APRIL 1, 2020

COVID-19 BUSINESS SERIES

ENSURING BUSINESS CONTINUITY
WELCOME
WEBINAR: SERIES 1

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Arizona Commerce Authority
President & CEO
AGENDA

1. INTRODUCTIONS
2. FINANCIAL RELIEF PROGRAMS
3. OPERATIONAL CONSIDERATIONS
4. MITIGATING BUSINESS RISK & NEXT STEPS
MEET THE EXPERTS

Paul Hughes
Arizona Commerce Authority
EVP, Business Development

Paul Hickman
Arizona Bankers Association
President & CEO

Kelly Skalicky
Stearns Bank
President & CEO

Franklin Vincent
SheKnows.com
Former CFO

David T. Barton
BurnsBarton
Partner

Kathryn Hackett King
BurnsBarton
Partner

John Keyser
Keyser
Founder
COVID-19
FINANCIAL RELIEF
KEY DISCUSSION POINTS

PROGRAM TERMS
- Paycheck Protection Program (PPP)
- Economic Injury Disaster Loan (EIDL)
- Small Business Administration

PROGRAM TRANSFER
- Program rules and regulations
- Role of bank administrators
- Additional details coming (April 1)

PROGRAM RELATIONSHIP
- SBA-Approved Lenders
- Credit Accounts
- Deposit Accounts
CARES ACT
CORONAVIRUS AID, RELIEF AND ECONOMIC SECURITY ACT

- $2 trillion federal stimulus package
- Passed into law on March 27, 2020 by Congress
- Provides relief to those impacted by the crisis allowing the government to send checks to qualifying Americans
  - $1,200 per individual ($2,400 joint return + $500 per child)
  - Incomes above $75,000 ($150,000 joint) not eligible
- Allocates funds for economic relief programs, which includes tax changes, credits and loans
MAJOR PROVISIONS FOR EMPLOYERS
CARES ACT
PAYROLL TAXES
• Delay payment of employer payroll taxes between now and 1/1/21
• 50% due 12/31/21 and 50% due 12/31/22
• Excludes employers who have loans forgiven under Paycheck Protection Program

TAX CHANGES
• Net Operating Loss for ’18, ‘19, & ’20 can be carried back 5 years, suspend 80% limitation, extends to pass-throughs and sole proprietors
• Accelerate recovery of AMT credits
• Election to increase limit on interest deductibility to 50% for ’19 & ’20
• Qualified Improvement Property (QIP) fix
MAJOR PROVISIONS FOR EMPLOYERS

CARES ACT

EMPLOYEE RETENTION CREDIT

• Employers fully or partially shutdown or with 50% drop in gross receipts in a quarter compared to prior year (until return to 80%)

• Refundable tax credit for 50% of the wages paid by the employer up to $10,000 per employee

• Employers with more than 100 employees applies to employees not providing services

• Employers with 100 or fewer workers applies to all employees paid during the eligible period

• Employers are not eligible if they receive a Paycheck Protection Program loan

• Allows for advance payment of the credit
MAJOR PROVISIONS MID-SIZE & LARGER EMPLOYERS
CARES ACT

LOANS, LOAN GUARANTEES, FEDERAL RESERVE CREDIT FACILITY

• $454 billion to the Treasury Department for loans, loan guarantees, or to support Federal Reserve Credit Facilities
• Special programs for airline industry and critical national security businesses
• Restrictions on stock buybacks and executive compensation
• Likely to see new programs through the Federal Reserve that will support lending by financial institutions to businesses
COVID-19
PAYCHECK PROTECTION PROGRAM
SUSTAINING SMALL BUSINESS
PAYCHECK PROTECTION PROGRAM

$349B
ALLOCATED FOR SMALL BUSINESSES

$5.6B
ESTIMATED AVAILABLE FOR ARIZONA

100%
FEDERALLY GUARANTEED LOANS FOR SMALL BUSINESSES THAT MAINTAIN THEIR PAYROLL DURING THIS EMERGENCY
IMMEDIATE CASH FLOW
PAYCHECK PROTECTION PROGRAM

These loans may be **forgiven** if borrowers **maintain their payrolls** during the crisis or **restore their payrolls** afterward.
ELIGIBILITY
PAYCHECK PROTECTION PROGRAM

- A small business with *fewer than 500 employees*
- A small business that otherwise *meets SBA’s size standard*
- A *501(c)(3)* with *fewer than 500 employees*
- An individual who operate as a *sole proprietor*
- An individual who operates as an *independent contractor*
- An individual who is *self-employed* who regularly carries on any trade or business.
- A *tribal business* concern that meets the *SBA size standard*
- A *501(c)(19) Veterans Organization* that meets the *SBA size standard*
Loans can be equivalent to **250%** of the borrower’s average monthly payroll costs.

**NON-SEASONAL EMPLOYERS**

Maximum loan =
2.5 x average total monthly payroll costs incurred during the year prior to the loan date.

*For businesses not operational in 2019:*
2.5 x average total monthly payroll costs incurred for January and February 2020.

**SEASONAL EMPLOYERS**

Maximum loan =
2.5 x average total monthly payments for payroll costs for the **12-week** period beginning February 15, 2019 or March 1, 2019 (decided by the loan recipient) and ending June 30, 2019.
ELIGIBLE PAYROLL COSTS
PAYCHECK PROTECTION PROGRAM

Sum of INCLUDED payroll costs

- Sum of EXCLUDED payroll costs

PAYROLL COSTS

• For employers: Sum of payments of any compensation

• For Sole Proprietors, Independent Contractors and Self-Employed Individuals: Sum of payments of any compensation to or income of a sole proprietor or independent contractor that is not more than $100,000 in one year, as pro-rated for the covered period

• Compensation of an individual employee in excess of an annual salary of $100,000, as prorated for the period February 15 to June 30, 2020

• Payroll taxes, railroad retirement taxes and income taxes

• Any compensation of an employee whose principal place of residence outside of the U.S.

• Qualified sick leave wages or qualified family leave
EVALUATING ELIGIBILITY
PAYCHECK PROTECTION PROGRAM

Proof that the borrower was in operation before Feb. 15, 2020 AND had employees whom they paid salaries and payroll taxes or paid independent contractors

GOOD FAITH CERTIFICATION

• The uncertainty of current economic conditions makes the loan request necessary to support ongoing operations
• The borrower will use the loan proceeds to retain workers and maintain payroll or make mortgage lease and utility payments
• Borrower does not have an application pending for a loan duplicative of the purpose and amounts applied for here
• From Feb. 15, 2020 to Dec. 31, 2020, the borrower has not received a loan duplicative of the purpose and amounts applied for here
A borrower is eligible for loan forgiveness equal to the amount the borrower spent on the following items during the 8-week period beginning on the date of the origination of the loan:

- Payroll costs
- Interest on the mortgage obligation incurred in the ordinary course of business
- Rent on a leasing agreement
- Payments on utilities (electricity, gas, water, transportation, telephone or internet)
- For borrowers with tipped employees, additional wages paid to those employees
The amount of loan forgiveness is reduced if there is a reduction in the number of employees or a reduction of greater than 25% in wages paid to employees.

**Reduction based on reduction of number of employees**

- **PAYROLL COST** \( \times \) \( \frac{\text{Average number of Full-Time Equivalent Employees (FTEs) per month for the 8 weeks beginning on loan organization}}{\text{Option 1: Average number of FTEs per month from February 15, 2019 to June 30, 2019}} \)

**Reduction based on reduction in salaries**

- **PAYROLL COST** \( \div \) \( \frac{\text{For any employee who did not earn during any pay period in 2019 wages at an annualized rate more than $100,000, the amount of any reduction in wages that is greater than 25% compared to their most recent full quarter}}{\text{Option 2: Average number of FTEs per month from January 1, 2020 to February 29, 2020}} \)

For Seasonal Employers: Average number of FTEs per month from February 15, 2019 to June 30, 2019
APPROVED ARIZONA LENDERS
PAYCHECK PROTECTION PROGRAM

Access approved lender list
COVID-19
ECONOMIC INJURY DISASTER LOAN
ALLEVIATE ECONOMIC INJURY

ECOMOMIC INJURY DISTASTER LOAN

• If your small business (less than 500 employees) has suffered substantial economic injury due to COVID response
  • Unable to meet obligations and pay ordinary and necessary operating expenses

• Loan repayment may be deferred up to 1 year

• Repayment terms up to 30 years available
ELIGIBLE BUSINESSES
ECONOMIC INJURY DISTASTER LOAN

- Businesses directly affected by the COVID-19 emergency

- Businesses that offer services directly related to the businesses targeted in the declaration

- Other businesses indirectly related to the industries likely to be harmed by losses in their community, including cancelled events and import of foreign goods not previously imported
APPROPRIATE USE OF FUNDS
ECONOMIC INJURY DISASTER LOAN

• Help meet the capital needs caused by COVID-19 response

• Help pay financial obligations and operating costs which could have been paid had the disaster not occurred
  • Fixed debt payments, payroll, accounts payable
  • Extraordinary expenses caused by COVID-19

• EIDL does not replace lost revenue, lost profits or fund expansion

• EIDL loan can augment Paycheck Protection Plan
AVAILABLE LOAN TERMS
ECONOMIC INJURY DISASTER LOAN

Loans capped at $2,000,000

- Less any insured losses or other recoveries
- $10,000 cash advances available and are forgiven if spent on paid leave or maintaining payroll, lease payments

May be repaid up to 30 years

Assistance below $200,000 can be approved without personal guarantee

- File immediately and let the process begin
- Must show acceptable credit rating
COLLATERAL REQUIREMENTS
ECONOMIC INJURY DISASTER LOAN

- EIDL amounts over $25,000 require collateral
- SBA accepts real estate as collateral when it is available
- SBA will not decline a loan for lack of collateral
  - Will require borrowers to pledge what is available
GETTING STARTED
ECONOMIC INJURY DISASTER LOAN

• Get business documents in order
• AZ SBDCs can help you:
  • Prepare SBA Form 5
  • Personal Financial Statement SBA Form 413
  • Schedule of Liabilities SBA Form 2202
  • IRS Release of tax info IRS Form 4506T
• Have complete copy of most recent federal income tax of the applicant business available.

https://disasterloan.sba.gov/ela/information/paperforms
IMPORTANT NOTES
ECONOMIC INJURY DISTASTER LOAN

START NOW

Applications are processed at a central facility in Fort Worth, Texas and may take up to two weeks for response

BE READY

Depending upon your loan amount, you may be asked for tax documents for partners and owners

ASK FOR HELP

- AZ Small Business Development Centers
  https://www.azsbdc.net/
- AZ Small Business Ombudsman
  https://www.azcommerce.com/programs/small-business-services
- (800) 659-2955 customer service center

Access approved lender list
SMALL BUSINESS DEBT RELIEF PROGRAMS
ELIGIBLE SBA LOANS
SMALL BUSINESS DEBT RELIEF PROGRAM

This program will provide immediate relief to small businesses with non-disaster SBA loans. SBA will cover all loan payments on these SBA loans, including principal, interest and fees for six months.

✓ 7(a) loan not made under the Payment Protection Program
✓ 504 loans
✓ Microloans

Borrowers may separately apply for and take out a PPP loan, but debt relief under this program will not apply to a PPP loan.
AVAILABLE LOAN TERMS

SMALL BUSINESS DEBT RELIEF PROGRAM

7(a) LOAN
- Up to $5M
- Access to versatile financing
- Provide short- or long-term working capital
- Banks share a portion of the risk

504 LOAN
- Up to $5.5M
- Long-term fixed rate financing
- Purchase real estate, buildings or machinery

MICROLOAN
- Up to $500,000
- Used to start and expand
- Delivered through mission-based lenders
COVID-19
OPERATIONAL CONSIDERATIONS
OPERATIONAL IMPLICATIONS

BUSINESS LEADERSHIP STRATEGIES

• **Know your role and communicate** factually, consistently and candidly with employees and customers

• **Get in the right frame of mind** and work out scenarios including liquidity, revenue, and costs

• **Get your back office "house" in order** having key documents and information available will be key

• **Review and adjust customer policies as necessary** e.g., refund vs. credits / disconnections vs. suspension of accounts

• **Contact lenders/banks and key vendors** – determine what their positions are currently

• **Contact your insurance provider(s) and understand your coverage** e.g., business interruption
PLAN TO SURVIVE & THRIVE

EMPLOYMENT & LABOR

• Remember – this too shall pass
• Look for new opportunities
• Consider alternatives to layoffs
• Redeploy your workforce
• Get to know the new laws and benefits
• Make changes to your benefits laws and policies
FFCRA & CARES
MAJOR CONCEPTS FOR EMPLOYMENT & LABOR

• Employers who keep employees get federal help
• Enhanced benefits for employees are relatively narrow
SICK PAY FULL RATE
$511/$5,110 CAP

Employee
1. is subject to a coronavirus quarantine or isolation order;
2. has been advised by a health care provider to self-quarantine due to coronavirus concerns; or
3. is experiencing coronavirus symptoms and is seeking a medical diagnosis
SICK PAY 2/3 RATE
$200/$2,000 CAP

Employee

4. is caring for an individual subject to quarantine order or self-quarantine restrictions;

5. is caring for a child whose school or childcare is closed or unavailable due to coronavirus;

6. is experiencing any other substantially similar condition specified by the Secretary of Health and Human Services.
EXTENDED FMLA

EMPLOYMENT & LABOR

• Up to **12 weeks** of FMLA leave for employees who have been on the job for at least 30 days and who are **unable to work because they have to care for a minor child** if the child’s school or place of care has been closed, or if the child care provider of that child is unavailable due to a coronavirus emergency.

• The first 10 days of leave can be unpaid. Employees may use accrued vacation days or other available paid leave to cover those days.

• For subsequent days, workers are entitled to two-thirds of their normal pay rate, capped at $200 per day and $10,000 total
CONTINGENCY PLANNING
EMPLOYMENT & LABOR

It’s not too late...

- Work from home policies (germ protection)
- Safe work practices
- Privacy issues
- New EFLMA/EPRL policies
- Workers compensation and opt-out forms
WORKPLACE SAFETY & UNEMPLOYMENT BENEFITS
EMPLOYMENT & LABOR LAWS

• Workplace safety issues for your business in light of COVID-19
• New changes to Unemployment Benefits
NEW CHALLENGES

REAL ESTATE

Real estate is typically the second largest business expense

TENANTS

• Decrease in revenue
• Layoffs, downsizing
• Loss of production
• Uncertain future
• Access to capital
• Credit worthiness concerns

LANDLORDS

• Downsizing / seeking relief
• Access to capital
• Commercial real estate values
• Downward pressure on rent
• Debt service
• Potential negative PR
IMMEDIATE RENTAL RELIEF OPTIONS

REAL ESTATE

• Deferred rent
• Short-term rental relief
• Blend and extend lease extension
• Propose to pay only CAM / operating expenses

• Vet alternative options
• Demonstrate concern to landlord
• Explore relief programs
• Propose alternative payment plans
• Discuss with attorney
STAY PREPARED
REAL ESTATE

- Keep financials updated and in order
- Consult with professionals and understand your lease
- Put requests in writing and don’t be impulsive
COVID-19
MITIGATING BUSINESS RISK
INITIATE A PLAN

MITIGATION MEASURES

1. **Contact your bank** immediately with an update on your current status and funding needs

2. **Prepare a plan** to preserve your business and leverage loans to minimize layoffs

3. **Communicate** with your landlord or building owner your business needs
LEVERAGE ACA’S PROGRAMS

MITIGATION MEASURES

SMALL BUSINESS
- Navigating SBA & SBDC
- Local banking contacts
- Latest Developments

WORKFORCE
- Employer liaison
- Cross-walking employees
- Consult on federal funding for training

ARIZONA MEP
- Matching manufacturing with COVID-19 needs.
- Emergency Planning consults
TRANSLATE SKILLS & TRAINING

MITIGATING BUSINESS RISK

- Rapid response and layoff aversion services for employers
- Upskilling and training programs into high-demand industries such as IT, Health Care, Advanced Business Services with valuable certifications
- Displaced workers skill translation into industries immediately hiring like Health Care and Logistics
STAY INFORMED

MITIGATION MEASURES

AZcommerce.com/COVID-19
THANK YOU
PLEASE TEXT QUESTIONS