

MAY 8, 2020

COVID-19 SMALL BUSINESS RESPONSE PLAN

Town of Plainfield



BACKGROUND

Generally, Plainfield is well positioned to weather the economic storm caused by COVID-19. Plainfield is a desirable and rapidly growing community and many of our core industries are well positioned to deal with the challenges the pandemic brings. Some of our biggest local employers, Duke Energy and the correctional facilities, are monopolistic in terms of the services they provide and their immediate or long term viability will not be challenged. E-commerce and logistics are actually continuing to grow through this crisis as many local facilities, like Walmart.com and Amazon, continue to have hundreds of job openings for job seekers.

However, our small businesses in Plainfield are being significantly impacted by the pandemic. Over 90% of firms in the retail, construction, and service industries (finance, insurance, real estate, etc.) have less than 20 employees. These small businesses have seen more significant disruptions to their business and are more likely to not have the capital or cash positions to withstand a prolonged reduction in revenues. According to the JP Morgan Institute, half of all small businesses have a less than 15 days worth of cash buffer. Meanwhile, costs are growing as businesses are challenged with new standards for maintaining a safe work environment and meeting new customer expectations in a changing environment.

It is our small businesses that provide vitality to our local economy and create a thriving community. Nationally, small businesses employ half of the workforce. Small businesses are a substantial part of the fabric of our community. It is critically important to support them in these challenging times.

EXISTING PROGRAMS

Over the last several weeks, Town staff has been evaluating the programs currently available or recently launched at the federal and state levels of government and through the Indy Chamber to support businesses. Much of the federal economic stimulus has been targeted toward individuals through direct cash transfers or improved unemployment benefits. Even some of the programs intended to support businesses have been targeted more toward employees.

Under the Federally funded Paycheck Protection Program (PPP), businesses can request up to 8 weeks of payroll costs capped at \$75,000. It is a forgivable loan at a 1% fixed interest rate. Loan payments will be deferred for 6 months and due in 2 years. No collateral or personal guarantees required. Some businesses have expressed that the conditions for forgiveness can create a challenge and that the funds are really targeted toward keeping people employed, rather than supporting the business.

The US Small Business Administration also offers Economic Injury Disaster Loans. At this time, only agricultural business applications are being accepted due to limitations in funding availability.

The Indy Chamber fundraised and was able to create a Rapid Response Loan fund. With loan amounts ranging between \$1,000 to \$25,000, this fund is designed to help fill the gap for small businesses while they pursue other federal funds. The program offers a 3.75% interest rate and no application fee. It is not a forgivable loan. While it is funded regionally and is offered to Hendricks County businesses, the vast majority of awards have been to Marion County businesses. The initial round of request also far exceeded the available funds.

Overall, while these and other small business programs have helped those that could take advantage, it seems that these programs are grossly underfunded, sometimes have strings attached, and simply aren't reaching many of our small businesses here in Plainfield.

While the Town's resources are limited relative to the Federal & State government or broad regional fundraising efforts, the Town is in a much better position to deliver needed resources and support directly to our small business community in a way that will likely have a more significant impact on their operations and ongoing financial stability.

This plan intends to provide support for local businesses in the following significant ways:

- marketing assistance through "shop local" communications
- technical assistance for small businesses navigating a changing environment
- Immediate Financial Liquidity Assistance through small business grants
- Long Term Financial Solvency Assistance through a small business revolving loan program

MARKETING ASSISTANCE **- SHOP LOCAL EFFORTS**

The Director of Communications has already been collaborating with the Plainfield Chamber of Commerce and Plainfield Main Street on a "Shop Local" campaign. A short video has already been posted featuring numerous local small business owners, such as The Real Food Shop, Reme's, Oasis, Do-it-best, U Paint Pottery, and more. The video -

encourages residents to support these local businesses by getting to-go orders or purchasing gift cards for future use. These businesses help our growing community sustain the "small town feel". Many of these Plainfield

businesses are willing to sponsor and volunteer at our community events and programs, so it's now our turn to support them.

The Communications Director, in coordination with our partners, will continue to assist in developing and editing video content in support of the "Shop Local" campaign. In addition, staff will support grant recipients under the Plainfield Small Business Grant and Revolving Loan programs, further described below, by highlighting individual recipients and their value proposition to customers and the community.

TECHNICAL ASSISTANCE – LEVEL TWO COWORKING SUPPORT

The 2008 recession has continued to have lasting effects on entrepreneurship. After a decade of growth, business startups have only recently achieved pre-recession levels. Recognizing this, the Town Council provided funding for the creation of Level Two Coworking. More than just a Coworking space, Level Two provides support services for small businesses and entrepreneurs.

During this crisis, Level Two's value is demonstrated more than ever as it has provided regular updates, not just to members but to all small businesses, on navigating the restrictions, accessing funding options, and even how to maintain mental health during these trying times.

This is in addition to the group's normal efforts to provide the latest small business management tools, building community and a small business network, as well as just providing motivation for small business owners.

However, the crisis has impacted Level Two as an organization as well as the businesses it serves. The shutdown forced Level Two to close its doors to non-essential business owners and waived membership fees for the month of April. The crisis has forced Level Two members to re-evaluate their own situations and several members have cancelled. This has set Level Two back in terms of meeting their goals for self-sufficiency. Level Two is seeking relief from its landlord for this period and investigating insurance coverage.

The Town should continue to support the Level Two organization and its efforts to support small businesses. This support could come in multiple forms. A two pronged approach is suggested: a direct grant to Level Two and a membership sponsorship.

First, a direct additional grant of \$5,000 could be made to Level Two to help cover costs and lost revenue associated with the shutdown. (With the Governor's Back on Track plan being implemented, Level Two is now back open, though with some limitations on the space.) This grant would ensure that it can continue to provide technical support for all small businesses. Specific details of that ongoing support could be worked out with the Level Two Board.

Second, the Town could sponsor a limited number of memberships at Level Two. As small businesses seek to cut costs, this may mean getting out of expensive leases or simply being removed from their current space due to failure to be able to pay. For businesses that need-

access to general office space, the Town could grant a “scholarship” that will cover the cost of an annual membership to Level Two for one year. An annual membership costs \$650. The Town could sponsor up to twenty (20) members by providing \$500 toward the cost of membership. The member would still contribute \$150 of the total cost. Level Two would be asked to establish the criteria for granting sponsorships and would manage the program. The total cost to the Town, if all sponsorships, are granted would be \$10,000. This program could help some businesses in transition and would encourage new membership at Level Two, potentially achieving two goals at once.

FINANCIAL ASSISTANCE – PLAINFIELD SMALL BUSINESS CRISIS RESPONSE GRANTS

In this crisis, the most fundamental financial challenge for some small businesses is a lack of liquidity. The liquidity concern is whether they have enough cash to pay their ongoing fixed expenses, like rent, utilities, and debt payments. Many local businesses have experienced severe reductions in revenues due to the shutdown of economic activity, which means they are relying on cash on hand to meet fixed costs. If a business does not have enough cash to make payments, it may become delinquent on debt or rent and eventually be forced to shut down. We are already seeing businesses of varying sizes making the difficult decision to shut their doors.

Immediate and direct financial assistance is needed to fill this gap for these businesses. A Small Business Crisis Response Grant Program is recommended to help small businesses cover the gap in liquidity and remain operational in the long term. Grants could be used to maintain payroll, pay rent and utilities, cover existing debt payments, or other expenses associated with operating a business in the new normal, such as purchase of PPE or changing payment processes.

The grant program will be focused on those businesses that are suffering economic loss due to the public health crisis and either they are not eligible for other assistance or have immediate needs beyond that which can be met by other federal and state assistance programs. The fund will be targeted toward emergency relief for small businesses with physical locations in Town.

Funding: \$75,000 in EDIT funds from Town. Town staff coordinated with Plainfield Main Street to apply for a small grant from Duke Energy to further support the program. The \$5,000 in Duke Energy funds will be targeted specifically toward Main Street Plainfield businesses, which will free up funds for other businesses in the community. Other matching grant sources may be sought to help fund additional rounds of applications.

Limits: up to \$2,500 per applicant. Most applicants will receive less than the limit as the preference is to distribute the funds as widely as possible across applicants while still providing impactful resources for individual applicants.

Please see a separate document on the Plainfield Small Business Crisis Response Grant Fund for more details on eligibility, review process, and timeline. The intent would be to launch this program immediately.

LONG TERM ASSISTANCE – SMALL BUSINESS REVOLVING LOAN PROGRAM

While the grant program seeks to address the immediate concern of liquidity, even those businesses that have the cash to remain open and operating through the crisis may face insolvency later as a reduction in cash inflow or an increase in expenses means that they cannot meet their financial obligations.

Establishing a Revolving Loan Fund (RLF) could provide access to a flexible source of capital. Many communities have established small business revolving loan funds, as an economic development tool, focused on working capital for developing businesses. During this crisis, many communities are refocusing their programs to provide quick access to operating capital to small businesses whose operations and cash flow have been negatively impacted by the pandemic.

A RLF is a gap financing measure primarily used for development and expansion of small businesses. It is a self-replenishing pool of money, utilizing interest and principal payments on old loans to issue new ones. Often, the RLF is a bridge between the amount the borrower can obtain on the private market and the amount needed to start or sustain a business. With competitive rates and flexible terms, a RLF provides access to new financing sources for the borrower, while lowering overall risk for participating institutional lenders.

The Town of Plainfield does not currently have an active RLF in place. It is recommended that the Town establish an active RLF, as soon as possible, to be in a position to support businesses affected by the crisis. It would also be a long term economic development tool for capitalizing small businesses in the community.

Initial funding, or capitalization, of a revolving loan fund usually comes from a combination of public sources, such as the local, state, and federal governments, and private ones like financial institutions and philanthropic organizations. Funding for capitalization is usually a grant - it does not need to be paid back. When capitalization is exclusively local, the RLF may have greater flexibility in lending, as state and federal involvement tend to include restrictions that may not fit local business needs.

In Plainfield, it is anticipated that most loan amounts would range from \$1,000 to \$10,000 with some mid-sized loans in the \$10,000 to \$50,000 (in conjunction with private financing). With this in mind, it is recommended that the RLF program be seeded with at least \$250,000 of EDIT funds to start. Additional contributions in future years may be considered, if demand dictates. The initial seed money could be used to leverage other private or philanthropic funding sources to match the Town's contribution, while avoiding restrictions that could limit accessibility or usefulness.

The establishment of the fund will take time and could happen in a couple of ways. It is understood that the Hendricks County Economic Development Partnership has an established revolving loan fund, but it apparently has been dormant for some time. The HCEDP may be in the process of resurrecting this fund.

The details of the HCEPD fund, its capitalization, and the eligibility requirements are still being discovered at this time. The Town is exploring whether this fund could be a vehicle for quickly establishing the RLF, but concerns regarding the level of capital currently available, the review process, and the ability to target Plainfield resources to Plainfield businesses would have to be addressed.

Alternatively, staff would work on forming a partnership with a local bank to establish the fund. With clearance to move forward, Town staff will begin to pursue the following steps to establish the fund in conjunction with economic development and banking partners:

- Research existing RLF's and compile samples of application forms, program guidelines, and other materials.
- Set the eligibility requirements for borrowers.
- Determine the allowed uses of funds as well as prohibited uses.
- Set a minimum and maximum amount for the loans.
- Decide if the loans must be matched by existing equity or other sources of funds.
- Determine the length of the loan term, which may vary based on the use of the loan.
- Establish an application fee, origination fee, and policies regarding closing costs. Define the default and delinquency terms.
- Decide if the interest rate will be variable or fixed and whether the rate will vary based on the project.
- Develop the loan application form. Create a short pre-application form or checklist to help borrowers determine if they are eligible.
- Set up a committee to review loan applications.
- Determine the administrative duties and staffing needs associated with the program.
- Promote the RLF and capitalize with funds from grants and individual donations.

A RLF plan would be created. The Plan will identify specific economic development goals. The economic development priorities of the RLF, including emergency funding in a crisis, will be defined in the Plan to guide the lending strategy. The Plan will also address how the fund will be administered throughout its lifecycle. While the RLF will take on projects with above average risk, borrowers will be expected to meet standard financial requirements in loan security, although some of those requirements may be flexed in crisis circumstances.

CONCLUSION

Small businesses are an important part of the fabric of our community. Our usual dining locations and favorite shopping sites, like Oasis Diner, Flapjacks, Ace or Do-it-Best Hardware, the Frigid Frog, or Sweet M's Boutique, are all being significantly impacted by the economic shut down that is a necessary response to the pandemic. To minimize the impacts of this crisis and ensure a quick economic recovery, it is critically important that we support these small businesses.

The four steps outlined this plan will bring immediate marketing support, technical support, and financial relief to these businesses, while also establishing a new economic development tool for continued capital assistance for recovering or growing businesses. The total cost of these programs is \$340,000, which can be absorbed using existing appropriations in the EDIT fund for economic development grants.