

# A contractor's guide to coronavirus relief programs and the CARES Act

April 16, 2020

- The webinar will start shortly -



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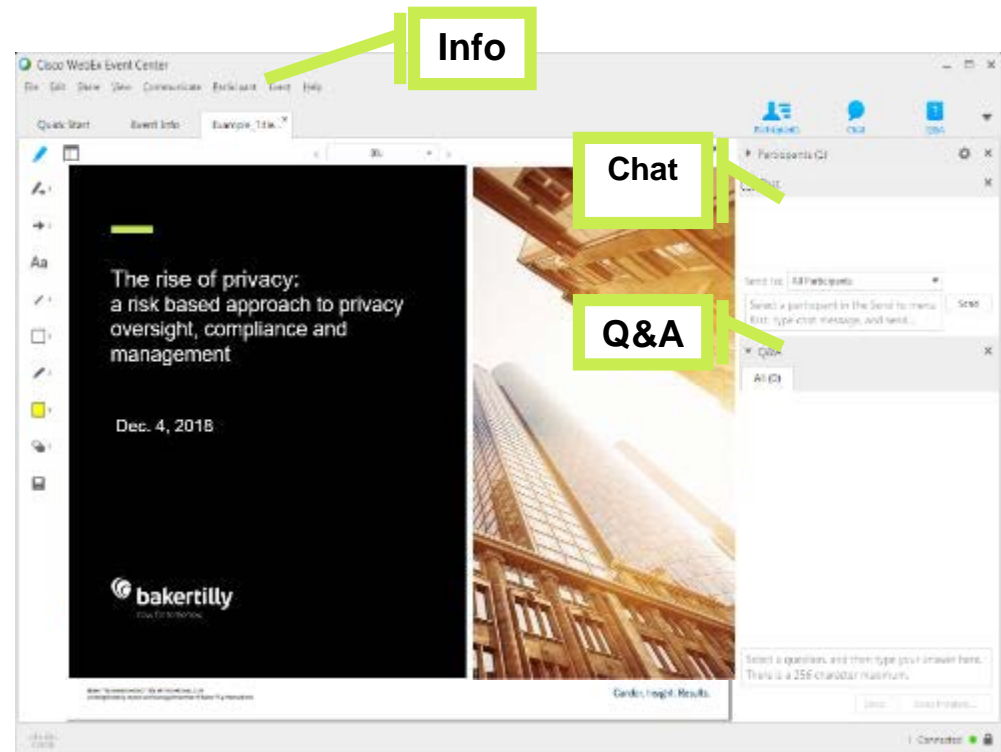




## CARES ACT: A GUIDE FOR CONSTRUCTION CONTRACTORS

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A CONTRACTOR'S GUIDE TO CORONAVIRUS RELIEF PROGRAMS AND THE CARES ACT

## Meet your presenters



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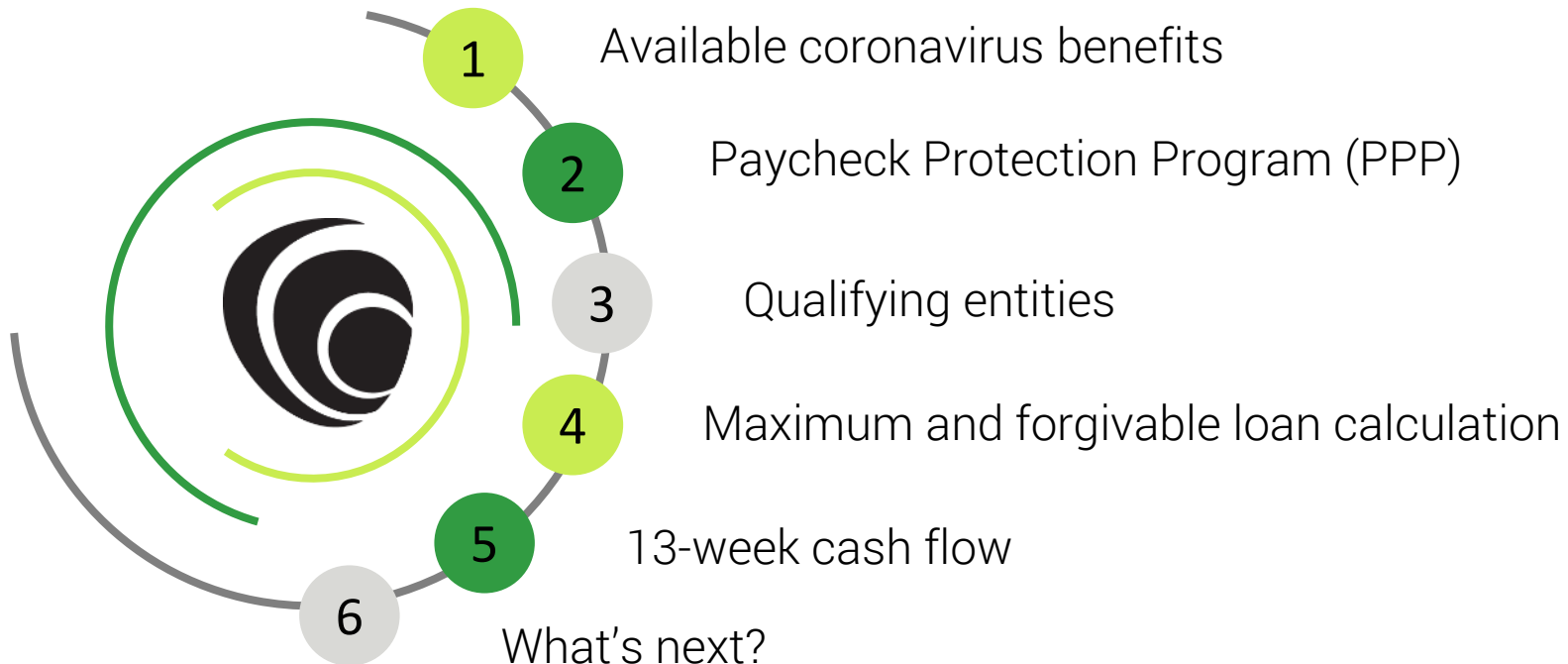
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# Today's agenda



# Coronavirus benefit summary

## Families First Coronavirus Relief Act (FFCRA)

Emergency Paid Sick Leave Act

Emergency Paid Family & Medical Leave Credit

## Coronavirus Aid, Relief & Economic Security Act (CARES)

Payroll Protection Program (PPP)

Employee Retention Credit

Payroll Tax Deferral

## Pre-existing credits

Work Opportunity Tax Credit

Emergency Economic Injury Disaster Loan (EIDL)

# Families First Coronavirus Response Act

## Emergency Paid Sick Leave Credit

- Applies to all employers less than 500 employees
- In effect April 1-Dec 31, 2020
- 100% refundable payroll tax credit on wages paid
- Employee cannot work or telework
- Employee qualifies in one of six categories COVID-19 related
- Maximum coverage is two weeks
- Maximum credit of \$511/day (\$5,110 max) if unable to work due to COVID-19 illness or \$200/day (\$2000 max) to care for others

## Emergency Paid Family & Medical Leave Credit

- Applies to all employers less than 500 employees
- In effect April 1-Dec 31, 2020
- 100% refundable payroll tax credit on wages paid
- Employee cannot work or telework due to caring for minor son or daughter if school/place of care is unavailable due to COVID-19
- Maximum coverage is ten weeks
- Employee paid at 2/3 regular rate up to \$200/day or \$10,000 for the 10-week period

## CARES ACT

### “Sense of the Senate”

“

*“The Administrator should issue guidance to lenders and agents to ensure that processing and disbursement of covered loans prioritizes”*

- Small business concerns
- Entities in underserved and rural markets (including veteran communities)
- Small business concerns owned by socially and economically disadvantaged individuals
- Women
- Businesses in operation for less than two years

# Coronavirus Aid, Relief & Economic Security Act (CARES)

## Employee Retention Credit

- Applies to all employers who have had operations fully or partially suspended as a result of COVID-19
- Determination of qualified wages depends on the number of employees
- Quarterly credit against the 6.2% share of the Social Security (FICA) payroll tax
- Qualified employers cannot take a PPP loan or utilize the Workforce Opportunity Tax Credit

## Payroll Tax Deferral

- Applies to all employers
- Employers defer payment of the employer's 6.2% share of the Social Security (FICA) payroll tax
- Payroll tax deferral period is March 27-December 31, 2020
- 50% of deferral due 12/31/21 and 50% due 12/31/22
- Employers with PPP loans can take advantage of the payroll tax deferral up to the time they receive notification that their loans have been forgiven

## Paycheck Protection Program (PPP)

- Small Business Administration (SBA) is administering a \$350 billion program to provide loans of up to \$10 million for qualifying small businesses, along with an opportunity for future loan forgiveness
- Maximum loan amount: 2.5X the business' average monthly annual payroll cost for the preceding 12 months, or \$10 million, whichever is less
- No personal guarantee
- Loan proceeds may be used for:
  - (1) Mortgage interest on debt obligations
  - (2) Payroll support
  - (3) Employee salaries
  - (4) Mortgage payment
  - (5) Rent
  - (6) Utilities



## General provisions and payment deferral

- Qualified lenders have authority to approve loans
- Sole-proprietors are eligible
- Borrower and lender fees waived for PPP
- If not forgiven, maximum term of 2 years and interest at 1%
- Deferral on repayment of not less than six months and no more than one year
- Able to receive EIDL (as of Jan. 31, 2020 and forward) and PPP as long as EIDL loans not used for payroll and other PPP purposes
- Unrelated EIDL loans may be refinanced with this PPP loan
- No prepayment penalty
- Ability to receive credit elsewhere waived

# Qualifying entities

You are qualified for the PPP if your business:

- Has 500 or fewer US employees

OR

- Has more than 500 employees and average revenue falls into the allowable SBA NAICS standards for the industry in which it operates (construction ranges between \$16.5M and \$39.5M)

OR

- Meets SBC “alternative size standard” as of 3/27/2020
  - Tangible net worth >\$15M and
  - Average net income after Federal income taxes for 2 full fiscal years before date of application is >\$5M

## PAYCHECK PROTECTION PROGRAM

# How much can I borrow?

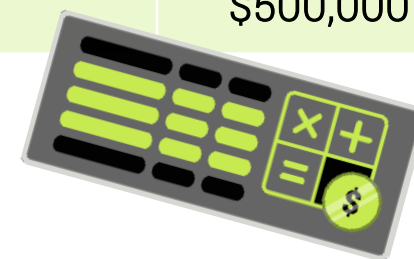
### Calculation steps

- Calculate last 12 months' gross payroll
  - Includes wages (up to \$100k), commissions, cash tips, vacation, medical leave, severance, healthcare premiums, retirement benefits, state or local tax assessed on compensation
- Divide by 12
- Multiply by 2.5

### Example

- Payroll from March 1, 2019 to February 29, 2020 is \$2.4M

12 months gross payroll	\$2,400,000
Divide by 12	
Average monthly payroll	\$200,000
Multiply by 2.5	
PPP loan eligibility	\$500,000



*This is for illustrative purposes only. Specific guidance is needed to determine eligible expenses.*

## Borrower requirements

There are very few borrower requirements to obtain a loan under the new program. Those requirements include a **good-faith certification** that:

- The loan is needed to continue operations during the COVID-19 emergency
- Funds will be used to retain workers and maintain payroll or make mortgage, lease and utility payments
- The applicant does not have any other application pending under this program for the same purpose
- From Feb. 15, 2020 until Dec. 31, 2020, the applicant has not received duplicative amounts under this program

In evaluating eligibility of borrowers, a lender must consider whether the borrower was operating on Feb. 15, 2020 and had employees or independent contractors whom the borrower paid.

# Allowable uses of proceeds

Businesses may, in addition to uses already allowed under the SBA's Business Loan Program, use the loans for:

- Payroll costs

## **Includes**

- Compensation to employees: salary, wages, commissions, cash, etc.
- Paid leave and severance payments
- Payment for group health benefits: insurance premiums, retirement benefits and state and local payroll taxes

## **Excludes**

- Individual employee compensation above \$100,000 per year, prorated for the covered period
- Certain federal taxes (2/15/20 -6/30/20)
- Compensation to employees whose principal place of residence is outside of the U.S.
- Sick and family leave wages for which credit is allowed under the Families First Act

## Allowable uses of proceeds (cont'd.)

Businesses may, in addition to uses already allowed under the SBA's Business Loan Program, use the loans for:

- Group health care benefits during periods of paid sick, medical or family leave and insurance premiums
- Salaries, commissions or similar compensation
- Payments of interest on mortgage obligations incurred prior to 2/15/20
- Rent/lease agreement payments in force prior to 2/15/20
- Utilities that began service prior to 2/15/20

# Loan application and documentation

Identify all existing bank relationships and determine which are eligible SBA loan providers,

Prepare and submit loan application ASAP with the following documents available:

- SBA loan application Form 2483
- Form 941s and verification of payment of 940/941 taxes that match payroll records
- Evidence of any contract employee payments .
- Copy of 1099s to verify contract employee payments
- Organization documents, EIN, Patriot Act, Certificate of Formation
- Beneficial Ownership Form

Calculate 13 week cash flow analysis

# Loan forgiveness provisions

- No cancellation of debt (COD) income upon forgiveness
- Must use proceeds for approved purposes within eight weeks of loan disbursement
- “Available for reduction balance” calculated as:
  - Multiplying the loan amount by quotient of:
  - Average FTEs per month during covered period [8 weeks after loan orig.] / (A) or (B)
    - (A) Avg. FTEs per month from Feb. 15, 2019 through June 30, 2019
    - (B) Avg. FTEs per month from Jan. 1, 2020 through February 29, 2020
- Loan forgiveness reduced proportionately based on number of employee reductions or salary reductions greater than 25% for annual salaries less than \$100,000
- Hire back FTEs within 30 days of bill passage, no penalty for employee or salary reduction
- Must provide documentation for forgiveness of loan and certification stating provided documents are true and correct

## Loan forgiveness documentation

There are some required processes to apply for loan forgiveness. Borrowers seeking forgiveness of amounts must submit to their lender:



Documentation verifying FTE on payroll and their pay rates



Documentation on covered costs/payments (e.g., documents verifying mortgage, rent and utility payments such as cancelled checks and payroll reports)



Certification from a business representative that the documentation is true and correct and that forgiveness amounts requested were used to retain employees and make other forgiveness-eligible payments



Any other documentation the Administrator may require

# Loan forgiveness calculation

Projected Costs during Covered Period		5/8/2020	5/15/2020	5/22/2020
(aa)(AA)	Salary, wage, commission, or similar compensation			
(aa)(BB)	Payment of cash tip or equivalent			
(aa)(CC)	Payment for vacation, parental, family, medical or sick leave			
(aa)(DD)	Allowance for dismissal or separation (severance)			
(aa)(EE)	Payment required for provisions of group health care benefits (premiums)			
(aa)(FF)	Payment of any retirement benefit			
(aa)(GG)	Payment of State or local tax assessed on the compensation of employees			
(bb)*	<b>For a sole proprietor or independent contractor:</b> wages, commissions, income, or net earnings from self-employment, capped at \$100,000 on an annualized basis for each employee			
<b>Exclude:</b>				
(aa)**	Compensation of an individual employee in excess of an annual salary of \$100,000, as prorated for the covered period			
(cc)	Compensation of an individual whose principal place of residence is outside of the US			
(dd)	Qualified sick leave wages for which a credit is allowed under section 7001 of the Families First ... Act			
(ee)	Qualified family leave wages for which a credit is allowed under section 7003 of the Families First ... Act			
<b>Payroll Costs:</b>		-	-	-
Covered Rent Expense:				
Covered Utility Expenses:				
Covered Interest on Mortgage Expenses:				
<b>Total Amount Qualifying for Forgiveness</b>		-	-	-

Step 1: Determine Average FTEE per period during Covered Period (at least 30 hours per week)			
	5/8/2020	5/15/2020	5/22/2020
<b>FTEE Count during Covered Period</b>			
<b>Step 2: Determine Denominator FTEE Count (max of 100%)</b>			
Option 1: Average FTEE per month employed during the period beginning 2/15/19 through 6/30/19		# of FTEEs	Quotient
Option 2: Average FTEE per month employed during the period beginning 1/1/20 through 2/29/20			#DIV/0!
<b>Step 3: Determine quotient to be used</b>			#DIV/0!
<b>Step 4: Reduction in Amount Forgiven due to reduction in FTEE count</b>			#DIV/0!

# Building a cash flow model

Through this whole process, building a cash flow model to forecast the next 13 week's cash requirements allows for informed decision making.

*Primary benefits:*

- Provides you and potential lenders insight into the next 90 days
- Support for assumptions
- Gives a detailed view of cash inflows and outflows before monthly accounting close
- Identifies cash shortfalls in advance so you can act proactively
- Enables operational and capital decisions to be made with high degrees of confidence
- Provides insight into how the CARES Act impacts your cash flow

## 13-WEEK CASH FLOW

# Sample 13-week cash flow

Week Ending (Sunday)	Week 1 3/22/2020	Week 2 3/29/2020	Week 3 4/5/2020	Week 4 4/12/2020	Week 5 4/19/2020	Week 6 4/26/2020	Week 7 5/3/2020	Week 8 5/10/2020	Week 9 5/17/2020	Week 10 5/24/2020	Week 11 5/31/2020	Week 12 6/7/2020	Week 13 6/14/2020
Customer Receipts	22,457	-	-	-	-	-	-	-	-	-	-	-	-
Other Operating Receipts	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Operating Cash Inflows</b>	<b>22,457</b>	-	-	-	-	-	-	-	-	-	-	-	-
Payroll (incl. taxes)	-	(500)	-	(500)	-	(500)	-	(500)	-	(500)	-	(500)	-
Vendor Payments	(13,603)	-	-	-	-	-	-	-	-	-	-	-	-
Other Operating Payments	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Operating Cash Outflows</b>	<b>(13,603)</b>	<b>(500)</b>	-	<b>(500)</b>	-	<b>(500)</b>	-	<b>(500)</b>	-	<b>(500)</b>	-	<b>(500)</b>	-
<b>Total Operating Cash Flows</b>	<b>8,854</b>	<b>(500)</b>	-	<b>(500)</b>	-	<b>(500)</b>	-	<b>(500)</b>	-	<b>(500)</b>	-	<b>(500)</b>	-
CAPEX	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash Paid for Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Investing Cash Flow</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Borrowings on Line of Credit	-	-	-	-	-	-	-	-	-	-	-	-	-
Payments on Line of Credit	-	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings on Term Notes	-	-	-	-	-	-	-	-	-	-	-	-	-
Payments on Term Notes	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest Payments - LOC	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest Payments - Term	-	-	-	-	-	-	-	-	-	-	-	-	-
Contributions from Shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-
Distributions to Shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Financing Cash Flow</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Cash Flow</b>	<b>8,854</b>	<b>(500)</b>	-	<b>(500)</b>	-	<b>(500)</b>	-	<b>(500)</b>	-	<b>(500)</b>	-	<b>(500)</b>	-
Beginning Cash Balance	-	8,854	8,354	8,354	7,854	7,854	7,354	7,354	6,854	6,854	6,354	6,354	5,854
Ending Cash Balance	8,854	8,354	8,354	7,854	7,854	7,354	7,354	6,854	6,854	6,354	6,354	5,854	5,854

# Key points of consideration

## Stakeholders

- Involving key stakeholders who understand and impact cash flow decisions on a regular basis is key to accuracy (i.e. more than just accounting/finance team)

## Revenue cycle

- How do different revenue streams generate cash? Timing of cash is important

## Vendor payments

- How are you communicating payment terms to vendors? Have there been changes to timing from initial invoices? Rent? Utilities?

## Debt

- Are there principal payments coming up? Monthly interest payments? What weeks do these occur?

## Payroll

- Payroll frequency and understanding the full payroll burden on a weekly basis is key to cash needs and often Company's largest use of cash.

## Other cash flows

- Are there anticipated shareholder contributions? CARES Act proceeds?

## How to use of the tool – a 360 view

- Look across your entire capital structure
- Understand all fixed commitments
- Ongoing projects (defer, stop or continue)
- Cost take-out considerations
- Articulate where you expect to be to lenders and investors
- Consider tradeoffs from forgiveness versus additional time (SBA)
- Offense and defense

## Next steps

- **Hurry up and WAIT** – Rules, regs and banks are processing applications
- Cash flow model to determine best source for business funding
- Analyze 12 months of payroll for maximum PPP loan
- **Select bank** to apply for PPP loan and **apply ASAP** when information becomes available
- **Await SBA direction** on Emergency Grant and apply immediately
- If you need assistance with cash flow, accounting, loan application and process or the emergency grant process, **we can assist**
- Maintain strict and accurate accounting records with receipts and cancelled checks



## Next steps: tax considerations

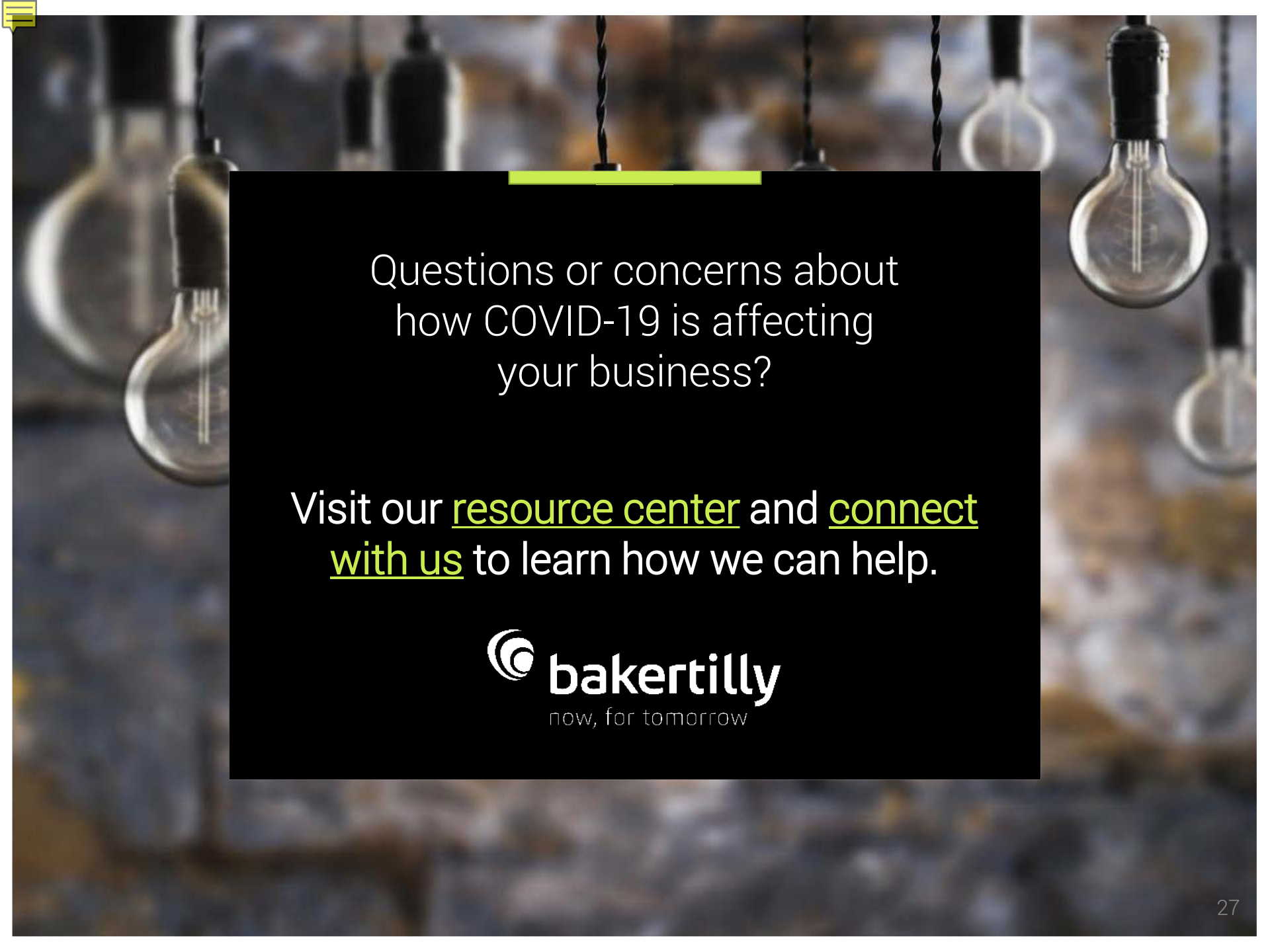
- Amend prior year returns for NOL carrybacks
- Amend prior year returns for depreciation correction, potential need for Form 3115, if applicable
- Automatic extensions until July 15, 2020 for both calendar-year and fiscal-year filers for the following:
  - 2019 Income tax filing and “all schedules, returns and other forms” that must be attached to the returns
  - 2019 Income tax payments
  - Estimated tax payments due between April 15<sup>th</sup> – July 14<sup>th</sup>



## What's next?

### Assistance for mid-sized businesses (500-10,000 employees)

- \$600B Special Purpose Vehicle appropriated by Department of Treasury in CARES Act
  - Main Street New Loan Facility (MSNLF): lesser of \$25M or amount that does not exceed 4x 2019 EBITDA
  - Main Street Expanded Loan Facility (MSELF): lesser of \$150M, 30% of borrowers existing bank debt or amount that does not exceed 6x EBITDA
- Cannot be reduced through forgiveness
- Eligible borrowers up to 10,000 employees or \$2.5B in 2019 annual revenue, US organized operations and majority of employees in US.
- 4 year maturity with amortization of principal & interest deferred for 1 year at Secured Overnight Financing Rate (SOFR) plus 2.5-4% (current SOFR is 0.1%)
- No prepayment penalty
- The specific process has yet to be announced and the application form has yet to be released.

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