IDOC
independent. together.™

Coronavirus Practice Finance Playbook & FAQs

As we're somewhere in the middle of a once-in-a-century pandemic, here are four force-ranked priorities for triaging your decisions, as well as a list of frequent questions we're getting.

Step 1: Recognize the magnitude of the situation

What once was a two-week stay at home order is stretching out to at least six weeks of interruption to nearly every aspect of our lives. Given that we don't know when this will end, now is not the time to worry about taking on debt.

Now is the time for a "survival mindset", where liquidity (cash and access to immediate credit) is the key to getting your practice through this. I recommend you take on the most financially defensive posture you can. This means prioritizing your 'families' and assets.

Step 2: Protect your immediate family's assets

Your household is the first asset to protect. This means that you should NOT put personal savings back into the practice to keep it open, nor should you leverage (borrow against) personal assets to keep the practice going.

Depending on your state, many of your personal assets are protected should your practice go bankrupt, and yes, I think our situation is dire enough that we need to plan around that possibility. Your 401k, your house, your car, your furnishings – all these are generally protected. Keep them safe.

Step 3: Protect your practice

I mentioned families earlier as a plural because I want to acknowledge that your staff is a family of sorts. Still, remember that the tie that binds you with your staff, and provides for all of you, is your practice.

Depending on where you live, figure out how to stay open – with little or no revenue – for the next two to four months. Use our Business Disruption Calculator (spreadsheet linked in video description) to calculate your monthly cash flow needs once you factor in diminished revenues and possibly furloughing your staff.

Make sure you have enough liquidity (cash plus a line of credit) to cover 12-16 weeks. In fact, go ahead and get as much cash and credit as you can. If you don't use it, give it back! Most every lending institution is reducing or waiving pre-payment penalties.

Step 4: Keep Your Staff (If You Can)

If your personal assets are safe and your office has enough liquidity to last 12 weeks WITH your staff, consider keeping them on. For several reasons:

- You avoid the risk of them NOT coming back when this is over
- Loyalty to you will be increased You aren't overwhelming the Unemployment Office
- The Paycheck Protection Program will cover 8 weeks of payroll
- There's plenty you all can be working on! Suggestions are provided here in my Management Tip of the Week.

IDOC
independent. together.™

Frequently Asked Questions

Q: What loans are available to my practice at this time?

A: There are two loan programs available, both from the Small Business Administration (SBA).

The first is the **Economic Injury Disaster Loan (EIDL)**. These loans have traditionally been made available following hurricanes, earthquakes or other disasters to help businesses stay afloat and recover from losses. During the COVID-19 crisis, the government has modified the traditional package to:

- Waive most requirements that you seek financing elsewhere first
- Remove personal guarantees and requirement for tax returns
- Increase the maximum damages awarded to $2MM, after insurance payments
- Allow for a $10k cash grant to be paid out within 3 days, with no repayment requirements
- Up to a 30-year term, deferred payments and interest, no prepayment penalties

Secondly, the **Paycheck Protection Program (PPP)** is designed to help businesses keep their staff employed in the face of being closed or severely limited in their business activities. Loans start processing this Friday, April 3. A few high-level notes to consider:

- Loans can be used for payroll – up to an annualized wage of $100k – and benefits, rent, utilities and mortgage interest.
- The loan amount is capped at 2.5x your average monthly payroll, up to $10MM.
    - There IS a mechanism for claiming owner income; what that looks like remains to be seen.
- What you spend on eligible expenses MAY be forgiven, up to 100%.
    - Forgiveness will be reduced by the ratio of FTE employees during Feb 15, 2020 to June 30, 2020 as compared to the comparable period in 2019.
    - There are also provisions that the reduction will be the greater of the FTE ratio (as just stated) or by the percentage decrease of any individual employee's wages that are reduced by 25% or more.
    - **Both those provisions are waived if you restore your FTEs or those wages by June 30**
    - Only up to 25% of forgiveness can be for non-payroll related expenses
    - How this will be reported is TBD.
- If you take the $10k cash grant under EIDL, your PPP forgiveness will be reduced by that $10k.
- Anything not forgiven will be repayable on a 2 year term, no prepayment penalties.

Q: Can I take both?

A: Yes, you can take both a 7a (PPP) loan and a 7b (EIDL) loan. While you CAN use the grant for payroll, **if you use the EIDL (disaster) loan for payroll, you cannot claim forgiveness for payroll on PPP.** Also, be reminded that if you take the $10k advance / grant against your EIDL funds, that $10k will be deducted from any PPP forgiveness.

PRO TIP: If you take both loans, put each in a new, separate checking account. This will simplify tracking and reporting them. It also makes it easier NOT to spend the EIDL money and just give it back, should you not need it.

Also, if you've already received a disaster loan and used it for payroll, talk with your PPP loan officer about rolling that loan into your PPP loan.

Q: Should I take both?

A: Yes. Our advice is that owners should get as much access to liquidity as possible to weather this storm.

From a tactical standpoint, consider using the PPP to keep your staff employed and then use your EIDL loan as dry powder to manage operating costs, from cost of goods to software licenses to payroll, after you re-open but before your insurance receivables start coming in again. Or use EIDL funds to pay lab, frame and contact lens bills generated before the shutdown ceased your operations and therefore the cash flow you would have used to pay those bills.

ONE CAVEAT: If your best judgment is that you will not be returning all your staff by June 30, you may want to delay taking the PPP money or forego it altogether. Or you may start by only paying out for reduced staff, limiting your exposure if we don't get back to work as soon as we hope. Any funds you don't use you can just pay back.

If you're thinking about timing the start of your PPP loan, be aware that there are a LOT of small businesses out there that will be applying for these funds. $350 billion is a lot of money, but it's possible this money gets lent out very quickly. Some scholars estimate the actual demand for these loans to be in excess of $1 trillion.

Q: Does keeping the same headcount on 6/30 mean it should be the same staff as before?

The guidance is that forgiveness will not be diminished so long as your FTEs are the same by June 30; there is no requirement that you have the same people in place. We don't know yet just how the SBA is going to measure your FTEs at the end of the period.

Q: What if a team member WON'T come back?

New guidance issued on May 4, 2020, allows that businesses are still eligible for full forgiveness if a furloughed employee refuses a good-faith offer to come back to work. Do document that employees refused your offer, which should be a written offer (not just a phone call).

Q: What if one of my team takes FFCRA leave?

We don't have confirmation of how this will be handled yet, as the SBA hasn't clarified how they will measure FTEs for the purpose of forgiveness. In general, an employee who is on leave is still considered an active employee of the business, so it stands to reason that an employee on leave will not count against your PPP forgiveness.

Decision making in the face of uncertainty

Let me close by urging patience and caution. There is still much uncertainty about how things will unfold – especially if closures persist for months instead of weeks. There's still debate about how some of the relief acts will be interpreted and applied. Facts on the ground are changing quickly. IDOC will continue to monitor all changes as the come about and keep members informed of our best judgment of how to respond.

While we are encouraging practices to get as much liquidity as possible, I also encourage you to guard against additional losses – particularly on the forgivable portions of the PPP. Yes, ideally all of you bring your staff back on at full-time hours and have the government pay that off. BUT, if you have doubts about whether you can meet the obligations for forgiveness, better to miss out on that money than pay two months of payroll – that you wouldn't have otherwise – and then not have the loan forgiven.

Stay safe. Protect your families, and perhaps even enjoy some unexpected time together. Protect your practices, and maybe catch up on some projects you've been putting off. And do what's best for your teams, whether that's bringing them back on quickly or letting the government relief provide for them while you're closed.