Your Orchestra and COVID-19 Federal Relief

League of American Orchestras

Wednesday, April 1, 2020
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Speakers: LaKeisha Caton and Kyle Miller, Pryor Cashman, LLP
& Susan Nelson, TDC

Moderator: Heather Noonan, League of American Orchestras

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RELIEF FOR EMPLOYERS AND EMPLOYEES IN RESPONSE TO THE CORONAVIRUS PANDEMIC

LaKeisha Caton
April 2020
PAID LEAVE

The Families First Coronavirus Response Act

- Effective today
- Covered employers/active employees
- Exemptions
- Tax credits (available to the self-employed)
The Emergency Family and Medical Leave Expansion Act ("EFMLEA")

- To be eligible, an employee must be employed by the employer for at least 30 days
- First ten days unpaid then 2/3 of the employee’s rate of pay
- Job Protection
Emergency Paid Sick Leave Act (“EPSLA”)

- Employees are eligible regardless of how long they have been employed
- Reasons for leave
- Payment is based on the reason for leave
- Protection from discrimination/retaliation
Interaction between the EFMLEA and the EPSLA

- If employees are eligible for both EFMLEA and EPSLA leave, then leave under both laws run concurrently.
- Employees can supplement paid leave with PTO if the employee and employer agree.
DIRECT PAYMENTS

One-time stimulus check:

• Individuals may receive a one-time payment of $1,200 and couples may receive a one-time payment of $2,400
• Based on tax returns
• Amounts reduced and eventually phased out based on income
Expansion of Unemployment Benefits

- First week of unemployment benefits federally funded
- Extra $600/week
- Additional 13 weeks of coverage
UNEMPLOYMENT INSURANCE

Pandemic Unemployment Assistance

• Significant for the self-employed
• Minimum of 50% of the average weekly payment of unemployment benefits in the State
• Plus $600/week
QUESTIONS
BUSINESS LOAN RELIEF

Kyle Miller
April 2020
CARES ACT

PAYCHECK PROTECTION LOANS
ECONOMIC INJURY DISASTER LOANS
LOANS FOR MID-SIZED BUSINESSES
PAYROLL TAX CREDITS
PAYCHECK PROTECTION LOANS

Eligibility:

- Business concern or 501(c)(3) non-profit
- 500 or less employees
- Affiliation rules
- Counting employees –
  - Full and part time employees count equally
  - Last 12 month average or date of approval?
PAYCHECK PROTECTION LOANS

Size of the loan:

Lesser of:

- $10,000,000 or
- Average monthly “payroll costs” multiplied by 2.5
Determining payroll costs:

• Include:
  – Salary, wages, commissions and other similar compensation
  – Payments for vacation, parental, family, medical or sick leave
  – Allowance for dismissal and separation
  – Payments for group health care benefits
  – State and local taxes (but not federal) assessed on the compensation of employees
  – Payments to independent contractors?

• Exclude:
  – The portion of any salary, wages, commissions and other similar compensation of any individual employee in excess of $100,000
PAYCHECK PROTECTION LOANS

Loan Forgiveness

• Amount eligible for forgiveness is the amount of the loan used for payroll, covered rent and mortgage obligations, and covered utility payments for the 8 weeks following origination of the loan.

• Reduced by any reduction in the average number of employees during the 8 weeks following the origination of the loan, as compared to either (i) February 15, 2019 to June 30, 2019 or (ii) January 1, 2020 to February 29, 2020 (borrower’s choice).

• Also reduced for any employee who’s salary or wages are reduced by more than 25% (other than employees making in excess of $100,000).

• Opportunity to re-hire
PAYCHECK PROTECTION LOANS

Other provisions:

• Permitted uses: rent, utilities, payment of interest on mortgages, payroll costs, employee salaries, costs related to continuation of group health care benefits, interest on certain other debt obligations, and any other purpose permitted under the 7(a) loan program.

• Maximum 4% interest rate

• Payments being deferred for a period of not less than six months and not more than one year.

• No personal guarantee or collateral is required and the lender will have no recourse against any member, shareholder or partner of a loan recipient.
PAYCHECK PROTECTION LOANS

How to apply:

• Apply through lenders, not the SBA itself
• Deadline: June 30, 2020
• But don’t wait that long!
ECONOMIC INJURY DISASTER LOANS

Eligibility:

• Similar requirements to Paycheck Protection Loans
• Must also have suffered a “substantial economic injury” as a direct result of a declared disaster, including COVID-19
• Small business and private non-profits, including 501(c)(3) organizations
• 500 or less employees
• Affiliation rules also apply
ECONOMIC INJURY DISASTER LOANS

Size of the loan:

• $2,000,000
• May require collateral for loans in excess of $25,000
• SBA takes real estate as collateral when it is available
• SBA will not decline a loan for lack of collateral, but requires borrowers to pledge what is available
ECONOMIC INJURY DISASTER LOANS

Permitted uses:

• May be used for working capital necessary to sustain the business
• Expenditures necessary to alleviate the specific economic injury
• Providing paid sick leave to employees unable to work due to the direct effect of COVID-19
• Maintaining payroll to retain employees
• Meeting increased costs to obtain materials because of interrupted supply chains
• Making rent or mortgage payments
• Repaying obligations that cannot be met due to revenue losses
• Subject to certain non-permitted uses
ECONOMIC INJURY DISASTER LOANS

Other terms:

• Cannot request both a paycheck protection loan and an EIDL for the same purpose. If a business borrowed an EIDL related to COVID-19 between January 31, 2020 and the date when paycheck protection loans become available, the EIDL may be refinanced into the paycheck protection loan.

• Interest rates are 3.75% for small businesses and 2.75% for non-profit organizations

• Terms of up to 30 years are available with the first payment due 12 months after the loan is made.

• Grants available up to $10,000
How to apply:

• Apply directly to the SBA
 Industry Stabilization Loans

• Loans are also available for businesses, including nonprofit organizations with between 500 and 10,000 employees

• Additional information is to be published within 10 days by the Secretary of the Treasury

• Will require a certification, among other things, that:
  • the loan is necessary to support ongoing operations;
  • the funds will be used to retain no less than 90% of the workforce, at full compensation and benefits, until September 30, 2020; and
  • the recipient intends to restore no less than 90% of the workforce that existed as of February 1, 2020, including restoration of compensation and benefits within four months after the termination of the public health emergency.

• Interest rate capped at 2%, six month grace period during which no payments of principal or interest are due.

• Not eligible for forgiveness
TAX RELIEF

Tax-specific Provisions

- 50% payroll tax credit
- Net operating losses
- Increased business interest deduction
- Payroll tax extension

Cannot take advantage of payroll tax credit or extension if taking out a paycheck protection loan
QUESTIONS
Financial Planning in the Context of COVID-19
League of American Orchestras
April 1, 2020
What’s different about the current climate?

**Great Recession**
- Short-term dip in demand
- Stock market dive
- Philanthropy stepped up

**COVID-19**
- Sector-wide demand stoppage
- Highly volatile financial market
- Demand for philanthropic support could be much greater
## Implications of demand stoppage

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<th>Short-term</th>
<th>Medium-term</th>
<th>Long-term</th>
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| • Ticket sales may need to be refunded or credited yet corresponding expenses remain  
  • *Reimbursements will stress the cash capacity of most organizations*  
  • Canceled performances threaten artists and others in the “gig economy” | • Current consumer uncertainty may be felt across next season (i.e. in next year’s subscription sales) | • Potential downstream impacts on long-term consumer behavior |
What should you be thinking about?

- **For immediate decision-making:** Liquidity, liquidity, liquidity
  - Staying alive in the short-term
  - Flexibility and repositioning in the medium-term

- **For ongoing decision-making:** Mission, not model
  - Maintaining flexibility to respond to the current climate
  - Processing the long-term implications of shifting cultures
Immediate decision-making: Liquidity, liquidity, liquidity

Understand baseline liquidity

Develop medium-term scenarios

Identify budgetary and cash implications

Make immediate choices
Understanding baseline liquidity

- Develop or update your cash flow analysis to capture your current state
- 6 months is good, 1 year is better
- Cash flow analysis takes into account:
  - Sources of cash
  - Uses of cash
  - Associated timing of each
Questions to ask

- What are your immediate cash needs?
  - What are your current fixed commitments (artist contracts, venue agreements, payroll, debt)? To what extent can these be mitigated?
  - What might it cost to change these commitments (e.g. self-insurance for unemployment)?

- What are your current sources of cash?
  - e.g. Annual Fund and major donor giving; grants; other contracts or fees; endowment draw; Board-designated reserves; accounts receivable

- What could change these sources?
  - Do you rely on next year’s sales for this year’s cash flow?
  - How liquid is your endowment?
  - Where are you in your fundraising cycle?
  - Could restrictions on a grant be released?

- What government programs could provide cash?
  - Loans, e.g. SBA Economic Injury Disaster Loan Program; Paycheck Protection relief loans; Industry Stabilization Fund loans
  - Grants or credits, e.g. unemployment relief for self-insured nonprofits; employee retention tax credits; NEA COVID-19 grants
Developing scenarios

- Examine multiple “what-if” scenarios and their impact on operations and budget

- Play out initial scenarios over 6-9 months:
  - In the short-term: What would you need to stay alive?
  - In the medium-term: What might it look like to reorient once the immediate, acute crisis passes?

- Scenarios respond to:
  - A set of guiding principles shared by board and staff leadership
  - Hypothesized shifts in the external environment
Questions to ask

- What are the principles against which you are planning?
  - What are your responsibilities to your artists, communities, and the art form itself?
  - What are your responsibilities to others in the ecosystem (e.g. to venues, partners, and collaborators)?
  - Are there pieces of your current strategy that are critical to preserve?

- What potential scenarios (changes in the environment) do you want to test?
  - e.g. changes in consumer demand, financial markets

- How would you respond to these scenarios? What are the operational implications?
  - e.g. changes to season structure, programming plan, expense base; earned and contributed revenue potential

- What are the short- and medium-term cash implications?
  - How much cash will you need to relaunch?

- What are the risks associated with each scenario?
  - For example, if you rely on next year’s sales to support current cash flow, what cash will pay for that programming?
Making immediate decisions

- Move fast and make critical adjustments now – you can cut too late
  - What do you need to do immediately to balance cash needs and cash sources?
  - What do you need to preserve as much flexibility as possible?
  - What does it look like to balance these considerations?

- Goal: Critical adjustments that are informed by short- and medium-term considerations
Ongoing decision-making: Mission, not model

With updated information about current context…

Update scenarios; expand timeline

Identify medium- and long-term budget and cash implications

Make choices
Questions & Answers

Federal Assistance:
Families First Paid Leave Provisions
Pandemic Unemployment Benefits
SBA Economic Injury Disaster Relief and Loan Advance
Paycheck Protection Program and Loan Forgiveness
Employee Retention Credits
Industry Stabilization Fund Loans
Relief for Nonprofits Self-Insuring Unemployment Benefits
New Charitable Giving Incentives
National Endowment for the Arts Funding
Background

Please type questions in the Q&A box
Thank You!

Upcoming Wednesday Webinars
at 1:00 p.m. Eastern

April 8: Your Orchestra and COVID-19 Federal Relief (Part 2)
April 15: Orchestra Fundraising in This Time of Crisis
April 22: Orchestra Fundraising in This Time of Crisis (Part 2)

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