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CENTERING ON CORONAVIRUS

# THE NEXT CARES ACT: A BETTER, FASTER WAY TO DELIVER AID

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# Introduction

Even as COVID-19-related economic and social restrictions ease across the U.S., many businesses and workers will continue to be vulnerable for months to come without more help from the federal government.

In March, Congress passed the $2.2 trillion CARES Act, which included several forms of assistance to shore up credit and financial markets and to provide a critical lifeline to workers and businesses.

Although the CARES Act undoubtedly helped the economy from sinking into the abyss, many of its specific programs have been slow to get benefits to the businesses and workers who need them the most.

The first iteration of the Paycheck Protection Program (PPP), a funding stream intended to help small businesses stay afloat, contained provisions that limited recipients' choices about how to spend the money. The original program required recipient businesses to spend 75% of their loans on payroll when covering other expenses like rent or insurance could have been especially helpful in allowing them to retain employees. Meanwhile, many qualified individuals are still waiting to receive their stimulus checks or expanded unemployment benefits. For those who have received expanded unemployment benefits, that help expires on July 31.

While some people who have been laid off or furloughed due to the pandemic are beginning to go back to work, the Federal Reserve predicts that the unemployment rate will remain high for the foreseeable future: 9.3% by the end of 2020 and 6.5% by the end of 2021. To help these individuals stay afloat, some policymakers favor the extension of many of the existing CARES Act programs. And some of these programs—PPP in particular—have already been revised to make it easier for businesses and workers to get the help they need.

But what if there was a more efficient and reliable way to provide economic relief to the individuals who needed it, now and in future economic crises?

In this issue brief, The New Center explores what went wrong with the implementation of some of the current CARES Act programs, and what new programs could be considered in the next round of coronavirus relief legislation.

# What has the government done to help so far?

### *Economic Impact Payments (stimulus checks)*

The Economic Impact Payments issued to individuals and households as part of the CARES Act provided any adult earning $75,000 with a payment of $1,200, and an additional $500 for each child in their household. Some people with bank accounts on file with the IRS were able to receive these funds instantly and electronically. But up to 35 million eligible Americans still have yet to receive their Economic Impact Payments.

Some direct deposits have been sent to incorrect or nonexistent bank accounts, and many of those who did not have direct deposit information on file have experienced extended delays in receiving their checks by mail. Others received their checks, but those checks were written for incorrect amounts. For example, some people with children did not receive an extra $500. Some who expected paper checks in the mail received their payments in the form of prepaid debit cards, which they mistook for credit card offers or other junk mail. Meanwhile, the government mistakenly sent stimulus payments to over one million dead people. It is unclear whether or not another round of stimulus checks will be approved in the next stimulus bill.

### *Unemployment benefits*

COVID-related layoffs and furloughs have been widespread. The unemployment rate reached a record-high 14.7% in April, causing state unemployment offices to be overwhelmed with applications, and the sheer volume of new claims has contributed to widespread payout delays. Like the IRS, many state unemployment offices use decades-old software to process claims, and in many cases, this technology has not enabled these offices to process new applications, especially for gig workers and other self-employed individuals who would not have qualified for unemployment prior to the passage of the CARES Act.

According to a Brookings report, the $48 billion in unemployment compensation paid in April only represented about half of all wages lost during that month. This discrepancy was a result of processing delays and the fact that not all qualified individuals actually filed—either because they were unaware of their eligibility status or unable to reach their state's overburdened unemployment office. Most of these issues were resolved by the end of May, with states and the federal government paying out $94 billion in unemployment compensation over the course of the month. But the expanded unemployment benefits passed through the CARES Act—which entitle the recipient to an additional $600 from Washington in addition to their state unemployment benefits—are set to expire July 31.

### *Funding boosts to current programs*

The CARES Act allocated new funding for several programs that were in effect before the current crisis to assist low-income families. For example, new funding for the Department of Housing and Urban Development (HUD) has allowed federally funded housing assistance programs to continue their operations and account for new loss of income for those already participating in them. However, prior to the crisis, HUD program funding was so limited that only 23% of all low-income households eligible for assistance actually received it. Given that funding was already scarce, and that the U.S. has experienced unprecedented job loss since the beginning of the pandemic, this extra funding will not be enough to assist everyone who could benefit from it.

The Low-Income Home Energy Assistance Program (LIHEAP) is a federal program that helps low-income families cover their home energy bills and energy-related home repairs. The federal government allocates funding to the states, which can decide on the specific method of aid distribution—some of which have been more efficient than others in delivering aid to those who need it. The CARES Act allocated $900 million to the states in new LIHEAP funding, which the National Energy Assistance Directors' Association (NEADA) described as "only scratch[ing] the surface of what families will need to stay afloat" in this crisis.

According to NEADA, an organization that represents LIHEAP administrators at the state level, only about 20% of the 32 million LIHEAP-eligible families nationwide were receiving program assistance prior to the funding boost. This additional funding will be enough to cover just two million additional eligible families—an improvement, but far short of what is needed, especially with about 8 million additional Americans predicted to become eligible as a result of the economic downturn.

In sum, many of Washington's well-intended assistance programs are all suffering from the same problems.

Many Americans do not realize that they are eligible for these programs, are unsure how to apply for them, or are simply unaware that these programs exist. Applications can take a long time to process, especially when states are overburdened with them, and most applicants cannot afford to wait for assistance. And, when the federal government allocates new funding, the departments to which they are allocated do not always release them for use in a timely manner. Bipartisan groups in Congress have called for the Department of Health and Human Services and the Department of Housing and Urban Development to release LIHEAP and housing assistance program funds as quickly as possible.

### *Eviction and utility shut-off moratoriums have unintended consequences*

On average, housing is the largest monthly expense for households across the country. Stimulus checks and unemployment benefits have allowed many people to keep up with their monthly rent. Alongside these provisions in the CARES Act, however, was a provision that halted evictions for renters living in properties financed by federally backed mortgages. Several states have also passed their own eviction moratoriums.

While these provisions have assisted some renters who have been unable to keep up with their monthly rent payments in the short term, they have simply passed the financial responsibility down the line from renters to their landlords. While about half of all rental units nationwide are owned by large development firms, the other half are owned by "mom-and-pop" landlords who rely on rental income for their own living expenses and to pay underlying mortgages on their properties, utility bills, and other maintenance expenses. Lower rental income also means less tax revenue for local governments, which are already struggling to fund essential public services.

Some of these state-level eviction moratoriums have already begun to expire, and the federal moratorium will expire on July 25—roughly the same time that financial assistance provisions like extended unemployment benefits will also expire. The end of these eviction moratorium provisions will certainly be a major setback for renters, who at that point will be responsible for paying the current month's rent as well as all rent payments they might have missed during the moratorium. Columbia Law School professor Emily A. Benfer predicts an "avalanche of evictions" in the coming months, which will lead to continued struggles for both landlords and renters unless the federal government provides meaningful assistance.

While the CARES Act did not mandate a national moratorium on utility companies discontinuing service, several states passed their own measures. Like eviction moratoriums, they have provided temporary relief for those unable to pay the bills, but they have forced some utility providers to increase their rates for other customers in order to cover their losses. Consequently, when shut-off moratoriums expire, customers will be on the hook for all missed payments. David Pomerantz, executive director of the Energy and Policy Institute, believes the expectation that customers will pay back all utility debt promptly is an unrealistic one: “If you imagine that somebody hasn’t been drawing a paycheck for three to four months and wouldn’t be able to afford their utility bills during that time...they’re not going to be magically able to discover three months’ worth of income [as soon as shut-off moratoriums expire].”

## Suggestions for future aid

Amid this economic crisis, which was precipitated by the government forcing many businesses to close to prevent the spread of COVID-19, assistance from the federal government is crucial. But just as important as the dollar amount attached to federal aid are the ways in which funding is distributed. When the government is responsible for delivering aid to millions of individuals and businesses nationwide, mistakes and other inefficiencies are inevitable. As a result, the government is forced to use blunt force instruments like eviction or utility payment moratoriums, which solve one problem but create others elsewhere in the economy.

What if, instead of inefficiently funneling small amounts of money to tens of millions of people, the federal government could more efficiently deliver funds to thousands of companies who provide the housing, electric, heating, cooling, water, and internet services families are typically using their federal aid to pay for anyway?

Such an approach would not replace the current unemployment insurance system, but it might be a much faster and quicker way to get help to the people and businesses who need it. Here are a few proposals for Congress to consider in the next round of coronavirus relief legislation—to more efficiently help workers and businesses now, and to create a new and better framework to help them in the future.

## NEW CENTER SOLUTIONS: GET THE FUNDS OUT FASTER AND MORE EFFICIENTLY

### *Direct payments to utility companies*

After the passage of the CARES Act, Michigan decided to use its new LIHEAP funding to pay the state's three largest utility providers on behalf of 18,000 residents who were behind on their payments and facing shut-offs. Those companies have agreed to cancel outstanding balances for those customers. The federal government could do much the same thing. According to Howard Newman, managing partner of a firm that invests in energy and financial service companies, it would cost the federal government $60 billion per month to cover utility and telecommunications bills for all customers nationwide. He suggests a system in which these companies would simply bill the U.S. Treasury rather than their customers, and the government could then cover customers' outstanding balances.

### *Direct payments to landlords*

The federal government could also direct aid to landlords and mortgage lenders who have lost income due to the pandemic.

Before the COVID-19 outbreak, in December 2019, Senators Michael Bennet (D-CO) and Rob Portman (R-OH) introduced the bipartisan Eviction Crisis Act, which provides an outline for how such a program could work. Using the broader framework of the bill to address the specific crisis at hand, Bennet recently advocated in an op-ed for the allocation of $100 billion to local governments and nonprofits, who would then distribute this funding to landlords to cover unpaid rent. Patching up the disruption of unpaid rent would create a positive ripple effect across the economy. Direct assistance to landlords would reduce the burden on renters, and allow for both landlords and renters to catch up on payments to the businesses that provide them with essential services.

### *Aid for insurance companies to cover expanded business interruption claims*

About 35% of businesses in the U.S. have business interruption insurance, which helps replace lost income due to an unexpected disaster such as a fire or a hurricane. This type of policy rarely covers events like disease outbreaks or government shutdowns—occurrences that would be impossibly expensive to cover simply because they affect entire communities all at once. However, it might be feasible for insurance companies to cover these widespread economic disasters in the future by charging higher premiums to customers who want this coverage and by receiving a "federal backstop" if they are overwhelmed with claims.

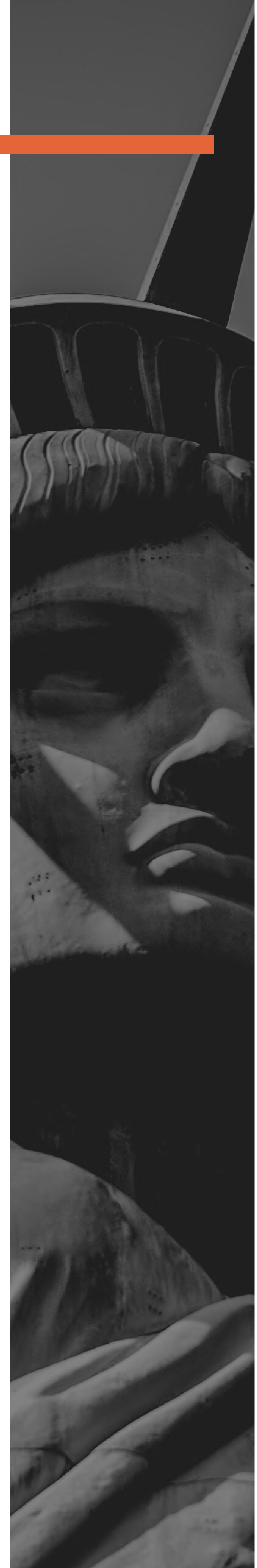
In April, the bipartisan Never Again Small Business Protection Act was introduced in the House of Representatives. If passed, this bill would require the Federal Advisory Committee on Insurance to study the feasibility of a federal backstop, which would enable insurance companies to provide expanded business interruption insurance coverage to small businesses in future crises.

Following this study, the Secretary of the Treasury would confirm the establishment of an adequate federal backstop to protect insurance companies from excessive losses. Only then would an expanded business interruption insurance coverage mandate go into effect. Under this mandate, business interruption insurance would by default cover losses due to government shutdowns for businesses that kept all of their employees and maintained those employees' health coverage. But any business would have the option to waive this additional coverage, and pay a lower premium, by sending a written request to the insurance company.

The passage of this bill could potentially help many small businesses and their employees stay afloat in the next economic crisis.

To learn more about potential economic reforms in the Centering on Coronavirus series, read "Centering on Coronavirus: Could Germany's Kurzarbeit Come to America?"

# CENTERING ON CORONAVIRUS



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## ABOUT CENTERING ON CORONAVIRUS

Centering on Coronavirus is a new policy series from The New Center that provides insights and analyses of how coronavirus is progressing, how it is impacting our health system, economy and workers, and the extraordinary human, policy, and technological resources that are being mobilized to fight it.

## ABOUT THE NEW CENTER

American politics is broken, with the far left and far right making it increasingly impossible to govern. This will not change until a vibrant center emerges with an agenda that appeals to the vast majority of the American people. This is the mission of The New Center, which aims to establish the ideas and the community to create a powerful political center in today's America.

## THE NEW CENTER

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