



# **Best Practices in Local Program Design for Small Business Survival**

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## **Agenda**

- I. Intro/Overview
- II. Services Sector  
Recession Impacts
- III. Review of Government  
Responses
- IV. Key Considerations for  
Program Design
- V. Implementation Issues
- VI. Questions

*Copies of our slides and a recording of the presentation will be made available via e-mail following the call*



## Overview

- The COVID-19 pandemic has already generated **unprecedented social and economic costs**, with unemployment rates not seen since the Great Depression.
- The impacts on the economy – particularly small businesses – is evident, **and state and local governments are taking action**.
- This analysis is provided to assist in program development and planning during these extraordinarily uncertain times, and is grounded in conversations we have been having in recent weeks with our clients around the country. A few notes:
  - Many of you have likely already adopted a number of the approaches and practices we will outline today (some of which we have learned from people on this call!).
  - We hope that we can nonetheless contribute a few new and useful thoughts along the way and help to validate the important work you are already doing for your communities.
  - While our focus will be primarily on general governments, largely at the local level, we also hope that those of you from other client sectors (such as states) will find the principles we address to be broadly applicable.
- Navigating this **ongoing crisis** will inevitably require an **iterative process** for months to come; we encourage your ideas and feedback as we all continue to develop responses.



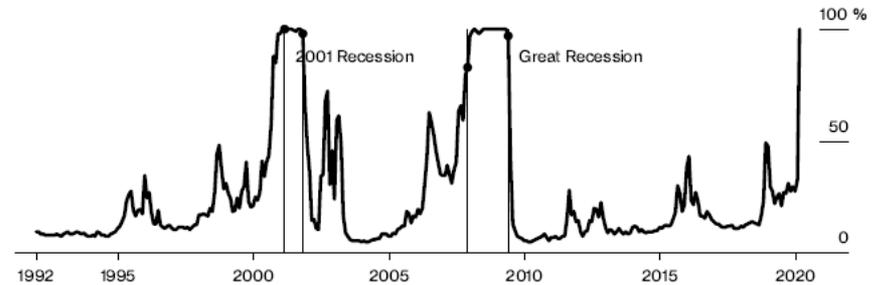
# Services Sector Recession Impacts



## U.S. Recession: If It Was Near, Now It's Here

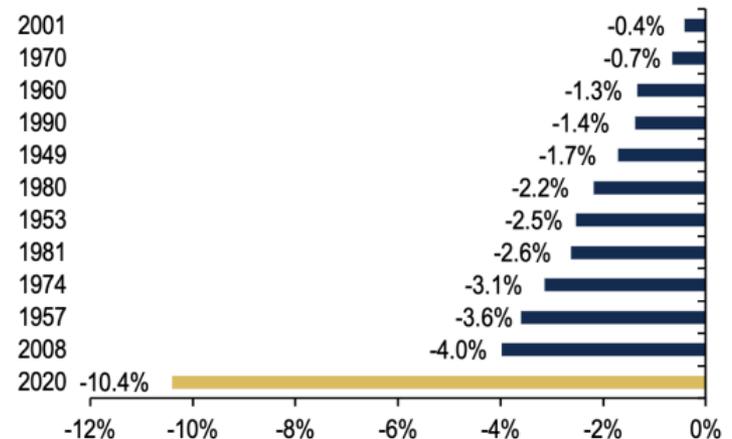
- ◆ Bloomberg Economics' forecast model places the chance of the U.S. having a recession in the next 12 months at 100%.
- ◆ The Federal Reserve Bank of Chicago's economic index suggests the U.S. entered a recession March 2020.
- ◆ The U.S. is already in what is predicted to be a short, deep recession, according to a survey by the National Association of Business Economists.
- ◆ Bank of America economists predict it will be the deepest recession on record.
- ◆ US GDP for the first quarter of 2020 was **negative 4.8%**. This is a big contraction, given that most of the quarter was not materially impacted by COVID-19.

### Probability of a U.S. Recession within 12 Months



Source: Bloomberg.com, "U.S. Recession Model at 100% Confirms the Recession is Already Here," April 8, 2020.

### Cumulative Decline in Real GDP in Previous Recessions



Source: BofA Global Research, April 2020.



## First Services Sector-Driven Recession

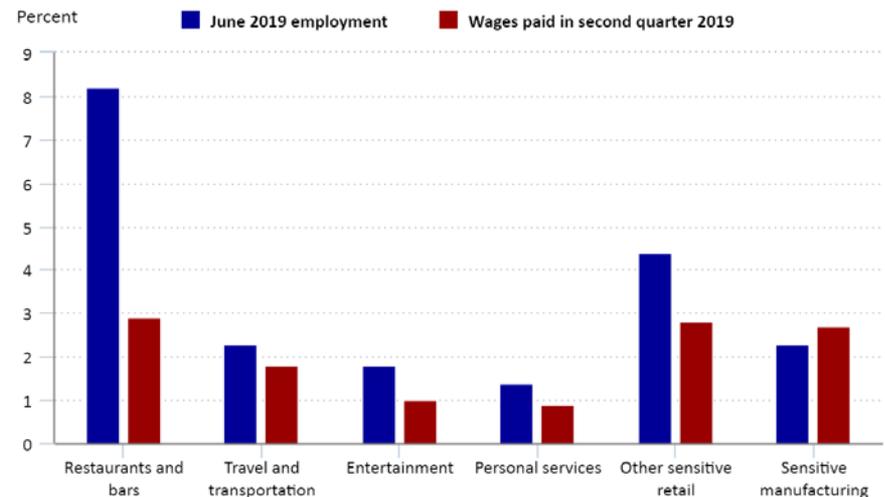
- ◆ COVID-19 has triggered the first recession ever caused by a contraction in the services sector of the economy.
- ◆ Prior recessions generally stemmed from the goods-producing sector. For example, the Great Recession – which began in 2008 – was caused by an excess supply of housing stimulated by faulty financing and speculation.
- ◆ Unlike a goods-based recession, a services sector recession does not generate excess inventory that must be absorbed before recovery can begin.
- ◆ Instead, a services-based recession causes a very sharp loss of employment income and devastates the restaurant, retail, service, entertainment, tourism and travel industries.
  - Many of these businesses are relatively small and have limited capital bases.
  - Many services sector businesses are key components of neighborhoods and communities – and their absence can hamper community development.
  - Most services sector workers are relatively lower paid and may lack personal savings, health insurance and access to other safety net programs.



## Consequences of the COVID-19 Services Sector Recession

- ◆ Industries impacted by this recession comprise a large share of U.S. employment – over 35 million jobs, or one in five workers, according to one recent estimate.
- ◆ Much of the economic recovery after the Great Recession was driven by consumer spending, and leisure and hospitality were leading sectors.
- ◆ States and regions are also impacted differently – those with significant tourism, gaming and leisure industries impacted more, while those with large agricultural populations impacted less.

Share of Total U.S. Employment and Wage Earnings in Most Exposed Sectors



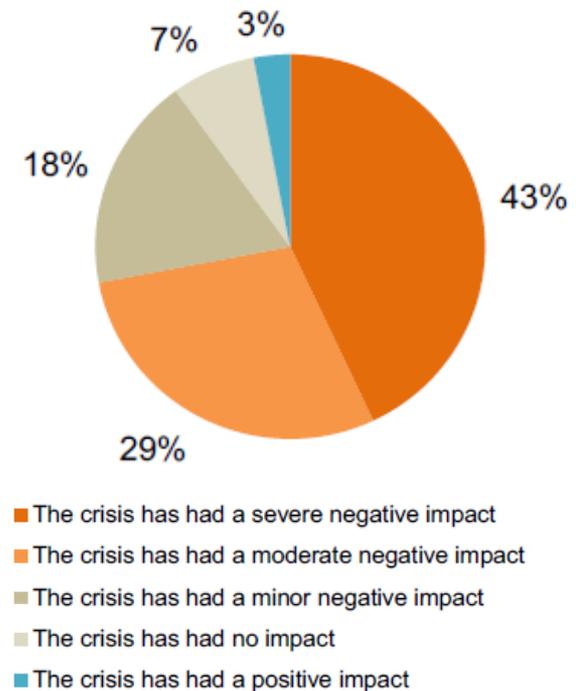
Source: *Monthly Labor Review*, U.S. Bureau of Labor Statistics, April 2020.



## Impacts of the COVID-19 Services Sector Recession

- ◆ The current recession is having a significant impact on small businesses.
  - A recent survey of small businesses found 43% of respondents described a severe negative impact.
  - The survey identifies 62% as having a severe or moderate impact.
- ◆ The impact is likely to outlast small businesses' available capital.
  - Another survey found 75% of respondents only had enough cash to cover expenses for two months or less.
  - Half of respondents expect the crisis to persist until mid-summer (beyond their available cash).

Survey: Impact of Coronavirus Crisis on Respondent's Small Business



Source: *Small Business Majority*, April 14, 2020.



# Review of Government Responses



## Federal Response to COVID-19

Act	Amount	Key Features
<b>Families First Coronavirus Response Act (FFCRA)</b>	\$53 billion	<ul style="list-style-type: none"><li>• Expanded program funding for a variety of health and human services programs</li><li>• Expanded paid sick leave</li><li>• Increased the Medicaid Match by 6.2% for all states</li></ul>
<b>Coronavirus Aid, Relief and Economic Security (CARES) Act</b>	\$1.7 trillion	<ul style="list-style-type: none"><li>• Provided for direct payments to individuals, families and families with children (\$301 billion)</li><li>• Expanded unemployment assistance for four months (\$250 billion)</li><li>• Delayed employer payroll tax payments into 2021 and 2022</li><li>• Loans to large corporations (\$500 billion)</li><li>• Appropriations to support the U.S. health system (\$150 billion)</li><li>• Assistance to state and large local governments (\$150 billion)</li><li>• Paycheck Protection Program (\$350 billion)</li></ul>
<b>The Paycheck Protection Program and Health Care Enhancement Act</b>	\$484 billion	<ul style="list-style-type: none"><li>• Additional funding for the Paycheck Protection Program (\$321 billion, with \$60 billion set aside for smaller lenders)</li><li>• SBA disaster assistance loans and grants (\$60 billion)</li><li>• Grants to hospitals treating COVID-19 patients (\$75 billion)</li><li>• Funding for coronavirus testing (\$25 billion)</li></ul>

Sources: CBO, U.S. Treasury.



## Paycheck Protection Program (PPP) Features

- ◆ Intended to both prevent small business closures and prevent layoffs or furloughs.
- ◆ Administered by SBA through participating SBA lenders, banks, credit unions.
- ◆ Eligibility requirements:
  - All businesses (including non-profits) with 500 or fewer employees – some SBA size standards will allow more than 500 employees.
  - Franchises in the hotel and food services industry can qualify on a location by location basis.
  - Must use 75% of the loan for payroll costs.
- ◆ Benefits:
  - Up to eight weeks of cashflow assistance, with a cap of \$10 million.
  - Payroll costs are capped at \$100,000 on an annualized basis for each employee.
  - Loan terms are 1% interest for two years, deferred for six months; forgivable if employee and compensation levels are maintained for the eight-week period after the loan is made.

*Source: U.S. Treasury.*



## Evaluating the PPP Program

- ◆ There's diverging opinion on whether the additional supplement (taking the program to \$670 billion) will be enough to meet the entire need.
  - University of Chicago and Goldman Sachs analysts suggest roughly so – using Census and IRS data of eligible businesses they estimate between \$720 billion and \$750 billion to keep small businesses viable until early summer.
  - Bank of America economists argue the need is closer to \$1 trillion – based on 6 million eligible businesses with the first \$350 billion going to 1.6 million firms and 70% seeking relief.
- ◆ Program was efficient at delivery: “SBA has processed more than 14 years’ worth of loans in less than 14 days” (Treasury Secretary Steven Mnuchin).
  - Concerns that primary reliance on large commercial banks (with little involvement of, for example, Community Development Financial Institutions) resulted in more lending to existing bank clients/larger businesses.
  - Second round of funding sets aside \$60 billion for businesses without established banking relationships, but most of this funding is still run through large commercial banks and credit unions.
- ◆ Concerns that program guidelines were not sufficiently targeted at small businesses without access to capital.
  - Recent Treasury guidance may address this concern.



## State Government Relief Programs for Small Businesses

- Multiple states have developed or applied existing programs to assist businesses impacted by COVID-19.
- Representative examples:

State	Funding/Award	Features
<b>Arkansas</b>	\$6 million loan program	<ul style="list-style-type: none"><li>Used allocations from Governor's Quick Action Closing Fund and Attorney General's Consumer Education and Enforcement Fund</li><li>Program is run through Arkansas banks for small businesses</li></ul>
<b>Kentucky</b>	Grants up to \$3,000	<ul style="list-style-type: none"><li>Small businesses locally owned</li><li>Must be located in 14 less populous counties</li></ul>
<b>Florida</b>	Loans up to \$100,000	<ul style="list-style-type: none"><li>Emergency bridge loans for coronavirus-affected small businesses</li><li>Short-term funding to be repaid when businesses can access alternate funding (such as the PPP program)</li><li>For-profit small businesses with 2 to 50 employees are eligible</li></ul>

- State programs may have more relief funding available than a local government, but they often have eligibility criteria that are written to be applicable statewide so may not be as targeted as local programs.



## Local Government Relief Programs for Small Businesses

- ◆ Increasingly, cities and counties are taking matters into their own hands through the creation of local relief funds to provide financial assistance to impacted businesses within their jurisdictions.
- ◆ While smaller in scale than federally- or state-administered programs, local governments can deploy relief funds faster and with greater accessibility.
- ◆ Common local relief mechanisms include direct grants and loans.
  - Loans are often low- or no-interest and/or forgivable, from \$1,000 to \$100,000.
  - Grants tend to be smaller in dollar amount (\$250 to \$10,000 in general).
- ◆ Some local government programs are intended to temporarily bridge the gap until other funds are attained:
  - The City of Indianapolis offers low-interest loans to provide relief until federal SBA funds are secured by the borrower.
  - The City of Rockford, IL provides 90 day bridge loans from \$5,000 to \$50,000.



## Targeted Eligibility Criteria to Assist Small Businesses Most in Need

- ◆ Local assistance programs typically base eligibility on their definition of a “small” business, including the number of employees and/or annual revenue.
- ◆ Through additional, targeted eligibility criteria, local governments are able to support the small businesses that need it most.

Business Target	Example
<b>The smallest small businesses</b>	New York City is offering grants to small businesses with fewer than 5 employees to cover 40% of payroll costs for two months
<b>Industry-specific businesses</b>	The New Orleans Business Alliance’s grants are targeted to Orleans Parish musicians, drivers and other gig workers
<b>Business owner categories</b>	The City of Hillsboro, OR gives preference to businesses owned by veterans and minorities
<b>Geographically-targeted businesses</b>	Wayne County, MI’s loans are targeted to businesses in low-income areas
<b>Businesses most impacted by COVID-19</b>	Chicago small businesses are eligible for loans if they can demonstrate a 25% drop in revenue due to the outbreak



## Expanding Available Government Resources

Government	Source	Features
<b>Rochester, MN</b>	Economic Development Revolving Loan Fund	<ul style="list-style-type: none"><li>• \$250,000 allocated from existing loan fund</li><li>• Targeted for COVID-19 emergency loan fund</li></ul>
<b>Chattanooga, TN</b>	Neighborhood Reinvestment Small Business Loan Program; Industrial Development Board Economic Development Lease Payments Fund	<ul style="list-style-type: none"><li>• Reallocated funds to its small business bridge loan funding program</li></ul>
<b>Rancho Cordova, CA</b>	Existing city investment accounts	<ul style="list-style-type: none"><li>• Reallocated to a community development financial institution (CDFI)</li><li>• Provide very low-interest loans with deferred principal and interest payments to help retain or create jobs</li></ul>
<b>Philadelphia, PA</b>	Industrial Development Corporation (IDC) funds	<ul style="list-style-type: none"><li>• City is partnering with the Philadelphia IDC on a \$9 million grant and loan program</li><li>• Small businesses with less than \$5 million in revenue are eligible</li></ul>
<b>New York State</b>	New York State Common Retirement Fund	<ul style="list-style-type: none"><li>• Retirement fund will provide \$50 million</li><li>• Use for loans of up to \$350,000 per applicant</li><li>• At least 25% must go to minority or women-owned businesses</li></ul>



## Partnering with Non-Governmental Entities

### ◆ Public Private Partnerships:

- Chicago's \$100 million small business emergency loan fund includes \$25 million from the City, \$50 million from the Chicago Community Catalyst Fund, \$10 million from Goldman Sachs, \$1 million from Fifth Third Bank, \$250,000 from Clayco and \$15 million from additional private funding sources.
- One Tampa is a partnership between the City, the Tampa Bay Chamber and a variety of businesses with significant private sector funding.
- The City of Minneapolis is actively soliciting donations to its Gap Funds for Housing and the Forgivable No-Interest Loan for Small Business Programs.
- The City of Rockford, IL raised \$2 million with local banks and private donors for a loan program to be administered by the Northern Illinois Community Development Corp.

### ◆ Foundations and Other Non-Profit Organizations:

- A variety of cities have partnered with the United Way on grants and loans.
- Many cities and counties have partnered with local Chambers of Commerce as well.



## Other Forms of Small Business Relief

### ◆ Deferred tax payments.

Tax	Action	Explanation
<b>Sales Tax</b>	<ul style="list-style-type: none"><li>• Defer payment</li><li>• Waive penalties and interest</li></ul>	<ul style="list-style-type: none"><li>• Alabama extending deadlines three months for small businesses based on prior year's average monthly retail sales</li><li>• Massachusetts extending by two months for businesses with under \$150,000 sales tax liability in 2019</li><li>• Illinois waiving for eating and drinking establishments with total sales tax liability under \$75,000 in 2019.</li><li>• Michigan waiving for most businesses for 30 days</li></ul>
<b>Property Tax</b>	<ul style="list-style-type: none"><li>• Defer payment</li><li>• Waive penalties</li></ul>	<ul style="list-style-type: none"><li>• Florida extended deadline from 3/31 to 4/15/20</li><li>• King County, WA extended deadline from 4/30 to 6/1/20</li><li>• Indiana counties must waive penalties for taxes owed on 5/11/20 for 60 days</li></ul>
<b>Income Tax</b>	<ul style="list-style-type: none"><li>• Defer payment</li></ul>	<ul style="list-style-type: none"><li>• Most states with an income tax have deferred payment to correspond with the IRS deferral</li></ul>
<b>Other Taxes</b>	<ul style="list-style-type: none"><li>• Defer payment</li></ul>	<ul style="list-style-type: none"><li>• These include hotel-motel, franchise, estate, and other business taxes</li></ul>

◆ Other charges are also being waived – inspection, permits, licenses.

◆ Other actions – parking meter enforcement, etc.



# Key Considerations for Program Design



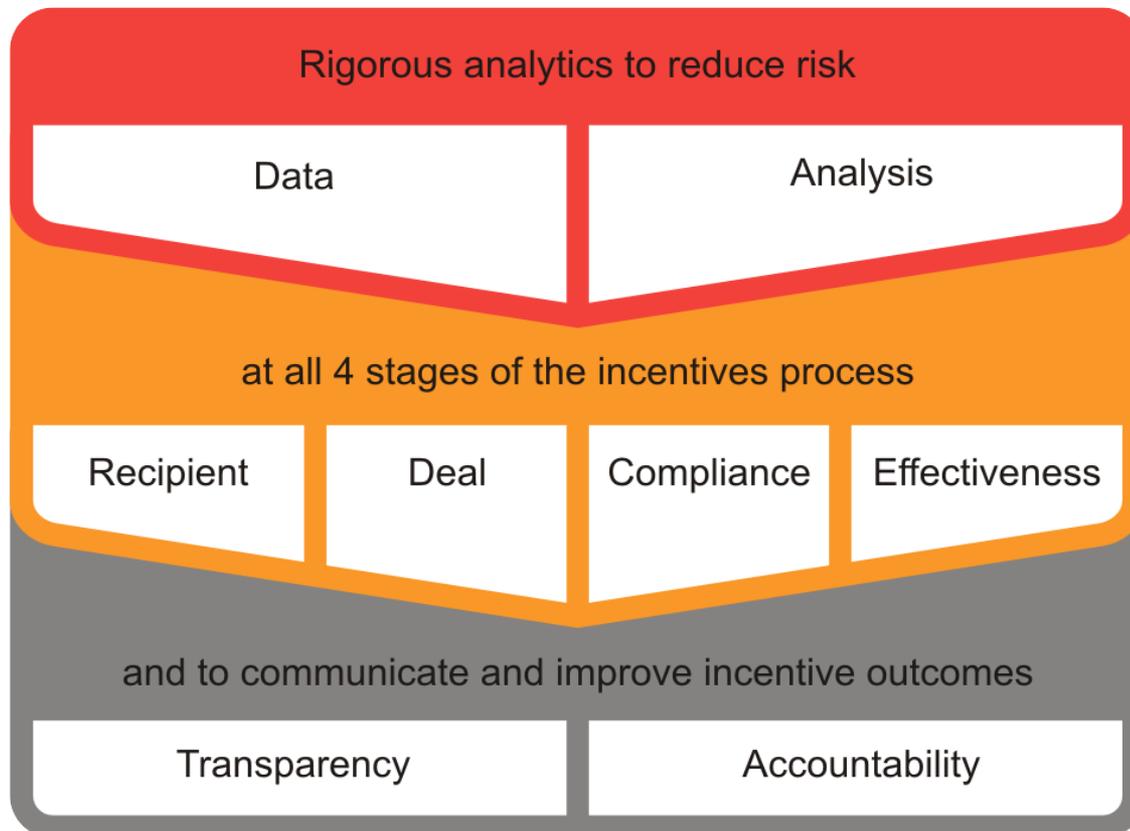
## Lesson 1 from Business Incentive Programs: Connect to a Larger Strategy

- ◆ Define the program goal – why is assistance or an incentive being offered?
  - Job creation or preservation
  - Business growth or retention or survival
  - Worker opportunity, including training or upskilling
  - Downtown/Main Street support
  - Quality of life and quality of place initiatives
  - Strengthen or preserve the tax base
- ◆ Not just about completing a transaction.

What do you want your small business programs to accomplish? How will you know if they have been effective?



## Lesson 2: Process Affects Outcomes





## How Can Small Business Programs be Designed to Address Needs?

### ◆ What outcomes do you hope to achieve?

- Business continuity
- Job growth or preservation
- Equity

### ◆ Which small businesses are you trying to assist?

- Neighborhood businesses
- Traded sector or export-oriented
- Technology and innovation

### ◆ How does the program function?

- Outreach
- Application
- Partner roles



## Build in Good Governance

- ◆ Prepare now for scrutiny later.
- ◆ Establish rules and procedures:
  - Intake procedures
  - Application review and rating
  - Performance agreements with milestones
  - Monitoring compliance
  - Reporting on results
- ◆ Lawmakers/the media/the public will want to know:
  - How much did we spend?
  - Who received incentives?
  - What happened as a result?



# Implementation Issues



## Program Cost Recovery

- ◆ CARES Act: \$150 billion allocated to all 50 states and local governments (over 500,000 population) based on a population formula with a \$1.25 billion floor for states.
- ◆ U.S. Treasury provided guidance on eligible costs for payment from the fund on April 22, 2020. These include:
  - “. . . expenditures incurred to respond to second-order effects of the emergency, such as by providing economic support to those suffering from employment or business interruptions due to COVID-19-related business closures.”
  - This language should cover any program costs associated with development, implementation and administration.
  - It is less clear in the current documentation as to whether funds allocated to small businesses or individuals could qualify as “expenditures incurred to respond” – please refer to the U.S. Treasury guidance: <https://home.treasury.gov/policy-issues/cares/state-and-local-governments>
  - A Treasury official, on a subsequent call with NACo, indicated that use of these funds for direct support to businesses could be eligible if directly linked to COVID-19, and that a new FAQ will be released as soon as this week. Further written clarification is needed before action, but this is a promising opportunity that merits close monitoring.
  - There are federal funding streams that clearly can be used for direct assistance, such as CDBG funds. HUD’s guidance for allowable activities includes to “Avoid job loss caused by business closures related to social distancing by providing short-term working capital assistance to small businesses to enable retention of jobs held by low- and moderate-income persons.”  
<https://files.hudexchange.info/resources/documents/Quick-Guide-CDBG-Infectious-Disease-Response.pdf>



## The “Need for Speed” and Responsiveness

- ◆ Identify user friendliness as a key part of the application process.
  - Develop a holistic response. Colorado Springs “Survive and Thrive” website and program example: <https://exponentialimpact.com/small-business-emergency-relief-fund/>
  - “No wrong door” approach: one application form can serve multiple programs.
  - FAQs for eligibility and application process.
  - When online forms, they should have prompts within the electronic documents.
  - On-line is great, but will need alternate ways to access.
  - There is a need for applicants to be able to talk to a real person.
- ◆ Program accountability should include responsive implementation.
  - A criticism of the PPP program was around implementation – guidance was late and changing, those eligible were not able to access it – similar concerns in past emergency programs.
  - Program design should include benchmarks on number of applications received, number processed, average time to process, dollar amounts requested/approved.
  - That data should be regularly reported as well.
  - There needs to be a way for those who cannot access the program to be noted and counted.



## And a Multi-faceted Approach . . .

- ◆ Small business survival will require a multi-faceted approach, not just grants and loans.
  - Access to subject matter expertise – new ways to cope with transitions to opening and remnants of social distancing.
  - New equipment, furnishings and fixtures for health and safety.
  - Business support (incubator-like assistance with business planning, new rules and regulations, etc.).
  - Existing incentive programs may be tailored to assist businesses with new costs or processes.



## ...But Due Diligence Cannot be Overlooked

- ◆ Besides the “need for speed” – “there’s got to be a morning after.”
  - There is valid criticism of relief programs when the money does not get out fast enough.
  - There is (equally valid) criticism when the money doesn’t go to the intended audience.
  - Front end design can alleviate some of this, and smart implementation cannot be overlooked for the sake of time.
- ◆ Eventually the auditors (financial and taxpayer watchdogs) will be engaged.
  - Past quick action programs (such as Hurricane Katrina) demonstrate the potential risk from waste, fraud and abuse.
  - Oversight must be institutionalized from day one for any new assistance program.
  - Ensure that adequate financial and other records are submitted, sufficient attestations and certifications are made in writing, and all decisions and rationale are in writing and retained.
  - Include finance office personnel in the decision making, oversight and reporting processes.



## Best Practices Checklist

- ❑ Target to specific areas of need within your region or community.
  - ❑ Needs analysis at the neighborhood or community level.
  - ❑ Triage linked to long-term goals.
  - ❑ Ensure that methods to communicate, implement and administer the program are user-friendly and inclusive.
  - ❑ Identify existing programs that might be modified/expanded to meet the current need (which is often outside their current focus).
- ❑ Expand available resources.
  - ❑ Partner with other public and private entities.
  - ❑ Develop a comprehensive grants management strategy to maximize federal and state funding and coordination
  - ❑ Identify non-traditional funding streams – particularly those that may have reduced needs (such as traditional economic development programs) during the current crisis.
  - ❑ Consider appeals to the public.
- ❑ Spend time on front end design.
  - ❑ Current economic conditions looking more like a marathon than a sprint.
  - ❑ Identify the gaps in current federal and state funding and work to fill them.
  - ❑ Incorporate sound metrics and reporting requirements.
  - ❑ Build a holistic program and approach to administering it – there will be scrutiny in the future.



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## **Questions?**

- You can type your question into the chat function now *(due to time constraints, not all questions may be handled live on the call)*
- You can e-mail any of us after the call or reach out through your primary PFM contact
- A copy of these slides will be emailed to all participants later today

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