Making the CARES Act Care for Under-Resourced Communities

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As the number of coronavirus cases skyrockets, it seems almost certain that the economic impacts of the virus will eventually be felt throughout the nation. However, some people, businesses, and places will suffer more than others. Because of their low incomes and dependence on small businesses, America's under-resourced urban and suburban communities are especially vulnerable to the economic fallout from the coronavirus crisis. Although it does not provide special benefits for these communities, the Coronavirus Aid, Relief, and Economic Security (CARES) Act contains critical provisions to help small businesses, employees, residents, and local governments in under-resourced areas weather the crisis. However, these important provisions will begin to lay a foundation for inclusive prosperity only if information about and access to the assistance they provide is equitably distributed. If the information and resources don't go to the most vulnerable communities, then the coronavirus crisis could wipe out the fragile economic gains that those communities have experienced since the last recession, leaving their residents and small businesses even further behind when the rest of the nation eventually recovers from the crisis and further widening the racial wealth gap.

Under-Resourced Communities Are Especially Vulnerable

ICIC defines under-resourced communities as large, heavily populated urban or suburban areas with high poverty rates and low incomes.[1] Nationwide, there are more than 1400 places (cities, other municipalities, and unincorporated places) that have under-resourced communities, including 424 with populations of at least 50,000. Under-resourced communities include the traditional inner cities of large cities, similar areas in small central cities, and large areas of concentrated poverty in suburbs.

One reason why under-resourced communities are especially vulnerable to the economic impact of the coronavirus is that they rely heavily on small businesses, many of which are now at risk of closing permanently. In seven of 10 large cities ICIC recently studied, small businesses (establishments with one to 249 employees) account for a higher percentage of jobs in the inner city than in the city as a whole.[2] (See table 1.)

Table 1. Percent of Jobs in Small Businesses in 10 Large Cities, 2019

City	Percent of City's Jobs in Small Business Establishments (1-249 Employees)	Percent of Inner-City Jobs in Small Business Establishments (1-249 Employees)
Chicago	62%	70%
Dallas	63	60
Detroit	60	69
Houston	62	73
Los Angeles	70	70
Miami	71	74
New York	51	68
San Francisco/ Oakland	72	71
Seattle	60	96
Washington, DC	62	70

Source: Initiative for a Competitive Inner City, "The Big Impact of Small Businesses on Urban Job Creation: Evidence from 10 Cities, updated and expanded edition" (Boston, 2019), https://icic.org/wp-content/uploads/2019/08/JPMC_BigImpact_JUL2019_ada1.pdf.

Under-resourced communities are also highly vulnerable because their working populations consist primarily of low-wage workers, many of whom lack health insurance and/or paid sick leave and work in front-line jobs that can expose them to the coronavirus. According to a recent analysis of U.S. Department of Labor data, almost 24 million workers—about 15 percent of all U.S. workers—have jobs that pay median wages of less than $35,000 per year and work in close proximity to other people. These include cashiers, personal care aides, nursing assistants, home health aides, medical assistants, bank tellers, pharmacy technicians, and paramedics, among others.[3] These are people who are fortunate enough to be working during the crisis. Many other high-risk, low-wage workers, such as restaurant waitstaff, teacher assistants, bartenders, child care workers, and preschool teachers, are no longer working in much of the country because their workplaces are closed.

The CARES Act Has Provisions That Can Help Under-Resourced Communities

The $2-trillion CARES Act, the most ambitious program of federal economic recovery assistance in the nation's history, includes assistance to small businesses, employees, residents, and local governments. Some of its provisions are especially important for under-resourced communities.

SMALL BUSINESSES. The Act provides more than $370 billion in aid to small businesses. The centerpiece of its small business relief effort is a program of forgivable loans to businesses with fewer than 500 employees and other small businesses that meet Small Business Administration (SBA) size standards for their industries. Loans will be available from SBA-approved lenders and be backed by the SBA. To be eligible, businesses must have been operating before February 15 of this year and must have had paid employees or independent contractors. Businesses need not document that they have been affected by the coronavirus crisis but need only certify in good faith to a lender that they need a loan to support ongoing operations; that they will use the loan proceeds to retain employees and make payroll or pay rent, mortgage interest, and/or utilities; and that they haven't received or applied for another loan that duplicates the amount or purpose of the forgivable loan. Sole proprietors, independent contractors, and the self-employed are eligible, although they will have to document their prior income. Loans can be up to 2.5 times a business' average monthly payroll costs for employees paid up to $100,000 per year, with a maximum loan of $10 million. For sole proprietors, independent contractors, and the self-employed, "payroll costs" include net self-employment earnings up to $100,000 per year. Loans can have a term of up to 10 years but can be forgiven in full if a business spends the proceeds on payroll, rent, mortgage interest, and/or utilities during the eight weeks following the origination of the loan and does not lay off employees or reduce their pay by more than 25 percent during that period. Forgiveness is reduced or eliminated if employees are laid off or the pay of employees earning less than $100,000 per year is cut by more than 25 percent.

The forgivable loan program has two features that are especially important for the most vulnerable small businesses. First, it offers small businesses the equivalent of a grant to cover two months of operating costs provided that the business meets the requirements for forgiveness. Second, it gives small businesses an incentive to retain their employees for two months, preventing layoffs that can be catastrophic to employees, costly and disruptive to businesses, and economically unnecessary, and that can have devastating ripple effects on under-resourced communities. Although two months of support is unlikely to be enough for many small businesses, especially if the crisis lasts into the summer or beyond, Congress can and should extend the forgivable loan program if the crisis is protracted.

The CARES Act also provides small businesses with emergency grants of up to $10,000 to cover immediate operating costs, assistance to cover six months of loan payments for businesses that currently have SBA loans, and temporary changes to tax laws governing expenses and deductions to enable businesses to stay open and retain employees. Also helpful will be the Act's additional funding for Small Business Development Centers, Women's Business Centers, and the Minority Business Development Agency, and funding for SBA partner organizations to provide counseling, training, and other technical assistance to businesses affected by the coronavirus. The SBA's economic injury disaster loans are now also available to small businesses affected by the coronavirus, although few small businesses are likely to be in a position to take on additional (non-forgivable) debt during the crisis, even at SBA's low interest rates.

EMPLOYEES. For laid-off employees, the key feature of the CARES Act is a major expansion of unemployment insurance benefits. For up to four months, the federal government will pay an extra $600 per week in addition to the state-provided unemployment benefit. This is critical for low-wage workers such as those who live in under-resourced communities, since it replaces 100 percent of pre-layoff pay for the bottom half of wage-earners. Unemployment benefits will also be extended for 13 weeks beyond the current limit, which varies by state, up to a maximum of 39 weeks. Part-time employees will be eligible for the extended benefits, including the extra $600, even if their state doesn't otherwise cover them. So will furloughed employees whose employers closed because of the virus. To give states an incentive to provide laid-off employees with unemployment benefits immediately rather than making them wait a week after filing for benefits, the federal government will pay the cost of the first week's benefits.

For the first time, the Act makes sole proprietors, independent contractors, and the self-employed eligible for unemployment benefits for up to 39 weeks through the end of this year based on their income from their 2019 tax year. They need not be completely unemployed but must have lost business because of the public health crisis. To receive benefits, they must certify that they are unable to work because they have the coronavirus or have symptoms and are seeking diagnosis, have a household member with or are caring for someone with the virus, are quarantined or have been advised by a health care provider to self-quarantine, were scheduled to start work but cannot do so because they have no job or cannot reach their job because of the crisis, have become the breadwinner of their household because the previous breadwinner died from the virus, had to quit their job or had their workplace closed because of the virus, or meet other criteria that the Department of Labor will establish. This provision can help not only independent contractors and individual self-employed people but also self-employed business owners who are not employees of their own businesses. For example, a self-employed retail store owner whose business is required by law to close because of the public health emergency may be eligible to receive unemployment benefits.

INDIVIDUALS AND FAMILIES. The CARES Act's major benefit for individuals and families is a one-time payment of $1200 for individuals with incomes of up to $75,000 per year ($2400 for married couples earning less than $150,000). In addition, families will receive $500 per child. The payments will be phased out for individuals earning up to $99,000 per year ($198,000 for married couples) and eliminated for those earning more than that amount. This benefit may not reach all of the very poorest people, however. It is based on 2019 tax returns or, if those have not yet been filed, 2018 returns, so people with incomes so low that they do not have to file tax returns may miss out on the benefit unless they file a 2019 return in the midst of the coronavirus crisis.

LOCAL GOVERNMENTS. The CARES Act provides nearly $340 billion in assistance to state and local governments, including funding for coronavirus response efforts and emergency aid to governments that are running out of funds because of the crisis. Aid to state and local governments helps small businesses and employees indirectly, since state and local small business assistance and workforce development programs are otherwise likely to be among the first spending items that cash-strapped governments will cut during the crisis. The amount of federal aid to state and local governments is likely to be insufficient but if state and (especially) local governments can survive in the short term, Congress will have the opportunity to provide additional funding during the next round of coronavirus assistance. An additional drawback of the legislation is that direct aid to local governments is limited to cities with 500,000 or more residents. Only 36 cities have populations that large.[4] Other cities, including such large cities as Miami, Oakland, and Pittsburgh, as well as the many smaller cities and suburbs with under-resourced communities, will not receive direct federal aid and will have to rely on assistance from their state governments.

For Under-Resourced Communities to Benefit, Information and Resources Must Be Equitably Distributed

The CARES Act provisions described above have the potential to keep under-resourced communities from falling further behind the rest of the nation as a result of the coronavirus crisis, which will hit those communities hardest. However, they will do so only if residents, businesses, and employees understand how to access the law's benefits and are able to receive the aid to which they are entitled.

Perhaps the easiest problem to solve is lack of information. The law not only expands existing benefits but also creates new forms of assistance and makes existing benefits available to people and businesses that weren't previously eligible for them. Small business owners, for example, need to understand that they may be eligible for forgivable loans. Laid-off workers who may not otherwise be eligible for unemployment benefits need to understand whether they may now be eligible. Self-employed people, including self-employed business owners, need to understand whether they may be eligible for unemployment insurance. All these people need to understand how to access the benefits that are available to them. Small business assistance programs, local banks and community development financial institutions, state and local governments, local Chambers of Commerce, and immigrant aid organizations, among others, can help by explaining eligibility requirements and access procedures using language that is easily understandable to the constituencies they serve. If their resources permit, they can also provide individualized counseling by phone.

Some problems of access to benefits require more active forms of assistance because benefit eligibility determination or benefit delivery depends on systems to which low-income people or small businesses may not have access. People with incomes so low that they did not have to file tax returns in either 2019 or 2018 may miss out on the one-time payments to which they are entitled. To prevent that from happening, they will have to file 2019 tax returns, even if they are not required to do so. Community-based organizations can help spread this information and the Internal Revenue Service's Volunteer Income Tax Assistance providers (many of which are housed at community-based organizations) can provide assistance with tax return filing, including free online filing.

Even if access is formally available to everyone who is eligible for a benefit, access may not be equally available to the businesses and residents of under-resourced communities. The forgivable loan program for small businesses, for example, depends on SBA-approved lenders to make eligibility determinations and process loans. Although there is no realistic alternative to relying on lenders (the SBA itself does not have the capacity to deal with all applicants quickly and nonfinancial providers of small business assistance are not equipped to do so), doing so may create barriers for some small businesses, especially in under-resourced areas. Some small business owners may not previously have dealt with an SBA-approved lender, or any lender. Some may face language barriers in doing so. Regrettably, racial and ethnic discrimination by lenders is still a major problem and it may exist in the forgivable loan program as well as in more conventional forms of lending. All these problems are compounded by lack of information on the part of some small businesses; although it is possible to locate SBA-approved lenders on the SBA website, small business owners without access to the internet will have much more difficulty finding those lenders. Community development financial institutions, which are experienced in dealing with small businesses in under-resourced areas, can conduct outreach to small businesses in their communities and, if they are SBA-approved, process loan applications. Small business assistance programs, state and local governments, local Chambers of Commerce, and immigrant aid organizations can also provide information about the forgivable loan program, advise business owners about lenders that can help them, and monitor any racial and ethnic discrimination that businesses may face from lenders.

Finally, there is one feature of the CARES Act that explicitly creates barriers to access for some under-resourced communities. Because the Act restricts direct aid to local governments to the very largest cities, many localities with under-resourced communities will be excluded. As a result, local government-operated small business assistance and workforce development programs may be curtailed or eliminated in many of the communities that most need them during the current crisis.

Conclusion

The CARES Act is a crucial first step in helping under-resourced communities survive the coronavirus crisis. If information and aid flow equitably to under-resourced communities, then the Act will help prevent those communities from falling further behind the rest of the nation. The challenges of ensuring that equitable flow shouldn't be minimized; the small business assistance providers, local governments, community organizations, and other public and private institutions that can help that happen are themselves under a great deal of stress as a result of the crisis. Nevertheless, anything they can do to help is better than nothing. Later this spring or early in the summer, Congress will likely pass an additional aid package. That package should be one that goes further in creating a more inclusive economic recovery in which under-resourced communities make economic progress and the racial wealth gap is narrowed. The immediate need, though, is to stabilize under-resourced communities using the tools the CARES Act has made available. That is an achievable goal. It is an economic and moral imperative that it be achieved.

ENDNOTES

[1] Formally, we define an under-resourced community as a group of two or more contiguous census tracts with a combined population of at least 8000, located in a metropolitan area with a population of at least 250,000, in which each census tract has a median household income below the national median and either (a) a poverty rate (excluding undergraduate and graduate students) of at least 20 percent or (b) a (non-student) poverty rate of at least 18 percent if the tract is contiguous to a tract with a poverty rate of at least 20 percent. In addition, no more than 65 percent of the residents of each tract may be undergraduate or graduate students, no more than 65 percent may be residents of group quarters (such as prisons or nursing homes), and each tract must have a population density of at least 100 people per square mile, an area of at most 15 square miles, and a primary commuting flow to an urbanized area.

[2] Initiative for a Competitive Inner City, "The Big Impact of Small Businesses on Urban Job Creation: Evidence from 10 Cities, updated and expanded edition" (Boston, 2019), https://icic.org/wp-content/uploads/2019/08/JPMC_BigImpact_JUL2019_ada1.pdf.

[3] Beatrice Jin and Andrew McGill, "Who is Most At Risk in the Coronavirus Crisis: 24 Million of the Lowest-Income Workers," *Politico*, March 21, 2020, https://www.politico.com/interactives/2020/coronavirus-impact-on-low-income-jobs-by-occupation-chart/?utm_source=Economy+League+Newsletter&utm_campaign=d1e400f452-EMAIL_CAMPAIGN_2019_11_18_06_30_COPY_01&utm_medium=email&utm_term=0_fdeb7c0f15-d1e400f452-52811453.

[4] The 36 cities with populations of at least 500,000, as of 2018 (the most recent year for which Census population estimates are available), are New York, Los Angeles, Chicago, Houston, Phoenix, Philadelphia, San Antonio, San Diego, Dallas, San Jose, Austin, Jacksonville (FL), Fort Worth, Columbus, San Francisco, Charlotte, Indianapolis, Seattle, Denver, Washington (DC), Boston, El Paso, Detroit, Nashville, Portland (OR), Memphis, Oklahoma City, La Vegas, Louisville, Baltimore, Milwaukee, Albuquerque, Tucson, Fresno, Mesa (AZ), and Sacramento.