Insight

The American Rescue Plan and Financial Services

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Executive Summary

- House Democrats have proposed $60 billion in aid to small businesses as part of the $1.9 trillion American Rescue Plan currently going through the budget reconciliation process.
- The most significant aspect of the small business plan is the creation of a new $25 billion grant program operated out of the Small Business Administration dedicated solely to helping struggling restaurants.

Context

With bipartisan agreement unlikely on President Biden's $1.9 trillion coronavirus relief plan, the American Rescue Plan, Democrats have turned to the budget reconciliation process. This powerful legislative tool would allow Senate Democrats to bypass Senate filibusters that otherwise would require 60-vote assent or unanimity with a simple majority (for a primer on the budget reconciliation process, see here). Twelve House committees have made recommendations and drafted elements of the $1.9 trillion American Rescue Plan, including the Financial Services Committee led by Chairwoman Maxine Waters and the Small Businesses Committee led by Chairwoman Nydia M. Velázquez.

Chairwoman Velázquez has released bill text and a summary of a $50 billion small business rescue plan that would create $25 billion in grants for restaurants and expand the Paycheck Protection Program (PPP) to make more nonprofits eligible for loans. Chairwoman Waters likewise has released bill text and a summary of a proposed $75 billion aid package, but the majority of this proposal relates not to financial services but rather housing (see housing analysis here). Only $10 billion of that package relates to small business, but that $10 billion, in the form of a proposed State Small Business Credit Initiative, is designed to support $100 billion in financing through state, territorial, and tribal governments.

At a total cost of $60 billion, the aid directed toward financial services represents a small fraction of the total $1.9 trillion relief plan, especially as compared to the $800 billion the CARES Act directed to support small and large businesses or the $325 billion in small business aid that Congress passed in December, including an additional $284 billion in funding for the PPP, which remains largely available.

The Democrats' Proposal

<u>Committee on Small Businesses</u>

$25 billion for the creation of a new grant program at the Small Business Administration (SBA) specifically for the use of restaurants, with $5 billion reserved solely for restaurants with less than $500,000 in 2019 revenue. Grants would be available to pay a wide range of expenses, from rent to payroll to paid sick leave. Individual restaurants may obtain a grant of up to $10 million, calculated using the difference between 2020 and 2019

revenue. For the first three weeks of the program, grant applications from restaurants owned by women, veterans, and “socially and economically disadvantaged individual[s]” will be prioritized.

$15 billion in additional funding for Economic Injury Disaster Loan (EIDL) grants, the SBA’s disaster loan program. These funds are to first address “potential funding shortfalls” and to be targeted at participants in the program who may not have received funds before those funds then become available to other “severely impacted” small businesses. In 2020 the SBA approved roughly $200 billion in nationwide EIDL loans.

$7.25 billion in additional funding for the PPP. These funds do not appear to be intended to bolster the PPP in any meaningful way but instead to offset the cost of expanding the scope of PPP eligibility to include additional non-profits and internet-only news publishers.

$1.25 billion in additional funding for the SBA Shuttered Venue Operators Grant Program, a $15 billion program established in December to provide aid to live venue operators including theaters, museums, zoos, and aquariums.

$175 million for the creation of a Community Navigator Pilot Program, an educational program designed to guide business owners through the COVID-19 financial relief options available to them.

$1.35 billion in new administrative funding to carry out these programs.

House Financial Services Committee

$10 billion for the State Small Business Credit Initiative, a financing program directed by local governments (state, territory, and tribal) to provide up to $100 billion in small business financing. This funding will prioritize businesses owned and controlled by socially and economically disadvantaged individuals, including minority-owned businesses, and would require participating local governments to submit plans explaining how they would deliver these funds expeditiously and encourage the participation of minority and community development financial institutions. It is not obvious how local governments would be allocated this $10 billion.

The Byrd Rule

Key to the modern implementation of the reconciliation process is the “Byrd rule,” named in honor of former Senator Robert Byrd. Given that budget reconciliation represents a “fast-track” process whereby measures can pass the Senate with only a simple majority, concern was raised that reconciliation might be used to pass “extraneous matter” that does not relate clearly to the reconciliation instruction. The Byrd rule contains six instructions as to what might constitute extraneous matter, but, put simply, unlawful provisions are those that do not have budgetary implications, would increase the fiscal year deficit above that covered by the reconciliation measure, or cover topics outside the jurisdiction of the submitting committee.

Were any part of the above to fall afoul of the Byrd rule, it is likely to be the expansion of the PPP to cover new eligible institutions, as that change alone would not seem to have budgetary implications. That the Small Business Committee would appropriate an additional $7.25 billion for the program may simply be a tacked-on budgetary implication in order to skirt this rule, given that there is no reason why a PPP scope change would require the program to receive additional funding.

Conclusions

$60 billion represents rather small beer in the context of the $1.9 trillion American Rescue Plan and previous legislative efforts. With the overall plan’s primary focus on direct payments to individuals, tax credits, the running of hospitals, and the opening of schools, financial services are not a particular priority for Congress, with what little attention the industry does receive reserved solely for struggling small businesses. The proposed bill by Chairwoman Velázquez is interesting for how focused it is, and in particular that it represents the first relief targeted specifically at restaurants by name. This new program will, however, once again increase the burden on an already taxed SBA, a previously relatively sleepy agency thrust into great prominence by the CARES Act and already at its limits of manpower, infrastructure, and experience. That the proposal skirts around the PPP is also curious. This mélange of grants and assistance programs, while hyper-focused individually, multiply an already crowded field of relief options available to small businesses, such that lawmakers on the left feel the need to set up an educational body just to navigate these choices, rather than improve existing options to better serve identified needs.