Regional Response and Recovery Framework

Coordinated efforts to “flatten the curve” of the novel coronavirus (COVID-19) through social distancing measures can alleviate 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.

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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

Engage state treasury officials to design zero-interest loans and/or cash grants to cover fixed operating costs (utilities, insurance, and payroll) up to a specified percentage of revenue losses during quarantines and shutdowns

- Require businesses to use loans to fund operating costs, with a priority on averting layoffs through balanced reductions of staff working hours
- Communicate with other regional officials to design tax credit and/or rebate programs that do not provoke a "race to the bottom" with respect to business regulations and/or worker protections
- Offer technical assistance through local/regional/state workforce development departments to provide online classes and consultation, with a particular focus on capital access and financial planning

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

Updated: April 3, 2020
• 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
• Immediately expand UI protections to idled workers and eliminate benefit delivery waiting periods
• Waive job-seeking requirements and expand eligibility requirements for independent contractors’ access to benefits (including family and medical leave
• Expand “work sharing” programs for workers who lose hours but remain employed
• Allow health-care workers and first responders to receive workers’ compensation if quarantined due to exposure (even if they do not contract the virus)

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. However, the persistence of specific deficiencies in the existing policy infrastructure means they must also focus on facilitating access to financing from private-sector and philanthropic partners. And because regional access to federal funds will also depend on successful completion of the 2020 US Census, local officials must actively encourage constituents to participate by mail, phone, and online.

State-level officials must expand avenues for recovery through better incentives for capital allocators to provide financing for small business. They must also expand investment in workforce development to prepare their constituents for new jobs in 21st-century industries, particularly those that offer opportunities for value-added production of goods and services.

Local officials must expand their communications with smaller financial institutions, including community banks and venture capitalists, to help recruit them as participants in credit enhancement programs. They may also explore how additional local incentives can enhance participation rates, while being careful not to abandon regional collaboration in a “race to the bottom” to attract local financing.

Targeted Policy Assistance

CREDIT ENHANCEMENT

- Establish or fortify state-run credit enhancement and loan modification programs
- Use loans to provide working capital and startup costs as well as investment in long-term assets (e.g., facilities, equipment, etc.)
• Modify existing small business loan programs to make loan amounts smaller, more flexible, and easier to access
• Align programs with federal funding and strengthen incentives to lend by creating a loss reserve fund
• Partner with local banks to provide micro-loans to local small businesses that need working capital immediately
• Establish incentives for investment in state priorities or current deficiencies (e.g., energy efficiency upgrades, business formation, local hires)

These actions supporting credit enhancement and loan modification for small businesses can be pursued through one of two strategies:

1. **Offer support through existing offices of state-level credit agencies**
   - Speed the delivery of credit using the support structure, expertise, and resources of existing state agencies
   - Programs can use a range of strategies, including loan participation, loan guarantees, collateral support, and venture capital partnerships

2. **Evaluate benefits of creating a new tax-exempt 501(c)(3) organization separate from the state to serve as a regional credit agency**
   - These organizations can also study the viability of alternative approaches, such as creating new bond banks to coordinate buying and selling securities on behalf of local agencies

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1 The US Treasury Department published a list of similar programs funded by the State Small Business Credit Initiative in 2017.

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FUNDING PRIORITIES

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