Construction Company Name

COVID-19 Payroll Protection Program (PPP) Needs Narrative

Date: XX/XX/XXXX

Date of PPP Loan Application: XX/XX/XXXX

Amount of PPP Loan: $XXXXXX

**Introduction**

The purpose of this narrative is to provide specific information to certify that our PPP loan request was necessary to support our ongoing operations due to economic uncertainty. The declarations of a state of emergency by the U.S. and Maine governments and the pandemic have negatively impacted our Company and the construction industry in several different ways, as outlined below.

**Impact to Revenues**

Although the State of Maine declared “construction” an essential service, the impact to our Company’s revenues and backlog was immediate. Our Company constructs commercial and industrial buildings in the public and private sectors. In particular, we focus on hospitality and retail industries that have been hit the hardest with the pandemic. We had some signed contracts that were delayed, and other contracts have been postponed indefinitely. Prior to the state of emergency, we had some private projects we were bidding on, or performing pre-construction services on, which have now been delayed or postponed indefinitely. We expect a significant reduction in future construction work, as private and public sectors are delaying projects until the economy stabilizes and the pandemic is under control.

Our service side of the business has also been negatively impacted. We provide maintenance, repair, and inspection services. Although some of our services are essential for safety and health purposes, we have a number of customers who are delaying, as well as cancelling, non-essential services.

Our revenues and related profits have been negatively impacted by the pandemic, and the future outlook for new construction projects and service work is very uncertain.

**Impact to Production and Related Costs**

On March 18, 2020, Governor Mills issued an Executive Order declaring “construction” as an essential service, requiring six-foot social distancing for both employees and the members of the public, and requiring employees to work remotely, to the extent practicable. To address such measures, we required our project managers, estimators, and certain field supervisors to work remotely, to the extent practicable. In addition, we have instructed our field employees to maintain a safe six-foot distance from all people.

Maintaining a six-foot distance on a job site is quite challenging for several reasons. There are some tasks that require two or more people to complete and other tasks that require people to be enclosed in tight spaces. Accordingly, we have implemented distancing protocols, work sequencing and scheduling changes, and alternative production methods to comply with these requirements. As a result of these changes, we have observed a measurable reduction in production.

We have also noted production inefficiencies and reduced labor force with our subcontractors for similar reasons, causing work delays. For some of our contracts, these delays will impact our ability to complete these projects in a timely manner pursuant to the contract terms, exposing us to significant liquidated damages.

The global pandemic has also negatively impacted the supply chain for the construction industry. Many electrical and mechanical controls, electronic devices, and other building materials are sourced from foreign countries. There is some uncertainty in determining the extent of the impact these delays will have on our costs and deliveries.

We have most of our office employees, including project managers and site supervisors, working remotely. We have also observed a decline in production and efficiency, as remote operations inherently cause barriers to collaboration and communication. Fortunately, technology, to some extent, has helped to mitigate some of these barriers.

These production inefficiencies and supply chain concerns translate into reduced profits, cost overruns, and potential late-delivery penalties. Without an end to the pandemic in sight, we expect these production-related costs to escalate, further impacting our Company’s financial position.

**Impact to Employees**

Based on the reduction of current and expected new work, we determined that layoffs were necessary to maintain the financial viability of our Company, if not for the PPP loan. We understand that the PPP was necessary to provide economic relief to small businesses, employees, and the communities they serve. With the use of the PPP loan proceeds, we expect to retain most of our employees, whether or not they are fully productive. The PPP loan proceeds will help us to continue to pay for health benefits which are critical to our employees, especially during these times. We do expect some employees to stay at home and collect unemployment by virtue of the extra $600 stipend. There is risk that these employees will not return to work when we’re ready to re-hire. If this happens, we may not be able to restore our workface to the level needed at some point in the future. We may need to hire people with minimal or no construction experience which will increase training costs, reduce production, and expose our Company to job site accidents and workers compensation claims.

**Risk Mitigation Costs**

In order to comply with the COVID-19 health and safety requirements of the Maine Department of Economic and Community Development and Federal Centers for Disease Control and Prevention, we have implemented protocols to protect the wellbeing of our employees and our community. These added safety measures have resulted in increased operational costs. It’s uncertain, at this time, how long these added safety measures will be in place and what the economic impact will be to our Company.

Pandemic related costs include, but are not limited to, personal protection equipment, cleaning and disinfectant supplies, safety training, medical testing, and office and job site COVID-19 protection. In addition, we have incurred significant technology costs to support our remote employees, including new laptops and monitors, software licensing, upgraded network and internet capacity, and IT support.

Collectively and to-date, these risk mitigation costs have been significant. According to government statements, the pandemic will be a concern for many months to come, and the future ongoing costs are expected to continue.

**Liquidity**

Most of our projects require surety bonds. In order to qualify for surety credit for our Company, we must maintain a certain level of working capital and liquidity. The loss of revenues and reduction of profits would impact our ability to obtain the necessary surety credit to bid and secure future construction projects. For this reason, the PPP funds are critical to maintain our liquidity levels for surety purposes. Between the increase in operating costs and reduced revenues and profits, our available liquidity is not adequate to sustain our ongoing operations due to the financial impact of the pandemic. The only other source of liquidity would be to borrow money from the bank, which would further impair our Company’s financial viability. We recall, quite vividly, the toll the last recession took on our finances, workforce, and community. We’re relying on the PPP funds to safely move us through this pandemic and difficult period.

**Conclusion**

We have outlined specific facts and factors to certify that the PPP loan was necessary to support our ongoing operations due to the current economic uncertainty, and that we applied for the loan in good faith. Our intention is to use these funds to retain workers, pay for eligible expense under the PPP, and to provide the liquidity needed to maintain our operations. Without the PPP funds, we would need to lay off employees, reduce salaries and benefits, reduce overhead costs, and make other major operational changes.