

**To:** Josh Broder, Co-chair; Laurie Lachance, Co-chair; and members of the Governor's Economic Recovery Committee

**From:** James Myall, committee member and MECEP policy analyst, and Sarah Austin, MECEP policy analyst

**Date:** July 1, 2020

**Re:** Distribution of Coronavirus Relief Funds in Maine

Federal resources made available to states are vital to helping limit the spread of COVID-19 and supporting a safe and sustainable economic recovery. Already, Maine has received more than \$1.25 billion through the federal CARES Act to address costs associated with the state and local response to COVID-19. These funds can provide a bridge to a safe and sustainable economic recovery. To date, approximately one-third of these funds have been expended.

This memo outlines ways to use the remaining two-thirds to ensure a people-first approach to the state's economic recovery that results in improved health and prosperity for all Mainers, as well as some potential pitfalls to avoid as policy leaders make critical decisions that will shape our shared economic future.

As the committee considers its initial recommendations to the governor, we offer the following principles, recommendations, and pitfalls to avoid in providing guidance over the use of Coronavirus Relief Funds.

## First Principles

### 1. Economic recovery starts with a commitment to public health

The coronavirus has made it clearer than ever before that when it comes to our health and prosperity, Mainers are all in this together. As long as any of us are at risk for COVID-19, all of our health and prosperity is in jeopardy. Continued vigilance in adhering to public health guidance is the most important thing we can do to ensure a safe and sustainable return to economic activity. Residents and workers in states that have prioritized reopening over public health are facing new outbreaks that are putting more lives at risk and undermining any economic gains.

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As the experience of almost every other country in the world reveals, the essential first step on the path to recovery is containing the spread of COVID-19 through public health measures such as social distancing and mask-wearing, testing, contact tracing, and quarantine and treatment of infected or exposed individuals. While Maine has made significant progress in these areas, adherence to public health guidelines varies by individuals and businesses, creating unnecessary risk for individuals and communities throughout the state. With this in mind, we recommend that members of the Economic Recovery Committee affirm the important role of adherence to evidence-based public health guidelines as an essential first step in the recovery process.

## **2. Economic recovery must reach all Mainers**

COVID-19 has exposed pre-existing cracks in our economy that, if left unaddressed, will slow and weaken our long-term recovery. The disparate impact of the virus by race, the risks that frontline workers face while continuing to work for relatively low pay and with limited ability to take paid-time off to care for themselves or loved ones, and the challenges laid-off workers face in maintaining health coverage, keeping a roof over their head, and providing for their families are the result of inadequate policies and systems.

A robust and resilient economy is only possible if every Maine individual and family shares in the recovery. The dual crises of the coronavirus and recession have put the health and lives of many Mainers at risk while widespread unemployment is cutting off the flow of money to families and communities, making it even harder to deal with the problems we all face — particularly for those who were already struggling before the pandemic.

To ensure those families and communities hit hardest by the pandemic don't fall even further behind, Maine must enact wide-reaching policies for workers, invest in the care economy, and create systems that are responsive and accountable to people's needs. Doing so will increase the likelihood that more Mainers will participate in the workforce as called for in the state's ten-year economic plan. As the Committee considers long-term policy solutions, they should prioritize those that ensure all Mainers benefit from the recovery.

## **3. Additional federal action is needed to avoid harmful cuts and a prolonged recession**

The coronavirus pandemic triggered an unprecedented public health and economic crisis. Nationally more than 130,000 people have died due to COVID-19. Over 100,000 Mainers filed for unemployment in March and April. We have entered a recession that rivals the speed and depth of economic deterioration of the Great Depression. Public policy will play a large role in determining the length of our current recession and the scope of recovery.

The initial federal response to COVID-19 provided resources to states to combat the virus and to provide an economic lifeline to businesses and people that protected many from the harms that would normally come from an economic shutdown. Now, states and municipalities face a collapse in revenue at a time when the need is greatest. During previous recessions, an inadequate federal response resulted in cuts that triggered greater job loss and a slower recovery.

To avoid repeating past mistakes and prolonging the recession, Congress and the President must act to deliver more aid to states, towns, and tribes and to ensure that resources are in place to meet ongoing needs of laid off workers and local businesses hurt by the recession. The National Governor's Association provides a bipartisan proposal for additional federal action. We recommend that the Economic Recovery Committee submit a letter to Maine's Congressional delegation calling on them to act immediately to provide additional aid at or above the levels requested by the nonpartisan National Governors Association.<sup>1</sup>

#### **4. All Mainers, businesses, and institutions have a role to play in ensuring a safe, shared recovery**

Containing, and ultimately suppressing, the coronavirus is a necessary precondition for economic recovery. All of us have a role to play in that effort. Individuals and families must follow guidance of public health officials to reduce risk to themselves and others. Businesses must implement procedures to adequately protect workers and customers. And institutions must enact evidence-based policies in the interest of public health and a shared recovery. We recommend that the Economic Recovery Committee reject proposals that undermine this principle, including those that would provide immunity from liability to corporations and other entities.

## **Putting CARES Act Funds to Work for Maine's Recovery**

On March 27, 2020, President Trump signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act into law. The act included substantial resources for small businesses to help them maintain payroll and retain employees, expanded unemployment benefits, direct payments to families, and funds for states and municipalities for expenses related to COVID-19. Because of limited initial guidance, a lack of flexibility in the use of CARES Act funds, and uncertainty about the extent of the federal response, states initially delayed their use of funds. Growing concern about future state revenue shortfalls and continued inaction by Congress and the President to address collapsing state and local revenue has prompted further delays in many states.

Maine received \$1.25 billion in CARES Act funds. In May, the Mills administration identified nearly \$3.2 billion in possible uses of these funds and, as of June 18, 2020, has committed over \$400 million. The bulk of committed funds (\$270 million) have been used to avoid increasing taxes on businesses by contributing to Maine's unemployment trust fund. The second largest commitment (\$47 million) was for overtime and hazard pay for state employees involved in the state's response to COVID-19, and the third largest commitment

(\$39.5 million) was for personal protective equipment for care providers, state, and municipal officials.

Of the CARES Act funds that remain, Maine should prioritize funding health care and worker safety, income support for affected families, and investments in schools, child care, and similar concerns that will power the recovery and put all Mainers back on a path to good health and prosperity.

## **1. Fund health care and worker safety**

Workers performing essential jobs must be protected from contracting COVID-19. Social workers, nurses, letter carriers, cleaners, and grocery store clerks are performing essential jobs that require contact with people or surfaces that can transmit the virus. The state should institute hazard pay for these essential workers who aren't able to work from home, increase reimbursement rates for direct care providers, and create a pool of personal protective equipment (PPE) that state workers can use and essential businesses with workers at the highest risk are able to receive as grants. Montana has created a stockpile of PPE that it is granting to businesses and could act as a model for Maine.<sup>2</sup>

Every Mainer deserves free testing and treatment for COVID-19, which would reduce barriers to care and prevent transmission. The Maine Legislature in March guaranteed free testing to all Mainers, but testing remains difficult to access for many. Meanwhile, there is no similar guarantee to free treatment for those diagnosed with COVID-19. People diagnosed with COVID-19 also need other interventions to help stem the spread of the virus. These include but are not limited to access to free hotel rooms or other spaces to safely quarantine and income support to replace wages lost while under quarantine or isolation.

Investment in the public health system, including adequate staffing levels, to increase outreach and education as well as navigators to help workers who test positive to access expedited health, income, and housing support will help affected Mainers keep themselves, their families, and their communities safe from further transmission.

Distribution of these resources must be concentrated in the communities most vulnerable to outbreaks and with the highest infection rates to ensure these interventions are available to those most at risk. Black Mainers, particularly those working the care economy, are facing starkly disproportionate infection rates and need resources commensurate with the unique risk the pandemic poses to their lives and livelihoods.<sup>3</sup> Members of this Committee and policymakers throughout state government should look to the Permanent Commission on the Status of Racial, Indigenous, and Maine Tribal Populations as a key partner in this work.

## **2. Protect economic security for at-risk and impacted families**

CARES Act funds should be used to support economic recovery for families who have lost their livelihoods or work in jobs that do not pay enough to secure adequate food, housing, and health care. This can be done by strengthening and reducing barriers to access for unemployment insurance, food assistance, Temporary Assistance for Needy Families, and Medicaid.

Unemployment Compensation and WorkShare: With record breaking unemployment, it is imperative that policymakers prioritize the ability of Mainers with low incomes to survive the recession and benefit from the recovery. That means preventing Mainers from falling behind on their bills, taking on burdensome and expensive debt, and/or losing housing and transportation that are necessary for work. Our prosperity depends on the workforce participation and spending of Mainers with low- to moderate-incomes, especially as wealthy Mainers have pulled back on their consumption as they work from home, eat out less and forgo hiring services.<sup>4</sup>

Congress expanded unemployment insurance to self-employed and contract workers and added \$600 per week to the benefits. These additional benefits have helped families maintain bills and spending in the midst of a devastated jobs market in which Maine has lost 87,300 jobs compared to this time last year<sup>5</sup>, but these expanded benefits run out at the end of July, long before we can expect the job market to recover. Maine should also invest in promoting and expanding WorkShare, which allows businesses to reduce workers' hours while compensating those workers with partial wage replacement for hours lost. This helps employers retain their workforce and helps employees maintain more of their income in tough economic times.

Social support programs: Beyond unemployment insurance and WorkShare, other economic security programs such as the Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF), and Medicaid are critical supports for Maine's economy. These programs offer targeted relief to Maine families most likely to suffer during an economic downturn. Ensuring adequate staffing to reach eligible families, encourage applications, and process claims will help Mainers cover expenses before and during the recovery. Given the unprecedented nature of the dual pandemic and recession, policymakers should also consider increasing benefits for recipients until the public health crisis is over and the economy has recovered.

Housing: CARES Act funds should be used to ensure housing for Mainers experiencing homelessness or at risk of losing their homes. Absent a robust public infrastructure of quarantine facilities, housing is critical to the processes of quarantine and isolation and can prevent single cases of COVID-19 from becoming outbreaks. However, Maine is a long way from housing security for all families. The US Census Bureau Weekly Pulse Surveys estimate between 11 and 22 percent of Maine households have either missed or anticipate missing a housing payment. The

Federal Reserve Bank of Boston estimates one-tenth of Maine homeowners and one-third of Maine renters are at risk of missing their payments.<sup>6</sup>

Federal action has helped to defer mortgage payments for Mainers and the Mortgage Bankers Association reports that 8.6 percent of mortgages were in forbearance nationally as of June 7.<sup>7</sup> Renters, however, have had to rely on a small rent relief fund and court closures to avoid eviction actions that put families and communities at risk. As courts prepare to reopen, many Mainers will face eviction. CARES Act funds can and should be used to prevent families from losing housing during a pandemic and recession.

Direct service organizations: While the state has a crucial role to play in interventions to protect Mainers from poverty, hunger, health deprivation, and homelessness, there are many private nonprofits offering similar support to families and communities. Where sensible, CARES Act funds should be used to support direct service providers such as domestic violence shelters, homeless shelters, food pantries, and other community organizations that have seen increased demand for their services and increased costs.

### **3. Shore up investments in education, child care, and vital community infrastructure**

Public schools: Public education plays a critical role in our communities and economy. Schools enrich children with education and put them on an upward trajectory for the rest of their lives. They lay the groundwork for future economic prosperity and serve as important pillars of our towns and cities and as a focal point for the community.

Until such time that the coronavirus no longer poses a risk to Mainers, our schools will need additional resources to safely resume in-person instruction. Measures to protect students, faculty, staff, and communities — such as reduced classroom sizes and bus occupancy, adequate personal protective equipment, increased sanitation, and the possible continuation of distance learning — all require additional funding beyond the existing cost of education. Federal funds should be dedicated to support these costly efforts.

Child care providers: Affordable, safe child care is a precondition for many Maine parents to return to work, but many providers may be forced to close without financial support. By one estimate, 22,814 childcare slots in Maine could be lost to the pandemic and recession, reducing child care supply by 48 percent and increasing the number of Maine children per slot from 1.64 to 3.15.<sup>8</sup>

The cost of providing child care has skyrocketed as providers take on increased expenses associated with sanitation, social distancing, and contingencies for infection.<sup>9</sup> Meanwhile, provider revenues are down from declining enrollment, as

parents have lost income necessary to pay for child care or have decided to keep their children home. Some centers have shut down entirely because remaining open is not viable.

Still, the child care sector is essential — especially for workers with essential jobs who are not able to stay home with their children. Until the industry stabilizes, Maine should repeat efforts it has already taken to send direct payments to child care facilities on a per-child basis to help with increased cost of care.<sup>10</sup> The state can also increase child care subsidies for families with low incomes, and expand public awareness of the subsidy program.<sup>11</sup>

Reliable, high-speed Internet service: Distance learning, remote work, and telehealth are likely to be with us for some time, and workers increasingly rely on the Internet to find and apply for jobs. Funding to expand access to reliable, high-speed Internet will facilitate these modes of connection in underserved areas, while building a durable infrastructure that will help our economy well into the future.

Maine has already mapped public Wi-Fi access points and acquired thousands of Wi-Fi hotspots and devices in an effort to help students participate in distance learning.<sup>12</sup> Maine can extend these efforts to other departments, to benefit job seekers and vulnerable populations isolated during the public health crisis. These efforts must be paired with investments in expanded broadband infrastructure. It's likely that a significant portion of the workforce shifts to remote working even after the pandemic is over<sup>13</sup> and the digital divide was already perpetuating unequal learning outcomes for students that hot spot devices alone cannot address.<sup>14</sup> Investing in highspeed internet now will help Mainers better succeed in the workforce and the classroom.

## **Potential pitfalls to avoid on Maine's road to recovery**

The above measures are proactive steps policy leaders can take to put Maine on a path to recovery. But decisionmakers must also avoid several stumbling blocks. For a robust response to this crisis, the state should avoid the following pitfalls:

### **1. Waiting for further economic deterioration before investing.**

The US economy and public health outlook is rapidly evolving. While case counts in Maine are relatively low and unemployment claims have retreated from their April spike, Maine has suffered unprecedented job losses and key sectors, such as fishing and tourism, are unlikely to return to full capacity in the near term. Additionally, failure to contain the virus in the US leaves the economic outlook uncertain. Swift fiscal response is important to stabilizing the workforce and helping families avoid financial ruin.

State investments that prioritize retaining and expanding the public workforce help to stabilize the larger workforce. Proactive state spending to prevent the worst harms of the recession on families — *before* they lose housing and food security or take on harmful debt — will ensure a speedier recovery and prevent spillover job losses by stimulating spending.

## **2. Directing resources to those who don't need them**

The recovery will be powered by low- and moderate-income families. Tax credits and other efforts that target higher-income households and profitable businesses will do far less to boost the economy, stimulate demand, and boost business confidence than allocating those resources to low- and moderate-income families through the approaches described earlier in this memo.

Low- and moderate-income families spend a larger share of their income than wealthier families. During recessions, they maintain that higher spending rates for each additional dollar they receive. This phenomenon is evident in the current economic environment; As of June 17, spending by wealthy Mainers was down 11.7 percent from January 2020, while low-income household spending was up 3.3 percent and middle-income households spending was up 1.2 percent over the same time period.<sup>15</sup>

Because higher-income households typically spend more on services, their lower overall spending rates are particularly pronounced in the COVID-19 recession, during which many services have been restricted. The greater likelihood of wealthier Mainers to work from home through the crisis also means they are making fewer daily transactions, such as purchasing gasoline or meals. It is also likely that even as services re-open, wealthier households are better able to prioritize their health and avoid services they believe might expose them to the virus. For these reasons, policymakers should avoid funneling federal funds to higher income families, where they are less likely to boost Maine's economy.

## **3. Encouraging dangerous behavior that threatens public health and the economy.**

As decisionmakers seek a path to economic recovery, they must avoid hasty or rushed decisions to relax the very public health restrictions that have prevented Maine from experiencing the severe outbreaks seen in other states.

Allowing sectors of the economy to resume pre-pandemic levels of activity before it is safe is a deadly business. Prematurely promoting dangerous behavior poses a threat to a sustained recovery and increases the likelihood of a double-dip recession.<sup>16</sup> Many states are already suffering the devastating consequences of easing restrictions too quickly and are reinstating mandated closures and other restrictions. Such a seesaw of policy in Maine would likely make businesses worse off in the long run. A restaurant, for example, would have gone through the cash-



intensive endeavor of restocking their inventory and adjusting employee protocols, sanitation, and facilities, only to suffer the economic blow of shutting down again.

Other more novel ideas that incentivize potentially dangerous behavior, such as travel subsidies<sup>17</sup> and large write-offs for business meals and entertainment,<sup>18</sup> are irresponsible and unsupported by public health advice and must be avoided.

## Conclusion

COVID-19 has caused unprecedented damage to Maine's economy, to say nothing of the human toll of lives lost. As we seek a way to rebuild and recover, Coronavirus Relief Funds are an important tool at policymakers' disposal. It is critical that these funds be used to fuel a shared, people-powered economic recovery — one that prioritizes public health, worker and consumer safety, and public investments that will set the stage for long-term success.

As part of its mission to provide policymakers with credible and rigorous economic analysis to advance economic justice and prosperity for all Mainers, MECEP is eager to provide whatever support we can to the work of your Committee, and to Maine's economic recovery.

## About the Authors

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<sup>1</sup> "Governors' Letter Regarding COVID-19 Aid Request." *National Governors Association*. April 21, 2020.

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