summer programs. Additional resources beyond the $6 million currently allocated will be needed to support this transition.

Additionally, MSA-VT and VBSR have signed onto the "Build Stronger" document developed by Let's Grow Kids. We stand with them and their recommendations for additional funding to support our childcare providers during this challenging time and hope that the committee will consider allocating Cares Relief Funds to support childcare providers that are vital to our economic viability as a state.

Conclusion

Despite our recommendations, MSA-VT and VBSR want to acknowledge and appreciate the enormity of this proposal and the challenges of distributing finite resources to employers struggling to rebound from the COVID-19 pandemic. We thank you for the opportunity to provide feedback on the Administration's proposal and for the Committee's time and consideration. If you have any questions or concerns about our recommendations or would like additional information regarding our survey, please feel free to contact us.

Thank you,

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Survey by the Numbers:
Current number of businesses surveyed: 129
Sectors Included:

Agriculture & Forestry Advertising/Marketing Arts, Culture, & Entertainment Banking/Finance Bar, Restaurant, & Food Service Child and/or Elder Care Community/Economic Development Construction/Home Ser Consumer Retail Education Environmental Services Food & Beverage Health & Beauty Healthcare Lodging and Accommodations Media Manufacturing Nonprofit Renewable Energy Travel/Leisure/Recreation Transportation	Additional Sectors as provided by Respondents: Agriculture production with retail sales Wine importation / distribution Chimney Services Garden Landscape service + crop agri… Architecture and Planning Professional Services Architecture Retail, Food, Tasting Room, Manufact… Business Coaching/Consulting Services Real Estate Farmers Market Agriculture, Education and Entertainment aviation technology Hemp Farm/Producer of consumer goods Food processor, farm, catering, restaurant Strategic Consulting - Health Care Reform (States) and Businesses

Employee Statistics:
Of 123 responses - we have businesses ranging from 1-103 full-time employees with the largest group of employers with 10 or less full-time employees

Of 121 responses - we have businesses ranging from 1-250 part-time employees with the largest group of employers with 10 or less part-time employees

Additional Quotes from Surveyed Business Owners:

“Concerns if you don't have an existing relationship with one of the lenders; Also, I hope the overall effort factors in the impact on the essential businesses that have stayed open. Yes, we may have continued receiving some revenue, unlike closed businesses, and we are grateful for that, but our costs have increased dramatically both in cash needs for new systems, supplies, etc. as well as so much loss in time and productivity as we've had to juggle people to different roles, stations, shifts to meet the distancing goals to keep our staff and customers safe and healthy and not risk our whole team getting sick at a critical point in our growing season. Also, how things factor for small business owners, who may not be paying themselves in order to keep a business open and keep paying staff, how to account for that somewhere, somehow.”

“For those of us with Agricultural businesses that employ a few part time workers and rely on access to the farmers markets that were shut down for nearly two months, I don't see the federal or state govts effectively helping my business.”

“While it may seem fair to reduce a VEIDL Grant when a PPP or EIDL Advance was already received, I believe those monies served as immediate emergency funds to keep people off unemployment during a time businesses in our sector were closed/restricted by government order, while the VEIDL Grant would serve to protect ongoing jobs by helping our business stay open in spite of a severely impacted revenue stream due to COVID-19 responses locally and nationwide. The COVID-19 disruptions will last much longer than anticipated at the time of the PPP and Advance, and manufacturers such as ourselves will be dealing with disrupted consumer behavior, travel restrictions, and damaged supply chains for a long time. Many small businesses, ours included, already have debt load coming out of the Great Recession so more debt is a last resort strategy.

“Great idea, however, we are going to be feeling the effects from Covid 19, lack of tourism, depressed economy for years. We went through a recession a few years back and it almost broke our business. In order to stay in business, I believe 3 years should be the pay back start date at least. It will tremendously help a lot of businesses not go out of business.”