

## Electric Cooperatives and the Paycheck Protection Program

### Key Facts:

- The ‘**Paycheck Protection Program**’ (PPP) was established under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), and is being administered by the U.S. Small Business Administration (SBA) and Department of Treasury. Initially funded at \$349 billion, an additional \$310 billion funding was subsequently provided to the program.
- The PPP provides loans (under the SBA 7(a) loan program) to eligible small businesses for up to 2.5 times average monthly payroll expenses, not to exceed **\$10 million**. Loan forgiveness will be provided for up to eight weeks of qualified **utility bills (including electric, telephone, and internet)**, mortgage interest and rent, and payroll costs.
- SBA and Treasury [issued guidance](#) on May 14<sup>th</sup> explicitly stating that **501(c)(12) electric cooperatives are eligible PPP borrowers** if they meet eligibility requirements. Co-ops should review [all other eligibility criteria and requirements](#) should they plan on applying for this program.

### Background on the Paycheck Protection Program

The PPP provides 100 percent federally guaranteed loans to eligible small businesses, with loan forgiveness built-in for certain eligible expenses if payrolls are maintained during or restored after the coronavirus pandemic. The program is being administered under a modified and expanded SBA 7(a) loan program.

Borrowers can obtain loans of up to 2.5 times their average monthly payroll expenses, not to exceed \$10 million. If borrowers maintain their payrolls during the pandemic or restore their payrolls afterward, loan forgiveness is available for up to eight weeks for qualified payroll costs, utilities (electricity, gas, water, transportation, telephone, and internet), interest on mortgage, and rent.

Loans will be available through SBA-certified banks, credit unions, and nonbank lenders, including newly eligible financial institutions under the CARES Act. Additionally, the CARES Act waives certain collateral and personal guarantee requirements and a requirement that the applicant be unable to obtain credit elsewhere, though applicants should review SBA/Treasury guidance which continues to evolve.

### Electric Cooperatives Are Eligible for the Paycheck Protection Program

Nearly all of America’s electric cooperatives are classified as “small” under the SBA size standards. Unfortunately, SBA program guidance traditionally limited eligibility for loan programs to only businesses that are “organized for profit”, even though they removed “consumer and marketing cooperatives” from the list of entities *ineligible* for SBA loans in 2017. The CARES Act, however, casts a wider net on newly eligible entities for the PPP and emphasizes that “any business concern” of not more than 500 employees or meeting the applicable SBA size standards should be eligible.

On May 14<sup>th</sup>, Treasury and SBA issued guidance explicitly stating that 501(c)(12) electric cooperatives are eligible PPP borrowers if they meet eligibility requirements. Co-ops should review all eligibility criteria and requirements should they plan on applying for this program. Since enactment of the CARES Act, the Paycheck Protection Program Flexibility Act (PPPFA) was signed into law and made several, beneficial changes to the program, including:

- Extending the eight-week period when proceeds must be spent for loans to be forgiven to 24 weeks or until the end of the year, whichever comes first;
- Extending to five years, instead of two, the time that borrowers have to repay the loan;
- Lowering the amount borrowers must spend on payroll to qualify for full loan forgiveness from 75 percent to 60 percent; and
- Allowing companies with forgiven PPP loans to also utilize the payroll tax payment deferral.

As small business entities, electric co-ops face many of the same challenges as other small businesses in their communities. Not all co-ops will need to utilize this program. But for some, the economic uncertainty has made this program necessary to support ongoing operations as they are being asked to keep the lights on for families and businesses, many of whom now cannot pay their bills. And for those electric co-ops that are providing internet service to their communities, their work will be critical to providing telehealth services and closing the homework gap during this pandemic.

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