Here's How CFOs can Tackle COVID-19 Financial Risk

What can senior finance leaders do to manage these headwinds? The construction industry is still considered an essential business and construction companies need A|E firms to continue with their services to stay on schedule many times, so there shouldn't be any problems, right? Probably not, especially here in the Hampton Roads, Virginia area. The A|E|C community depends on the government — federal, state, and local — as a client. While construction companies can still work, the City of Virginia Beach is examining what construction projects it can delay, so at some point, the delays are going to filter down to the A|E community. This is similar to what occurred in the 2008 recession. It really did not hit the A|E community hard until 2010. The government's response to the crisis with an economic stimulus package has been much quicker this time, however.

Three suggestions that may help your company:

1. **Conduct scenario planning and stress tests.** If you're going to have to close down for 3 months, what is that going to look like cash-wise? If 40% of your work is municipal, and the municipalities cut 40% of their next fiscal year's projects, how are you going to replace that revenue? Start conducting what-ifs and solutions to replace the revenue. Maybe looking at more commercial projects may be a short-term solution. Not hiring and trying to ride it out with the present staff in order to NOT have to let people go might be another. In the 2008 recession, firms suddenly wanted to get on the government bandwagon because the commercial market had dried up, but most decided too late. It takes time to establish a new client, project type, or change your business model. Diversity is good in any economy.
2. **Focus on key customers.** Understand your contracts and the commitments you have made. If you are in the design|build arena, you know construction is driven by schedules. Understand how having a quarter of your staff out for COVID-19 related absences — sick, childcare — may affect your ability to meet milestones, and work to minimize those delays. Contact your clients, officially in some instances, that you may have a delay that will affect schedules.
3. **Get a jump on cash flow**. Recalculate 1. how much cash you need to keep your business afloat. Here are a few ideas to consider:
   - **Line of Credit.** Lots of firms are going to be looking to max-out their lines of credit. Contact your banker and discuss this to ensure lines of credit remain available. Be prepared to handle the fact that if your line of credit is not now personally guaranteed and if you ask for a larger amount, the bank may look for a personal guarantee from the owners, at least temporarily.
   - **Factoring Companies**. Look for alternative sources of cash. There are factoring companies for your accounts receivable, but you need to get in touch with them now. Your bank loan officer is a good source for a lead on a company.
   - **Owners personal cash reserves**. Owners need to reexamine their own personal cash reserves, too, and assess the liquidity of any assets they may need to count on for cash.
   - **Stay on top of Accounts Receivable**. Do not let this slide.

Prepare for a loss of revenue.

Estimate what you think the loss will be, e.g. 10, 15, 20% and plan for it. Most A|E firms' discretionary overhead is about 15% of their entire budget, so that is not going to be a solution.

Immediately cancelling all training, conventions, snacks, free coffee, etc. saves you little and just demoralizes the staff. Obviously, you're going to ask everyone to do their part in reducing discretionary costs like these, but realize it's not going to be a lot of money.

Reducing or zeroing out your profit is not a solution for most firms either since they have financial obligations that require cash — loans, stockholder payments, deferred comp payments, capital purchases. Unfortunately, what that leaves is labor and that means personnel.

Help is at hand.

Fortunately, the government has passed several measures to help firms in this regard.

Deferment of the FICA tax. It defers 7.65% of payroll (Medicare wages) from the employer expense for two years. This will help with cash flow. 1/2 must be paid by 31 Dec 2021, and the other half by 31 Dec 2022.

Families First Coronavirus Response Act (FFCRA) and the Child Care Leave Credit. (March 18, 2020) The first part requires firms to provide sick leave when this was not part of their benefits package beforehand. Most of our firms were already providing 2-weeks of sick pay or PTO, and also extended this to use for caring for sick family members (the first two provisions of the act). But few of us were providing an additional 10 weeks of PAID expanded family and medical leave. This is now required at two-thirds the employee's regular rate of pay for employees unable to work because of a need for leave to care for a child whose school or childcare provider is closed or unavailable for reasons related to COVID-19.

However, the second part, the **Child Care Leave Credit,** lets eligible employers receive a refundable childcare leave credit equal to two-thirds of the employee's regular pay, capped at $200 per day or $10,000 in aggregate. Up to the full 10 weeks of extended qualifying leave can be counted towards the childcare leave credit. This reimbursement can be taken currently by retaining payroll taxes from federal income taxes, social security and Medicare taxes (employee and employer). If there are not sufficient payroll taxes to cover the cost of qualified sick and childcare leave paid, employers will be able to file a request for an accelerated payment from the IRS.

CARES Act (March 27, 2020)

Loans. Businesses with fewer than 500 employees may be eligible for emergency grants and loans — which may qualify for forgiveness depending on how quickly employees are rehired and maintain salary levels — to help make payroll and cover other expenses such as mortgage, utilities, and rent. These Paycheck Protection Program (PPP) will be administered by the Small Business Administration (SBA) for expenses from Feb. 15 through June 30. The SBA website has recently crashed, so be patient. The SBA says they're open for business on Friday, April 3. The government has been quick to respond, but the infrastructure — IRS.gov has crashed as well — is not quite ready to handle the demand. Banks have not received definitive regs yet either, so don't be surprised when your bank loan officer isn't sure of exactly how it works. Banks are also being inundated right now with queries, so patience is a blessing.

NOTE: An employer who receives a loan under the PPP is not eligible to also claim an employee retention credit under the CARES Act *The employee retention credit gives eligible employers whose business operations are fully or partially suspended due to the CVID-19 pandemic a credit against employee taxes equal to 50% of qualified wages (up to $10,000 in wages) for each employee. The A/E business has not been shut down,*

Health insurance. For those firms with health insurance plans that offer telemedicine, these costs can now be covered with HSA funds.

Pension Plans. The Act delays the due date for any contributions otherwise due during 2020 until January 1, 2021. This will help with cashflow, but payments will be due WITH INTEREST.

It also waives the 10% penalty for IRAs and defined contribution plans for this year for Coronavirus-related financial emergencies. This doesn't help the business, per se, but is good information to pass along as some employees may have spouses who have been laid off. This means that employees younger than 59-1/2 are NOT subject to the 10% early withdrawal penalty on top of the income tax owed on the withdrawal. It's never a good idea to use retirement savings, especially when the market is down, but the CARE Act allows it under the following circumstances:

- Employee is furloughed, has reduced hours, or is laid off and suffered adverse financial consequences.
- Employee is unable to work because of lack of childcare.
- Employer has had to close or reduce hours of a business.

Withdrawals are limited to $100,000 made on or after January 1. The funds can also be replaced in the future.

Unemployment. Provides additional $600/week payment through end of July 2020 to each Pandemic employee let go.

- Provides funding for the 1st week of unemployment for states to waive the traditional "waiting week" before benefits begin.
- Provides an additional 13 weeks of unemployment (after weeks of state unemployment are no longer available).

Education Assistance. Allows employers to provide a student loan repayment benefit to employees on a tax-free basis up to $5,250 annually and such payment would be excluded from the employee's income. This is only for the period between March 27 and December 31, 2020.

We all know that the A|E industry has a very tight labor market now. This goes for designers, CADD techs, and administrators, too. Think twice before you let personnel go. In the 2008 recession, I think that firms who cut salaries and/or hours across the board, succeeded better than those who started firing employees. Each of your employee pools — professionals, techs, and admins — all have specific and often software-related skill sets that are not easily found in the general labor pool.

The regulations and interpretations of these new laws is changing almost every day. Stay up to date. Consult with experts like your health insurance broker, employment lawyer, and CPA before you take any action.

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