



STATE OF VERMONT
JOINT FISCAL OFFICE

MEMORANDUM

To: The Joint Fiscal Committee
From: Graham Campbell and Joyce Manchester
Date: November 8, 2020
Subject: Information Regarding Economic Recovery Grants

Dear Members of the Joint Fiscal Committee,

Several of you asked our office to research and understand better the Expanded Economic Recovery Grant program administered jointly by the Agency of Commerce and Community Development (ACCD) and the Department of Taxes. Specifically, you asked us to examine the following:

- What is the methodology for determining the financial need for businesses who apply to this program?
- Is the money appropriated to this program strategically targeted to the businesses that are most in need?
- Are some business sectors favored over others?

A key concern is the current ACCD methodology that defines Net Unmet Need as the amount required to provide the same level of revenue as in 2019 less any state or federal grants received this year in response to the COVID-19 pandemic. That measure of need does not reflect any reduction in variable costs stemming from the current recession, suggesting that in many cases the actual unmet need could be substantially lower. We acknowledge that expediency is a key issue in getting the grants to the recipients, but alternative measures of need might better target struggling businesses.

Background

The Economic Recovery Grant program was established in Act 115 of 2020. It was designed to provide financial assistance to businesses who have experienced hardship due to the COVID-19 pandemic. The program is operated jointly by ACCD and the Department of Taxes. The Department of Taxes largely assists businesses who make sales and meals and rooms tax payments (retailers, restaurants, and lodging establishments) while the ACCD program targets other businesses.

Funding for the program was \$228.7 million and was allocated as follows:

- Act 115 appropriated \$50 million for the Department of Taxes and \$20 million for ACCD.
- Act 137 appropriated an additional \$26 million for the Department of Taxes and \$56 million for ACCD.
- The FY2021 budget appropriated an additional \$76.7 for both programs.

The grants were given out in two rounds. The first round saw approximately \$152 million in grants awarded. The original size of grants was up to \$50,000 per business but later increased to amounts up to \$150,000 per business. Round 2, which has accepted applications, has \$76 million available in grants. On November 5 at the Joint Fiscal Committee (JFC) meeting, the Administration requested an additional \$75 million for Round 2 funding.

Methodology for Determining Business Need in Round 2

In short, ACCD determines the grant size to a business in the following way:

- Applicants for the grants must have seen a decrease in revenue due to the pandemic from March to September 2020 as compared to the same period in 2019. This is called the Net Revenue Impact.
- ACCD subtracts from the Net Revenue Impact any financial assistance that a business received through other government assistance programs established during the COVID-19 pandemic.¹
- The result of this calculation is called the Net Unmet Need. It is the measure used by ACCD and the Tax Department to reflect “need based on economic loss due to the COVID-19 public health emergency from March 1, 2020 to December 1, 2020” (Act 157). ACCD and Tax have chosen to use revenue loss as the measure of economic loss.
- The grant is then calculated by multiplying this Net Unmet Need by a factor that distributes the \$76 million appropriation for this program across applicants. The factor is calculated by taking the total appropriation and dividing it by the aggregated amount of Net Unmet Need requested across all applications. Finally, any grant resulting after this calculation is capped at \$300,000.

ACCD evaluates each application by examining income statements for 2019 and 2020 as well as 2019 tax returns. It also requires applicants to attest to the information on their applications. No effort is made to solicit or discourage applications from any specific sector of the economy.

While the methodology subtracts any assistance the business received from federal and other state programs from the grant award, it does not require that the business apply for and exhaust those avenues of funding first.

¹ These include the Payroll Protection Program (PPP), the Economic Injury Disaster Program (EIDL) and other state grants.

At the JFC meeting, the agency testified that there was over \$500 million² in aggregate Net Unmet Need for the second round of this program,³ \$317 million for the Department of Tax program and over \$300 million for the ACCD program.

After applying the \$300,000 cap to these applicants, however, the total amount of eligible grants to these businesses would be around \$215 to \$230 million. This means that the \$76 million currently appropriated to the program would cover roughly one-third of the capped amount requested. Should the committee increase the funding another \$75 million as requested, approximately 60-65% of the capped requested amount could be met.

JFO Comments

This methodology and its focus on revenue loss make it difficult to strategically target state dollars where they are needed most within the business community.

Instead, the evaluation criteria lend themselves better to promoting the goals of simplicity and expediency. “Need” as it is used in the context of the program does not attempt to measure economic despair for these businesses. Rather, it is simply a measure of a revenue loss from 2019 to 2020. It does not indicate whether or how many of these businesses would fail without state financial assistance.

As they have in other economic downturns, businesses often adjust costs to meet changes in revenue. For example, businesses that have suffered revenue losses can adjust costs to maintain profitability and weather economic downturns. Instead of helping understand how many businesses are close to failing due to the pandemic, this methodology is more accurately reflecting the scale of downsizing or shrinkage in the economy.

The program could have used other criteria to evaluate the hardship inflicted upon businesses due to COVID-19. These include examining changes in their fixed and variable costs or their profitability from one year to the next. However, both methodologies would require increased scrutiny of the businesses themselves which, while improving the strategic use of the funds, would likely require additional time and administrative resources.

In general, the chosen methodology has assisted small and medium size businesses more than larger businesses.⁴ According to ACCD’s most recent report on the first round of grants, a large majority of the dollars went to businesses with fewer than 50 employees. In terms of geographic distribution, in general, the total dollars awarded by county reflect the respective Gross Domestic Product shares of those counties.

² ACCD and Tax sent data to JFO on November 6 that showed the Net Unmet Need was closer to \$600 million.

³ <https://ljfo.vermont.gov/assets/Meetings/Joint-Fiscal-Committee/2020-11-05/3096a6667f/CRF-tracking-11.03.20-final.pdf>

⁴ <https://accd.vermont.gov/sites/accdnew/files/documents/COVID-19%20Economic%20Recovery%20Grant%20Program%20Report%20-%202020-08-17.pdf>

Total Economy Recovery Grant Dollars Awarded by County			
	Grant Dollars Awarded	Share of Total Grant Dollars	State GDP Share
Chittenden	\$33,796,212	33%	35%
Washington	\$12,351,562	12%	12%
Windsor	\$9,815,622	9%	8%
Windham	\$7,508,223	7%	7%
Rutland	\$9,072,569	9%	8%
Lamoille	\$7,397,477	7%	4%
Bennington	\$5,443,539	5%	5%
Addison	\$4,926,577	5%	5%
Franklin	\$3,921,026	4%	6%
Caledonia	\$3,424,647	3%	3%
Orleans	\$2,612,607	3%	3%
Orange	\$2,230,636	2%	3%
Grand Isle	\$846,380	1%	1%
Essex	\$465,402	0%	0%
Total	\$103,812,479		

Source: ACCD COVID-19 Economic Recovery Grant Program report

Alternative Methodologies That Could Be Considered

The ACCD definition of “need caused by economic loss due to the COVID-19 public health emergency” in most cases overstates true need. Among the ideas that could be used instead are the following:

1. Discount 2019 revenue for each business by a fixed percentage to reflect some shrinkage in economic activity in 2020. For example, reduce the Net Revenue Impact as currently defined by 30 percent before subtracting state and federal grants received.
2. Define need based on profit and loss statements for March through September 2020 for each business, and then subtract state and federal grants received.
 - a. This is the approach used to determine recovery grants for healthcare providers in Vermont through the Agency of Human Services.
 - b. Consider offering \$500 to each business to help defray the cost of accountant services needed to produce profit and loss statements.