Actionable Ideas for Economic Recovery in American Cities

Essay series

COVID-19
METRO RECOVERY WATCH

Metropolitan Policy Program at BROOKINGS

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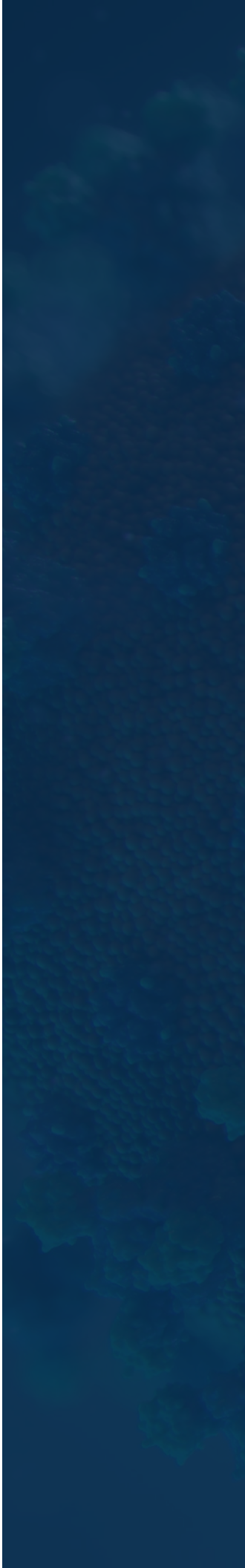

COVID-19

METRO RECOVERY WATCH

ABOUT THE COVID-19 RECOVERY WATCH

The COVID-19 Metro Recovery Watch is aimed at informing local and state recovery strategies from COVID-19's historic economic impacts in ways that link near-term resilience to longer-term economic transformation, racial equity, and economic inclusion.

Check out the website.

Rebuild better: A framework to support an equitable recovery from COVID-19

Amy Liu, Alan Berube, and Joseph Parilla

July 2020

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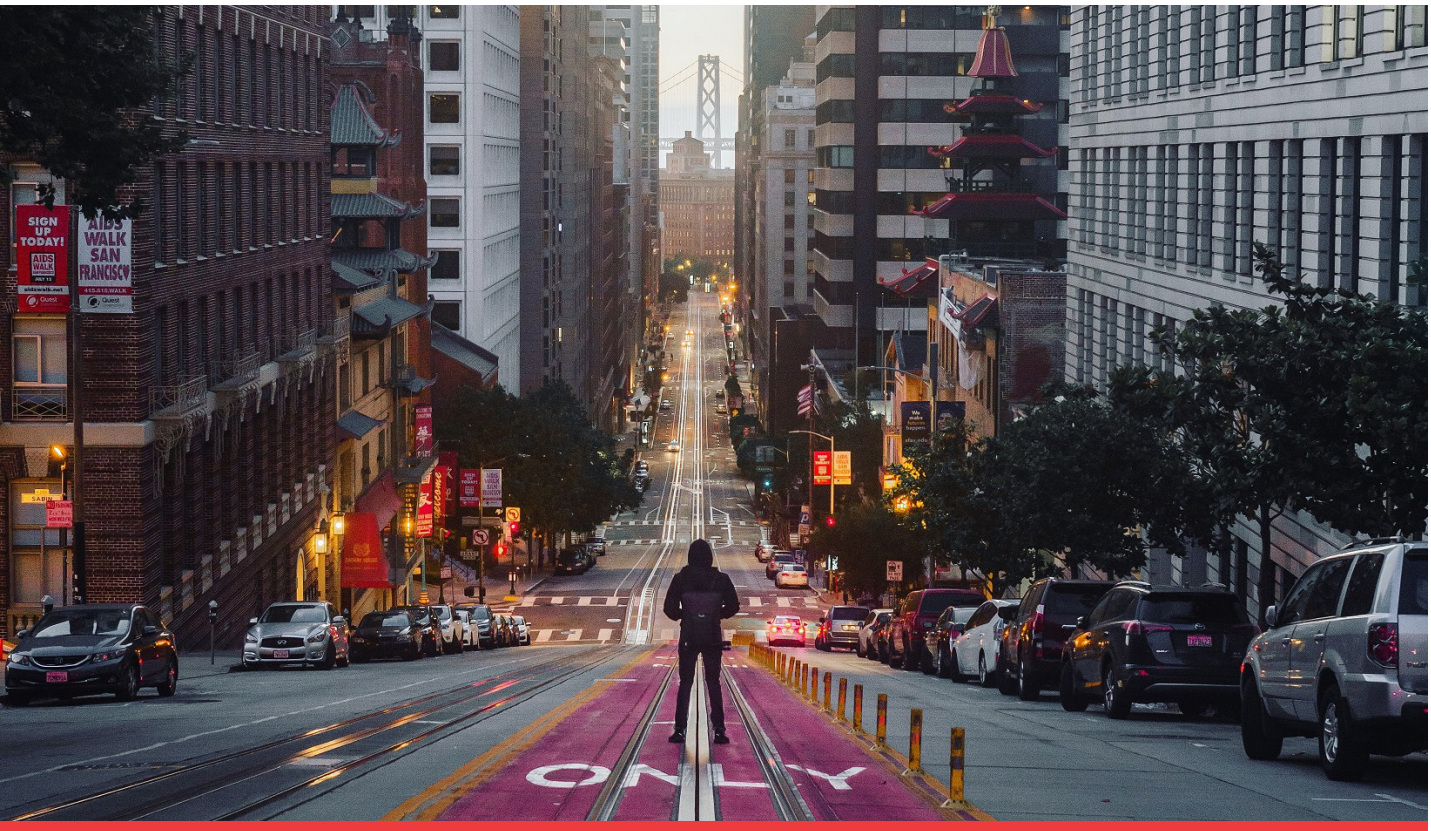
The challenge

In the wake of the COVID-19 pandemic's massive job losses and amid a fraught "reopening" characterized by a rapid increase in cases, many public and private sector leaders around the country are nonetheless fully engaged in recovery planning. Their original mandate may have been to restore lost jobs and businesses. But the murder of George Floyd and subsequent public outcry for racial justice have ratcheted up pressure for recovery to address the deep racial inequalities that preceded and were laid bare by the pandemic.

The scale and speed of this economic collapse is without precedent in modern American history. In just two months, measures to safeguard public health wiped out a decade's worth of job gains since the Great Recession. Despite some initial hopeful signs as governors relaxed those measures, millions of Americans continue to file for unemployment insurance benefits each week. Millions of small businesses have shuttered, and many may never reopen. Some cities and regions have been hit especially hard, particularly those that depended on vulnerable industries such as tourism and hospitality. And COVID-19 case counts rose rapidly in many areas of the country through June and early July, diminishing hopes that the U.S. labor market might bounce back quickly.



Given the enormous disruption to the economy and Americans' lives in general, the pressure local leaders feel to "return to normal" is understandably strong. Yet for many Americans—particularly people of color and those living in struggling post-industrial regions—the "normal" that preceded the pandemic wasn't cutting it. The dominant dynamic shaping the U.S. economy over the past decade has been "winner-take-most," in which digital platforms concentrated wealth and opportunity in the hands of relatively few people in relatively few places.

Out of nearly 200 metropolitan areas that together house 80% of U.S. population, exactly zero managed to grow their economies, raise standards of living, and reduce gaps by income, race, and place consistently from 2008 to 2018. By the mid-2010s, a whopping 44% of the U.S. workforce—including 54% of Black workers and 63% of Latino or Hispanic workers—earned less than a family-sustaining wage, evidence that low-paying service jobs have proliferated throughout metro area economies. These disparities meant that local economies were not only failing to maximize the potential of their people and communities pre-crisis, but also were more exposed to the health and economic damage COVID-19 would go on to inflict.

Rising racial and spatial inequality before the crisis was not a new phenomenon; it merely compounded the challenges that structural racism has long posed for people of color. By nearly every measure, Black and brown Americans trail other groups in indicators of economic well-being, mobility, and—most dramatically—wealth. Now, videos from body cameras and cellphones are providing the rest of America stark visual examples of how prevailing norms, institutions, and policies systematically devalue Black people and communities.

COVID-19 threatens to widen these disparities further. The digital rich appear to be getting richer, advantaging businesses with the technological sophistication and scale to dominate sectors, workers who can telework from the safety of their homes, and regions with a strong foothold in the technology economy. Meanwhile, small retail businesses are losing out even faster to online retail oligopolies, and many workers in lower-paying service industries have either been displaced due to social distancing orders or must report to work for essential frontline positions, putting themselves and their families at greater health risk for limited financial reward.

Black and Latino or Hispanic workers are more likely than others to both have lost their job during the pandemic and to occupy low-wage, frontline essential worker roles. Black and Latino or Hispanic small business owners were less likely to receive initial support from CARES Act programs, imperiling their enterprises and the individual and community wealth they generate. And above all, Black and Latino or Hispanic Americans are three times more likely to contract COVID-19, due to their disproportionate exposure to frontline work, overcrowded housing conditions, and preexisting health challenges resulting from institutionalized racism.

The opportunity

Fortunately, there's now a window—and an imperative—to act. Local leaders who are chairing, convening, or participating in the development of regional economic recovery strategies can use their positions of influence to demand that their places and people do better than "return to normal." They can aim to rebuild better. They can leverage the force of public opinion, the private sector, government, and philanthropy to create higher-quality and racially inclusive local economies. They can develop recovery agendas anchored by specific innovations in policy and practice that do not separate these goals but braid them together in a mutually reinforcing vision.

Unfortunately, history does not offer many successful cases of inclusive economic transformation. As the statistics above demonstrate, the nation's recovery from the Great Recession exacerbated racial disparities. Black workers took longer than others to regain lost ground on employment and earnings. Even by 2019, homeownership rates for Black and Latino or Hispanic households remained considerably below their 2006 levels, and roughly 50% lower than those for white households. These inequitable outcomes reflect a powerful adherence to status-quo economic development approaches that prioritized short-run job creation. To the extent that leaders took on issues of racial equity, they addressed them separately and much later in the business cycle. This approach only served to reinforce economic systems that favor the privileged, deepening inequities that erode trust and resilience and limiting overall potential by leaving too many talented individuals on the sidelines.

Even in past instances where racial equity has been elevated as a recovery goal, outcomes have fallen short. In the wake of Hurricane Katrina and the failure of the levees, there was a broad consensus that New Orleans must bounce back better than before, with a stronger, more equitable, and more resilient economy. Important efforts were made to boost entrepreneurship, strengthen building codes, overhaul the criminal justice system, and adopt resilience strategies. For all that, however, income inequality in Greater New Orleans has widened, with Black households in 2018 earning lower incomes than before the storm, in 2005. The New Orleans Workers' Center for Racial Justice describes the local economy as still beset by a long-standing "plantation tradition," in which Black workers remain relegated to low-wage service jobs supporting upscale tourism and predominantly white industries.

At this critical moment in our nation's history, however, past need not be prologue. Rebuilding better, with a commitment to quality and equity suffused throughout state and local recovery strategies, can help communities begin to transcend the weaknesses that plagued their economies before the crisis and restore faith in the public, private, and civic institutions that steer places through both prosperity and adversity.

This overview and its accompanying series of policy ideas aim to give local leaders in government, business, nonprofits, and higher education—as well as their state partners—a recovery framework through a set of nine concrete ideas for rebuilding better. While achieving a more prosperous and equitable future requires the actions of many individuals, organizations, and policymakers (not least funding from the federal government to forestall severe cuts in state and local services), this series offers some practical steps that local leaders can take as a down payment toward broader reform.

The vision

In the wake of the COVID-19 crisis, local leaders will *rebuild better*, generating higher-quality jobs and wealth creation opportunities in their local economies that advance racial inclusion.

Principles for action

Set goals to increase prosperity and racial equity. As demand ultimately bounces back, so too will sectors and jobs that have traditionally failed to offer workers good wages, benefits, and pathways to family-sustaining earnings. To rebuild better, local and regional leaders must adopt a shared definition of a higher-quality, more equitable economy—embedded in quantifiable goals and metrics—that informs recovery strategies. More than goals and metrics, however, leaders must also create a formal mechanism in which they can visibly track progress and hold themselves and partner institutions accountable for their collective success or failure.

Adopt a three-part framework to pursue those goals. In the past, efforts to achieve higher-quality, more equitable economic outcomes have involved the creation of special offices and initiatives, or implicated the work of individual organizations in fields such as community development. To rebuild better, local and regional leaders must embed this work within and across diverse functions to help:

A. Incentivize and nurture the growth of higher-quality businesses and industries, particularly those led by people of color. Local leaders should aim to stabilize and strengthen not only neighborhood small businesses, but also tech ecosystems that support Black and brown entrepreneurs. They should provide outreach and services to "missing middle" companies that can generate quality jobs, and position themselves to capture new production opportunities that boost their resiliency to future global risks.

B. Source and develop a racially diverse talent base, while lifting the quality floor for all jobs. Local leaders should redesign career navigation and placement services to focus on pathways to better jobs and employers, and create local service corps that can deploy recently unemployed residents to meet short-term community needs and bolster longer-term community health infrastructure.

C. Support connected, vibrant, and inclusive communities. Local leaders should establish digital equity offices that can promote universal broadband access; use a soft real estate market to launch affordable housing acquisition strategies; and empower community real estate investment trusts to increase wealth and economic mobility for residents of structurally disadvantaged communities that COVID-19 has hit hard.

Build new institutional capacity. If cities, regions, and states rely primarily on traditional civic institutions to carry out local recovery strategies, they will sacrifice credibility with a diverse new generation of stakeholders and are likely to end up with the same underwhelming results. To rebuild better, local and regional leaders must use this moment to develop the capacity of existing institutions or new partnerships with credibility in Black and brown communities

to serve as quarterbacks for a racially inclusive economic recovery plan. These entities must be able to engage diverse actors in decisionmaking and drive long-run, multisector commitments toward a shared vision and goals.

Rebuilding better is critical not only for recovery, but also for long-term resilience. By building a more robust jobs base fueled by diverse talent and vibrant neighborhoods, local leaders can reinforce the economic assets and social cohesion that enable communities to better withstand inevitable future shocks.

This work will be complex. Pursuing a higher-value and racially inclusive recovery will take more time and resources than conventional efforts to restore local economies to their pre-crisis state. A "return to normal" is no longer a credible option. With growing public support for measures to enhance racial justice—and with COVID-19's persistence further delaying a full reopening of the economy—local leaders have the mandate and the runway to unify their communities around this framework, mobilize investors (public, private, and philanthropic), and insure the right institutions are in place to implement specific initiatives. The moment demands nothing less.

Supporting microbusinesses in underserved communities during the COVID-19 recovery

Pam Lewis
Director, New Economy Initiative

July 2020

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Overview

When 2020 began, no one imagined the challenges the country would face in health, the economy, and the renewed revelation of disparities for the microbusinesses in underserved communities that drive local economies.

In Detroit, collaborations between public, private, nonprofit, and philanthropic leaders quickly listened to business owners, innovating and implementing strategies to ensure the most vulnerable businesses could address their specific needs that resulted from social distancing orders. The strategies outlined below could have potential applications to many underserved communities in cities across the United States.

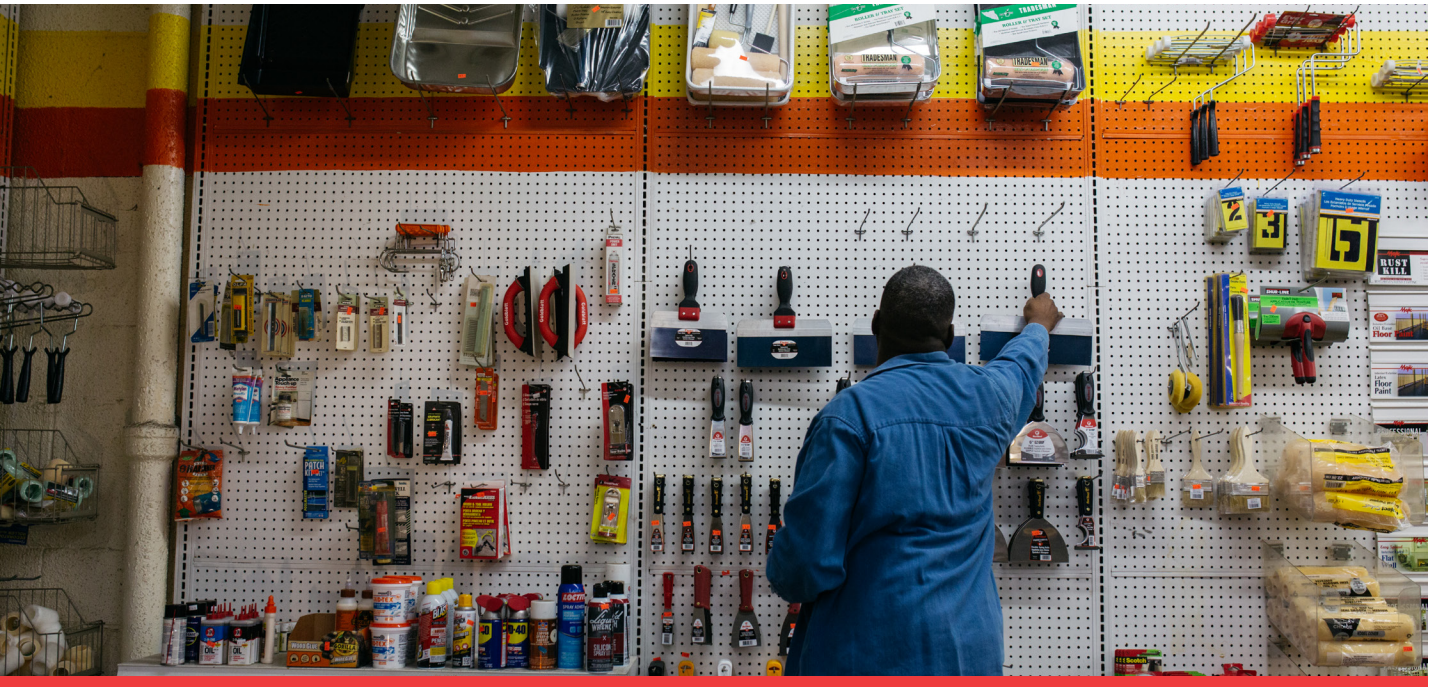
Challenge

Small businesses in cities like Detroit bring life to once-abandoned commercial corridors, offer proximate products or services, and provide accessible jobs to residents. Growing these businesses offers more attainable jobs that reduce the percentage of residents that travel out of the city for work. A recent report by JPMorgan Chase stated that "a modest increase in the number of employees hired by existing small businesses (one to three employees per business) could create enough employment opportunities for all currently unemployed inner-city residents."[1]

Beyond jobs, small business ownership offers a pathway to economic self-sufficiency for Black Americans, especially in Black-majority cities such as Detroit. Compared to the nation, the share of businesses owned by Black residents is eight times higher than the national average. Ninety percent of these Black-owned businesses are microbusinesses that have between one and three employees.

The economic impact of COVID-19 has been devastating to small businesses across the nation, but there are some preconditions in Detroit that made the city particularly vulnerable in this crisis. First, the public health impact there has been severe; Detroit is 6.7% of Michigan's population, but has 17.7% of the state's COVID-19 cases and 23.6% of its deaths.[2]

Second, very small businesses in cities like Detroit—which were vulnerable before the pandemic—have been hit harder due to the inner city's reliance on industries that are more susceptible to the impact of social distancing orders, including retail, restaurants, construction, and personal care services. Detroit's small business owners reported an immediate loss of revenue, lack of liquidity, and less solvency to deal with payables, rent, existing debt, and the impact of losing inventory.



At the same time, microbusinesses owned by people of color are less likely to have an existing relationship with a commercial bank. Of the $20.8 billion loaned through the Small Business Administration's 7(a) program in 2019, 32% went to minority-owned businesses, yet only 6% was loaned to Latino- or Hispanic-owned businesses and 3% to Black-owned businesses. Only 1% of the program's dollars were distributed through the Community Advantage loan program to address needs of underserved markets.[3] Congress's signature small business support program in response to the pandemic—the Paycheck Protection Program—relied on distributing $660 billion in liquidity through existing financial institutions, which are less likely to serve minority-owned businesses.

Thus, Detroit is pursuing a mitigation and recovery strategy focused on underserved businesses. To understand the ground level challenges for these businesses, my organization, the New Economy Initiative (NEI), conducted interviews with 70 small business owners in Detroit. The interviews revealed the following challenges related to equipment, capital, and technical assistance (Table 1).

Table 1: Small business owner interviews revealed equipment, capital, and technical assistance needs

Equipment needs	Capital needs	Practical assistance needs
Personal protection equipment (PPE) and sanitization procedures	Guidance on how to access lower-risk financial support	Advice on marketing to expand customer reach
Access to cleaning supplies, testing equipment, and testing locations	How to use Paycheck Protection Program (PPP)	Advice on how to adapt to a disrupted supply chain
Clarity on compliance and when businesses can reopen	Working capital funding to cover rent, utilities, payroll, and inventory	Human resources support to attract employees back to work
Guidance on making customers feel safe	Capital for new capabilities such as safety equipment, e-commerce tools, and reskilling	Advice on financial budgeting, recovery planning, and how to pivot business models

Source: Author

Response

This section describes strategies implemented in Detroit during the spring of 2020 by a range of stakeholders in the small business ecosystem: business owners, employees, customers, government, policymakers, investors, and the many nonprofits and economic development agencies that support them. These strategies are models of innovation that could be applied to other underserved communities in cities across the United States.

NEI is committed to inclusive entrepreneurship and economic development through the growth of small businesses owned by underserved entrepreneurs in underserved communities. NEI is a steward of the Detroit small business support network, serving as a catalyst, funder, and coordinator of the nonprofit business support organizations and community lenders that assist small businesses as they start and grow. Launched as part of the Community Foundation for Southeast Michigan in 2008, NEI, its grantee partners, and its funders were well-positioned to lead a response to the small business crisis along two key dimensions: mitigation and recovery.

Mitigation Strategy 1: Grant-based liquidity and capital access

As a funder to community development financial institutions (CDFIs), community development organizations (CDOs), and other small business support institutions, NEI was able to deploy $4.7 million in grant-based liquidity, capital access, and practical assistance within six weeks.

Loan relief

The loan relief program provides immediate assistance to existing borrowers of NEI-funded community development financial institutions (CDFIs) and microfinance program providers who are a part of Detroit's coordinated small business support network. This program relieves borrowers of loan payments for six months, freeing up cash to address other capital needs, protect credit scores, and stabilize the balance sheets of nonprofit community lenders.

NEI administered grants to the nonprofit lenders covering borrower loan payments based on the size of the monthly loan balance of each lender and the number of eligible borrowers. Eligibility was defined by borrowers in good standing and having at least three employees. A total of 260 borrowers received the benefit, at a total cost of $1.1 million.

Rent relief

The rent relief program provides immediate assistance to existing tenants of NEI-funded community development organizations (CDOs) and landlords associated with Detroit's Neighborhood Strategic Fund, focusing assistance on high-priority commercial corridors in neighborhoods across the city and in downtown Detroit. This program relieves tenants of rent expenses for up to three months, freeing up cash to address other capital needs, secure their physical locations, and stabilize the balance sheets of CDOs and strategic landlords.

NEI administered grants to the nonprofit CDOs and local CDFIs managing the Strategic Neighborhood Fund, providing funds to relieve tenant rent revenue to eligible landlords across 10 neighborhoods. Approximately 600 small businesses received this benefit, at a total cost of $980,000.

Grants to lower-income microbusiness owners

Four stabilization fund programs provide immediate capital to microbusinesses (under 10 employees) that are led by owners who have annual incomes less than 80% of the average median income (i.e., $46,000 for a single person). These programs provide direct grants ranging from $1,000 to $5,000 for small businesses in five underserved communities in Wayne, Oakland, and Washtenaw counties. This program was designed and first implemented by one of NEI's Detroit grantees and was then quickly replicated in Hamtramck, Highland Park, Dearborn, Pontiac, Ypsilanti, and Milan.

NEI administered grants to the Detroit nonprofit who originated the program and then made grants to nonprofit business support organizations that formed partnerships with chambers of commerce and municipalities in four of the above communities. The total cost of this effort was $1.4 million.

Mitigation Strategy 2: Accessible, in-depth practical assistance

Many of the small business support interventions focused on immediate capital relief. However, we have learned that the impact of capital access strategies is optimized when recipients of capital have access to real-world advice, coaching, tools, and experts in the following areas: accounting, finance, cash flow management, marketing, digitizing the business, HR strategies, legal, and daily operations. We call this "practical assistance."

To provide this practical assistance, we launched a new program called 313Strong, offering one-on-one coaching, a free QuickBooks license, and access to experts in the areas above. At a cost of $860,000, this program is designed to serve up to 700 small businesses and is delivered through a collaborative of NEI-funded business support organizations, in partnership with law firms, MBA student groups, and trade association volunteers.

Recovery Strategy 1: The Detroit Means Business coalition

Ensuring businesses—and particularly the most vulnerable businesses—can reopen safely and have quick access to what they need became a key priority for the Detroit mayor's office. The mayor's executive for jobs and economic opportunity, the director of the city's Civil Rights, Inclusion & Opportunity Department, along with leadership from the Detroit Economic Growth Corporation (the lead economic development entity in Detroit) began working alongside private, philanthropic, and nonprofit leaders to develop a system of support. The result—the Detroit Means Business program—is designed to prepare small businesses with fewer than 50 employees to safely and successfully operate during the COVID-19 crisis.

This is the first time private, public, nonprofit, and philanthropic sectors have coalesced for the benefit of Detroit's vulnerable small businesses. The table of leaders also includes representatives from the small business community that the program is designed to assist. Key elements include:

- Small business owners can work with experts to find grants, loans, and other financial resources during the COVID-19 crisis.
- Economic development staff operate a hotline to answer questions and direct small business owners to appropriate resources, such as the MI Safe Start Plan, COVID-19-related health and safety guidelines, PPE sourcing guidance, financial resources, and technical assistance.

- The program offers access to free or low-cost PPE, including gloves, masks, hand sanitizer, sneeze guards, and face shields.
- Small business owners who have specific questions about accounting, human resources, marketing, legal, or business reopening operations can schedule a one-on-one virtual consultation with a small business expert.

Within two weeks of the coalition's launch, over 15,000 small businesses visited the Detroit Means Business website. There were over 3,000 downloads of the guidelines and playbooks, 3,400 free PPE kits were distributed (serving 10 people per kit), 4,000 requests were handled through the contact center, and 70 individuals attended the virtual webinars. This effort is being covered for three months through pro bono services and donated capacity from seven private corporations and 14 philanthropic-funded organizations.

Recovery Strategy 2: Broaden access to capital

For microbusinesses led by the most disconnected owners, capital is always the greatest need—even more so in this pandemic. However, these are the businesses most likely to be unbanked or underbanked, and the least likely to obtain a Paycheck Protection Program loan. Improving access to capital is critical, especially for businesses that have traditionally lacked this access prior to the COVID-19 crisis.

There is a significant shortage of capital because of the higher risk in investing in these already stressed businesses. Therefore, new sources of capital will need to be identified. Potential methods include:

- Improved access to current rounds of the Paycheck Protection Program's loan pool
- Philanthropic grants through nonprofit business support organizations that have relationships with small businesses in their communities
- Program-related investment (PRI) dollars to de-risk lower-interest loans by lenders
- Creative uses of Community Development Block Grant (CDBG) funds
- Policies to increase the amount of SBA 7(a) loans to minority owners (Black and Latino or Hispanic owners received 9% in FY2019)
- Policies to increase the amount of SBA 7(a) Community Advantage loans to underserved communities (which represented 1% of loans in FY2019)

Recovery Strategy 3: Reexamine the capacity of small business support organizations

NEI has funded 20 business support organizations in Detroit over the past six years. These organizations provide multiple access points to services for different types of businesses and represent direct service providers, including CDFIs, microfinance programs, affordable space providers, and business planning mentors. The group also includes community development organizations that ensure businesses in their neighborhoods have information and connections to direct service providers. In addition to funding, these business support organizations will need to adjust to the new needs of the businesses they serve. The work to understand the capabilities of the business support organizations and engage with philanthropic and public funders to provide streamlined investments is also important.

The challenge ahead is also to encourage greater network behaviors across the many resources that cities have to support microbusinesses—regardless of how they are funded or constituted—so that entrepreneurs and business owners (primarily those led by underserved owners or growing in lower-income communities) get what they need when they need it.

Funding

The $3.06 million in mitigation strategies were sourced from national and place-based foundations as well as private donors with interest in supporting inclusive entrepreneurship and small business development in Detroit through the Community Foundation for Southeast Michigan's Small Business COVID-19 Relief Fund, managed by NEI. NEI reprogrammed $2 million of its reserved philanthropic resources to supplement these funds and ensure they were delivered quickly (within two months of the start of the crisis) to the small businesses that could not wait.

NEI is housed within the Community Foundation for Southeast Michigan, which provides an efficient and credible vehicle to receive philanthropic funds that can be regranted out. For over 10 years, NEI has been funded by a group of national and place-based funders. Looking ahead, those funders with specific interest in inclusive small business development within metro area Detroit will be approached to support the network of nonprofit small business support organizations to provide recovery-related services. The estimated costs for this additional capacity could equate to $6 million or more over the next two years.

The Detroit Means Business program has been operated through pro bono and donated talent from public, private, and nonprofit sectors. To operationalize this effort beyond the immediate needs of the crisis, the coalition's leaders will likely pursue public sector and corporate foundations for support. Additional capital deployed to small businesses or used as loan loss reserves may be from public sector agency programs, commercial banks, or program-related investment dollars from national foundations.

Potential impact

A scaled version of a program like Detroit Means Business has the potential to assist hundreds of businesses in dozens of neighborhoods across the city—and in the process, retain and grow jobs and community wealth. Detroit Means Business's impact will be measured by the following metrics:

- Visitors to the landing page
- Contact center inquiries
- Number of businesses assisted
- Average employees of businesses assisted
- Demographics of business owners (gender, race, immigrant status)
- Number of referrals to service delivery partners
- Amount of capital available (percentage for lending versus loan loss reserves)
- Number of outreach partners engaged
- Number of resource downloads
- Number of notifications mailed or emailed to partners and businesses
- Amount of funds raised to support operational program capacity (percentage from public dollars)

Those program-specific performance metrics connect to a larger set of outcome goals for Detroit's broader small business recovery. NEI will be tracking the following goals over the next two years to measure how small businesses are faring during the economic recovery period:

- Number of businesses assisted
- Demographics of business owners (gender, race, immigrant status)
- Ratio of neighborhood versus downtown businesses
- Amount of capital received by small businesses
- Number of practical assistance hours received by small businesses
- Number of service delivery partners engaged
- Amount of capital available, percentage of all funds raised, and percentage of loan loss reserves
- Amount of funds raised for business support organizations and program capacity
- Survivability rate of businesses assisted

Endnotes

1 JPMorgan Chase and Co. and Initiative for a Competitive Inner City, "The Big Impact of Small Businesses on Urban Job Creation: Evidence from Five Cities" (Boston, MA: JPMorgan Chase and Co. and Initiative for a Competitive Inner City, 2016). https://impact.jpmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/documents/sbf-big-impact-small-business-rpt.pdf.

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NATURALICIOUS

Building racial equity in tech ecosystems to spur local recovery

Dell Gines, Federal Reserve Bank of Kansas City and Rodney Sampson, OHUB

July 2020

Photo credits:
Shutterstock, nesa-by-makers, Rodney Sampson,OHUB: Morehouse Innovation Lab Keisha Knight Pulliam and Arian Simone of Fearless Fund,OHUB Java bootcamp, and HBCU@SXSW Day at Huston-Tillotson University.

Overview

Systemic inequities in America have created a history of wealth inequality, disproportionately exposed certain communities to the COVID-19 pandemic, and established conditions leading to racial violence and social unrest. To address these issues, communities of color—specifically, Black communities—will need broad-based economic support and policy reforms.

One high-priority recommendation in solving the country's racial wealth equity problem is developing inclusive local tech ecosystems, which can drive Black tech entrepreneurship and increase the Black tech workforce. By prioritizing inclusive tech ecosystems, Black households will be able to leverage the power of innovation and the increased global reliance on technology to create wealth and contribute to enhanced productivity and quality of life in the nation's local economies.

Achieving this vision will require new corporate governance, workforce development, innovation, community outreach, social impact, and investment decisions that prioritize entrepreneurship strategies that lead to not only economic recovery, but also to racial and economic justice.

Challenge

The ultimate objective of inclusive tech ecosystems is to create racial equity. Black household income is 61% that of white households, and white households have about 10 times more wealth, on average, than Black households.[1] This wealth gap results in both significant economic vulnerability for Black America and a less dynamic and productive U.S. economy. McKinsey estimates that U.S. GDP would be 4% to 6% higher by 2028 if the racial wealth gap were closed.[2]

In our 2019 guide, *Building Inclusive Entrepreneurship Ecosystems in Communities of Color*, we put forth a metrics-driven blueprint of how to ensure that everyone in America is equitably positioned to prosper from the technology-fueled growth of the fourth industrial revolution, especially how communities with little preexisting wealth can build multigenerational wealth.

Entrepreneurship ecosystem-building (simply called "ecosystem-building" going forward) is a fast-growing economic development strategy focused on supporting and developing businesses poised for rapid growth. According to a 2017 research report by the U.S. Census Bureau, "high growth young firms contribute disproportionately to job creation, output and productivity growth."[3] Similarly, according to a Brookings study, "Business startups account for about 20 percent of U.S. gross (total) job creation while high-growth businesses (which are disproportionately young) account for almost 50 percent of gross job creation."[4]

To date, there is only nascent funding—mostly pilots and press releases—to ensure this strategy is inclusive of Black, Latino or Hispanic, and other communities of color. In 2019, according to the National Venture Capital Association, U.S. venture capital investments surpassed $130 billion for the second consecutive year in a row, enabling over 10,777 high-growth companies to grow and scale. But fewer than 1% of Black and Latino or Hispanic founders have successfully accessed this capital.

As the demographics of America change, it is important to include these communities in all economic development strategies. Inclusion is particularly important in ecosystem-building for Black communities because of entrepreneurship's power to create jobs and close the racial wealth gap.

Response

For wealth creation to occur during or after the COVID-19 pandemic, large investments must be made into programs, platforms, and products that advance tech talent development, entrepreneurship, and capital access for communities of color. Specifically, these efforts should:

1. Invest in **talent development** by:

- Providing early exposure to the edge technologies, skills, and careers that are driving the future of work in the fourth industrial revolution. This requires funded outreach, marketing, advertising, and public relations resources to ensure that all Americans—particularly Black and Latino or Hispanic Americans—are informed about the opportunities available in tech ecosystems.

- Creating the opportunity to reskill for all Americans—particularly Black and Latino or Hispanic Americans—with skills that lead to in-demand, upwardly mobile career paths. Skills include (but aren't limited to) software development, web and mobile development, technical sales, growth marketing, and company-building, with modules in artificial intelligence and machine learning, data science, quantum computing, health innovation, cybersecurity, and distributed ledger technologies.

- Incentivizing venture-backed companies, large corporations, research institutions, and governmental agencies to hire this newly skilled workforce and equitably compensate them with salary, benefits, and equity when appropriate

2. Invest in **entrepreneurship** by:

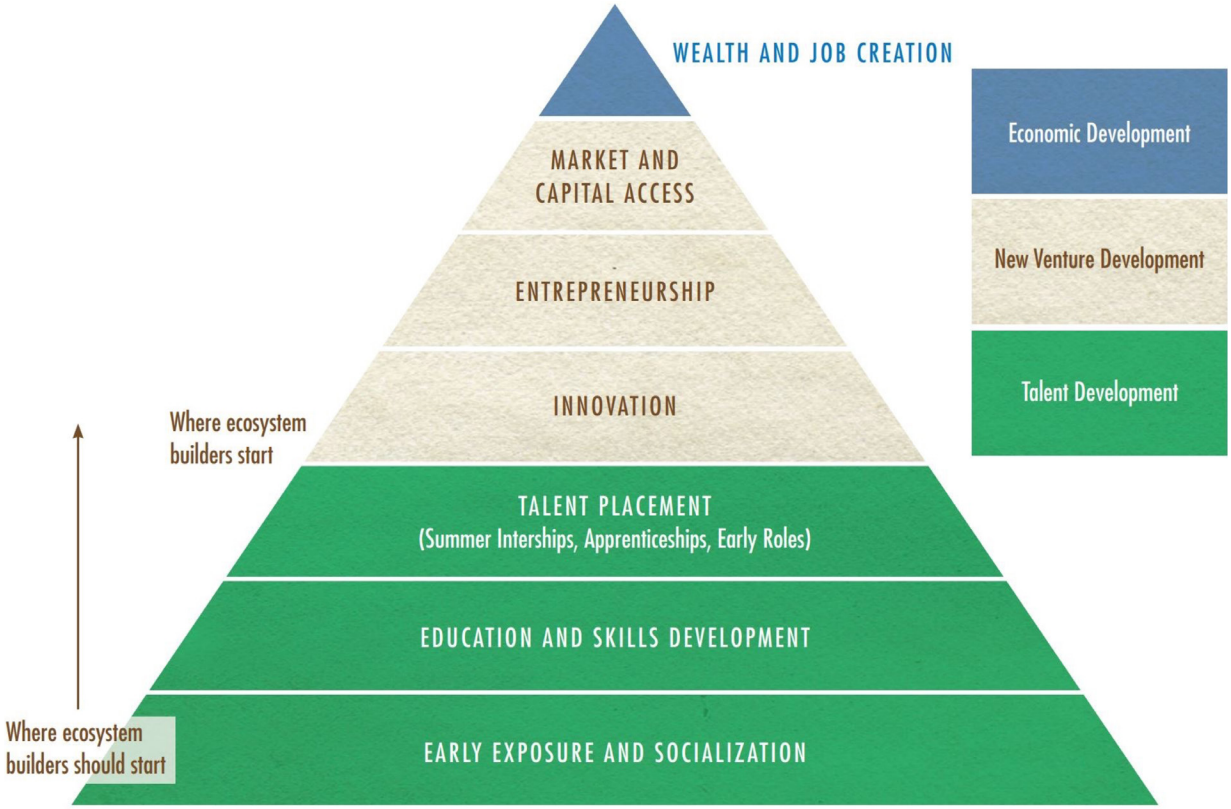
- Building "equity districts" to accelerate inclusive innovation and the commercialization of research that solves problems for local, national, and global industry supply chains.

- Preparing small business owners and startups to become technology-enabled and skilled in the science of company-building.

3. Invest in **capital** by funding new companies before and during the seed stage to achieve revenue growth.

When these inputs combine in a local community, they form an entrepreneurship ecosystem, which we define as the individuals, organizations, support programs, investors, companies, relationships, policies, environments, spaces, and cultures that interactively work together in support of entrepreneurs.[5] For ecosystem-building to increase racial equity, government, industry, and Black institutions need to partner with Black-owned and leading ecosystem-building organizations.[6]

Figure 1. Economic development pyramid



Source: Rodney Sampson, OHUB

Funding

For each pillar of our strategy, this section outlines the roles and funding responsibilities for: 1) the federal government, 2) industry-led initiatives in tandem with local governments, and 3) community-driven grassroots campaigns.

Talent development

We estimate that the unit economics of training a worker for an in-demand tech career are approximately $15,000.

Federal government: Our view is that the magnitude and intensity of the COVID-19 economic crisis demands federal investment in training. During the CARES Act deliberations, we recommended that the federal government invest $1.5 billion over 10 years to train 1 million Americans from socially disadvantaged communities—particularly Black communities—for in-demand technology careers such as software development, AWS cloud engineering, cybersecurity, Salesforce, technical sales, and growth marketing.

Local governments and corporations: Should the federal government fail to act, local governments and the private sector can step in. Large tech companies, Fortune 1000 companies, and high-growth startups can fund the reskilling of America. They are also in the first position to hire this newly skilled talent and benefit from reduced turnover among its workforce. According to the Kapor Center's 2017 Tech Leavers Study, unfairness-based turnover in tech is a $16 billion-a-year problem, from which they concluded, "Diversity, equity & inclusion initiatives can improve company culture and reduce turnover, if they are done right." Mitigating racism and bias in companies frees up resources for reskilling and upskilling.

Meanwhile, cities and states (via their workforce boards) can fund in-demand reskilling and upskilling programs from their Workforce Innovation and Opportunity Act (WIOA) dollars, while convening employers to allocate apprenticeships and full-time roles for program graduates. At $15,000 per trainee, hundreds of people could benefit from a multimillion-dollar investment in tech training.

Community and educational institutions: If government or industry won't take action, then it is up to our communities to fund their own platforms to drive funding. This approach could leverage educational institutions such as historically Black colleges and universities (HBCUs), which are collaborating on the launch of new in-

demand skills certificate programs (such as Momentum@Morehouse) or launching co-branded technology hubs and accelerators. These partnerships could scale nationwide, with 100 HBCUs each training 100 coders, resulting in 10,000 new software engineers per year. HBCUs could partner with organizations such as Opportunity Hub, which facilitate recruitment, admissions, and financial aid options.

Entrepreneurship

We estimate the unit economics of exposing up to 1,000 people a year to the tech startup ecosystem are $1 million per year per city, and the unit economics of accelerating a product-ready startup are $50,000.

Federal government: The main role for the federal government in entrepreneurship support will be to fund inclusive tech ecosystems across as many local communities as possible. Ecosystem-building organizations, entrepreneurship-support programs, preaccelerators, accelerators, and technology incubators are on the frontlines of building high-growth companies in America, including Black-led ecosystem-builders operating successfully in the most socially disadvantaged communities. Every day, ideas are nurtured into viable businesses. An $1 billion investment ($100 million per year over 10 years) could provide $1 million grants to 100 local communities with a significant share of Black residents to support ecosystem exposure and startup acceleration.

Local governments and corporations: Local governments and private sector leaders can also be critical investors in their local entrepreneurship ecosystem. For instance, a city's economic development corporation, in partnership with local foundations, can fund ecosystem-building initiatives, preaccelerators, and accelerators via program-related investments. Individual communities could commit to inclusive ecosystem development and startup acceleration for about $1 million per year.

Community and educational institutions: Black institutions such as churches, civil rights organizations, industry associations, and nonprofits can educate themselves and their constituents on the opportunities for new income and wealth creation while co-fundraising on behalf of their members and constituents. Cultural icons such as actors, artists, professional athletes, and social media influencers can invest in Black funds and founders, and use their platforms to amplify early exposure and equity-based crowdfunding initiatives.

Capital

We estimate the unit economics of investing in seed rounds are $1 million on average.

Federal government: One way the federal government could provide seed funding to Black-owned venture funds would be to reactivate the 2010 State Small Business Credit Initiative, a Treasury Department program used to support state-level small business financing. The department could issue $1 billion per year in the form of convertible notes and equity as issued and accepted by most startup accelerators and incubators. Black-owned venture funds that can demonstrate a historical mission, precedence, and track record of serving and investing in marginalized and socially disadvantaged entrepreneurs would be selected to invest the capital.

Local governments and corporations: Many Fortune 1000 companies and large tech companies have corporate innovation initiatives and startup programs with accompanying venture capital funds. These corporate-led funds can become limited partners in Black-owned venture funds or direct investors in founders. Cities and public-private economic development organizations can also become limited

partners in venture funds or direct investors in founders as well.

Community and educational institutions: Black investors that are accredited per the Securities and Exchange Commission can learn to invest in venture funds, startup companies, and accelerators. The Jumpstart Our Business Startups (JOBS) Act, which enables companies to raise equity and debt-based startup capital for their companies, is available to all Americans to participate. For example, Angela Benton's Streamlytics raised $250,000 in 24 hours and over $1,000,000 in less than one week using Title III (Reg CF) of the JOBS Act. Dawn Dickson's PopCom recently raised $1 million in 45 days also using Title III (Reg CF) of the JOBS Act. Jay Morrison's Tulsa Real Estate Fund recently raised another $3.7 million for a total of $12 million from 15,000 investors utilizing Title IV (Reg A+) of the JOBS Act. Opportunity Hub is planning a $50 million Reg A+ equity crowdfunding raise with JE Dunn Capital Partners and Keystone Innovation District to build an equity district in Kansas City, Mo.

Potential impact

What we have outlined would be the most ambitious investment in Black wealth in modern American history. Nationwide, a $26 billion suite of programs over 10 years could train 1 million new skilled tech workers, enable 100 ecosystem-building organizations to train 100,000 high-growth technology startups, and provide seed funding to 10,000 Black-led technology startups. These investments will create permanent new jobs while recapturing centuries of lost wealth due to economic exclusion, all while continuing to inspire future generations of Americans.

Federal action is the clearest path to this scale, but local recovery planning efforts need not wait. Applying these per unit costs to a 10-year, $50 million investment in a locally led inclusive entrepreneurship ecosystem effort could train 1,500 new highly skilled tech workers, expose 10,000 residents to high-growth entrepreneurship, pre-accelerate 500 new ventures, provide acceleration services to 100 high-growth startups, and fund the seed rounds for 10 scaling companies.

Use of proceeds	Black-owned and -operated organizations doing the work	Economic outcome	Allocation
Accelerated workforce technology skills development	Momentum@ Morehouse, OHUB Future School, re:Work, STEM Whisperers	Train and place 100,000 new skilled tech workers per year over 10 years, equaling 1 million new tech workers	$1.5 billion per year over 10 years, equaling $15 billion
Entrepreneurship education, training, and support	Camelback Ventures, digitalundivided, Founder Gym, NewME, OHUB	Train and position 10,000 minority-led high-growth startups for the future of work per year for 10 years	$100 million per year over 10 years, equaling $1 billion
Early stage equity capital	100 Black Angels and Allies Fund I, Backstage Capital, Cake Ventures, Impact America Fund, Fearless Fund, Lightship Capital, MaC Venture Capital, Plexo Capital, Precursor Ventures	Fund the top 1,000 tech firms per year with a 12 to 18 month runway per year for 10 years.	$1 billion per year over 10 years, equaling $10 billion
Total			**$26 billion**

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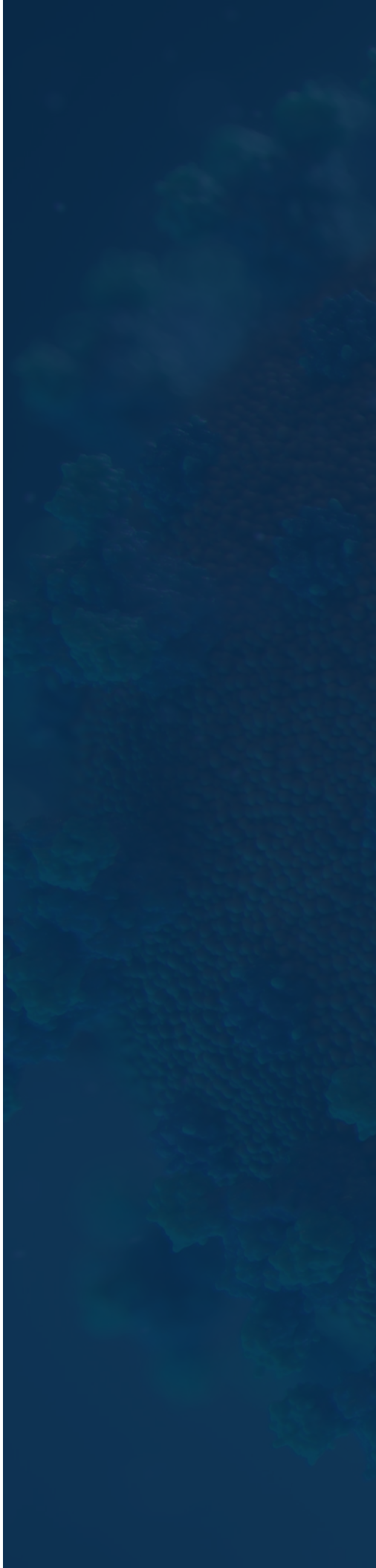
Deploying industry advancement services to generate quality jobs

Ryan Donahue and Joseph Parilla

July 2020



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Overview

To generate a more robust and resilient post-COVID-19 economic recovery, economic development organizations, universities, and other business service providers can support "missing middle" businesses (those with 10 to 99 employees) with sustainable growth potential through intensive, targeted outreach and a suite of services designed to enhance productivity and generate quality jobs.

This intervention is distinct from traditional "business retention and expansion" approaches in the intensity of relationship management involved, the level of industry expertise required of practitioners, and the focus on companies that may not currently be growing or directly requesting assistance. The "industry advancement services" delivered via this investment will be of higher quality, greater consistency, and greater depth than existing business development services. Given existing racial inequities in business ownership and incomes, implementing agencies should apply racial equity criteria in building the portfolio of companies that receive services.

Challenge

The American economy in the aftermath of the Great Recession was characterized by a proliferation of low-quality jobs, sluggish wage growth for most workers, and sustained disparities between racial groups.[1] The COVID-19 economic crisis is already exacerbating these trends[2] and forcing economic development leaders to consider a range of responses that 1) help local businesses maintain resilience and productivity, and 2) pursue economic and racial justice.

In pursuing both objectives, "missing middle" businesses (with approximately 10 to 99 employees) that are poised for steady but not dramatic growth should be a critical economic development focus in the wake of COVID-19.[3] Squarely positioned at the high end of the small business segments and on the low end of what is traditionally defined as "middle market" businesses, there are 1.1 million "missing middle" businesses nationwide, supporting 29 million jobs. [4] Those on the younger and smaller end of this group drive net job creation in local economies. Additionally, these businesses create better jobs and produce more innovations than small businesses overall.[5]

For all their importance, the U.S. economy has fewer of these larger small businesses due to a variety of factors that limit women and people of color as they consider starting and growing businesses.[6] These are structural impediments to entrepreneurship, and do not reflect the inherent entrepreneurial abilities or interests of different groups.[7] This results in women owning 33% fewer of these businesses than their adult share of the population would predict. People of color own 48% fewer "missing middle" businesses by the same metric, and Black Americans own 84% fewer.[8]

There are clear signs that these small businesses are at-risk. While small businesses with fewer than 10 employees have been more likely to shut down altogether because of COVID-19, employment losses among businesses with 10 to 99 employees have been about as large or larger.[9] And before COVID-19, these businesses were struggling more than was generally recognized. Over the past several decades, there has been a marked deterioration in the ability of even high-potential startups to scale successfully, so the pool of larger small businesses is not being replenished with innovative newcomers.[10] One explanation is that established smaller businesses were struggling to innovate and adapt to new technological and market conditions; the "diffusion machine" that used to spread know-how from big corporations to their smaller competitors appears to be broken.[11]

Now, to respond to COVID-19, these businesses suddenly must execute major strategic overhauls. McKinsey recommends that businesses create a "nerve center" to work simultaneously on supply chain stabilization, workforce protection, customer engagement, and financial stress testing.[12] Other management consulting firms recommend similarly comprehensive responses. But most businesses lack the capacity to do this even in the best of times. Very few will be able to in a massive and unpredictable recession.

Initiatives to upgrade the management capabilities of these businesses via free consulting and technical assistance—what we call "industry advancement services"—could not only help them weather the current crisis, but also address the challenges that were stunting their growth before the pandemic. Such investments can be justified on three grounds:

- **Management practices are a key driver of business success.** A growing body of research is quantifying the linkage between management capabilities and firm-level growth outcomes.[13] Researchers have tended to point to technological capabilities to explain growing productivity differences between firms, but one recent study found that differences in management practices have as much of an effect on productivity as do investments in R&D or information technology.[14]

- **Programs to teach these practices are effective.** The U.K.-based What Works Centre for Local Economic Growth studied a group of rigorously evaluated business advising programs and found that 14 of 23 had positive impacts consistent with other types of economic development interventions, such as innovation tax credits, workforce training, and small business capital provision.[15] In the U.S., estimated per-job cost of manufacturing extension partnerships (which provide consulting on manufacturing productivity) is about the same as customized job training and almost three times less than high-quality business incentives.[16]

- **These services are not widely available or adequately resourced.** Businesses of this size are not well-served by private sector consultants, especially those that are young and fast-growing (and thus unlikely to take time to seek strategic guidance) or those that are at risk of going out of business (and thus unlikely to have the resources to do so).[17] Nor are they well-served by the economic development system in most regions. Though these businesses are collectively responsible for a large share of net job creation, their growth tends to come in small, consistent increments. As a result, they are often overlooked in favor of support for startups or major business expansion and attraction projects that provide visible "wins." According to McKinsey, compared to immediate COVID-19 response programs, "fewer initiatives tackle the longer-term challenges that SMEs will face in adapting to the post-pandemic landscape if demand has yet to recover when the government stimulus runs out."[18]

Response

There are two components to an industry advancement services initiative. One is the creation of the infrastructure that enables effective delivery of services to businesses that are most likely to produce inclusive growth outcomes. The second component is the delivery of a suite of customized business services.

Business development infrastructure

Delivering industry advancement services will require most regions to bolster and extend their "business retention and expansion" systems. These are efforts by economic development entities to build relationships with existing companies, understand their needs, and connect them to relevant services. In many regions, however, these efforts only target businesses that have previously received incentives or have proactively requested assistance on a particular issue. Economic development practitioners often only ask a rote set of questions about basic short-term needs, rather than seeking to understand the business' underlying competitive challenges or growth opportunities. A business development infrastructure capable of supporting an equity-focused approach to industry advancement services would need to add two capabilities not present in many regions:

- A corps of industry experts whose job is to build relationships with businesses in key industries (and associated institutions, such as universities) to understand business needs, design appropriate services, and generate demand for those services among businesses.

- A clear, shared definition of the region's specific inclusion challenge and the ability to proactively target businesses whose growth would most directly address these challenges (see sidebar).

Criteria for prioritizing companies that will advance inclusion goals

Different regions will rate the following criteria differently depending on their industry profile and inclusive growth challenge. This provides a basic sense of how a region could identify the several hundred businesses that should be proactively targeted for industry advancement services, building on a cluster development and economic inclusion strategy led by Prosper Portland, Portland, Ore.'s local economic development agency.

Size and industry criteria: The first filter when assembling portfolios should be size and industry.

- Size: A minimum of 10 employees, maximum of 100. This is approximately the size at which businesses are large enough to need guidance on complex business management issues, but small enough that major consulting firms are not affordable.

- Industry: Advanced industries[19], or other traded sector industries. Traded sector businesses tend to provide better pay and benefits and larger positive spillover effects in the local economy, and their success will not come at the expense of other local businesses. It is likely worth prioritizing specific clusters within advanced or traded industries, so that services can be customized for the segments of the economy that have the highest growth potential.

Racial and economic inclusion criteria: The second filter is characteristics that make a company's survival or growth more likely to result in economically or racially inclusive outcomes, including:

- Ownership demographics: The owners are Black, Latino or Hispanic, other racial minorities, and/or women, acknowledging that there are significant disparities in business ownership across racial groups.[20]

- Workforce demographics: A disproportionate share of employees is Black, Latino or Hispanic, or other racial and ethnic minorities (relative to that population's share of overall employment in the region). It is important that these populations are represented in supervisory and management positions (not just frontline roles), acknowledging that people of color are underrepresented in industries offering high-quality jobs.[21]

- Job quality: The company has clear track record of providing quality jobs, as defined by high starting wages (relative to industry standard), widely available benefits, clear pathways for advancement, resources for skills development among employees, etc.

- Location: The company is located in a neighborhood that has experienced disinvestment and has a high share of disadvantaged residents, or is easily accessible to such neighborhoods without a car.

Services

A comprehensive set of industry advancement services would cover four areas: networking, talent management, process innovation, and product innovation.

Networking: Many regions tout their work building innovative startup "ecosystems" or anchor strategies focused on small, locally serving businesses. But scale-up and midsized firms are just as dependent on the ability to tap into networks of larger businesses for procurement, learning, and partnership opportunities.

- Minority Business Accelerator (Cincinnati): Part of the Cincinnati USA Regional Chamber, the MBA is designed to accelerate the development and growth of sizeable Black- and Latino- or Hispanic-owned businesses. It works on both the supply and demand sides. It supplies minority-owned businesses with strategy guidance, capital, and connections, and creates demand by working with "goal setter" companies, or major corporations that agree to adopt more inclusive procurement practices. MBA then connects the firms in its portfolio (there are currently 35 firms that collectively employ 3,500 workers, of whom 50% are minorities) to these "goal setter" corporations. As of 2019, the MBA had supported 67 companies over its 16 years in operation. Of the current portfolio of companies, 75% reported increased sales between 2018 and 2019 and 25% had annual sales in 2019 of over $50 million. MBA's goal calls for doubling the average firm size (from $25 million to $50 million), doubling total sales of its portfolio firms (from $1 billion to $2 billion), and doubling total jobs in its portfolio firms (from 3,500 to 7,000) between 2017 and 2022. This will require MBA to add 50 more companies to its portfolio over those five years. The organization is part of a local consortium of service providers—the Cincinnati Minority Business Collaborative—which allows it to identify these emerging startups.

Talent management: These are not interventions that provide training to workers directly—rather, they train business owners and managers on how to better hire, engage with, and upskill their workers, with an emphasis on eliminating racial and other biases in each of these areas.

- Genesis (Chicago): A pilot project run by the Illinois Manufacturing Excellence Center (IMEC), Genesis was designed to improve job quality by integrating "people" guidance (workforce engagement, productivity, employee stability) with "product" guidance (cost reduction, quality improvement, technology adoption) for small- to medium-sized manufacturers. The program was customized for each company, with services determined by surveys and focus groups with frontline employees. Genesis companies reported a 55% increase in sales over the course of the two-year program, compared to 37% among IMEC clients that did not participate in Genesis. As a result, 65% of Genesis companies reported retaining jobs, versus 42% of non-Genesis IMEC clients. Significant benefits accrued to workers as well: Annual earnings at Genesis companies increased by 12%, pushing those companies' wages from 78% to 84% of the industry average. The share of workers making less than $30,000 fell from 34% to 26%. Turnover among the most actively involved companies fell from 5.8% to 3.3%.[22]

Technology adoption and process innovation: This is a group of interventions that aims to boost the productivity of businesses through investments in process innovation, which can include technology adoption and implementation as well as guidance in areas such as market expansion.

- Aston University Business Engagement (Birmingham, England): One of the largest business schools in the U.K., Aston University runs several programs designed to connect small- and medium-sized businesses with expertise from the university as well as larger businesses. "Leading to Grow" is a partnership between two business schools and the regional economic development organization focused on digital technology adoption; businesses receive tailored support to identify relevant technologies and develop the management capabilities needed to implement them. "Think Beyond Data" is a European Union-funded program that pairs businesses with leading experts on artificial intelligence who can, for example, develop algorithms to automate business processes or implement new visual analytics platforms.

Product Innovation: Innovation is often measured in terms of patents and other formal mechanisms, but small- and medium-sized firms tend to innovate via informal, nonmarket mechanisms such as collaborations with research institutions and other firms in their industries.[23] Yet firms do less of this type of innovation than would be optimal, because it is difficult for them to identify and vet potential partners.[24]

- Knowledge Transfer Partnerships (U.K.): Managed by Innovate UK, this system for connecting firms to university resources has served 12,000 businesses over several decades. For a low fee, companies gain long-term access to expert resources within a university, with the project managed by a highly qualified "associate" (a recent graduate at the bachelor's, master's, or Ph.D. level). The associate works full time on the project, and an academic expert spends half a day per week on site with the company. Partnerships last one to three years and are jointly funded by Innovate UK and the participating firm, and the associate is typically hired full time at the company upon conclusion. They are typically focused on developing technologies and prototypes, but recently, a "management KTP" was launched to connect business schools to local businesses to drive growth through improved management capabilities.

Stakeholders and delivery model: In most regions, these services would be delivered by a distributed network of providers, with a single organization to act as the "hub" or "backbone." This is likely to be an existing economic development organization, possibly in coordination with a university (which may provide much of the technical assistance in several of the four areas above). The "hub" organization must be able to create the business development infrastructure (including defining the inclusion goal and prioritizing businesses/industries), convene service providers, orchestrate the delivery of services, and identify gaps in the system. Many regions currently try to coordinate and align these activities informally, but the twin challenges of confronting COVID-19 and making progress on racial equity demand a more intentional approach and dedicated resources for this convening function. Key stakeholders would include public and private economic development organizations, industry organizations, universities, and service providers such as Manufacturing Extension Partnerships.

Funding

The costs for this proposal are estimated for a metropolitan area of 1 million people. Costs for industry advancement services would roughly scale with a region's size. In a region with a population of 1 million, service providers in each of the four areas might work intensively with about 50 carefully selected businesses each year. Presuming that service delivery costs about $10,000 per company, this would create a total cost of $500,000 per service provider, or approximately $2 million across four organizations.

The staffing requirements for this strategy would include four business development managers in the "hub" organization, plus three to four staffers running one key initiative in each of the four areas outlined above (another 12 to 16 staffers, likely in four different organizations). If they are working within existing organizations and are able to take advantage of existing management and infrastructure, the 16 to 20 total staffers would cost approximately $2.5 to $3 million annually.

The total cost for a midsized region might be $4.5 to $5 million per year. However, some of the above services are provided on a fee-for-service basis (e.g., manufacturing extension programs), and some could come from improving, consolidating, and reorganizing services that are already being provided. A realistic range may therefore be between $3.5 million and $4 million of new investment annually, or about $20 million over five years.

Funds could be sourced from existing federal programs (e.g., Department of Commerce support for Manufacturing Extension Partnerships), Economic Development Administration grants, and local philanthropic and corporate resources.

Potential impact

Except for long-established and federally supported programs such as Manufacturing Extension Partnerships, few industry advancement services have been rigorously evaluated (as is the case for many economic development and workforce development interventions). As noted previously, evidence suggests that industry advancement services are at least as effective as other common economic development interventions. Independent studies of Manufacturing Extension Partnerships suggest that they produce one job-year (a job that lasts one year) for an investment of $3,000, or about $15,000 per job that lasts five years.[25]

If industry advancement services in other areas (e.g., talent management) deliver approximately the same return on investment—which seems like a reasonable assumption based on the self-reported outcomes of the programs profiled above—then in a region with a population of 1 million, the $2 million in spending on service delivery could yield nearly 700 job-years (which could be thought of as 130 jobs that last five years each). If the portfolio of companies is built with racial equity and job quality in mind, these new jobs are more likely to offer good wages to a wide diversity of workers and build wealth among entrepreneurs of color.

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Reshoring advanced manufacturing supply chains to generate good jobs

Andrew Fish, Senior VP of Business Development, CenterState CEO, and Honora Spillane, Senior Director of Business Development, CenterState CEO

July 2020

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Overview

One of the most common challenges that COVID-19's frontline workers face has been shortages of personal protective equipment (PPE). This has exposed core weaknesses in a lean global supply chain model that prioritizes cost reduction, just-in-time production, and forecasting strategies that do not typically consider major disruptions such as natural disasters, pandemics, or other geopolitical crises.

Supply chain resilience strategies that localize critical industries and their component supply chains could not only alleviate the weaknesses uncovered during the COVID-19 pandemic, but also increase employment growth across historically well-paying industries and provide economic development opportunities for U.S. regions with the economic fundamentals conducive to advanced manufacturing. To provide one model approach for other cities, this brief captures Central New York's strategy to better position itself and its core industries to capture new production opportunities and strengthen resiliency in the face of future global disasters.

Challenge

Given the growth Central New York was seeing before the COVID-19 pandemic in sectors key to the region's economic health (communications equipment, defense, manufacturing, tech, food products, etc.) and due to supply chain weaknesses made apparent in the pandemic's early days, targeted strategies are needed to strengthen essential industries and their supply chains to make them more resilient and better able to adapt to global disruptions.

The COVID-19 crisis has revealed that supply chains for critical medical products such as PPE quickly led outside of the United States. China is the main supplier for PPE, but given that COVID-19 broke out in China, the country needed to reduce exports of PPE to deal with its own crisis. That meant that local health care providers in the U.S. were reporting significant and immediate supply shortages as the pandemic intensified this spring. The challenges in sourcing PPE are emblematic of supply chain realities in other critical industries, including pharmaceuticals, medical devices, semiconductors, automotive, aerospace, textiles and chemicals, communications, and IT hardware manufacturing.

Even as domestic manufacturers retrofitted operations to produce PPE, the challenge for the U.S government, states, and health care facilities was that they were all bidding against each other to purchase additional PPE from China. Similar situations arose with testing swabs, face shields, and other critical high-volume, low-price PPE commodity goods, as well as testing reagents. In June, New York Lieutenant Governor Kathy Hochul said, "It was an awakening for us; it exposed our vulnerabilities. I don't ever want to go back there again".[1]

Component and capability shortages in the medical supply industry share several common features with other critical industries' supply chains, including cost of goods and labor, technical expertise, and available turnkey facilities. The United States has an opportunity to leverage industry-led supply chain resiliency strategies to localize advanced manufacturing and transition workers from low-paying retail and service employment into better jobs. The country can create strategic manufacturing industries in central cities and rural areas, connecting individuals who were disproportionally affected by COVID-19 to these high-quality jobs.

In the longer term, national security implications must be factored in to reshoring decisionmaking. Secure supply chains in communications infrastructure, packaged food production, defense-contract-driven civilian applications (e.g., the unmanned aerial systems industry in Central New York), and pharmaceuticals are logical next reshoring opportunities. However, overcoming the cost-competitive challenges that led to outsourcing and offshoring these operations in the first place needs to be addressed.

Response

"Reshoring" is the practice of bringing manufacturing and services back to the United States from overseas. This process can help balance trade and budget deficits, reduce unemployment by creating well-paying manufacturing jobs, and develop a skilled workforce. Reshoring also benefits manufacturing companies by potentially reducing the total cost of their products, improving balance sheets, and making product innovations more effective.[2] While many of these supply chains can operate less expensively in Asia, the COVID-19 crisis has underlined the societal risks of leaving this production offshore.

What can Central New York—and other similarly positioned communities—do to address these opportunities and assuage some of these threats? Before designing any interventions, communities thinking about this type of strategy need a better understanding of which industries may be deemed "essential" by a government entity. A good way to do this is to use the list of industries that were allowed to remain open (or reopen first) during the pandemic's initial shutdown phases. Communities must map the supply chains of these industries to understand their relative localization.

Next, we would suggest conducting a "stress test," as described in a recent Harvard Business Review article, to measure the resiliency of supply chains.[3] Once those industries are defined and mapped and key opportunities are identified, communities can think about executing a series of programs and strategies to address some of the concerns raised above regarding cost competitiveness:

Connect to and leverage regional talent generators and workforce development providers. With the labor demand of many manufacturers shifting from low-skill, low-cost labor to mid- to high-skill engineering and technical capabilities, U.S. educational institutions are well positioned to produce the very talent that will increasingly be in demand from these sectors.

Target industries needing new investments in "Industry 4.0" technologies. Related to the need for a digitally fluent workforce, massive disruption is underway in manufacturing, with an increased reliance on technology as opposed to low-cost labor.

Take advantage of Opportunity Zones. While the Opportunity Zone program has shown success in spurring real estate development projects, it is an underutilized tool for larger, capital-intensive manufacturing projects.

Invest in regionally based soft-landing services. Companies setting up new operations in any community will need assistance with site selection, permits and local approvals, and optimizing their processes.

Many of these strategies can be bolstered by federal programs and policies that catalyze reshoring efforts, including:

Guaranteed contracting as part of the ongoing PPE shortage is one example of a successful means of catalyzing reshoring production. After winning a pair of contracts from the Department of Defense, 3M plans to triple monthly production of N95 masks to produce 96 million by October.[4] Some will be manufactured in Wisconsin, and later in Aberdeen, S.D. Puritan Medical Products, the only domestic maker of test swabs, is in the process of renovating a plant in Maine and hiring 150 employees to produce foam swabs. Like 3M, the new investment is driven by a $75.5 million contract with the federal government.[5]

Opportunity Zones can reduce the costs of financing new facilities, another barrier to reshoring. The Tax Cuts and Jobs Act of 2017 established the federal Opportunity Zone program to encourage long-term investments in low-income urban and rural communities nationwide.[6] An example of an urban manufacturing facility (while not a direct example of reshoring) is JMA's new plant in the south side of Syracuse, N.Y. The $15.8 million investment will renovate a former industrial laundry plant to produce 5G equipment. Scheduled to open early in 2021, the 119,000 square foot plant will employ up to 100 workers in a historically underserved neighborhood.[7] The physical placement of facilities like this one will be critical to how we think about linking and supporting workers as they access jobs. Regions will need to establish workforce programs and wraparound services to ensure these jobs benefit underserved communities. Additionally, with the need to move toward automation, it will be critical to link those programs with educational institutions and training providers to move workers up the skills ladder and meet increasing demand for mid- to high-skill labor. Coupling that with talent attraction initiatives can provide both short- and long-term solutions for reshoring operations.

Federal grants are another tool that can help regions attract significant technological investments. The Economic Development Administration (EDA) has received "$1.5 billion for economic development assistance programs to help communities prevent, prepare for, and respond to coronavirus."[8] The EDA is using much of this money to recapitalize existing revolving loan funds, so in addition to the possibility of directly funding the development of new facilities for producing PPE, the revolving loan funds will make it possible for new business entrants to benefit from that funding in the future. It is widely accepted that countries such as China are evolving their manufacturing from cheap labor to capabilities such as custom machining, design, and product innovation. Therefore, incentivizing or funding existing manufacturing-enabling organizations such as Manufacturing Extension Partnerships (MEP) could guide new and existing manufacturers in creating or expanding capabilities. This can be especially effective if combined with initiatives to move manufacturers into Industry 4.0 or smart factories. This is ultimately the way forward in the long run for sustainability, especially for commodity production.

Funding

For a community to take meaningful action in reshoring, an annual investment of around half a million dollars is likely needed for programming, technical assistance, soft-landing services, and coordination among talent generators. This could be coupled with a formula-based economic incentive program, such as New York's Excelsior program, which offers up to 6.85% in fully refundable tax credits per net new job. Importantly, these strategies cannot be successful without a designated federal strategy and policies intended to localize support chains and drive reshoring. Possible policy measures to expand, examine, or fund include:

- Expanding on a May 14 executive order allowing the United States International Development Finance Corporation to partner with the Department of Defense to lend money to U.S. companies looking to build out supply chains for critical goods such as ventilators and generic drugs
- Time-limited tax incentives to build national self-reliance in key pharmaceuticals, medical supplies, and other critical goods
- Local content rules for medical supply chains and generous investment subsidies to encourage increased domestic production of a range of goods and components
- Expanding reshoring provisions in the National Defense Authorization Act
- A dedicated fund to support the upfront costs of reshoring, administered by states to boost revenues and supplement more immediate federal aid
- Expanding and diversifying the State Department's new economic security strategy beyond the initial targeted countries of Australia, New Zealand, Japan, India, and South Korea
- Continued support and investment in the NIST MEP program, in coordination with state efforts to develop high-tech and manufacturing-based businesses

Potential impact

As with any economic development program, increased employment and investment are natural metrics for reshored industries. Upstate New York's former Oneida Flatware, now Sherrill Manufacturing, is an example SelectUSA recently highlighted[9] in *Reinvesting in the USA: A Case Study of Reshoring and Expanding in the United States.* The company doubled its employment to 56 jobs with a modest $1.8 million investment.

Intentional focus on industry and geographic targets can drive regional prosperity by purposefully siting facilities close to underemployed workforce populations and facilitating the adaptive reuse of underutilized industrial properties. Building on existing regional strengths and supply chains that may be adapted to new customers in communities—which have a combination of low operational costs and an available workforce—will set up reshored industries for more successful and sustainable operations. Additionally, communities will see increased growth within their existing manufacturers, as they benefit from the same programs and supports used to facilitate reshoring, with organic growth in support industries to meet the increased demand for goods and services.

Endnotes

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2 "Reshoring Initiative," accessed June 25, 2020, https://reshorenow.org/.

3 David Simchi-Levi and Edith Simchi-Levi, "We Need a Stress Test for Critical Supply Chains," *The Harvard Business Review*, April 28, 2020.

4 "3M to Triple Monthly US production of N95 Masks," *Assembly*, May 11, 2020.

5 Charles Eichacker, "With $75.5M from the feds, this Guilford swab maker's expansion came together in weeks," *Bangor Daily News*, June 14, 2020.

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Turning COVID-19's mass layoffs into opportunities for quality jobs

Annelies Goger

July 2020

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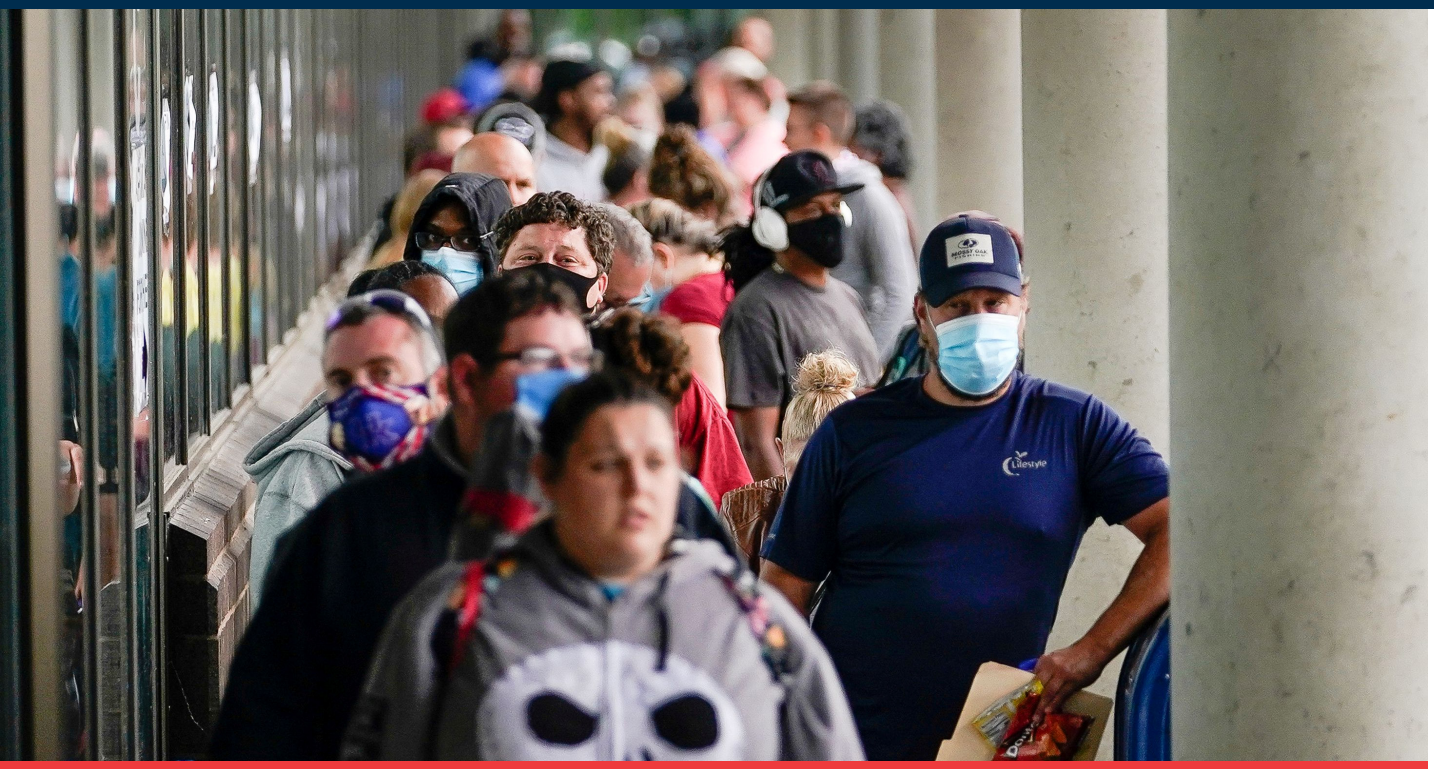


Overview

As the country begins the uncertain process of reopening the economy after COVID-19 lockdowns, economists predict that only 58% of workers are likely to return to their previous job. If that is indeed the case for the 49+ million Americans who have filed an initial claim for unemployment insurance since mid-March, it will leave more than 20 million people searching for a new job. If they want to find a quality job, many of them will need help navigating an uncertain and highly disrupted labor market.

However, the U.S. lacks a strong foundation of programs and services to support adults in making a career transition. This brief outlines a set of comprehensive steps to provide support at all levels of government to help Americans who have lost their jobs in the pandemic connect to new and better employment opportunities during the recovery.

Challenge

In past decades, the U.S. has decreased funding for programs that support adults in finding a new job, also known as "active labor market programs." The country spends 0.1% of its GDP on active labor market programs, which is one-fifth of the average expenditure for countries in the Organisation for Economic Cooperation and Development (OECD). There is a patchwork of at least 43 separate employment and training programs across nine federal agencies, mostly targeting a specific population of workers such as veterans, people with disabilities, or trade-affected workers.[1]

The Workforce Innovation and Opportunity Act of 2014 (WIOA) designated six of these 43 programs as "core" workforce programs. These programs are accessed through a WIOA-funded network of more than 2,400 American Job Centers (AJCs), which were intended to serve as a "one-stop" access point for various employment and training programs. AJCs typically offer in-person services and have internet-equipped resource rooms, access to job postings, career exploration tools, and hard-copy resources. Many job center staffers are knowledgeable and passionate, but most job seekers do not receive a high level of individualized attention at current funding levels.

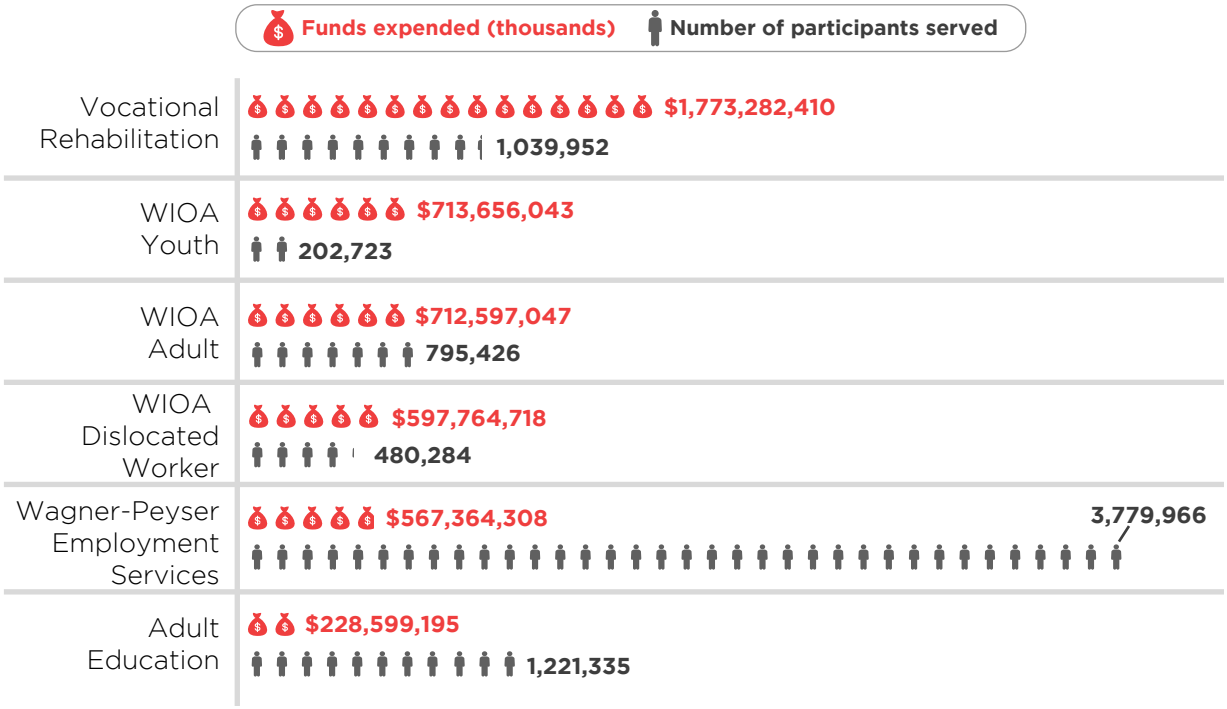
States and local areas have yet to receive significant fiscal aid for reemployment and retraining activities in response to the pandemic, while some workforce areas have reported that their budgets are being cut. AJCs are the "economic emergency rooms" for our society, but many are still closed for in-person services. Only a few job centers have had the capacity to offer remote access or in-person appointments.

Compared to public K-12 education or higher education, the WIOA core programs are quite small in scale. From 2016 to 2017, the U.S. spent an estimated $372 billion on public postsecondary education, but only roughly $14 billion on all 43 employment and training programs in 2017. This includes about $4.6 billion on WIOA core programs for a similar period (2018 to 2019).[2] This vast funding imbalance between work-oriented (applied) and academic postsecondary learning remains, despite the fact that 69% of Americans age 25 and over have less than a bachelor's degree, according to the Census Bureau.

Before COVID-19, the U.S. had 53 million low-wage workers and 11.3 million out-of-work adults. Now, we have tens of millions more unemployed. But the WIOA adult and dislocated worker programs only served about 1.3 million people from July 2018 to June 2019. Only 17.7% of them, or 226,301 people, received WIOA-funded training—most commonly in truck driving. The Wagner-Peyser employment services program serves a high volume of people (including unemployment insurance claimants), but typically can only offer very light-touch services and no job training due to low and declining levels of funding. The chart on the next page shows funding and participation, including participants enrolled in WIOA career services and training.

The WIOA core programs are federally funded, but they are mainly operated at the state and local level. Governance is decentralized and program-specific, so the programs available and the process for enrolling in them at a given job center can vary greatly. Local service providers are primarily driven by the need to achieve and document successful performance measures to continue receiving funding. Over time, performance reporting requirements have increased alongside funding cuts, giving local areas less flexibility to focus on

Figure 1. WIOA core programs: Total expenditures and participants served, PY 2018



Source: U.S. Department of Labor *and* U.S. Department of Education, *PIRL National Performance Summaries, PY 2018. Funding labels are in actual U.S. dollars, and funding symbols are in thousands of U.S. dollars.*

holistic approaches and requiring staff to spend more time on compliance than direct services.

The end users—a job seeker or an employer—often find it frustrating to navigate these programs. This is partly because the system was built on a philosophy of "self-service," so most people who come to job centers do not receive a high level of direct staff assistance (typically fewer than 10 of the 43 employment and training programs have staff regularly on-site in most job centers).

Additionally, the programs usually have their own eligibility requirements, authority structures, and application processes, so the user frequently gets passed around to different providers and often must provide the same information multiple times. Many adults who need help finding a job or a training opportunity are unaware that the job centers exist or mistakenly believe they are "unemployment offices," for accessing unemployment benefits.[3] Even if they are aware of the job centers, many job seekers report that the eligibility requirements are confusing.

To complicate matters, few of the programs in job centers directly provide job training. Instead, WIOA-funded training is indirectly channeled to approved training providers in a decentralized manner, further complicating a job seeker's ability to make informed decisions. Public two-year colleges are the most common training providers for the WIOA core programs, introducing yet another set of governance structures and priorities that do not always align with those in the workforce programs.[4] Many two-year colleges now have more students enrolled in noncredit workforce trainings than for-credit academic offerings.

Response

The key elements to a strategy for addressing mass layoffs and supporting adults in their transition to quality jobs include immediate-term mitigation and longer-term recovery efforts. Local areas across the country have already started adapting existing services and infrastructure to meet the new environment's needs.

Mitigation efforts

The examples below illustrate how local workforce development board leaders are responding and adapting to the crisis.

EmployIndy **in Indianapolis**: COVID-19 accelerated this organization's plans to create a multitenant talent matchmaking platform, set to launch in July. They are collaborating with employer and nonprofit partners and setting up data sharing agreements with the state to pull down important fields and information from the UI system so that they can target audiences displaced in the pandemic. EmployIndy has been sending weekly texts to new UI applicants (90,000 and counting in Indianapolis), asking them if they would like to talk with a career navigator and see how their skills transfer to available jobs.

San Diego Workforce Partnership: The Workforce Partnership quickly pivoted to offer its services remotely, including virtual workshops, online job listings, a call center, and a chatbot for services. The Partnership also has a free library of on-demand trainings to help job seekers orient themselves to the job search and access some technology trainings. So far, there are trainings from Coursera, the University of California San Diego, edX, Salesforce, and Microsoft listed on the site.

Workforce Solutions Capital Area in Austin, Texas: Early in the pandemic, Workforce Solutions set up a system to receive and respond to phone calls and launched a COVID-19 resources page. They are building a new mobile-accessible technology hub where individuals can enter basic data about themselves and what services they are interested in, such as finding a job or attending training. The hub connects to an interests and skills assessment that offers the user career suggestions and training providers based on the assessment. It also allows job seekers to opt in to receive text message notifications about events and follow-up information. They decided to build the system because they currently only collect data on a small share of job seekers who enroll in more intensive WIOA services. The organization wants to be able to understand everyone who attempts to access services—including people who use the hub remotely—to determine how to better serve a wider range of job seekers.

Without significant federal investments to enhance partnerships and boost funding for local economic development and career advancement ecosystems, it will be difficult for local leaders to respond in proportion to the need, given that private sector demand is so low.

Recovery

Simply expanding funding for the current programs and infrastructure will not be bold enough to meet the scale of the COVID-19 crisis or to keep advancing skills and business capacity for innovation into the future. We will need to rethink economic security and career advancement policies to stabilize income, connect displaced workers to good employers and quality jobs, and help talent access quality career pathways and support systems that set them up for success.

Stabilizing businesses and consumer income through an ongoing period of uncertainty: Assuming we are facing another year or more of uncertainty due to the pandemic, the U.S. needs to extend expanded unemployment benefits and focus on solutions that give employers the flexibility to manage the ongoing risks of lockdowns and outbreaks while keeping worker incomes stable regardless of fluctuations in demand. Switching workers from unemployment insurance to work share may achieve both of these goals and reduce stress on overloaded state unemployment insurance systems. For example:

- Michigan Governor Gretchen Whitmer has issued an executive order to encourage employers to switch their workers from unemployment insurance to work share. Work share, also known as short-time compensation, allows employers the flexibility to rehire workers at reduced hours and enables workers to continue receiving benefits for lost hours. Employers can retain valuable employees and improve morale while enabling workers to keep their benefits and job. Work share is normally a layoff-aversion program, but the U.S. Department of Labor has issued guidance on how states can use it for rehiring as well.

Connecting talent to in-demand, quality jobs: Demand for labor has collapsed, which calls for large public investments in transitional jobs, public service jobs, and infrastructure jobs. We can also connect talent with small business incubation opportunities, entrepreneurship training, and downtown community-rebuilding efforts. Policymakers need to be strategic about investing in programs that offer direct links into high-wage jobs—for example, efforts to recruit contact tracers should provide clear off-ramps into permanent careers. This also means targeting employer engagement to employers that demonstrate a shared commitment to job quality, safety, equity, and career advancement.

Businesses can play a bigger role in producing the skilled workforce they need in exchange for greater support and incentives from the government during this crisis. For example, they can offer job seekers an entryway to a new workplace through subsidized employment or apprenticeships. States can also expand incumbent worker training programs to incentivize employers to invest more in training. Examples include:

- California has an incumbent worker training program called the Employment Training Panel, which reimburses employers for worker training. A recent evaluation found that the program had significant and positive impacts on sales and employment size, especially for small- and medium-sized businesses. States could use programs such as this to help stimulate the recovery of small- and medium-sized firms and improve access to economic opportunities for workers.

Building an affordable, holistic system for supporting transitions into new career pathways: There is growing evidence that solutions which combine training with wraparound services based on a sector-based career pathway approach are more successful than existing WIOA training programs that incentivize the placement of adults and dislocated workers in one-off, short-term trainings and low-wage jobs. We need to establish clear on-ramps to career pathways with applied learning opportunities, one-on-one career coaching, professional networking opportunities, and supportive services such as child care. For example:

- The Trade Adjustment Assistance Community College and Career Training (TAACCCT) grant program represented an almost $2 billion investment in sector-based community college career pathways designed to meet the holistic career

advancement needs of adult learners. Evaluations of these grants are available in a central repository.

- The Health Profession Opportunity Grants program also offered mixed-method evidence related to student success in health-career pathways.

It is not possible to scale these holistic models in a fragmented system with short-term performance measures and low funding levels.

We should make several changes to the delivery of career support and training to foster a culture of ongoing learning and innovation. The U.S. needs permanent higher education funding streams for public colleges and universities to offer applied pathways, so that adults can more easily earn income while learning. In addition, the "self-service" approach underlying current programs is rooted in the deeply flawed assumption that job seekers have equal access to information. Making one-on-one career guidance and mentorship more available to any job seeker would help them understand how to effectively signal their skills in a new field and what the progressions for advancement are. Free guides to the job search process and opportunities for professional networking also need to be much easier to find. Building infrastructure to access holistic career pathways remotely could help us achieve economies of scale in service delivery, while also addressing the ongoing threat of COVID-19.

When redesigning this system, policymakers should gather direct input from job seekers and business leaders based on principles of human-centered design, to ensure that programs will add value for those who use them. Human-centered design can also be used to modernize wage record reporting, participant reporting, and unemployment insurance systems, when combined with appropriate reforms to streamline programs and automate many aspects of outdated government technology systems.

Funding

The recovery strategy outlined above will require a much more robust investment in an economic security and career advancement system to counteract inequality. The proposed HEROES Act legislation in Congress would roughly double the funding for WIOA adult, dislocated worker, and youth programs (Program Year 2018 expenditures on those programs were about $2 billion). This seems wholly inadequate to match the scale of the problem. At a minimum, we should aim to match the average of what other OECD countries spend on active labor market adjustment programs. Based on current estimates of GDP and expenditures in the OECD data, that means increasing U.S. investments in active labor market programs by about $86 billion.

In many regions, local workforce boards are trying to identify innovative ways to partner with other organizations to raise funding through private philanthropy. Generally speaking, however, these efforts are just starting to get off the ground. Given that WIOA training participants currently only receive about $1,900 to $2,600 per participant, on average, a goal of reaching a $10,000-per-participant investment seems reasonable, assuming the high costs of providing holistic services and quality reskilling opportunities, not to mention the need to compensate for historical legacies of underinvestment in communities of color. We should revisit our funding allocation formulas for workforce investments to include variables for underemployment, such as a high share of workers with unstable hours, temporary positions, or very low-wage jobs.

Potential impact

The U.S. must immediately come up with a disaster plan for American Job Centers, preparing them for an unprecedented throng of job seekers that need help. The country must also use this opportunity to break the cycle of long-term underinvestment in critical labor market adjustment infrastructure to ensure that the COVID-19 pandemic does not further exacerbate economic inequality. With adequate investments, a system that provides clear and affordable career pathways to quality jobs, and intentional efforts to address information asymmetries and social exclusion from high-wage occupations, local and state actors can come together to meet the challenges of the current moment.

We need to go beyond immediate relief, and not only reimagine a more equitable society, but also bring it into being with institutions and robust investments. We have many assets to leverage—the tremendous potential of our talent, existing evidence and applied knowledge about what works, and the vast wealth in our country—that will allow us to rebuild in a way that offers more access to opportunity.

Endnotes

1 The GAO report excluded education funding streams that adult learners commonly use, such as those available through public two-year colleges (technical and community colleges) and funded by Pell Grants or other forms of federal student aid.

2 Source: U.S. Department of Labor and U.S. Department of Education PIRL reports for PY 2018.

3 Unemployment offices largely disappeared in the 1990s as benefits systems migrated to call centers.

4 Note: nonprofit and for-profit training providers are also allowed to receive WIOA adult or dislocated worker funding for training if they are approved for the Eligible Training Provider List.

Local service corps can address unemployment and community need

Martha Ross, Suzanna Fritzberg, Josh Carpenter, and Sarena Martinez

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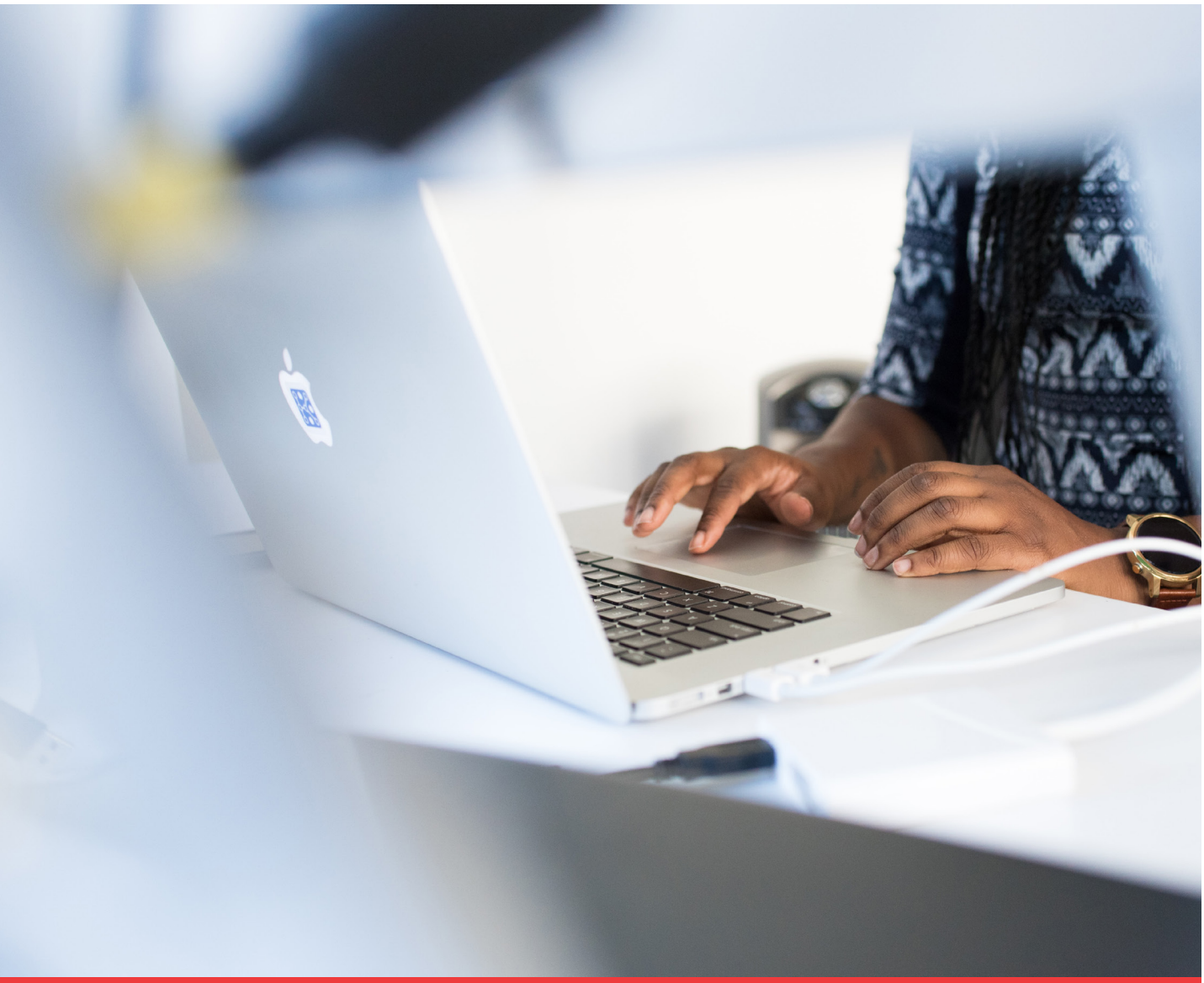
Overview

COVID-19 poses disproportionate health risks and economic threats to people of color. Black Americans are much more likely than white Americans to contract the virus, to be hospitalized for it, and to die from it. The differences are particularly pronounced among those in their prime working years.[1] Social distancing measures to reduce the spread have resulted in massive layoffs, eroding livelihoods for workers in retail, hospitality, administrative support, and entertainment.

Birmingham, Ala., the fourth-largest majority-Black city in the country, is especially vulnerable to the devastating effects of COVID-19. Infection and death rates are much higher in majority-Black jurisdictions than in majority-white ones, and unemployment rates in the Birmingham region skyrocketed from 2.9% in January 2020 to 11.9% in April.[2] This brief outlines a new program, the Birmingham Service Corps, which addresses COVID-19's twin health and economic crises through hiring recently unemployed Birmingham residents to meet community needs. Launched by Bham Strong, a public-private initiative formed in response to COVID-19, the Corps has employed more than 300 residents to carry out a variety of projects meeting immediate needs, such as screening public housing residents for viral symptoms, making lunches for school children, and setting up and staffing test centers. The second phase of the Corps will incorporate skills training to prepare workers for future job opportunities as community health advisors.

The Birmingham Service Corps is a model for other cities, counties, and states in approaching the health, economic, and social challenges posed by COVID-19. It is a multisector effort, emerging from a civic initiative (Bham Strong) with broad representation from local business, philanthropy, nonprofits, and government. The Corps itself is supported by a mixture of public and philanthropic funds, and Bham Strong is well-positioned to engage employers and seek additional funding—both to continue immediate response efforts and to provide a bridge to ongoing employment for interested volunteers.

In other places, parallel civic initiatives could harness the energy and contributions of local actors to develop a service corps. The corps itself can scale to different sizes based on community capacity and need, and given the continued spread of the virus, it is likely that testing and economic supports will be necessary for some time.



Challenge

COVID-19 has sharpened Birmingham's existing economic and health disparities, causing serious distress at the community and individual levels.

Before the pandemic hit, many area residents were already economically vulnerable. Nearly one in five Jefferson County families with children lived in poverty, and 40% of households did not have enough liquid assets to subsist at the poverty level for three months without income.[3] Forty percent of Jefferson County's working-age residents (165,000 people) were either out of work or in low-wage jobs (paying less than $14 per hour).[4]

Recent economic data shows that the U.S. has been in a recession since February 2020.[5] Since March, when COVID-19 started affecting the economy in earnest, nearly 25% of Birmingham's workforce has filed for unemployment insurance. According to Burning Glass Technologies, job postings across all categories (high-wage and hourly workers) have fallen 50% from normal levels over this period.[6]

For communities and economies to be resilient, they must combine the public health restrictions necessary to prevent spreading the virus with measures that expand access to economic opportunity, especially for hourly workers.

The city of Birmingham has worked alongside other public, private, and civic partners to create Bham Strong, an agile public-private partnership designed to promote public health and economic resilience. Members include the philanthropic sector (the Community Foundation of Greater Birmingham and the Alabama Power Foundation), the Jefferson County Department of Health, the private sector (Shipt, Altec, Regions, Pack Health, and others), and the University of Alabama at Birmingham.

Assessing the local context, Bham Strong identified two primary challenges facing the city: 1) Birmingham residents need support to meet their vital needs and prepare for a post-COVID-19 economy, and 2) Birmingham's workers need to be empowered to build a resilient community that can overcome COVID-19 and is set up to thrive.

Response

In April, Bham Strong and the city of Birmingham launched the Birmingham Service Corps as one of the partnership's signature programs. The Corps enlists recently unemployed workers as paid volunteers to meet community needs that have emerged due to COVID-19. Any Birmingham resident age 18 or older can apply through Bham Strong's website. Corps members are paid as 1099 contractors, with wages ranging from $15 to $25 dollars per hour, depending on the work performed.

Bham Strong designs Corps projects in partnership with community organizations. Each project is approved by Bham Strong's board in coordination with the city of Birmingham.

Bham Strong tracks the following key performance indicators for the Corps:

1. Number of residents who obtain paid volunteer opportunities
2. Number of Birmingham community members served through programs staffed by Corps members
3. Percentage of donor contributions that flow directly to Corps members

The Birmingham Service Corps has placed over 300 members in opportunities, 62% of whom are Black and 69% of whom are women. On average, Corps members have experienced a reduction of 54% in their weekly income because of COVID-19.

Projects thus far have included staffing a call center to screen nearly 10,000 public housing residents for viral symptoms, informing the deployment of mobile testing and providing patient referrals, preparing and distributing lunches for 12,000 public school students, setting up and staffing testing centers, assisting area nonprofits that serve the low-income population with additional staff capacity for COVID-19 relief programs, and conducting structured interviews with area residents to gather data on the pandemic's impact.

The first phase of Bham Strong is designed to meet immediate community needs in the midst of the pandemic. Recognizing the enduring economic impact of the virus and the precariousness of the Birmingham workforce, the second phase will leverage Corps infrastructure to make service a bridge to the workforce of the future.

Pandemic-related job erosion has sharpened the need to proactively connect unemployed individuals to jobs, training, and other social services, including jobs relevant to pandemic relief and recovery, such as contact tracing. These emerging needs, in tandem with COVID-19 federal stimulus funding, present an opportunity for an inclusive job training and preparation effort that can be spearheaded by Bham Strong.

Looking ahead, the city and Bham Strong will use the Corps as a foundation to promote greater economic security and career advancement for workers, particularly Black residents who have been disproportionately left behind. Black Birmingham residents account for 30% of all workers, but 50% of low-wage workers. They are also overrepresented among the out-of-work, making up 70% of out-of-work young adults ages 18 to 24, and 49% of out-of-work adults ages 25 to 64.[7] A recent Oxford Economics report estimates that with a muted recovery, 95,000 jobs in Greater Birmingham will not return until Q4 2021, a 17.3% decrease from Q4 2019. Occupations paying relatively low wages are the most impacted.[8]

Consequently, COVID-19-related job loss has been concentrated in the Black population,

exacerbating existing unemployment and underemployment. Evolving the Corps into a longer-lasting workforce initiative that places its members into training and career pathways can help address this racial disparity.

Bham Strong is developing an "earn and learn" model for this next phase of the Corps. Members will serve as community health and wellness advisors, providing information and guidance on managing chronic conditions that contribute to COVID-19-related hospitalizations, such as hypertension. They will also refer residents to social and workforce services. They will be trained in contact tracing, serving as a reserve force in case additional workers are needed to track spikes in the virus. The Minority Heath & Health Disparities Research Center at the University of Alabama at Birmingham and community partners will provide the training.

Bham Strong is coordinating with area employers to ensure that training and work experience prepares Corps members for future job opportunities in the health care field. They are also planning to organize employer councils to inform the training, so that workers receive instruction that prepares them for further career advancement.

Funding

The initial budget for the Birmingham Service Corps is $1.5 million, with $500,000 from local corporate philanthropy and $1 million from the city of Birmingham. Approximately $20 million in federal CARES Act funding is being pursued at the state and county levels, and the organization is continuing to pursue philanthropic gifts. Local officials may also use funding available for subsidized employment through the federal Workforce Innovation and Opportunity Act, and are also likely to partner with the state to apply for funding from the Department of Education through their Education Stabilization Fund-Reimagining Workforce Preparation Grants program.

Potential impact

Bham Strong and the Birmingham Service Corps are examples of the power of a unified civic response to a health and economic crisis, and they are models that can be emulated in other places.

In the short term, the Corps achieves two goals: meeting immediate community needs related to COVID-19 and providing job opportunities to unemployed residents. To date, the organization has placed nearly 300 members in paid opportunities. In the longer term, the Corps can become a crucial part of the workforce development ecosystem, expanding access to higher-quality long-term career paths for Corps members and supporting the growth of the high-wage industry in Birmingham.

The skills that Corps members gain can be the foundation for new career trajectories in data collection and management, client services, and precision population health. Meanwhile, the workers trained in community health outreach and navigation can improve the health outcomes of residents by helping people manage chronic disease and forestalling COVID-19-related complications among high-risk individuals.

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Bridging the digital divide through digital equity offices

Adie Tomer and Lara Fishbane

July 2020

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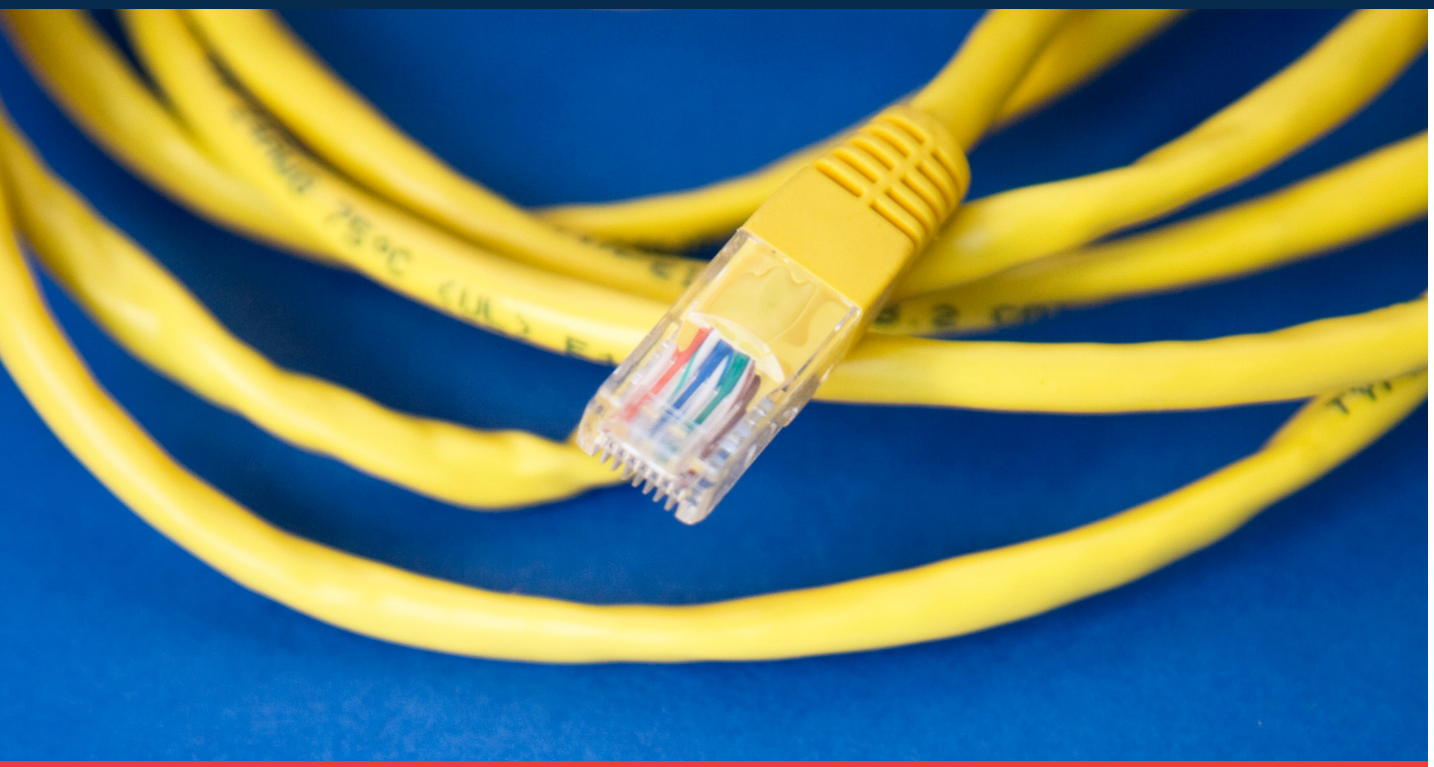


Overview

The American economy continues to digitalize at an astounding pace, but tens of millions of American households cannot access the digital economy due to physical gaps in local broadband networks, unaffordable subscription plans and personal devices, and a lack of digital skills. Digital equity offices would aim to address these structural barriers and ensure the digital economy reaches all local households.

Building on the experiences from established digital equity efforts, each new office would work collaboratively with other agencies and regional stakeholders to establish clear goals, co-design solutions, and measure progress. Establishing a digital equity office will create a permanent administrative unit to prioritize historically disadvantaged groups and neighborhoods, build trust, and create interventions to directly benefit those who have struggled the most to digitally compete. Local digital equity offices allow for local governments to be more in touch with the needs of their communities and give them the authority to negotiate with internet service providers in their region.

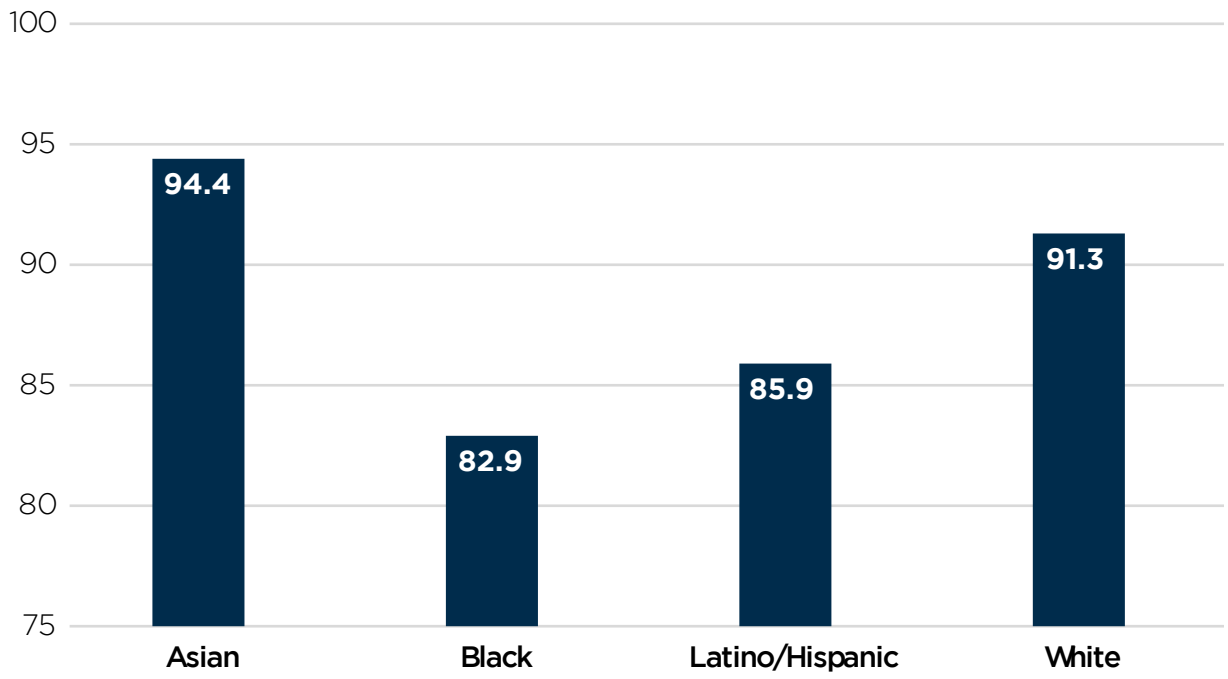
Challenge

Broadband has become essential infrastructure for the 21st century. Just as entire industries and personal activities developed around electricity in the 20th century, the same level of economic and social transformation is underway using digital services today. Schools, offices, retail stores, and governments all rely on online platforms, offering people significant time savings and new ways to prosper.[1] Meanwhile, digital skills are increasingly necessary for a growing number of jobs.[2]

However, broadband can only deliver benefits to those who can connect to it, afford it, and know how to use it. By these measures, broadband is still far from a universal service in American cities. The Census Bureau found that 27.9 million urban households—or 10.8% of the urban population—lived without a broadband internet subscription in 2018.[3] The gaps are especially pronounced for Black and Latino or Hispanic households (Figure 1). Research also regularly finds substantial gaps based on income and educational attainment.[4]

The lack of universal subscription is attributable to a range of factors. Broadband is still relatively expensive, and survey results regularly show price as the number-one barrier to broadband adoption.[5] Many also lack digital skills—a slight majority (52%) of U.S. adults are still "relatively hesitant" when it comes to new technologies and digital skills, meaning they have low levels of digital skills, limited trust in the internet, or don't often turn to it as a source.[6] Finally, there are still physical network gaps that make a broadband subscription outright impossible.[7]

Figure 1. Urban broadband subscription rates by race, 2018



Source: Brookings analysis of 1-year American Community Survey data

Now, with the COVID-19 pandemic pushing even more activities online, broadband inequities have been cast into sharper relief. At least 124,000 U.S. public and private schools have closed, affecting some 55.1 million students.[8] With 14% of households with school-aged children lacking a wired subscription in the home, millions of students now face a structural disadvantage in learning and keeping pace with their peers.[9]

The shift to telework has created a similar division, allowing some people to safely work from home while forcing others to keep commuting to work and putting their health at risk. These same issues extend to telemedicine, e-commerce, distant socializing, and even media streaming. With so much economic activity now taking place online, every household without digital service or skills cannot participate. A full economic recovery will require everyone having access to markets and services from their home.

The challenge facing state and local governments, then, is how to address these digital inequities. The traditional role of state and local governments was to regulate telephone companies, negotiate access to public right of way for network construction, and help connect anchor institutions. There was no commitment across all state and local governments to fund digital skills programs, offer discounted subscriptions and devices to at-risk households, or even to liaise directly with disadvantaged communities to understand their needs. Now is an ideal time for communities to focus on building the digital equity infrastructure they may be missing.

Response

To address these challenges, local governments should establish digital equity offices to deliver households the tools to physically access and use broadband and related digital services. Each office would be led by a digital equity officer who reports directly to the top elected executive as a member of the cabinet. The office would be responsible for publishing a Digital Equity Plan for the jurisdiction. That plan would set performance targets, establish strategies, collect data, and plan coordinated activities across multiple agencies, including those responsible for information technologies, economic development, social services, health care, and others. Digital equity offices would also serve as the lead office to liaise with state-level peers, ideally with a similar equity office at the state level.

While every jurisdiction has varying needs, there is a common set of activities that every digital equity office would conduct. Digital equity offices are a relatively new idea that formalizes and consolidates many of the emerging digital equity efforts happening in a range of cities across the country (examples below).

Address network gaps

A digital equity office would ensure that every resident—regardless of income, race, ethnicity, or any other demographic characteristic—can subscribe to wireline and wireless service. Depending on state law and the given telecommunications technology, the office would serve as either the lead or co-lead when negotiating the geography that internet service providers (ISPs) would be obligated to serve. The office would also be responsible for monitoring service levels, including the provision of customer-facing tools to report service issues. Ensuring that ISPs do not conduct digital redlining (purposefully excluding certain communities) is essential, and persistent and thorough data monitoring is critical to avert service inequities. Finally, depending on local willingness, the digital equity office could also help coordinate the construction of any publicly owned broadband networks. Local examples of such implementations include:

- The city of Boston is working to expand high-speed internet to more homes and businesses by extending the Boston Fiber Optic Network to reach every public school, working across city departments to streamline infrastructure build-outs, making the city's fiber assets more accessible to companies, encouraging more market entrants, and expanding free Wi-Fi access points within Boston's main streets.[10]

- North Carolina's Broadband Infrastructure Office is working to close the digital divide by allowing ISPs and electric membership cooperatives to compete for funding to increase broadband in rural areas. Moreover, nearly $10 million was awarded to 20 ISPs working to facilitate the deployment of broadband service in designated counties.[11]

Promote affordable subscriptions and devices

A digital equity office would co-design and co-operate programs that make broadband and related devices more affordable for lower-income households. The office would serve as the chief negotiator with ISPs over pricing and/or targeted subsidies, including any concessions the local government would be willing to make for specific pricing benefits (within the bounds of current FCC rules). The office would also serve as a resource for schools, housing departments, libraries, and other agencies that bulk purchase network and computing devices. In

this capacity, the office would share data from their Digital Equity Plan and—combined with other economic indicators—establish procurement needs for the entire jurisdiction.

- San Francisco's Digital Equity Strategic Plan has the goal of ensuring that all San Franciscans have affordable, reliable, and high-quality internet. Their strategy includes working with ISPs to expand free and low-cost internet options, partnering with public agencies to advertise low-cost options, and creating a pipeline for city departments and companies to donate surplus digital devices to high-need communities.[12]

- Rhode Island's digital equity initiative is working to get everyone in the state connected to the internet by expanding programs that give low-income residents free and low-cost devices, publicizing and expanding public Wi-Fi access points, working with ISPs to create a low-cost network option, and working with community organizations to disseminate information.[13]

- The New Orleans city government is working to better connect the city by promoting federal Lifeline options and helping residents identify providers. The city is also facilitating a device donation program, which helps low-income residents acquire computers.[14]

Coordinate digital skills interventions

A digital equity office would support programs that build the digital skills of local households and support regional employers. The office would use performance data and local relationships to establish training needs. The office would then help support digital skills trainings operated by agency peers such as the local library system and external partners such as nonprofit community groups, including through the use of public funding and technical capacity. The office would work with workforce boards and peers to ensure trainings reflect employer needs where sensible. The office would also serve as the lead agent to coordinate state and federal skills grants, including applying for grants and distributing funds to agency peers.

- The city of Seattle is working toward ensuring that all residents have the digital skills necessary to participate in

online spaces. Their strategy includes identifying barriers to skills acquisition, increasing the availability of digital skills programs, increasing the capacity of instructors and volunteers, and providing additional resources and support for the community.[15]

- Louisville, Ky.'s Digital Inclusion Plan includes training residents in digital skills by identifying challenges, bringing in community perspectives, and supporting and expanding existing digital skills training programs.[16]

Understand and represent community interests

A digital equity office would offer a platform for community members—especially from historically disadvantaged communities—to directly engage in a broadband-needs assessment and plan related interventions. Based on prior Brookings research, some elected executives and public officials may not realize the extent of the digital divide across the communities they serve. To overcome this potential blind spot, the digital equity office would proactively engage with community advocates and other interested constituents to understand their needs and build trust. The office would then be responsible for designing specific policies to represent their interests around major decisions.

- Portland, Ore. is building a Digital Inclusion Network, which is empowering communities to help in the effort to bridge the digital divide. This includes bringing in a diverse, countywide, and community-based work group as well as engaging community and neighborhood leaders on the development and implementation of their Digital Equity Action Plan.[17]

- To better understand the issues and how to address them, San Francisco conducted a citywide survey with over 1,000 residents as part of its Digital Equity Strategic Plan, followed by a community-needs assessment with over 400 participants at community fairs, affordable housing meetings, food pantries, schools, and community centers. The entire strategy is deeply integrated with the community, including approaches that build the digital capacity of community-based organizations, support community-led innovation challenges, and continuously collect community feedback.[18]

Funding

Digital equity office budgets will vary significantly based on the scope of proposed activities and internal staffing levels. Establishing data monitoring systems, purchasing equipment, funding skills trainings, and other fixed costs all need to be scaled based on local funding capacity. Likewise, staffing levels will need to scale based on local budget capacity. There are also opportunities to share costs if multiple local governments could combine resources into a single office (whether hosted inside a city, county, or metropolitan government). Based on conversations with two localities already conducting some of this work, an annual budget could range from less than $500,000 (to cover a streamlined staff) to over $1 million (if the office supports a larger staff and more programming), or even higher figures if the office manages capital projects.

Regardless of the budgetary size, a common refrain was to create durable funding streams based on public revenues.

Establishing a digital equity office would also position cities to successfully compete for future federal funding. Federal broadband policies traditionally do not offer direct funding to local governments to address affordability, skills development, or other community engagement activities. The major exception was the Broadband Technology Opportunities Program (BTOP), which the 2009 American Recovery and Reinvestment Act funded for multiple years.[19] With multiple federal bills and key legislators now proposing renewed investment in digital equity, there is optimism that new competitive grants will be available in the future.

Potential impact

Digital equity offices need to be especially attuned for reaching underserved residents. Adults who are not digitally literate, children living in digitally disconnected homes, households without access to private vehicles, and single parents with limited free time all face structural economic disadvantages and would directly benefit from new digital equity programming. An effective digital equity office will be able to demonstrate progress around reaching targeted populations, including through higher subscription rates, greater device availability, higher attendance at digital skills trainings, and more efficient job placements. Any city, metro area, or state that can demonstrate that kind of progress will build a more inclusive society and competitive economy.

Precedent should give local governments confidence that equity-focused interventions can work. An internally funded evaluation of the BTOP program found positive results from investments in public computing centers, adoption programs focused on vulnerable populations, and physical network expansions.[20] Similarly, cities such as New Orleans[21] and Seattle[22] have demonstrated impact from their local programming. So far, the city of Seattle has funded 23 local organizations to provide digital skills trainings to residents from disadvantaged backgrounds, leveraged eight city departments to help improve digital equity, and created a tool to allow residents to more easily find free and discounted programs and benefits. Meanwhile, New Orleans granted its first Digital Equity Challenge Award to the Arts Council, which taught young residents basic art and technology concepts as well as relevant digital media skills.

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Using a down market to launch affordable housing acquisition strategies

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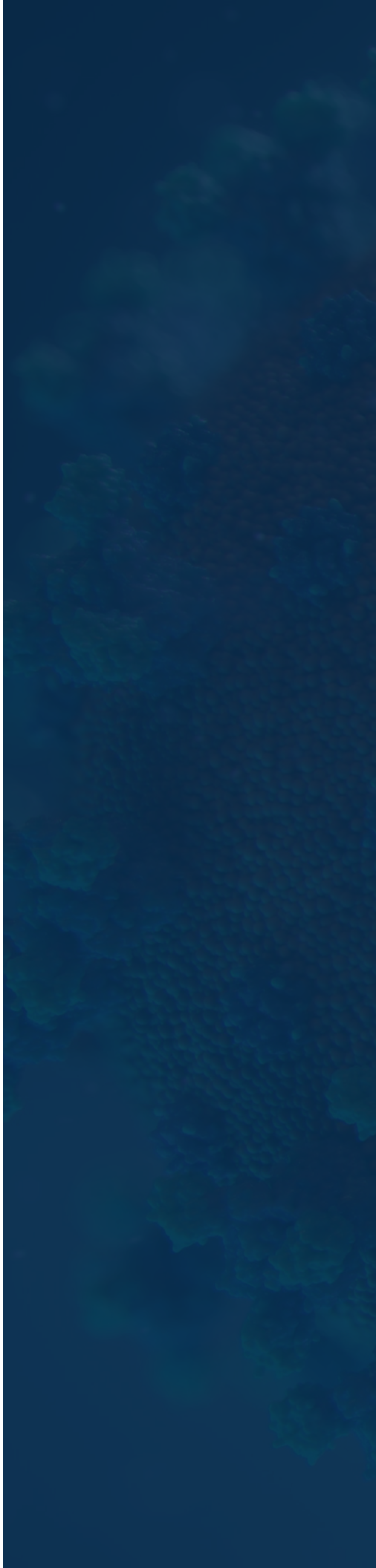

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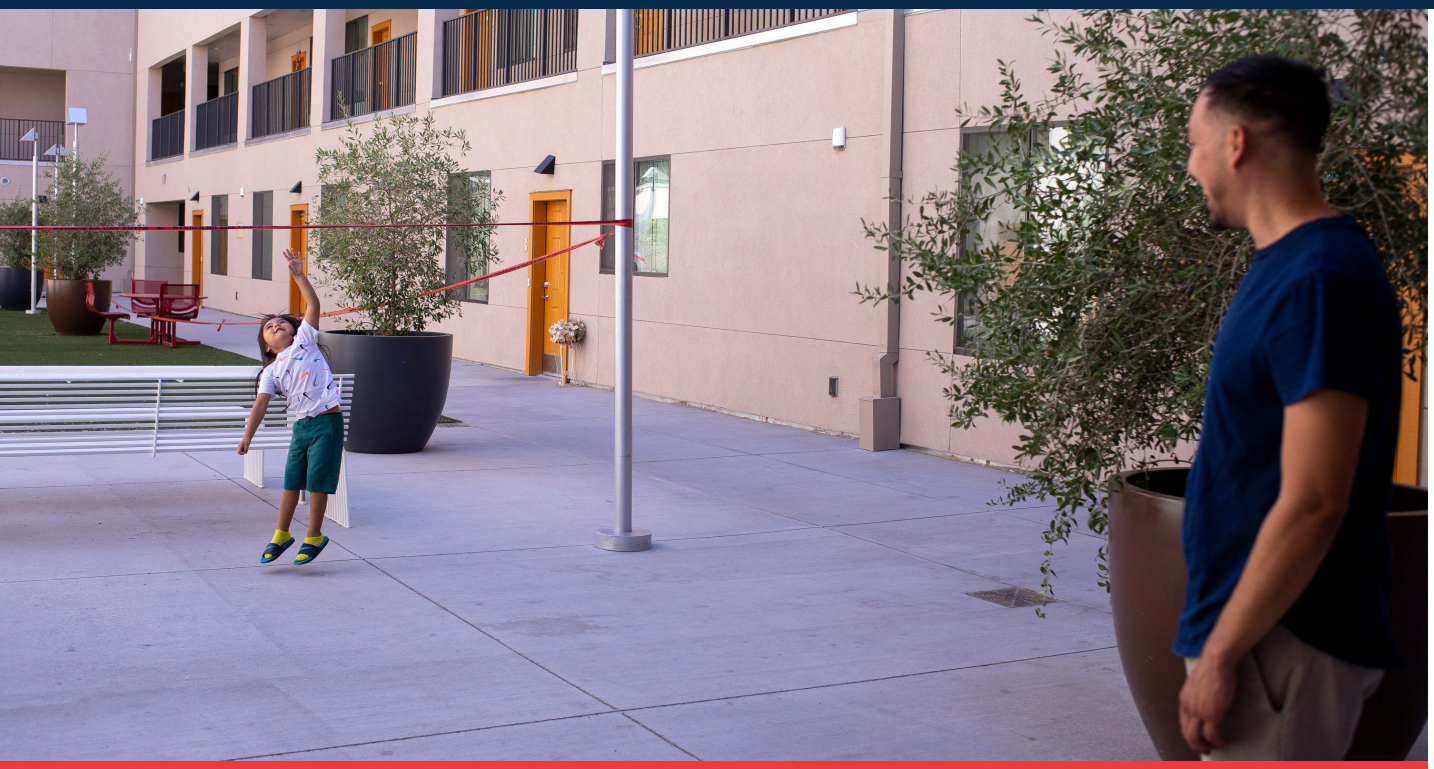

Overview

The COVID-19 pandemic has highlighted the social and economic costs that housing insecurity imposes on communities. People living in poor-quality, overcrowded, or unstable housing—or without any home at all—cannot follow public health directives to safely "shelter in place," and are at higher risk of contracting contagious diseases.[1]

The immediate recovery period after the COVID-19 crisis could offer a unique opportunity to improve housing security by increasing the inventory of long-term affordable rental housing. If housing asset prices drop, affordable housing providers could purchase existing low-cost housing units and add them to the stock of long-term affordable rental housing.

Acquisition offers a shorter timeline and lower per-unit cost than new construction of affordable housing, as well as the potential to improve access to high-opportunity neighborhoods. Past housing subsidy programs from across the U.S. offer lessons on how to design and implement successful housing acquisition programs.

Challenge

Even before the COVID-19 pandemic, millions of Americans lacked access to stable, affordable housing.[2] The current crisis has highlighted the social and economic costs of this crucial gap in the safety net. Even many Americans who have a home still face risks of instability—housing costs are a major financial stressor for low-income households, who typically devote between a third and a half of their incomes to housing.[3] During economic downturns, cost-burdened households are especially at risk of losing their homes to eviction or foreclosure.[4]

Stable, decent-quality, affordable housing is also critical for communities and the overall economy. As the Great Recession showed, concentrations of foreclosed and vacant homes create negative spillovers across entire neighborhoods.[5] The housing sector creates multiplier effects throughout the economy; contractions in housing construction, upgrades, and sales could translate into reduced employment and consumer spending, deepening the recession.[6] Financial pressure that causes low-income renters to fall behind on payments could also harm small landlords, who are disproportionately Black and Latino or Hispanic, and own a large share of unsubsidized affordable housing.[7]

Once the immediate public health crisis is contained, policymakers should make more serious efforts to reduce the number of households who lack affordable, stable, decent-quality housing. The recovery period after the COVID-19 crisis may offer a rare opportunity to increase the amount of long-term affordable rental housing, especially in high-opportunity communities where obstacles to new construction are greatest. If real estate values decline or property owners in financial distress seek to sell, affordable housing providers could purchase existing low-cost housing units and add them to the stock of long-term affordable housing.

Response

Housing affordability and instability were serious problems for low-income, Black, and Latino or Hispanic renters even before the pandemic. That's especially true in high-cost coastal markets and high-opportunity neighborhoods across the U.S., where local land use regulations have made it difficult and expensive to build moderately priced multifamily housing. Acquiring existing apartment buildings offers potential cost savings relative to new construction, and can create below-market units in low-poverty neighborhoods that often oppose new development of affordable housing.

A program to acquire existing multifamily buildings would require an initial subsidy allocation from the federal government, philanthropy, or both, in addition to low-cost loans. State and local governments are anticipating substantial revenue losses due to the economic crisis, so they will likely have limited ability to dedicate additional resources toward affordable housing. Targeting higher-opportunity neighborhoods—communities with well-paying jobs, access to public transit, and good schools—may be of particular value. Black and Latino or Hispanic renters have higher average housing cost burdens than white households, and job losses have hit them particularly hard during the pandemic.[8] Therefore, long-term investments in affordable rental housing could be particularly beneficial in reducing racial disparities in housing insecurity.

Recent local and national policies offer lessons for the design of future programs. One key lesson from these policies is that successfully pursuing acquisition takes particular skills: staff capacity as well as resources. An acquisition strategy is likely to be most appropriate (and most successful) in supply-constrained housing markets where affordable housing providers have some prior experience with acquisition and property management.

The King County Housing Authority and HUD's Moving to Work program

The King County Housing Authority (KCHA) in Washington state has taken advantage of the flexibility granted by the U.S. Department of Housing and Urban Development's (HUD) Moving to Work (MTW) program to pursue multifamily acquisitions as a means of increasing units in high-opportunity neighborhoods.[9] MTW exempts participating public housing authorities from many existing public housing and Housing Choice Voucher rules, and provides them with flexibility in how they use their federal funds. KCHA has used this flexibility to establish ZIP-code-level payment standards for housing vouchers and provide counseling and housing search assistance, thus enabling voucher holders to move into a wider range of low-poverty neighborhoods.

King County has acquired mixed-income properties in high-opportunity areas through bond financing and other private financing tools.[10] Under Washington's state authorizing legislation, KCHA can issue bonds directly, not dependent on the county government. Additionally, in 2016, King County agreed to provide KCHA with access to the county's triple-A credit rating. This type of credit enhancement can be valuable to housing authorities that (unlike KCHA) do not have strong, independent issuer ratings. Since 2016, KCHA has acquired more than 2,000 units of housing, prioritizing locations along the region's emerging mass transit corridors.[11]

Both the ability to issue bonds and the shorter-term line of credit have allowed KCHA to act quickly when the opportunity arises to acquire a strategically located

property. Through securing additional existing units, KCHA can preserve long-term affordability and provide housing in high-opportunity neighborhoods, characterized by high-performing schools, public transit, and good jobs.

New York City's 10-year plan

During the 1970s, New York City suffered substantial population losses. The city came to own more than 100,000 vacant and occupied apartments and large tracts of vacant land through tax foreclosure. In 1985, Mayor Ed Koch announced an ambitious 10-year program to commit $5.1 billion of city capital dollars to using these properties to create or preserve 252,000 housing units for low-, moderate-, and middle-income households.[12] By 2000, the plan had created 66,000 new housing units through construction or gut rehabilitation of vacant properties, and the renovation of another 116,000 occupied units.

The 10-year plan comprised a wide range of programs which provided subsidies to both nonprofit and for-profit organizations. The city generally transferred land or buildings to developers at little or no cost, and provided capital subsidies in the form of below-market interest rate loans. Research shows that this effort not only provided about 200,000 homes, but it also aided in revitalizing neighborhoods devastated by abandonment and arson.[13]

While the 10-year plan was not technically an acquisition program, the intervention did offer some valuable lessons. First, with control of land, the city was able to lock in affordability when markets later recovered. Second, the struggles the city faced in managing this large stock underscores the importance of quickly transferring ownership to capable and responsible nonprofit and for-profit owners. Third, while the scale of this program cannot be replicated, there was value in creating off-the-shelf programs that multiple developers could use. Fourth, the city aimed at revitalizing neighborhoods, and as such, clustered its property transfers on particular blocks, aiming to create housing that could serve a mix of low-, moderate-, and in some cases, middle-income households.

The New York City Acquisition Fund

Launched in 2006, the New York City Acquisition Fund aimed to provide flexible funds to mission-driven developers to acquire and preserve affordable buildings which might otherwise be sold to speculative investors.[14] Several philanthropic organizations provided initial seed capital to start the fund, allowing it to provide capital for acquisition and predevelopment costs more quickly than other government programs. Foundation and city funds take first losses, while private lenders provide additional capital. Each dollar the city

invested in the fund has leveraged $7 in additional private dollars.[15]

The fund is managed through a revolving credit facility. Three community development financial institutions (CDFIs) serve as originating lenders, and an asset management fund manages the Acquisition Fund.

Over its first 10 years, the fund provided $336 million in financing to create over 10,000 affordable homes, with 75% reserved for low-income residents. As successful as the program has been, one limiting factor is that the city has to negotiate and underwrite each deal separately. There could be substantial advantages to structuring subsidies as part of an as-of-right financing package with affordability restrictions that would not require project-by-project negotiations.

The Neighborhood Stabilization Program

Congress created the Neighborhood Stabilization Program (NSP) to mitigate the impact of concentrated foreclosures in low-income neighborhoods during the 2007 to 2009 housing crisis. HUD allocated nearly $7 billion over three rounds of funding to local and state governments and nonprofit organizations.[16] Congress intended for the NSP to support hard-hit neighborhoods through geographically concentrated activity, and allowed grantees to spend funds on various activities intended to reclaim and reutilize vacant properties.

In practice, most grantees used NSP funds either to acquire and rehabilitate properties or to demolish vacant structures.[17] Although the program initially targeted single-family homes (which accounted for most foreclosures), grantees in strong real estate markets—including New York City, Chicago, Boston, and Washington, D.C.—used their NSP funding to acquire and rehab multifamily rental properties, adding them to the long-term affordable inventory.

NSP grantees encountered some implementation difficulties that offer lessons for the design of future programs. Most importantly, many organizations had limited prior experience in acquiring and rehabilitating vacant homes.[18] Grantees with existing expertise were able to deploy resources more quickly and effectively. Some local governments had to work around institutional barriers such as procurement rules that hindered their ability to make strategic acquisitions. [19]

One tension within the NSP program was conflict among multiple goals. As part of the larger economic stimulus package, NSP grantees wanted program funding to support residential construction jobs through rehabilitation work. But properties that needed extensive rehab had substantially higher per-unit costs, which limited the amount of housing grantees could purchase. The COVID-19 crisis is likely to create similar dilemmas for local organizations—developing a clear strategy and establishing priorities early would help guide consistent actions later.

Funding

There is no set minimum cost for implementing a rental housing acquisition program; more funding would enable the purchase of more housing. The two New York City programs operated on quite different funding scales ($5.1 billion for the 10-year plan, $336 million for the Acquisition Fund). NSP grants to individual organizations ranged widely in size; Riverside, Calif., received less than $10 million under the second round of NSP funding, while Los Angeles received $100 million. Washington's King County is a high-cost housing market, where acquisition costs average $300,000 per unit—substantially lower than new construction, but not a trivial amount.

The policies highlighted here represent funding from the federal government, local governments, and philanthropic capital. Because the COVID-19 pandemic has squeezed state and local budgets, it is likely that any new public subsidy would need to come from the federal government, especially if programs are to achieve any meaningful scale. Acquisition could also be accomplished by pairing new funding sources with increased emphasis on acquisition through existing programs, such as the Low-Income Housing Tax Credit (LIHTC), HUD's HOME Investment Partnerships Program (HOME), or the national Housing Trust Fund.

Whether an acquisition program would require an ongoing subsidy for maintenance and operation depends on the program's design and whether it could be paired with existing funding sources available for those uses. Existing buildings that are in relatively good physical condition would have lower operating costs, at least initially. While it is difficult to achieve affordability for very low-income renters without an ongoing operating subsidy, buildings serving a mix of low-, moderate-, and middle-income households have greater potential for covering operating costs through rents or other program income.

Potential impact

The COVID-19 crisis has drawn widespread attention to the existing inequalities in American society, including disparate racial health impacts and the financial fragility of low-wage workers.[20] As policymakers and voters become more aware of the social costs that housing instability creates, there is an opportunity to address long-standing gaps in the safety net.

Acquisition offers two primary advantages over new construction, especially in high-cost housing markets. First, the per-unit cost of creating long-term affordable housing is much lower, even when properties require some rehab, which allows limited subsidy dollars to stretch farther. Second, in housing markets with highly restrictive local land use regulations and/or NIMBY politics, developing a new apartment building can take a decade or longer.[21] Acquiring existing buildings in relatively good physical condition can make affordable units available to low-income households much faster and in a wider set of locations.

Finally, while local governments offer an excellent laboratory to test new policy ideas, only the federal government has enough financial resources to achieve large-scale impacts.

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How states can empower local ownership for a just recovery

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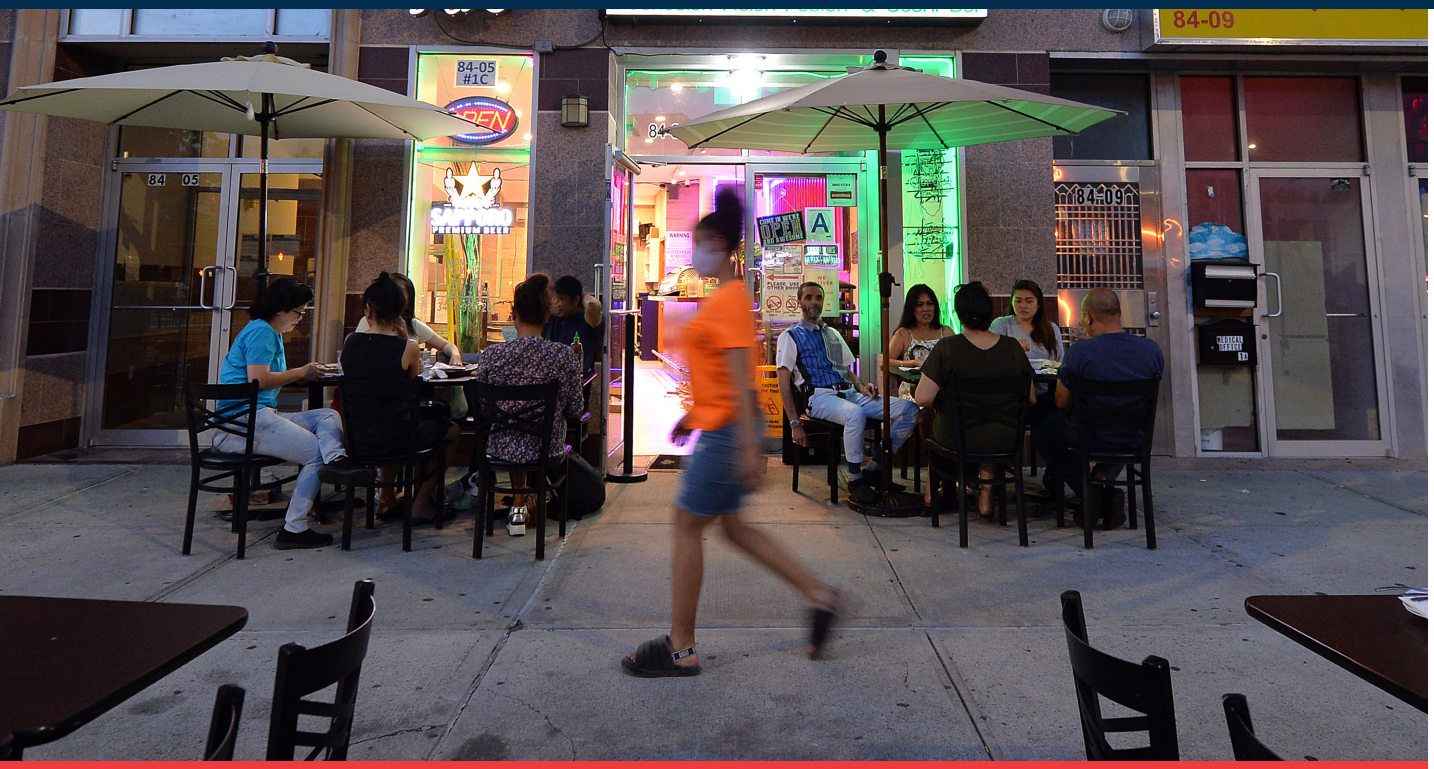

Overview

This brief offers specific suggestions for how state governments can increase wealth and economic mobility for residents of structurally disadvantaged communities hit hard by COVID-19, through facilitating the creation of financial instruments that enable local ownership of real estate. These instruments would allow residents—together with other private, public, and nonprofit sector investors—to purchase and develop or redevelop land and buildings in commercial corridors. The funds would be managed by new or existing hyperlocal governance entities that represent the voice of both investors and the wider community.

Challenge

The United States has a long history of structural racism, implemented through stolen ownership, capital withholding, and community destruction. This has led to wide and growing economic disparities between people and across neighborhoods. Efforts to remedy these impacts tend to focus on job growth, education, and workforce development. However, these efforts do not address the ways in which racial discrimination leads to vast place-based inequities in access to goods and services, basic amenities, and economic opportunity.

The evidence is staggering.[1] For example, residents of low-income, often predominantly minority communities have less access to major grocers than those living in higher-income neighborhoods. These residents are also more exposed to violence and environmental toxins—factors which contribute to poorer health and reduced life expectancy rates.[2] They also have far fewer opportunities to build wealth; the net worth of the average white family is 10 times greater than that of the average Black family, a gap that persists regardless of income.[3] These disparities are partly a result of low levels of local ownership and significant undervaluation of assets—including housing and businesses—in predominantly Black communities.[4]

COVID-19 has laid bare the long-term effects of discrimination and spatial segregation, with Black and Latino or Hispanic Americans bearing the brunt of the pandemic's health and economic impacts.[5] Meanwhile, commercial corridors in highly impacted neighborhoods are likely to be devastated due to lockdown measures and vandalism, as well as the fact that many minority-owned businesses have had less access to federal assistance programs ostensibly designed to keep small firms afloat.[6] In the wake of the crisis, those businesses that do survive may be on precarious financial footing.

Cities and metro areas will never fully recover from the economic effects of COVID-19 without reckoning with the social and economic consequences of racist policies and practices on people and places. This demands strategies that encourage real estate investment in structurally disadvantaged communities and provide their residents the opportunity to both shape and benefit from that development.

Response

One way to directly address the challenges noted above is via real estate financing instruments that allow individuals with little income to collectively purchase and develop or redevelop land, retail, rental housing, and mixed-use properties in structurally disadvantaged communities—incrementally building wealth as those assets yield revenue over time.

Acquiring land and properties in neighborhood commercial corridors is a proven and widespread wealth creation strategy for well-capitalized private investors.[7] Wall Street is already buying the nation's Main Streets, the consequences of which can include wealth extraction and persistent vacancy.[8] Communities can invert this business model into a mechanism for racial and economic justice through governance and ownership instruments that allow residents to, as Brookings's Andre Perry puts it, "buy back the block."[9] In recent years, numerous local examples of such instruments have emerged across the country. These involve projects ranging in size from a retail shopping center in Portland, Ore. purchased by Mercy Corps' Community Investment Trust for less than $1 million to three mixed-used buildings in Los Angeles purchased by the Nico REIT for close to $30 million.[10]

Source: Mercy Corps Community Investment Trust

Existing examples of these models have been driven by the private sector, philanthropy, and local nonprofit organizations. However, such efforts could be scaled considerably with public sector support. **State government agencies—e.g., departments of commerce or economic development—have a combination of power, leverage, and resources that together could be used to facilitate the creation and maintenance of these instruments in several key ways:**

Supporting the right legal entities: Enabling resident investment in neighborhood real estate require entities with the knowledge and capacity to effectively design and manage nontraditional instruments.[11] Emerging models suggest that states could play an important role in establishing new kinds of localized real estate trusts (with explicit social benefits built into their covenants) or approved public benefit corps with defined investment structures. Depending on the state, this may require new statutory authorities or statutory and/or regulatory reform. Such entities could be part of or affiliated with other hyperlocal governance entities (including CDCs, Main Street organizations, civic groups, or others) or otherwise structured to ensure that projects align with a community's broader vision and goals. Without a clear orientation to social benefit, very similar-looking structures could become a toxic recipe for what Keeanga-Yamahtta Taylor calls "predatory inclusion."[12]

➤ *The Nico REIT in Los Angeles is both an approved Real Estate Investment Trust (REIT) and a public benefit corp. The public benefit parent corporation is comprised of three distinct entities: Nico Asset Management LLC, which stewards investments; Nico Property Management LLC, which oversees the buildings; and Nico Services, an interface with residents. The mixed income neighborhood trust model supported by Trust Neighborhoods in Kansas City, Mo. is set up using the Purpose Foundation's steward-ownership model. A perpetual purpose trust by charter ensures social benefits as well as mechanisms for resident authorship of any development. In short, both of these models have built-in procedures for resident investor management and resident governance.*

Entitling "portfolios" of properties: Much public policy around development is handled in a one-off way, with agencies overseeing development undertaking entitlement processes on a building-by-building or project-by-project basis. This approach limits the potential for achieving the dual objectives of neighborhood stabilization and wealth building for residents. Accomplishing both requires contiguous or proximate properties to be used differently—some for preserving affordability and some for generating revenue. Although it would generally require legal or statutory reform, a process for entitling a collection of properties would help states to deliver both community benefit and greater profitability for residents and outside investors.

➤ *If the Nico REIT in Los Angeles or mixed income neighborhood trust (MINT) in Kansas City were to develop a mixed-use building in a commercial district, they might be required to limit profit-generating commercial activity in order to ensure that at least 30% of the property is affordable rental housing. But what if they were allowed to include only 10% affordable housing while submitting a second property nearby that was 100% affordable housing as part of the same entitlement review process? In this scenario, legally imposed affordability requirements could still be met while allowing more flexibility to include commercial development.*

Providing flexible or lower-cost capital: A decisive factor in any development is the cost of capital. Any public finance solution

that lowers the cost of debt makes it possible for a concentrated set of projects to deliver greater community benefit for the same acceptable rate of return, or greater returns to investors for the same community benefit. Recoverable funding streams that can capitalize projects could be a game changer. For example, state funds could be made available to finance the purchase of properties and hold them in stewardship, with an understanding that ownership will be gradually transferred to nearby residents through a longer-term buy-in process. States could also establish rent-to-own plans that convert tenants' lease payments on storefronts and rental units into equity. As the state recaptures its investment, those funds could be reinvested in other projects.

➤ *In Kansas City, this model is being explored by the Kauffman Foundation in partnership with investors and two community groups: KC Common Good and We Grow KC. In this model, social investors agree to finance a project with the assumption that residents can gradually convert rents into equity stakes, and the social investor is slowly bought out. It is easy to imagine a state government playing the role of the time-limited social investor in such a plan.*

Directly leveraging state assets, authorities, and existing programs. States can scale new real estate ownership models through direct contributions of state-owned land and buildings, support for site preparation, renovation, and infrastructure, and the use of state authority to rezone properties to unlock their value.[13] Such efforts should be seen not as subsidies but rather as acts of restorative justice that mitigate past harms caused, enabled, and/or perpetuated by the state to structurally disadvantaged communities and their residents.

Furthermore, states can create synergy with projects funded via these models by giving nearby projects priority—for example, by providing bonus points in grant applications—in other state-funded programs. State tax credit reform could also explicitly incorporate community wealth building as a valued priority.

➤ *JobsOhio, the state's nonprofit economic development organization, maintains inventories of available sites and makes grant and loan combinations of up to $5 million to help pay for demolition, lead-based paint and asbestos abatement, remediation, site preparation, building renovation, new building construction, and new infrastructure.*

➤ *In California, Gov. Gavin Newsom issued Executive Order N-06-19, which made excess state lands available for affordable housing.*

Providing template bylaws and structures: Setting up the legal structures for entities that are designed to attract and manage investments can be a daunting task. States could simplify the incorporation process and any required approvals from state regulatory bodies for leaders who want to establish trusts and other structures by collating and sharing information on legal entity formation, governance and bylaws, tax implications, and regulatory oversight and review. By providing samples and templates for these documents, states could reduce the staffing time and costs individual organizations need to expend to develop such materials on their own.

➤ *The Securities and Exchange Commission approved the Nico neighborhood real estate investment trust in Los Angeles in December 2019. Because Nico sought to balance investment responsibility and optimal shareholder returns with a social responsibility toward neighborhood stabilization, the proposal was unorthodox and underwent heavy review. Similarly, the legal entities driving the Community Investment Trust (CIT) in Portland and the*

Market Creek Community Development Initial Public Offering (CD-IPO) in San Diego had to "invent" new models at great time and cost. For these models to be scalable, we need to clarify the path to their formation.

Promoting public understanding of investing: Efforts to promote financial security in low-income communities tend to focus more on growing income than assets. When asset ownership is discussed, the emphasis is on home ownership or entrepreneurship as opposed to investment in funds and trusts, which are seen as riskier. Insights drawn from behavioral economics, however, have revealed that low-income families are often quite prepared to take chances that may lead to better economic circumstances.[14] Moreover, fractional ownership plans may provide a more tolerable level of risk and accessible entry point than the outright purchase of a home or business by a single household. Making this case effectively and ethically requires a serious investment in education and communication. State agencies could amplify efforts like those noted below by endorsing and disseminating curricula to working families—in turn, creating the informed investor base on which all these ideas depend.

➤ *An illustrative example of such educational materials is the "Going from Owing to Owning" curriculum developed by Mercy Corps' Community Investment Trust (CIT) in Portland. The CIT has also developed a "replication toolkit" that helps local community development practitioners.*

"Insuring" resident investments. Finally, states can play a formal role in mitigating risk by backing these real estate financing instruments with loan loss reserves or other mechanisms that compensate low-income residents if investments decrease in value or return over the course of a preset time frame. In this way, working families can benefit from the upside of property value increase or project revenues while being protected from losses.

➤ *Using Section 3(a)(2) of the Securities Act of 1933, the attorneys for Mercy Corps CIT (who specialize in credit-backed structures for bond offerings) postulated that a letter of credit from a bank could provide investors with both liquidity and an appropriate "do no harm" backstop. For the entire Plaza 122 retail center, which was purchased for a mortgage of less than $1 million, Beneficial State Bank provided a letter of credit for low-income investor losses of $150,000.*

Prioritizing structurally disadvantaged communities that are reasonable investment bets

To ensure that both the wealth building and community benefit objectives of these real estate ownership models are met, states should restrict program eligibility to structurally disadvantaged communities that have demonstrated resilience, undervaluation, and measurable market strength. These "middle neighborhoods" are neither high-profile downtowns nor areas that are the most economically distressed. Such criteria might include:

- Income density (dollars per acre) relative to state median
- Median total assessed value per building square foot lower than the state median
- Stable or positive population change from 2015 to 2020
- Presence of homeowners (as a share of buildings, not overall tenure)

For example, 45 ZIP codes in Maryland have residential income density higher than the state median and median assessed value per square foot for commercial real estate parcels lower than the state median. On average, 44% of the population in these ZIP codes is Black. While they are primarily located in Prince George's County and the Baltimore region, these criteria also prioritize some rural communities, including Chesapeake Beach, Brunswick, Maugansville, Edgewood, and Cecilton.

Notes:

For more discussion see Paul C. Brophy (ed.) "On the Edge: America's Middle Neighborhoods" (New York: American Assembly, 2016), available online at http://middleneighborhoods.org/publications/on-the-edge/.

The Reinvestment Fund's Market Value Analysis and Social Compact's Market Drilldown are two sources of ideas for measures of market strength that do not structurally discount low-income communities.

Funding

The basic premise of this proposal is to use relatively modest amounts of public money (either equity or borrowing power and credit) to leverage private lending and attainable amounts of equity from the neighborhoods themselves.

In the financing structure example shown below, the capital stack requires only $115,000 in equity from the nonprofit neighborhood investment vehicle, which is quite feasible even for a nonprofit of modest capacity. The capital stack also includes $230,000 in state low-interest loans, which would allow states to provide startup capital through a revolving loan fund. The single largest piece of the capital stack is a bank loan, perhaps from a bank in need of Community Reinvestment Act (CRA) credit or a community development financial institution (CDFI). This structure/requirement will naturally restrict the use of this program to investments that minimize speculation and risk for equity investors large and small. The example capital stack and pro forma illustrate how this could work in a market where retail rents are $11.25 per square foot and leverage $4.40 in private

Table 1. Hypothetical model financing, partly based on Plaza 122 in Portland, a 1.43 acre site with a 28,672 sq. ft. shopping center

Property purchase:		**Pro forma:**	
Amount	*Source*	*Amount*	*Description*
$ 900,000	Bank loan (6% interest)	$ 290,000	Lease revenue (~90% occupancy, $11.25/sq ft rent)
$ 230,000	State loan (4% interest)	$ (157,000)	Operating costs
$ 115,000	Equity from founding nonprofit	$ 133,000	Subtotal (yields 10.7% cap rate)
		$(66,000)	Interest-only debt repayments
$ 1,245,000	**Total capital stack**	**$ 67,000**	**Net income**
$ 115,000	Refinanced as shares in neighborhood investment vehicle	**The net income is returned to shareholders as annual dividend**	
$ 10	Share price to yield 11,500 shares to be sold via monthly subscriptions or bundled tranches		
If and as the property increases in value over time, the shares increase in value			

Total cost example: A state revolving loan fund, along the same conceptual lines as Clean Water State Revolving Funds, could capitalize a few new projects each year on a rolling basis while maintaining the fund. For example, a $25 million fund could loan $750,000 per year and turn a profit within five years by only collecting 4% interest income on the fund balance and the loan.[15] A larger fund could do more and bigger projects.

capital for every $1 of public capital. Once up and running, these engines of ownership can create wealth for neighborhood shareholders through both annual dividends and share value growth over time. The offering of community shares could remain open during the life of the project, with proceeds used to reduce the bank loan on an ongoing basis.

While not shown here, there is a clear incentive for cities and counties to join these ventures as investors as well, as benefits accrue to residents and the rehabilitation of unproductive assets has a direct positive impact on property tax revenues. Requiring an additional layer of local equity in the capital stack could either reduce the loan-to-value ratio, shift part of the state's burden to local government, or be held in reserve to guarantee debt payments.

Finally, in the current social climate, corporations looking for material ways to commit to racial justice may also be looking for opportunities to be social investors. This could form another layer in the capital stack that further leverages any public investment.

Potential impact

State support of real estate financing instruments as described above could yield a powerful set of impacts in structurally disadvantaged areas which are likely to be devastated by COVID-19, including:

- Building resident and community wealth. Wealth-generating asset ownership is a powerful mechanism for increasing economic mobility and financial security for individuals and families. This, in turn, strengthens the local economy by creating a positive and mutually reinforcing feedback loop between the success of local businesses and the prosperity of local households.

- Growing and retaining local businesses. Neighborhood businesses provide essential access to goods and services, create jobs, and physically revitalize commercial corridors. Models that enable local ownership of real estate would not only grow new businesses in these corridors but could keep existing businesses from closing by reducing vacancy of surrounding properties and blight, factors which can lead to reduced foot traffic and demand.

- Preserving affordability and local ownership. In traditional real estate projects, success is defined by high demand and rising rents. Real estate financing instruments such as those described here can instead preserve affordability in commercial districts by empowering resident owners to choose tenants and determine leases, while formally building in a mechanism to stabilize rents over time.

- Building capacity of local governance organizations. New or existing neighborhood investment entities can organize residents around a collective vision and goals—not only for the commercial developments in which they will invest, but for the community as a whole (e.g. for infrastructure, public spaces, health and wellness, etc.).

Endnotes

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5 Research by ICIC shows that high-poverty neighborhoods, and particularly high-poverty neighborhoods of color, are far more vulnerable to loss of jobs and income and other pandemic-related hardships, including the inability to get to work or obtain basic necessities such as food and medicine, inability to use the internet to work from home or obtain basic services and public benefits, and an inability to afford housing or health care costs. See Peter Eberhardt and others, "Not the Great Equalizer: Which Neighborhoods Are Most Economically Vulnerable to the Coronavirus Crisis?" (Boston: Initiative for a Competitive Inner City, 2020).

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13 Every state can preempt local zoning authority through a "clawback," though it requires legislative (not just executive) action. See Anika Singh Lemar, "The Role of States in Liberalizing Land Use Regulations" *North Carolina Law Review,* 97 (2) (2019.).

14 See, for example, the Financial Diaries Project, led by Jonathan Morduch at the New York University Wagner School. The study, based on in-depth longitudinal studies of specific households, documents the willingness of working people to undertake risky entrepreneurial studies or even gamble when they think doing so represents their best chance at economic mobility.

15 For information on EPA's Clean Water State Revolving Fund (CWSRF) see www.epa.gov/cwsrf.

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