

Main Street Emergency Act

By: Bruce Katz, Rick Jacobs, Jamie Rubin, Michael Saadine & Colin Higgins

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The COVID-19 crisis is wreaking havoc on Main Street small businesses across the United States. The hardest hit are local face-to-face Main Street services — restaurants, bars, coffee shops, barbershops, hair salons, auto repair shops, dry cleaners and others that are living on the brink. These entities, usually sole proprietorships or businesses with fewer than 25, 10 or even 5 employees are running out of cash or already broke.

Congress has enacted a suite of large relief programs in the CARES Act, most prominently a new ~\$350 billion Small Business Administration Paycheck Protection Program (“PPP”), and a new Federal Reserve “Main Street” Business Lending Program. The CARES Act also authorized \$10 billion in SBA’s existing economic injury disaster loan program. These relief programs, and the financial institutions that largely distribute them, are shifting into high gear.

Yet there’s a growing consensus that these programs will not be enough in scale, timing, product or distribution scope which is why legislators across the aisle are proposing additional funding for small business support. Currently, Senate Republicans are advocating for \$250 billion for an expanded PPP. On the Democratic side, Speaker Pelosi and Minority Leader Schumer have countered with a proposal that \$125 billion of this money go to CDFIs to meet the needs of underserved businesses.

To this end, we propose a companion to both proposals: a \$50 billion Main Street Emergency Act to augment state and local relief funds with federal resources and provide an additional tool in small business relief. The Act would have two components:

1. **The Main Street Local Relief Program (\$40 billion)** would provide direct assistance to cities, counties and states to scale existing (or newly created) relief funds that are explicitly targeted towards small businesses. As with the CARES Act, a portion of the funding would be distributed via the regular CDBG formula, and a portion of the funding would be distributed to hardest-hit communities and states. We recommend a 50/50 split. Eligible uses of this money would be investments in small business relief funds and technical assistance. Qualifying funds must serve business with 25 employees or less *or* be located in low-and-moderate-income census tracts, and have experienced a COVID-19 related loss of income. Local relief funds will determine the terms and conditions of the loan or grant products offered by their Local Small Business Emergency Funds. The program would be administered by the Secretary of Housing and Urban Development.
2. **The Main Street CDFI Program (\$10 billion)** would provide direct assistance to CDFIs that are explicitly focused on providing relief to small businesses and community non-profits impacted by the COVID-19 crisis. Eligible uses for such assistance would include (a) capital for their balance sheet so they can increase their direct lending — both to participate in PPP or future federal programs or to do non-guaranteed loans: (b) operating support to provide enhanced technical assistance, grow disbursement capacity to support local relief funds and cover increased reserves given potential for non-normal default rates; and (c) investment in technology to connect and support CDFI operations. The Program would be administered by the Secretary of Treasury.

This direct assistance to cities, counties and states has 3 positive effects:

1. **It builds on local relief efforts** that are already up and running and oversubscribed in getting rapid support to businesses. This means that federal resources can piggyback on top of already established efforts.
2. **It provides more distribution channels** (banks and CDFIs *in addition to* local governments, public authorities, philanthropies and business chambers), which increases the likelihood that more businesses will be served in a shorter timeframe.
3. **It provides a broader range of products** (grants, loans, and hybrid products) than the Paycheck Protection Program, which means that financial assistance can be better tailored to needs of very different kinds of small businesses.

The effort to rescue Main Street businesses will require different delivery vehicles than the ones included in federal efforts generally and the CARES Act in specific. Ultimately, we are talking about the largest capital resource — the federal government — serving the needs of the smallest economic organisms in the country through existing local infrastructure that can affectively translate federal dollars to meet local needs. The form and fashion in which this capital finds its way to small and medium-sized businesses will determine our economic fate for a generation to come.