

To: All Clients
From: Richard Riebeling
Date: 3/31/20
Re: COVID-19 Governmental Response

Good Afternoon,

While there is significant uncertainty regarding the long-term impact of COVID-19 on our economy, we thought it most impactful to provide you and your team with information regarding the recently passed, \$2 trillion "CARES Act." The State of Tennessee's economic response and how the Metropolitan Nashville government is managing this crisis in its current form.

Analysis of Federal Government Response: As a result of the 2008 global financial crisis (including such legislation as the Troubled Asset Relief Package (TARP), American Recovery and Reinvestment Act of 2008 (ARRA), and Tax Relief Act of 2008,) national economic policies were designed to jump-start our economy. Similarly, to 2008, Congress is already underway with legislation to address the economy as the federal government manages the public health crisis. As outlined below in the CARES Act, the direct stimulus to families and individuals, as well as loans to small businesses and individuals, were the first steps in recovering from the current crisis. After reviewing those first steps, we believe that 2008's stimulus package will serve as the template for President Trump's economic response. While Congress has shifted, and the TARP, ARRA models, face more hurdles. As our friends in Washington D.C. have said, Congress will issue at least another massive economic stimulus, Phase 4, to focus on additional 'shovel-ready' projects within the next two months.

CARES Act:

Last week, on March 27, 2020, President Trump signed into law and economic stimulus packages entitled the "Coronavirus Aid, Relief, and Economic Security Act" or the "CARES Act." Part of this federal stimulus package dedicates \$349 billion for Paycheck Protection Program loans to provide much-needed funds to small businesses to keep employees on the payroll and to get through this epidemic. Please view these resources as an overview only.

- For an overview comparing the SBA's Economic Injury Disaster Loans and the Paycheck Protection Program loans, click [here](#).
- For the text of the CARES Act, click [here](#).
- For a section-by-section summary of the CARES Act, click [here](#).
- To see which banks in Tennessee have approved lenders through the SBA, click [here](#).

CARES Act Details:

- **Loan Program Eligibility.** Any business concern (including franchises), as well as not-for-profit organizations, with no more than 500 employees, are eligible to receive a single loan under this Act. The maximum amount of the loan is the lesser of (1) \$10M, and (2) 2.5 times the monthly payroll costs determined over a specific testing period. No personal guarantees or collateral will be required for loan eligibility under this Act.

- **Loan Proceeds Usage.** Loan proceeds can be used for payroll and other compensation costs, health benefits, insurance premiums, mortgage interest, rent, utilities and interest on other outstanding debt.
- **Loan Forgiveness.** Perhaps the most critical piece of the Loan Program is its loan forgiveness element. Pursuant to the Act, borrowers under this Act will be forgiven a specific sum equal to the sum of (1) certain payroll costs, (2) mortgage interest payments, (3) rent, and (4) utility payments that were incurred during an 8-week period beginning on the loan borrowing date.
- **Forgiveness Penalties.** Given the intent of the Act to save American jobs and salaries, the amount of the foregoing loan forgiveness will be reduced by certain factors. These factors include a reduction in the average number of full-time employees as well as a substantial reduction (beyond 25%) in employees' salaries.
- **Other Terms.** The maximum loan term under the Act will be 10 years (for amounts that were borrowed that are not subject to loan forgiveness), and the maximum interest rate is 4%. The first payment on any loan under this Act will be for at least six (6) months, but not longer than a year.
- **How to Apply.** Eligible business should seek competent counsel immediately to work on the application, as the loans will begin to be available likely by the middle of April 2020. Required information for the application will include payroll documentation, tax filings, unemployment insurance filings, proof of payment of payroll taxes, mortgage applications, and the like.

State of Tennessee:

- **Impact from "CARES Act" Stimulus Dollars on Tennessee:**
 - Governor Bill Lee says, "\$2-3 billion is likely headed to Tennessee from a federal COVID-19 relief package." However, he's still resisting calls for a statewide "shelter at home" policy.
- **General Assembly.** Lawmakers at the state passed a budget for the 2020-2021 fiscal year. This budget was slimmed down, in preparation for COVID-19 and anticipating the revenue shortfall. These cuts and other earmarked projects went instead to increase the state's rainy-day fund, raising the rainy-day fund from \$875 million to \$1.45 billion. The governor has not indicated where and when disaster relief funds will be released.
- **Uncertainly resigns supreme** as the State of Tennessee has not issued a shelter in place order. However, the Governor did issue a "Safer-at-Home" Executive Order.
 - There is much ambiguity as to whom that order impacts.
- Governor Lee has indicated that 'personal responsibility' is the most critical factor for Tennesseans to consider during the COVID-19 crisis. So likely, his fiscal response will likely mirror that theme and not provide an increase in unemployment dollars, but an expansion of the program.
- Businesses and business owners will be better positioned for any funds from the state to be in the form of *private-public partnerships*.
- Unemployment has topped 40,000 claims according to the state.