

Regional Response and Recovery Framework

Coordinated efforts to “flatten the curve” of the novel coronavirus (COVID-19) through social distancing measures have proven effective for alleviating the level of strain on health-care systems. However, additional steps are needed to mitigate the immediate economic stress of the crisis, as well as to set the stage for an eventual return to growth. The Center for Regional Economics at the Milken Institute has therefore developed a framework set of policy recommendations for local and state leaders to ensure the current and future economic health of their communities through short-term response and long-term recovery.

Context: Why is Collaboration Necessary?

The COVID-19 crisis presents two core economic policy challenges. On one hand, it is difficult to predict whether and how federal government intervention will effectively meet communities’ particular needs. On the other hand, many local officials—from counties, cities, and rural communities—lack the ability to respond to this crisis without access to federal funding and technical guidance from state agencies. This framework is designed to help solve these challenges through regional collaboration, particularly among state and local policymakers.

Regional leaders can take a more proactive approach to mitigating economic challenges—such as a rise in unemployment, drop in investment, and spike in bankruptcies—in the short term by extending low-cost credit, particularly to small businesses. Extending credit to small businesses can also serve as the foundation of a more proactive approach to expanding economic opportunities in the long term. State and local credit enhancement programs can be particularly valuable tools for moving from specific response efforts toward broad-based recovery. But existing delivery systems for allocating capital may not always reach the hardest-hit sectors of the economy, thus requiring regional leaders to examine new approaches to deploy funds as quickly and effectively as possible.

To be sure, an adequate public health response is crucial to ensuring the current and future economic health of regional communities. Without implementing social distancing measures—as well as stepping up testing and treatment—cities, counties, and states will struggle to contain the spread of the virus. The resulting costs of hospitalization and deaths will be a further drag on communities’ economic well-being, particularly if a significant proportion of the population is unable to return to full-time employment.

Our colleagues at the Milken Institute and elsewhere have offered valuable advice regarding the appropriate public health response to the COVID-19 crisis. The task facing us, therefore, is to provide guidance to regional leaders on the proper course of action for protecting—and improving—the economic health of their communities. The recommendations outlined here cover the disbursement of emergency

funds in the short term as well as the deployment of long-term finance for building the foundation of broad-based growth.

Short Term: How Should Regional Leaders Respond to the Crisis?

State-level officials, in particular, must play a key role in ensuring that messaging and services are as consistent as possible across counties, cities, and rural areas. Through targeted public service announcements, they can help inform businesses about how to access US Small Business Administration (SBA) programs and state-level programs offering loan guarantees or collateral support. They must also prepare to handle a record number of unemployment applications, and wherever possible, coordinate with county and local officials to connect job seekers and openings as quickly as possible.

Local officials must play a key role in collecting data on local activity to monitor the economic health of their communities, particularly as non-essential businesses are forced to close their doors or otherwise limit the goods and services they offer. Because the economic effects of the crisis are often felt most acutely at the micro level, regional coordination can provide a conduit for sharing resources from government agencies as well as chambers of commerce.

Given that 2020 is an election year, both state and local officials must also provide safe means for eligible voters to exercise their right to vote. Measures to preserve the democratic franchise and ensure voter safety include expanding state-level registration and voting options that facilitate social distancing (e.g., vote by mail and no-excuse absentee voting), reducing crowds at polling locations through early voting, and encouraging clerks' offices to open additional polling sites and maintain longer voting hours.

Targeted Policy Assistance

SMALL BUSINESSES

- **Distribute emergency federal funding allocated to state and local governments through existing state-level programs: grants, loans, and technical assistance**
 - Prioritize use of capital to limit reduction of operating hours, reduce layoffs, and limit furloughs due to crisis
 - Engage outside partners to assist businesses with applications; focus on small business councils and chambers of commerce (including organizations specifically representing ethnic and racial minorities, veterans, and women)

- **Engage chambers of commerce and small business councils to provide business recommendations directly to firms**
 - Use available lines of credit as soon as practicable to avoid potential problems with accessing cash flow due to further disruptions in the lending environment
 - Reexamine long-term expenses and reduce, delay, or eliminate short-term non-essential operational costs as much as possible

- Reduce hours for nonessential personal (in lieu of laying off workers) to reduce downtime and ramp up full operations quickly once conditions improve
- Establish open lines of communication with creditors and suppliers to increase flexibility and provide more opportunities for adjustment

WORKERS

- **Ensure that individuals retain their existing health-care coverage and expand access to coverage by removing financial and regulatory barriers**
 - Have state insurance commissioners require employers to maintain coverage for employees whose work hours fall below existing minimum thresholds
 - Open special enrollment periods for state-run insurance exchanges
 - Issue emergency waivers to expand Medicaid enrollment for eligible individuals
- **Enact emergency paid sick leave programs that allow workers to take time off if they contract the virus or are responsible for caring for a family member with the virus**
 - Require businesses to provide additional paid sick leave regardless of workers' accrued leave time
- **Expand state unemployment insurance (UI) to protect workers who lose their jobs or have substantially reduced hours**
 - Authorize UI claims as quickly as possible, including prior to eligibility verification, and relax weekly documentation of employment status to eliminate benefit delivery waiting periods
 - Waive job-seeking requirements and expand eligibility requirements for independent contractors to access benefits
 - Expand "work sharing" programs for workers who lose hours but remain employed

CHILDREN AND FAMILIES

- **Expand support systems for children and families facing additional burdens**
 - Extend paid leave to parents now responsible for child care due to closures of schools, preschools, and day-care facilities
 - Offer direct subsidies to families with children in public schools to replace the value of school lunch programs
 - Support moratoriums on evictions, utility shutoffs (including internet and cell service), and collection of medical and court debt
 - Study the viability of creating a fund to use the Earned Income Tax Credit (EITC) as a forward-facing income and housing stability mechanism

Potential Policy Partnerships

NONPROFIT SECTOR

- **Establish regional relief funds and partner with local nonprofits to help ensure that funds are directed to individuals with the greatest needs**
 - Use existing engagement by these organizations to establish legitimacy and evaluate the strongest targets for philanthropic assistance
 - Prioritize communication with organizations that focus on protecting workers and maintaining employment, preventing homelessness, providing housing security, ensuring food security, and addressing racial bias

PRIVATE SECTOR

- **Engage directly with corporations offering cash grants and credits, particularly those targeting small businesses**
 - Require corporations to provide awardees with specific information on the details of these support programs

Long Term: How Should Regional Leaders Prepare for Recovery?

Given that the US Congress recently passed more than \$2 trillion in additional spending, including \$350 billion in small business loans, this is a crucial moment for regional leaders to leverage a long sought-after increase in federal funding to set their communities on a new growth trajectory. Due to the persistence of specific deficiencies in the existing policy infrastructure, regional leaders must also focus on facilitating access to financing from private-sector and philanthropic partners. Such large sections of the US economy have never been shut down and reopened on this scale, so communities that have adhered to a plan for reducing risk and increasing returns can use additional funding to accelerate growth, while communities that have not planned may lag behind for years to come.

At the state level, officials must use credit enhancement to provide incentives for private capital to finance businesses reopening locations, rehiring workers, and expanding operations. States must also expand investment in workforce development—including matching funds for enhanced training—to prepare their constituents for new jobs in 21st-century industries, particularly those that offer opportunities for value-added production of goods and services. Wherever practicable, state officials should identify opportunities to expand avenues for recovery in low- and moderate-income (LMI) areas, both those within urban centers as well as rural areas that may have a more difficult time attracting additional funds.

At the county and city level, officials must expand their communications with smaller financial institutions such as community banks to recruit them as participants in credit enhancement programs. Because investors and lenders will likely focus on the lowest-risk opportunities, officials in LMI areas (including those with a high concentration of Opportunity Zones) may explore how additional local incentives can reduce risk perception and expand potential returns. However, they must be careful not to abandon regional collaboration in favor of a “race to the bottom” by removing regulations and worker protections to attract local financing.

Finally, because access to additional federal funds will also depend on successful completion of the 2020 US Census, state, county, and city officials must actively encourage their constituents to be counted by mail, over the phone, and online.

Targeted Policy Assistance

CREDIT ENHANCEMENT

- **Establish or fortify credit enhancement and loan modification programs to increase funds through additional lending, particularly from private-sector financial institutions**
 - These credit enhancement programs may include loan participation, loan guarantees, collateral support, and venture capital partnerships
- **Where existing programs already provide credit enhancement options, review strategies to ensure that credit agencies are using available expertise and resources**
 - Modify loans to make them smaller, more flexible, and easier to access
 - Couple decreased capital reserve requirements with strong financial underwriting capabilities
 - Provide increased flexibility for converting tax credits into upfront grants via exchange marketplaces
 - Explore viability of increasing levels of loan participation, loan guarantees, and collateral support; consider which lenders will be attracted by higher guarantees (and whether they support broader policy objectives)
 - Establish incentives for investment in priority activities or areas where current levels of investment are deficient (e.g., energy efficiency upgrades, business formation, local hires)
- **Where existing programs do not yet provide credit enhancement options, develop new strategies and incentives**
 - **Modify loans to make them smaller, more flexible, and easier to access**
 - Specify eligible program beneficiaries (specific industries, regions, or financial constraints) and processes required for approval of eligibility
 - Explore the viability of creating a loss reserve fund and/or new collateral support mechanisms to provide working capital, cover startup costs, or invest in long-term assets
 - Create a marketplace of prequalified lenders who can provide local government-backed loan guarantees that are fully or partially insured by federal or state governments
 - Focus on financing low- to mid-size projects located in LMI areas (e.g., construction of housing for individuals at 80–200 percent average median income and/or assistance for businesses with \$500,000–\$5 million in revenue)
 - Evaluate costs and benefits of alternative approaches, such as a new tax-exempt 501(c)(3) organization to serve as a regional credit agency or a new bond bank to coordinate buying and selling securities on behalf of local agencies

- Authorize 1:1 funds match for philanthropic projects

GOVERNMENT PROCUREMENT

- **Establish or expand procurement programs, which will increase access to revenues from government purchases and provide a valuable fiscal policy lever during future economic downturns**
 - Cultivate a pipeline of projects by creating a regional exchange to attract bidders and help ensure that additional private-sector capital is aligned with state funds and divided among projects in the regional exchange
 - Increase collaboration in LMI areas by engaging or activating community advisory boards to guide decision-making and promote local collaboration
 - Expand pre-development funding to help prioritize investment in climate resilient projects (especially infrastructure and housing) and support local capacity to leverage state-level procurement opportunities
 - Identify and remove specific barriers to increased small business participation in procurement, particularly for minority- and women-owned firms

INFORMATION SHARING

- **Create public service announcement and/or informational campaign to collect data from and provide guidance to businesses**
 - Provide local health and safety inspection agencies with resources to conduct surveys of ongoing business operations and need for additional support services
 - Share survey information/results with local and county economic and workforce development agencies to align programs with federal funding opportunities
 - Share survey information/results with state economic and workforce development agencies to make the case for additional federal funding

Potential Policy Partnerships

COOPERATION AGREEMENTS

- **Organize state-wide engagement with local authorities to explore viability of regional recovery initiatives that are not administered by officials from a sole jurisdiction**
 - Use state-level data on geography of funding disbursement and unemployment filings to identify regional needs and potential links to additional resources (particularly for exurban and rural areas)
 - Provide guidance to local officials on establishment of formal cooperation agreements among relevant city/county/state public-sector entities, with clear definition of administration and oversight responsibilities

- Establish list of priority targets for engagement to secure funding (including private-sector financial institutions or philanthropic organizations)
- Establish list of priority activities to support (e.g., maintenance of regional supply chains, workforce development and training)

EDUCATIONAL INITIATIVES

- **Institute support service mechanisms to increase the resilience of small businesses to similar crises in the future**
 - Organize webinars and regional networking programs to help guide small businesses through expanding online presence and e-commerce offerings
 - Expand funding for digital workforce development and training through community college systems and local high schools

Defining Priority Investments

Credit enhancement and loan modification programs can also be used to direct federal (and state) funding to priority issues and/or areas of interest, as well as to offer capacity-building grants to nonprofit organizations working in key issue areas. The following should be considered priority issue areas for directing stimulus funds to support small business expansion:

- **Build Better Cities: Provide financing for construction projects and physical improvements, including affordable housing and transportation infrastructure**
 - Efficient built environments sustain diverse labor markets, economic mobility, job opportunities, movement of goods and services, and climate risk mitigation
- **Support Knowledge-Based Growth: Expand access to financial capital for training and investment in R&D, and fortify workforce development programs to generate human capital as a resource for innovation**
 - High-tech and advanced industrial capacity can improve employee attraction, retention, and skills, as well as generating higher wages for their workers
- **Expand Global Trade: Reaffirm the importance of economic integration and increase access to trade financing options, such as working capital and loan guarantees for firms investing in fixed assets, to remain competitive in the global economy**
 - Exports can help boost wages, create jobs, and retain talent, as well as attracting foreign direct investment