Resilient: Confronting the COVID-19 crisis
Actionable insights to help businesses respond and recover

Episode 10: Economic stimulus: Exploring the impact of phase three and beyond

Host:

Mike Kearney, partner and chief marketing officer, Deloitte Risk & Financial Advisory LLP

Guests:

Shahira Knight, deputy managing principal, Policy & Government Relations (PGR) group, Deloitte Services LLP

Kevin Thompson, managing director, Telecommunications Strategy, Deloitte Consulting LLP

Jonathan Traub, managing principal of Tax Policy group, Washington National Tax practice, Deloitte Tax LLP

Mike Kearney: Welcome to Resilient. My name is Mike Kearney, the Risk & Financial Advisory CMO. We're now on our 11th episode in our Confronting the COVID-19 Crisis series. We've only really scratched the surface of the issues that organizations are facing. We are obviously in unchartered territory and the issues that companies face seem to really multiply by the day. That's why this new Resilient series is so important: so that we can provide you with actionable guidance to help you respond to the crisis and start to plan for the future.

You may have heard our April 4th podcast on the CARES Act, the largest aid package in US history. Today, I'm joined by three Deloitte leaders who continue to stay close to policy matters and their impact. Returning to the podcast, Shahira Knight, co-managing director of our Government, Public Policy, and Public Affairs group; and Jon Traub, managing principal of our Tax Policy group. Joining them both is Kevin Thompson, a managing director in our Telecommunications sector who focuses on telecom strategy. Let's hear what they have to say.

We've been doing this new COVID-19 Resilient podcast the last couple of months, and I've been starting each interview with a really simple question, and that is, what are you doing to manage well-being? Today I'm going to mix things up and, in my humble opinion, I've had an opportunity to interview many leaders that I would say are unbelievably resilient. And one thing that I've found is, they all have hope about the future. So mixing it up today, I just want to start with a question that I'm going to ask each of you to answer and that is, what gives you hope today about the future? Jon, I'm going to start with you today.

Jonathan Traub: Well, thanks. I guess I'll say what makes me hopeful is that we are an amazingly resilient people. We've been through depression, oil embargoes, financial crises. We've always emerged

from it stronger, and this is a really, really big challenge. But I think the DNA of the American public is such that we will emerge from it OK.

Mike Kearney: Kevin, how about you?

Kevin Thompson: Thanks so much, Mike. So as terrible and tragic as this global pandemic is, I see two aspects to it. First, I see so much good coming from so many people to help each other out in a time of need. And that really reinforces my faith and the basic goodness of people and, quite frankly, humanity, and how we can come together, take care of each other to solve tough problems. You know, we're obviously early in this, we're not on the backside of it yet, but people, especially our first responders, the health care workers, and essential workers have shown, quite frankly, tremendous empathy, grit, and resilience. And that gives me hope. And second, I'll just add that I think we've been given a very unique gift of a glimpse of how things can be different, and that has good and not-so-good aspects to it. But that's . . . whether it be how we work, how we interact with friends and family, what we prioritize, and how we act as a society, and so forth. And this experience can open our eyes to how we can make things better based on these learnings. So that gives me hope too. And our challenge is to find and apply the good in this experience and not squander that opportunity.

Mike Kearney: Yeah. Kevin, I agree with you. There are so many things where I just look at my life over the last—which I can't believe—seven weeks, and I'm like, "I want to sustain this." Shahira, what gives you hope about the future?

Shahira Knight: I have to say I agree with Kevin. The thing that makes me most hopeful is that it has brought out good in people, and I'm hopeful that some of that good outlasts the pandemic. But I think the other thing that gives me hope is, the experience of other countries that peaked before us makes me hopeful that we will get to the other side of this and that there's light at the end of the tunnel.

Mike Kearney: You know, a few weeks ago, we interviewed you, and you shared that the US government is taking this phased approach. You also shared the major themes of the CARES Act. What have we seen since the release of the Act in terms of additional aid?

Shahira Knight: Sure. When they passed the first bill, they called it phase one, because they wanted people to know that it was only the first step and that more was going to come. So they did phase one for the health care response. They did phase two, which really focused on individuals. Phase three was the CARES Act, which was all about economic aid. And what we've seen since phase three was enacted is that the government has moved really fast to stand up some of these programs and to pump liquidity into the market as fast as possible. And one of the programs that we had talked about a few weeks ago was the Paycheck Protection Program, which provides smaller businesses and nonprofits with federally guaranteed loans that can be forgiven if they're used for certain purposes. That program was so unbelievably popular that it actually ran out of money in less than two weeks. So last week, Congress passed legislation to provide additional funding for that program. So we now have another bill signed into law as of last Friday, providing another $484 billion of aid.

Mike Kearney: Shahira, can you dive a little deeper and just talk about what was included in the bill and maybe some of the specifics?

Shahira Knight: Sure. The engine that was really driving the train again was the Paycheck Protection Program. So the heart of the bill provided $310 billion of additional authorization for the small business loan program. And so loans are now being processed again as of 10:30 this morning. And of that $310 billion for the Paycheck Protection Program, they walled off about $60 billion specifically for community-based lenders. On top of that, they provided another $60 billion of disaster relief loans and grants for small businesses. They funded another $75 billion for hospitals and health care providers, and then $25 billion for COVID-19 testing efforts. So people have been calling the other bill phase 3.5, because it's really an extension of the CARES Act. It's now $2.7 trillion of funding instead of $2.2 trillion.

Mike Kearney: Shahira, I'd like to pivot toward, you know, the silver linings, but then also the challenges associated with the relief packages. And maybe I am an eternal optimist. I will share a story, and then I'd love to get your thoughts once again on kind of the good and some of the challenges. But I do have a really good friend who has a brother that owns a chain of pizza parlors up in the Pacific Northwest. It seems like a lot of people are in pizza nowadays, although it's all takeout. But one of the things that they were able to do as a result of the CARES Act was hire back in excess of a hundred employees—folks that they had to lay off. And they'd essentially just had a skeleton staff before.

But the silver lining is the fact that by bringing them back on, they were able to do a bunch of projects that, quite frankly, were important, but not urgent things, like painting, research into future menus, training, and all that good stuff. And now that they had all their employees back, they were able to have them work on things that really mattered and, quite frankly, give them some purpose to their lives, because obviously, not working can cause some challenges on their own.

And then they were also able to do some philanthropic activities as well. And so, you know, I do think that there's some silver linings, but I also know there's a lot of challenges that we're hearing about. So I'd love to get your thoughts on if you've heard any nice stories like that. But then, maybe more importantly, what are some of the challenges that organizations and others are having in this time as it relates to the relief packages?

Shahira Knight: Sure. And I think, Mike, you're exactly right. I think there have been good stories out there. I know that I've certainly seen—even here where I live in Washington, DC—some of the small businesses that have gotten their money from the Paycheck Protection Program have been able to rehire workers or pay

workers. And so there certainly are those success stories, and I think it's clear that a lot of the liquidity is starting to get pumped into the economy. I think that the last I saw, it was a little bit more than half of the direct payments from Treasury have now been issued, and they've hit people's bank accounts or checking accounts. So a lot of the money is flowing now, and it is starting to hit the economy. I think it's too soon to say whether it's a complete success or not, since a lot of the money hasn't hit the economy yet.

And then I think on the challenges—which isn't surprising, given that this was a very large bill with new programs that were being set up for the first time, and they were stood up very quickly in an effort to get the money out as soon as possible—there have been some challenges, and particularly with the Paycheck Protection Program, the rollout wasn't entirely smooth. I think there was a lot of confusion among businesses about the eligibility rules, how to calculate the forgiveness amounts. There were times when the electronic portal had trouble handling all the volume of applications. So even though people may be getting approved, they still weren't receiving the money. So there certainly were, I think, hiccups in the process, which isn't a criticism. I think it's just a fact that the very large new program being stood up, which is multiple times larger than anything that the Small Business Administration has ever administered before, I think some of the other challenges we've seen are that some of the hardest-hit industries are not getting relief under the Bill either, because they're not eligible or some of the restrictions around the programs don't work for them. So those are exactly the types of things that lawmakers are looking at to fill in gaps when they do the next wave of legislation in phase four.

Mike Kearney: Jon, let's pivot to tax, and I would love for you to provide kind of a deeper level of perspective on some potential tax policy changes that we may see, and what are some of the potential impacts?

Jonathan Traub: So I think we've seen the biggest tax changes we're going to see, especially on the business side, in the phase three bill that passed at the end of March. I think in a phase four bill, there could be some tax items, but I think they will play a more supporting role rather than being a primary focus. I do expect on the individual side, Congress is likely to pass some additional direct payments to individuals. I think they'll clean up some of the tax pieces from phase three where there were some questions or confusions about interactions of various pieces. One business tax piece I am relatively bullish on is a reprise of a provision we saw enacted in the financial crisis in the 2009 period. Normally, when debt is canceled, the borrower whose debt is forgiven owes income tax on the amount of the forgiven debt. And I expect Congress to pass a rule mimicking what was happening in 2009 that differs the income tax treatment of forgiven debt.

And then I do expect it to be a long line of other ideas people put forward, some of which will be more responsive to the crisis at hand, and others will be, candidly, a bit opportunistic—an attempt to sort of sneak something past the goalie when defenses are down. I think that we're going to see a relatively light tax title in phase four, although it's entirely possible we see something more robust rather than less robust when this is all said and done.

Mike Kearney: So, what about some of the old tax deductions that we used to get? Is there any possibility they'll change some of those goals?

Jonathan Traub: Yeah, we did see Speaker Pelosi put forward the idea of undoing the SALT (state and local taxes) cap as part of a phase four bill. There are some people who are in high-tax states who are chafing at the impact of that cap on their tax treatment. Having said that, they don't necessarily make the most sympathetic plaintiffs in terms of people most directly affected by the hardship imposed by the public health and economic crisis of the coronavirus pandemic. And it's not clear to me that adjusting the SALT cap is really responsive directly to coronavirus. To me, it may look more opportunistic. I sort of find it hard to imagine that proposal getting enacted. But again, especially with something coming from the speaker or the president, you would never discount out of hand an idea put forward by somebody in that position of leadership.

Mike Kearney Great. Thank you, Jon. Kevin, let's go to you. As we look ahead to phase four and beyond, what are we seeing policy makers deliberate on?

Kevin Thompson: Sure. So given that phase 3.5 was just passed into law a few days ago, deliberation is intensifying on phase four, but it remains to be seen what ultimately might be included. With that said, it's reasonable to assume phase four could include extensions, enhancements, or fixes to some of the mitigation provisions in the phase three CARES Act. And that could include some technical corrections based on observations about how those provisions have been operating to date. Areas being considered include paid leave, hazard pay for health care workers, food stamps, more direct payments to individuals, and health insurance for unemployed workers. It could also include some newly developed relief provisions aimed at businesses or certain industries and fiscal relief for cities and states, although the state and local funding appears to be under greater debate.

Now, beyond that, US infrastructure investment is a critical part of the conversation as well. And that could be an important source of job growth during the recovery while we invest in our nation's future. Whether infrastructure spending is tackled in phase four or has deliberated for a possible phase five or even a phase six in the coming weeks also remains to be seen as to how this will play out. I'll add that infrastructure is a broad term here, including what comes to mind for most people, such as roads, bridges, airports, ports, transit systems, water and waste treatment systems, the electric grid, and so forth. And each of those areas has, of course, a prioritized set of investment opportunities that can be used to position the US for a more competitive future and to create jobs.

With that said, we've all experienced and observed over the last few weeks that some of our most critical and immediate infrastructure needs are in the areas of telehealth, telework, telelearning, and broadband connectivity that underpins all of those. That's been an incredibly important part of our infrastructure to enable a lot of people to social distance and for us to continue such as we can, given the circumstances. Some funding was included for these areas in the CARES Act, but we see the need for more short-term expenditures while we're navigating through the pandemic and also as fundamental investment to create more impactful structural change in the longer term while creating jobs in the process. So perhaps lawmakers will consider both of these needs during their deliberations.

Mike Kearney: So, Kevin, can you talk about some of the additional short-term funding priorities and longer-term infrastructure needs that you see in these areas?

Kevin Thompson: Sure. So short-term funding could be focused on at least three areas. The first is for implementation of rapidly deployable or temporary broadband connectivity solutions to areas that lack access to broadband, typically rural communities such that those populations have the possibility of using the telehealth, telework, or telelearning solutions I previously mentioned. The second is to more aggressively support telehealth solutions that could immediately aid our health care system in dealing with the pandemic. For example, solutions that enable people to communicate with their caregiver remotely or be remotely monitored can not only increase both efficiency and efficacy of the treatment, but reduce the potential for additional infections or overloading of the hospitals or clinics by reducing or eliminating in-person interactions. And third is to address the reality that, while schools have moved to remote learning, this doesn't work for children from low-income households that can't afford broadband.

We need these children to have options for safely continuing their education with solutions such as community Wi-Fi or funding assistance to get broadband near the household. Now, that covers short term. For the longer term, I'll touch on three here. So telehealth, first of all, with the growth of IoT wearables and so forth, telehealth has been providing a wide range of services to patients, from emergency medicine to remote monitoring, counseling services, and access to providers. But there are challenges here in the regulatory landscape, insurance coverage, and further development of the solutions themselves that need to be addressed to enable widespread adoption and realization of this. So regulatory factors are protections for privacy and security, handling of licenses and credentials, handling of controlled substances, management of coverages and payments, just to name a few.

Insurance coverage factors include the type of telehealth services covered and the extent to which they're covered, particularly through Medicare. And there are solution enhancement needs in the telehealth solutions themselves, including the extendibility of those, how they're integrated with other solutions, and certification of platforms to increase the scale and scope of the solutions that are offered. And there are government statute, regulatory, and policy challenges to address the need to support continued innovation and widespread adoption of telehealth.

Telelearning is in a little bit of a different situation. We have a skilled workforce that's increasingly going to be a critical national advantage, whether it be for health care practitioners or trade workers or technology developers, and the demand will be such that those skills can't be sourced from urban areas or large universities.

So we should be treating telelearning as a national priority as well, to close the workforce skill gaps that we know are coming and ensure that organizations will have the talent to be able to find it. That requires a broad spectrum of curriculum that can be accessed and learned anywhere across the country. And the idea there is that basically every available brain and skilled set of hands that are willing to work in tomorrow's economy are able to work in tomorrow's economy. So telelearning has a great potential to create equity of access as well for higher education. And we've got the opportunity here to increase that access, make it more affordable. Otherwise, we become less skilled and less competitive as a nation. So great opportunities with telelearning.

The pandemic has reinforced how critical it is for us to take a fresh look at solving this issue sooner rather than later. So to do that, we need better data on where the broadband access limitations exist. We need a willingness to entertain a growing portfolio of technology solutions to close the gap. A favorable regulatory climate to encourage continued innovation, private investment and, I'll argue, public-private partnerships or federal funding support to close the investment gaps.

Mike Kearney: And Kevin, quick question. Telehealth and telelearning have been around for quite some time. Is there just pent-up innovation that's already been there? Or do you actually see the need for—and you've outlined quite a number of things that could potentially be done there and are going to be done—is there also just this opportunity to innovate as a result of the fact that we've now seen potentially the promise, if you will, of telehealth and telelearning, and we can take it to the next level?

Kevin Thompson: It's certainly all of the above, quite frankly. There are regulatory factors to handle things such as privacy and security. I think I previously mentioned those, but there is opportunity to establish platforms that have improved integration capabilities with solutions that are already out in the marketplace today and increase the reach of those. And there's some necessary certification around these platforms as well, in particular, and the provision of medical services, for example. But that, generally speaking, applies to both telehealth and telelearning. There's been a great deal of innovation. There's potential for more innovation, but at the end of the day, we need focused investment and a conducive regulatory climate to be able to enable widespread adoption and use of these capabilities for the country.

Mike Kearney: It's fascinating to think, when you talk about infrastructure, most people probably wouldn't think of telehealth or telelearning. It's probably not the first thing, but it seems like—as my wife is a teacher sitting in the other room conducting her classes—this whole notion of, how do we make more investments in telelearning specifically? But then I serve health care clients and I see 75 percent of all physicians are using telehealth. I think I saw stats last week. I'm not sure if that's right or not, but it seems like those would be two right areas, as you indicated, for potential investment in the future.

What should businesses be thinking about today, and what do you think some of the biggest risks in this new environment are? And Jon, maybe let's start with you.

Jonathan Traub: I think businesses need to be aware that there's going to be a tremendous amount of scrutiny from the executive branch, from Congress, from the press, about who took money from the various coronavirus response programs, and what they did with it. So did you rehire your people? Did you keep them on staff, or did you make acquisitions? Did you give bonuses to your executives, etc? And I think there'll be scrutiny for a number of years going forward as the public remains interested in how the money was used and who got it.

Mike Kearney: In general, what would you recommend to those companies? Because it's interesting: It's not only just funding from the CARES Act, but it's funding potentially from your insurance carriers and even FEMA. What guidance do you give clients that are kind of at the front end of this? And when you say they need to be able to substantiate it on the back end, what guidance are you giving them?

Jonathan Traub: Well, I would suggest companies be very careful about furloughs and layoffs. I'd be careful about bonuses for executives and owners of businesses, expansion plans, acquisitions, and just the general narrative around how money gets used. They will be really subject to great investigation and potentially years of inquiries from various federal and media sources.

Mike Kearney: Kevin, how about you? What do you think businesses should be thinking about today, and what are some of the risks that you see?

Kevin Thompson: I'll just add that the scrutiny will not only be on how the money was spent, but what was accomplished for the nation, and by when. So think of outcomes and timing. As we've seen during this pandemic, timing of delivery can be just as critical as what was delivered. So for an organization taking the funding, be prepared to account for the timing considerations around this and the execution challenges that may arise, whether that be with supply chains, access to skilled resources or local approvals, or permitting for whatever delivery commitments they're making as we establish and continue to operate in our new normal.

Mike Kearney: Shahira, what do you think businesses should be thinking about? What are some of the biggest risks in the new environment?

Shahira Knight: So I agree with Jon. The biggest risk is that whenever you take taxpayer money, even if it's repaid, there is going to be scrutiny moving forward. So if you take that money and later lay off workers or offshore a job or anything like that, it will be, I think, scrutinized. And I think we saw that certainly in 2008 with people who took TARP (troubled asset relief program): Even though they repaid it, there was still a lot of scrutiny. But just to have a different answer, I think, than Jon and Kevin, I would say maybe the other big risk out there is just repaying all of this in the future. That would be, I think, the risk as well. We've already . . . we're at $3 trillion right now, the economic aid at phase 3.5, and I think, as Kevin said, we may have a phase four or five and six. So the deficit is just going to mount and mount and mount, and at some point, that is going to have to be repaid. And I think that the other risk for businesses is, what measures are put in place when the government gets serious about repaying the debt? So I would say that might be another risk to think about.

Mike Kearney: What is the first thing that organizations should do to really understand how phase . . . I guess, three and four—and maybe you'll throw a 3.5 in there—can help them, but what should they do to get up to speed and really understand what it can do to help them over the next several months? Shahira, I'd like to start with you.

Shahira Knight: I think to get educated about the different options of benefits and the bills, how they interact with each other since taking some relief will prohibit you from taking other relief. And then keeping in mind the risks that Jon and I talked about earlier.

Mike Kearney: Perfect. Jon, what's your thoughts?

Jonathan Traub: Yeah, I agree. It is really a wide, rich array of possible programs and benefits—whether the tax code or lending or grant programs. And I think it would be silly to look at one of them in isolation. I think it's important to look at the entire range of things out there, talk to trusted advisers and counsel, and make informed decisions going forward.

Mike Kearney: Great. And Kevin?

Kevin Thompson: I'll just add that this is expansive legislation and, obviously, an unprecedented amount of funding, and it can impact or help each organization differently. So start with a summary of the four pieces of legislation that have been enacted to date, identify what may be relevant to the organization, then go deeper on those particular topics of interest. And we offer a great deal of information to help on this, as do others, and can certainly help if needed.

Mike Kearney: I was going to say, deloitte.com, go to our COVID page. Final question, and this one kind of hits home a bit, because I was walking in our town in Northern California yesterday—I think probably people are walking like 10 times more than they used to—and we were in our downtown, and we saw a friend of ours sitting outside of the restaurant where they are doing takeout, like many are. And we asked her, "How's it going?" She had mentioned that they're having challenges getting funds from the Paycheck Protection

Program. And so the question I have for each of you is, what advice would you give to businesses that truly do have the greatest need? And oftentimes, these are small businesses, whether they're small retailers, and a lot has been talked about restaurants, but what advice would you give to them? And let's start with Jon.

Jonathan Traub: So I'll give two pieces of advice here. One is, understand there are no cookie-cutter solutions. What works for the restaurant next to you may not work for your dry cleaning business, and vice versa. And so really understand what your options are, and study them carefully. And second, everybody has a member of Congress or a member of the Senate who has a staff dedicated to giving assistance to people having trouble navigating federal bureaucracy. That is, all of us who've worked on Capitol Hill have done some of that casework kind of assistance. And it is hard work with finding somebody who can sort of give a little bit of "oomph" to your voice, and help them help you get your case heard by people who need to understand why your application is being held up or to make sure that it is moving through the system properly could be a tremendous benefit. I would not be afraid to look up my local member of Congress or my senator and ask for some help here.

Mike Kearney: That's fantastic. Kevin, how about you?

Kevin Thompson: I'd say if the need is for funding, submit your application or request as soon as possible, as the funding is not unlimited, and you'll buy yourself as much time as possible for the processing that will be taking place, in particular as some of these may get backlogged or have been backlogged, and using that time to get the funding into your hands.

Mike Kearney: Awesome. Shahira, take us home.

Shahira Knight: Yeah, I think there's a lot of resources at the local level to help small businesses who may not have a lot of lawyers advising them, but certainly local chambers of commerce are good options. There's local business development organizations that they can go to, but certainly look to the local organizations to help navigate some of these more complicated programs.

Mike Kearney: Awesome. Thank you, Shahira, Kevin, and Jon. This has been fantastic. I learn something new every time. So I thank you for your time. This is obviously unbelievably important to large organizations, small businesses, and quite frankly, the citizens of the US, so thank you very much.

Thank you, Kevin, Shahira, and Jon, for providing an update on phase 3.5 of the CARES Act and insights on what phase four might contain in the future. I will say we are recording these in a variety of places virtually all across the country, and this was probably the most challenging with my Wi-Fi and some of the audio, but my guess is, by the time we package it all up, it will sound great. As I've mentioned before, a short podcast can only do so much to break down the insights. We hope that you have a chance to visit our COVID-19 resource center for timely updates, insights, and guides to help you act today. You can just visit deloitte.com to find them all, and if you have any stories that you want to hear more about, suggest them at deloitte.com on the Resilient page and for all of our episodes, you can find us on Apple Podcasts, SoundCloud, Stitcher, Google Play, and even Spotify.

Until next time, stay safe and remain resilient.