GUIDANCE ON ADJUSTING DISCRETIONARY INCENTIVE PROGRAMS TO SUPPORT SMALL BUSINESS RECOVERY

Small businesses have been severely affected by the COVID-19 economic downturn. The smallest businesses and minority-owned businesses are struggling the most yet have had the greatest difficulty in accessing the major federal programs intended to assist them. As state and local governments, private groups, and philanthropies step into the gap, economic development organizations are being asked to play a part in helping these and other small businesses.

Many economic development organizations serve the small business communities in a variety of ways through financing and entrepreneurial support programs. In some states, partner organizations or agencies manage these programs. While the small business financing infrastructure may be in place in most states, the scale, reach, and effectiveness in addressing immediate needs can vary widely. For the most part, existing economic development incentive programs are not designed to serve the micro-enterprises or locally serving businesses (such as restaurants, retail, personal services, health care, arts, and hospitality) that have been the hardest hit by the COVID recession. Furthermore, expected returns on public investment in these types of grant or loans programs are not necessarily achieved through assistance to the types of small enterprises. At the same time, states are also grappling with severe budget constraints that are only now becoming clearer to forecasters.

What issues should state economic development organizations consider as they determine whether or how to extend their incentive programs to small, locally serving businesses?

PRINCIPLES/GROUND RULES

1. We use incentives to achieve our economic development goals. These goals are different now than when most of our incentive programs were created. In many states, helping small Main Street businesses make it through the COVID downturn has become a priority.

2. Small businesses are an important part of our economy, whether measured by establishments, jobs, taxes generated, role in the supply chain, contributions to quality of life and quality of place, or as providers of valued amenities and services for residents that attract/retain talent. In many cases, they represent "essential" businesses in our communities.

3. State and local governments are facing severe revenue shortfalls and do not have the ability to deficit spend. State and local governments do not have unlimited funds to help individual businesses, no matter how great the need. Determining how to use taxpayer money carefully to support sustainable economic activity should override the inclination to "get money out the door."

4. Incentives should generate a return to the state. In contrast to the private sector, economic development return on investment (ROI) comprises more than financial (or fiscal) return. Economic development ROI should incorporate social, economic, and fiscal benefits and should account for other non-quantifiable project criteria that reflect public policy objectives. This approach to ROI is consistent with the mission of most state economic development organizations.

5. Economic development organizations should document the rationale and rules for expanding or adapting incentive programs to address the needs of small or local-serving businesses in response to the COVID pandemic, including the recognition that these new policy priorities may be short-lived once the economy begins to rebound.

CHECKLIST OF QUESTIONS

What small business objective do you want your program to accomplish? Program design changes should align with a priority policy objective. Current objectives might include:

- Preserving jobs,
- Helping businesses to survive,
- Providing workers with new opportunities,
- Supporting downtown/Main Street businesses,
- Facilitating compliance with new public health regulations,
- Addressing economic and racial inequities, or
- Sustaining the existing tax base.

Incentives can't address all these objectives at once, especially with limited available funds. So, an important element of good incentive design will be to decide which objectives are most consistent with your state's economic development strategy and current priorities. How has the coronavirus-induced crisis changed those priorities and are those changes significant enough to warrant reallocating limited state resources to new objectives? Furthermore, how have priorities evolved since the beginning of the crisis?

Which small businesses are most important to assist right now? This is related to (but different than) the previous questions about the policy objective. Small businesses are a large category of very diverse types of enterprises. One program won't serve them all equally effectively. Also, this recession is different than others with greater impacts on services businesses, especially restaurants, retail, personal services, and entertainment. Many economic development financing programs explicitly exclude these types of businesses because they are local-serving rather than export-oriented or traded sectors. Within these categories, small businesses range from mom-and-pops to global franchises. Should they all be treated the same way, or are different levels of guidance appropriate? Finally, is there an interest or desire to help microenterprises, sole proprietors, and non-employer establishments that have been hit very hard and may have the most need but are typically excluded from economic development programs because they do not create countable jobs other than their own?

Which small business challenge are you trying to address? Businesses have many needs right now, including but not limited to access to working capital. Do small businesses need fast access to small amounts of cash to re-open, re-hire employees, or adapt operations? How would grants, loans, tax rebates, or tax credits help meet this need? Or, do they need access to longer-term financing to adapt and sustain operations in a new, ongoing operating environment?

Is financial assistance the most pressing unmet need? Businesses also have other concerns that economic development organizations and their partners may be well-positioned to address, such as:

- **Information and guidance.** In this time of great uncertainty, clear guidelines can be a tremendous help, especially about how to help their workers and customers adapt to new safety concerns. Clarity increases both consumer and business confidence, enabling customers and workers to return and operations to resume.

- **Technical assistance.** Business owners are facing whole sets of new challenges for which they do not have expertise. Providing professional advice for topics such as rent and mortgage negotiations, accessing financial assistance programs, complying with new health regulations, and setting up contactless and online transactions (including efficient shipping and distribution efforts) can help businesses sustain their own operations.

- **Subsidizing new expenses.** Businesses are incurring new costs while their ability to earn income remains severely constrained. Many communities have budgeted funds for grants to help small businesses pay for increased cleaning services, buy cleaning supplies and personal protective equipment (PPE), adapt their work space to meet new worker safety requirements, or transition to online transactions and curbside or delivery services.

- **Gaining new customers.** Businesses of all types are struggling to bring in customers or obtain new work so that they can generate revenue. They may need help developing new marketing channels appropriate to the current economic environment, such as online marketing, local promotions, new methods of networking, and other outreach strategies. Many small business and entrepreneur support organizations include networking and business development assistance services that may be adaptable to serve new needs.

- **Broadband infrastructure.** Inadequate broadband service in too many locations can keep business owners from implementing many of the strategies that might save their businesses. Expanding broadband is a known priority. Can this shortfall be addressed in a timeframe that will help small businesses in crisis now? Even in the long run, what is an appropriate role (and ROI) for public infrastructure investment in middle mile and last mile broadband.

GIVEN THE ANSWERS TO THE PREVIOUS QUESTIONS, ARE CURRENT INCENTIVE AND FINANCING PROGRAMS WITHIN STATE ECONOMIC DEVELOPMENT ORGANIZATIONS THE RIGHT MECHANISMS THROUGH WHICH TO FILL IDENTIFIED GAPS AND PROVIDE SUPPORT TO SMALL BUSINESSES?

If so, how can they be modified to serve an expanded target market? How would eligibility rules, application procedures, review or underwriting, outreach activities, and reporting requirements need to be changed to serve small businesses? Do online systems, personnel, and databases have the capacity to handle substantial new project volume?

Some states have determined that their primary incentive programs are not the best way to help small businesses, which are likely to struggle to provide the documentation needed to apply for the incentive, meet core program requirements, and navigate the compliance process. Other states have reported struggling to adapt established application, underwriting, and reporting procedures so that small businesses can successfully participate in existing incentive and financing programs while still allowing the state to meet its fiduciary and statutory obligations. Further, the volume of applications from inexperienced small businesses has overwhelmed both systems and staff, creating quality control problems and raising the risk profile.

If not, what characteristics should a new state program have to meet small business needs?

- Are incentive programs structured as tax breaks or loans be the best way to help small businesses?
- Are grants or services incentives a better fit for the target market and business need?
- Are there other partners within government that are better positioned to fill the identified gaps? If so, in what ways can the economic development organization support its partners?
- Can streamlined application and reporting procedures suitable to the target audience be developed in a timely manner?
- Is the program intended to function for a limited time period, or is it expected to become a permanent offering?

How will the program changes be implemented?

- What is the specified budget, if any, for the program? Are there program or award limits in place to reflect that budget?
- Will the amount of available money (in total or per business) allow the state to achieve sufficient scale to meet its policy objective?
- Can the program reach the intended audience with needed assistance in the right timeframe?
- Will program changes be temporary or permanent? Is there a sunset date that would trigger re-consideration of the program design at a later point when the needs may change again?
- Is sufficient staff available to run the program?
- Who will be your partners in implementation and management? Have they bought into the recommended changes?
- Has there been consideration of whether business owners of all genders, race and ethnicities can equitably access the program? Does the program pro-actively address past inequities by targeting certain groups that have traditionally been underserved?

How will you know if the effort was successful?

- How will you measure outcomes?
- What are the reporting requirements?
- Do the applicants understand their reporting commitment?
- How will staff receive, tally, and synthesize compliance reports?
- How will information on program outcomes be shared?

STATE SMALL BUSINESS PROGRAM EXAMPLES

The Alaska CARES Grant Program offers a broad set of small businesses (including sole proprietorships) grants ranging from $5,000 - $100,000 for a variety of emergency-related eligible business expenses. The program is administered by the Alaska Department of Commerce, Community, and Economic Development and the Alaska Industrial Development and Export Authority with its partner Credit Union 1.

Arizona's Small Business Boot Camp is an offering from the Arizona Commerce Authority, Local First Arizona, and additional community partners to help small businesses respond to the immediate impacts of COVID-19 and plan for the future. Over the course of six weeks, local business leaders and subject matter experts provide real-time support and available resources across Arizona in live, daily sessions (that are also recorded) to help small businesses "return stronger."

Arkansas allocated $6 million from the Governor's Quick Action Closing Fund and $3 million from the Attorney General's Consumer Education and Enforcement Fund for a Quick Action Loan Program that disbursed loans up to $250,000 to small and medium-sized companies in the supply chain for essential goods and services. The Arkansas Economic Development Corporation administers the loan program, which is now closed. Loan recipients are listed on AEDC's website.

New legislation in Colorado will allow the state to sell insurance premium tax credits to establish and fund a small business recovery loan program that will be run by a contracted private sector program manager.

Louisiana Economic Development has created a partnership with e-commerce platforms to provide small business owners with enhanced customer service and resources to make it easier to set up or expand e-commerce applications. In addition, a $275 million Main Street Recovery Program in Louisiana, managed by the Department of Treasury, will offer grants up to $15,000 for businesses with eligible expenses that did not receive other assistance (such as a PPP or EIDL loan or an insurance payment) and for women-, minority- and veteran-owned businesses.

Maryland announced $50 million for small business assistance and $50 million for the Maryland Nonprofit Recovery Initiative. The small business assistance includes an additional $45 million for the Small Business COVID-19 Emergency Relief Grant Fund, which provides grants up to $10,000 for working capital and other expenses. The Maryland Small Business Development Financing Authority received $5 million to provide financing to businesses owned by economically and socially disadvantaged entrepreneurs.

The Michigan Small Business Relief Program included a round of grants and series of low-interest loans using money from the Michigan Strategic Fund. Local and nonprofit economic development organizations around the state administered the grant portion of the program, which was intended to provide funds for working capital and to support the workforce. Loan applications are referred to the Michigan Economic Development Corporation from local partners. Applications are reviewed by an MEDC loan review committee and loans are approved through the Michigan Strategic Fund. The lists of grant and loan recipients are available on the MEDC website.

The New Jersey Micro Business Loan Program provides financing up to $50,000 for microbusinesses and nonprofits. A recent program expansion provides 10-year loans at a 2% interest rate for financing for inventory, equipment, and working capital. No interest or payments are due for the first three years, and businesses still in operation after one year will have 10% of the loan amount forgiven.

With funding from the Golden LEAF Foundation and the North Carolina legislature, the North Carolina Rural Center worked with a consortium of public, private, and nonprofit partners came together to launch a recovery-lending program in response to the COVID-19 crisis. The goal was to help support entrepreneurs stabilize North Carolina's small business sector. Loans are available for up to $50,000, depending on current business revenues and losses attributable to COVID-19 and current revenue. Loans are for an amount up to two months of revenue with repayments deferred for six months (at 0.25% interest) and followed by 48 months of principal and interest payments at 5.5% interest. Count on Me NC is a public health initiative that includes technical assistance and training for businesses on best practices and procedures to reopen safely and to increase staff and customer confidence.

Pennsylvania announced a $100 million Main Street Business Revitalization Program, a $100 million Historically Disadvantaged Business Revitalization Program, and $25 million Loan Payment Deferment and Loss Reserve Program. The state Department of Community and Economic Development will distribute funds to Community Development Finance Institutions, which will administer the grant funds. Both Revitalization programs are for small businesses that experienced losses resulting from business closure orders or will incur costs to adapt their business operations. The third program allows CDFIs "the opportunity to offer forbearance and payment relief for existing portfolio businesses."

Utah has created a Racial Equity and Inclusion Fund under the leadership of the Multicultural Subcommittee of the Utah Coronavirus Task Force. The Fund will provide grants to community-based organizations to provide emergency support and financial assistance to disproportionately impacted communities. The Subcommittee will also work with Utah's Multicultural Commission and Division of Multicultural Affairs to improve program accessibility, increase engagement, offer capacity development, collaborate with community partners and increase trust within underrepresented communities. The Utah Governor's Office of Economic Development also offers the $5 million PPE Support Grant Program, which offers the lower of $100 per full-time equivalent employee OR actual expenses incurred in improving workplace safety during the pandemic. The forthcoming $25 million Impacted Business Grant Program will make funds available to businesses that provide discounts or other special offers that encourage customers to "Shop in Utah." In both programs, 75% of funds must be provided to small businesses.

The Vermont Economic Recovery Grant Program offers grants up to $50,000 to businesses that have lost revenue because of COVID-19. The first phase of the program has a $70 million budget. Restaurants and retail operations that collect certain taxes will apply through the Department of Taxes. Other businesses, non-profits and cultural organizations will apply with the Agency of Commerce and Community Development.

West Virginia's CARES Act Small Business Grant Program will make grants up to $5,000 to qualifying businesses with 1-35 employees that incur eligible expenses or losses because of the pandemic.

The Wisconsin We're All In Small Business Grant Program offered $2,500 grants to 30,000 small businesses to assist with the costs of business interruption or for health and safety improvements, wages and salaries, rent, mortgages and inventory. The Wisconsin Economic Development Corporation offers other grants and information resources to small businesses.

ABOUT THIS SERIES

In the economic crisis brought on by the coronavirus and COVID-19 public health concerns, State economic development executives are considering significant questions regarding incentives: how to adjust existing incentive agreements to increase flexibility for companies and investors in a fair manner; and how best to use incentive programs to help their states respond to the challenge. A coherent set of principles and approaches around adapting incentive use can help states respond strategically rather than on an ad hoc or case-by-case basis.

This document is the second in a series of guidance papers. The first paper, Guide to Help States Adjust Incentive Performance Agreements in Response to the Current Economic Crisis, was released May 1, 2020.

Types of Incentives and Agreements	Discretionary	Statutory
Existing Agreements		
New Opportunities	X	