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Treasury Guidance on Payroll Support to Aid Airline Industry Employees, And on Loans to the Airline Industry

Subtitle B of the CARES Act- Grants

The Coronavirus Aid, Relief and Economic Security Act (Act) authorizes the Secretary of the Treasury (Secretary) to issue grants to passenger air carriers, cargo air carriers, and airport/airline contractors (e.g. catering, ramp, or cleaning companies) that must be **exclusively** used for the “continuation of payment of employee wages, salaries and benefits.”

The Act provides up to \$25 billion in grants to passenger air carriers, \$4 billion to cargo air carriers, and \$3 billion to airline contractors. The amount of available grants are based on salaries and benefits paid between April 1, 2019 and September 30, 2019, as provided to the Department of Transportation (if such reports were required) or as attested to by the grant applicant if no such DOT reports were necessary.

Applicant companies are only eligible for grants if they agree to the following conditions:

- they use payments exclusively for the continuation of wages, salaries and benefits;
- they refrain from conducting involuntary furloughs or layoffs, reducing pay rates and benefits, until September 30, 2020;
- refrain from stock buybacks of a direct or indirect parent company of the applicant through September 30, 2021;
- they agree to limit compensation to certain highly-paid employees or executives through March 24, 2022.

The Act prohibits the government from conditioning any aid upon the company and union re-negotiating its collective bargaining agreements, through September 30, 2020. The Act also allows the Secretary to condition grants on receipt of equity or company debt, and requires the Secretary to report the amounts and conditions of grants to

Congress. Grant recipients may also be required to agree to maintain scheduled air transportation service if the Secretary of Transportation deems it necessary.

All grant applicants should apply by 5pm Eastern on Friday, April 3, 2020. Applications submitted after that deadline will be considered but may not receive approval as quickly. Applications received after April 27, 2020 may not be considered at all.

Grant payments may be made by the Secretary of the Treasury in a single tranche or in several tranches. It seems clear that payments will be made as soon as possible, although the regulations do not set out any specific dates for payments to begin.

Subtitle A of the CARES Act- Loans

The Act authorizes the Treasury Department to make loans to eligible United States businesses, states, and municipalities that have incurred losses as a result of coronavirus. It provides:

- Up to \$25 billion for passenger air carriers; businesses certified to perform inspection, repair, replacement, or overhaul services; and ticket agents;
- Up to \$4 billion for cargo air carriers; and
- Up to \$17 billion for businesses critical to national security.

The current Guidelines (as of March 30) are preliminary and may be updated, revised or modified at any time. The Treasury Department will issue supplemental information, procedures, rules, and policies; and an application form, instructions, and evaluation criteria.

The Current Guidelines outline information for Borrowers including Statutory Eligibility, the Terms and Conditions for such loans, and Application Requirements. Relevant provisions include the following:

- Borrowers must agree not to engage in stock buybacks or dividend payments until the date 12 months after the date the loan is no longer outstanding.
- Borrowers must agree to maintain employment levels as of March 24, 2020 until September 30, 2020, to the extent practicable, and in any case not to reduce levels by more than 10%.
- Borrowers must agree to limit compensation to certain highly-paid employees or executives.
- Air carriers must maintain scheduled service deemed necessary by the Secretary of Transportation.
- No loans may be made to any company in which the President, Vice President, executive department head, Member of Congress, or any such individual's spouse, child, son or daughter-in-law own over 20% outstanding stock.

DAVID BOURNE, Director, Airline Division

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Borrowers must submit information describing the following:

- Existing debt and credit lines, and scheduled debt service for next three years.
- Employment levels, by head count and total compensation amount, as of March 24, 2020, and any proposed changes during 2020.
- Consolidated financial statements for previous three years.
- Covered losses incurred or to be incurred due to coronavirus.
- Evidence that borrower cannot obtain credit elsewhere.
- Passenger air carriers must describe available seat miles, revenue / seat mile, and cost/ seat mile for 2019 and a forecast for 2020.
- Cargo air carriers must describe available ton miles, revenue/ ton mile, and cost per available ton mile for 2019 and a forecast for 2020.
- The type and value of security to secure loan.
- The purposes for which borrower will use loan.
- The borrower's financial needs for the remainder of 2020, and how the loan will address those needs together with other sources of funding (including payments under Subtitle B).
- Operating plan for remainder of 2020 if loan is approved.
- Plans for cost restructuring.

Borrowers will apply directly with the Treasury Department, which will disburse loans directly to borrowers. The Secretary will approve or deny applications based on published evaluation criteria, and may reject applications that do not comply with procedures or applicable statutes or regulations. The Treasury Department may disclose information from applications to and consult with the Department of Transportation.

A handwritten signature in black ink, appearing to read 'David Bourne', with a long horizontal flourish extending to the right.

Capt. David Bourne
Director, Teamsters Airline Division