



EMPLOYER'S GUIDE:

Strategic Use of PPP Funds

What's the best way to utilize your PPP loan funds? Strategic planning can help you find the answer.

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Why this guide

Your PPP loan has been approved, congratulations! You acted swiftly to get a piece of the \$349B relief for small businesses.

More importantly, now is the time to carefully consider how those funds can be best utilized. With appropriate planning and strategic thinking, PPP funds can help you survive the next eight weeks—then rebuild, re-staff, and thrive long after that.

We're here to guide you through this very important decision.

PART 1

Understanding your options

I received PPP approval and funding, now what?

The current business reality

Today, many Hawaii businesses are operating at significantly lower revenues versus February 15, 2020, and many have completely stopped operations altogether. Many are facing the reality that their operational needs have declined far below the levels forecasted when they applied for their PPP loan only a couple weeks ago.

If your business situation is similar to what we've just described, focusing solely on loan forgiveness may be a short-sighted decision. At this stage, placing all employees back on payroll (even though they are not performing any real work) while the government stay-at-home orders are still in effect may be a futile attempt to kickstart or accelerate your business.

Until now, much of the discussion around PPP has been focused on total loan forgiveness. However, it's not the only option.

The ProService Hawaii recommendation

We encourage all businesses who received PPP loan approvals to *build a strategic plan* and find a way to deploy PPP funds so that they can sustain their business longer than 8 weeks.

While loan forgiveness is an attractive feature, it's also important to note that PPP funds can be a *great short-term loan* with 1% interest, 2-year payback, and 6-months of deferred payments. PPP funds could be your business' life support in the short-term, with some funds reserved as the boost to get back on your feet when business starts to rebound.

Why strategic planning?

Ultimately, it's your decision on how to spend PPP loan funds. We're here to guide your thinking around this crucial decision, as it will have implications in the near-and long-term. In the next section, we'll show you how creating a strategic plan can help you identify when it makes sense to make the funds stretch over a longer period versus 8 weeks.

PART 2

Thinking through your business plan

Keep in mind—it's NOT all about forgiveness.

It's about surviving now, and thriving for the long-run. In this section, we'll walk you through a couple of scenarios to illustrate that while PPP loan forgiveness is very important, it shouldn't be the only consideration.

There are other critical considerations to consider.

Instead of spending funds to maximize loan forgiveness, deploy them to solve two business goals: 1) Short-term survival over the next 8 weeks, and 2) Long-term viability over the next few months and into next year.

We recommend following these steps to determine how long you can stretch your resources.

- 1.** Map out a monthly April-December 2020 plan. Forecast conservatively low revenue numbers through at least June. Then, forecast the following items monthly:
 1. Revenue (existing and/or new sources of revenue)
 2. Minimum staff required to support the products and services in #1
 3. Payroll required to fund #2
 4. Minimum levels of all other expenses to support #1 and/or keep your business from shutting down (utilities, rent, or mortgage interest)

- 2.** Allocate all your available cash sources to pay for items #2-4. This includes your PPP funding.

- 3.** **Answer this question:** How many months will your cash last?

Understanding Loan Forgiveness

Before we dig into the sample scenarios, it's important to understand how loan forgiveness is calculated. As of this writing, the Small Business Administration (SBA) has yet to issue final guidelines on how the forgiveness provisions will work, but the CARES Act and the SBA's Interim Final Rules provide us some guidance.

These 3 factors can reduce loan forgiveness:

1. **Headcount reduction:** Per the Treasury guidelines, you must match your full-time equivalent (FTE) headcount that existed on February 15, 2020 to your FTE count on June 30, 2020. If your headcount is lower on 6/30/2020 than it was on 2/15/2020, the forgivable amount will be proportionately reduced.



HOW TO CALCULATE YOUR AVERAGE FTE

The FTE is equal to the average number of employees you have over a given period who worked at least 30 hours per week. To calculate, take the number of regular hours (not exceed 30 per week per employee) for all your employees, divide that by the number of weeks in the period, and divide that by 30. For example, in a given week you had 10 employees: 5 employees worked 40 hours, 3 worked 30 hours and 2 worked 20 hours. In this case, you have 9.3 FTEs.

2. **Major reduction of an employee's salary and wages:** For any employee who is paid an annual salary or wages of \$100k or less, you should not reduce that employee's wages/salary by more than 25% or your loan forgiveness amount will be further reduced. Wages/salary include commissions and tips.
3. **Overspent on non-payroll costs:** if you spend more than 25% of the PPP loan amount on non-payroll costs (i.e., rent, utilities, mortgage interests), then the dollar amount of the portion beyond 25% reduces, dollar for dollar, the amount of loan forgiveness.

How to calculate loan forgiveness:

1. Look at how much you spent on payroll over the 8-week period, and that becomes 75% of the forgivable amount.



THE 8-WEEK PERIOD

The eight week “covered” period starts once the PPP funds hit your account. If your goal is maximum forgiveness, you must spend 100% of those funds before the end of this eight week period. You cannot use these funds to pay for debts incurred before the covered period. The CARES Act provides that these costs must be accrued and due during this eight week period.

2. If your headcount is lower on 6/30/2020 than it was on 2/15/2020, the forgivable amount thus far will be proportionately reduced.
3. Add in what you spent on rent, utilities, and mortgage interest, up to 33% of the payroll amount. This becomes 25% of the forgivable value.

Let’s take a look at some basic examples to show how PPP funds can be applied.

Example A: John’s Company (focus on longevity)

Scenario: John’s Company has 10 full-time employees and an average monthly payroll of \$50,000/month. He was approved for $\$50K \times 2.5 = \$125,000$ PPP loan. With the business slowdown, John only has productive work for 3 full-time employees (FTE) for the next month or so, and forecasts that business will start to pick up in July. John expects to spend \$20,000 on rent and utilities over the 8 week period. What can John do with his PPP loan funds?

Recommendation: In the first 8 weeks, John brought back 3 employees and spent \$30,000 on payroll. Per the Treasury guidelines, if headcount is lower on June 30 than it was on February 15, the forgivable amount will be proportionately reduced. ,

In this scenario, John retained 30% FTE by June 30. This reduces the forgivable amount to 30% of \$30K spent on payroll, or \$9,000, which then becomes 75% of the maximum forgiven amount. Calculated, the total forgivable amount is \$12,000 (\$9,000 for payroll + \$3,000 for rent, mortgage interest, and utilities). Any expenses above this amount spent on rent or utilities are not forgivable.

The unforgiven amount, \$113,000 will become a loan with 1% interest, 2-year payback, and 6 months deferred payment. Although he did not maximize loan forgiveness, John can keep his business running beyond the 8 weeks and get ready for when business starts to pick back up in July.

Note: In this scenario, John did not reduce any employees' wages by 25% or more, and did not spend more than 25% of the forgivable amount in non-payroll costs. Otherwise, the forgivable amount would be further reduced.

John's Company Spreadsheet (focus on longevity)

#FTE on Feb 15	10
#FTE on Jun 30	3
% Change of FTE	70%

	← First 8 weeks →			
	MAY	JUN	JUL	AUG
# FTE Needed	3	3	5	6
Payroll (\$5K/FTE)	\$15,000	\$15,000	\$25,000	\$30,000
Rent	\$9,000	\$9,000	\$9,000	\$9,000
Utilities	\$1,000	\$1,000	\$1,000	\$1,000
Total Expenses	\$25,000	\$25,000	\$35,000	\$40,000
	PPP can cover expenses for 4 months, buying time for business to rebound			
\$PPP Funds Remaining	\$100,000	\$75,000	\$40,000	\$0
\$PPP Forgivable	\$12,000			
\$PPP Loan	\$113,000 (1%, 2-yr term, 6-mo deferred payments)			

KEY TAKEAWAY

We believe going through this exercise and following the above approach will better position you to 1) survive the next eight weeks, and 2) rebuild your business, rehire staff and gain traction quickly post-COVID. Instead of focusing on maximum loan forgiveness, for some businesses, choosing to conserve and stretch out PPP funding could position you on the leading edge of the recovery, and ahead of your competition.

When does it make sense to focus on maximizing PPP loan forgiveness?

Using PPP loans to fund short term payroll and other qualifying expenses (payroll, utilities, rent, mortgage interest) may make most sense for your business if:

- You require 100% of their employees to do business-critical work NOW and over the eight week period following loan distribution, and
- Have the financial means to pay expenses after the first eight weeks

How can I maximize 100% PPP loan forgiveness?

First, the average full time equivalent (FTE) count by June 30, 2020 must be equivalent to the FTE count on Feb 15, 2020. Second, the business must also spend at least 75% of the PPP funds on payroll costs. The remaining proceeds not spent on payroll costs should be spent on the other three other approved costs: rent, utilities, and mortgage interest.

Now let's take a look at the same scenario, except with the intention of maximizing forgiveness.

Example B: John's Company (focus on loan forgiveness)

Scenario: John has 10 full-time employees and his average monthly payroll is \$50,000/month. He was approved for $\$50K \times 2.5 = \$125,000$ PPP loan. With the business slowdown, John only has productive work for 3 full-time employees (FTE) (\$10,000/mo payroll) for the next month, and forecasts that business will start to pick up in July. John expects to spend \$20,000 on rent and utilities over the 8 week period. What can John do with his PPP loan funds?

To maximize loan forgiveness: John keeps all 10 employees full-time for 8 weeks and uses the PPP funds to pay for qualified expenses (payroll, rent, mortgage interest, utilities). Because he retained 100% of his staff from February 15, the amount of qualified expenses spent during the

first 8 weeks will be forgiven. The unforgiven balance will become a loan with 1% interest, 2-year payback, and 6 months deferred payment.

Note: In this scenario, John did not reduce any employees' wages by 25% or more, and did not spend more than 25% of the forgivable amount in non-payroll costs. Otherwise, the forgivable amount would be reduced.

John's Company Spreadsheet (focus on loan forgiveness)

#FTE on Feb 15	10
#FTE on Jun 30	10
% Change of FTE	0%

	← First 8 weeks →			
	MAY	JUN	JUL	AUG
# FTE Needed	10	10	10	10
Payroll (\$5K/FTE)	\$50,000	\$50,000	\$50,000	\$50,000
Rent	\$9,000	\$9,000	\$9,000	\$9,000
Utilities	\$1,000	\$1,000	\$1,000	\$1,000
Total Expenses	\$60,000	\$60,000	\$60,000	\$60,000
	PPP can cover expenses for 2 months. John will need a plan to cover expenses from July and on.			
\$PPP Funds Remaining	\$65,000	\$5,000	(\$55,000)	(\$115,000)
\$PPP Forgivable	\$120,000			
\$PPP Loan	\$5,000 (1%, 2-yr term, 6-mo deferred payments)			

PART 3

Deciding what's right for your business

At the end of the day, there are a lot of options and factors to consider. Business owners need to be informed so they can make the best decision for their business and employees. As an HR partner, it's our responsibility to help you understand your options—so you can make the best choice for your business.

We believe business owners will be in a *better position* to survive the next eight weeks and thrive into the new year when they understand and think through the delicate balance between loan forgiveness and long-term business viability.

IN SUMMARY, WE RECOMMEND THAT YOU:

- **Use a smaller portion of your loan to pay for the next eight weeks of truly productive payroll, utilities, rent and mortgage interest.** This amount will be forgiven.
- **Conserve the balance of your PPP for the same critical expenses beyond your first eight weeks.** This will provide you the critical cash flow you will need to sustain your business into the post-COVID era. It is also a financially attractive option. This portion would become a loan at a 1.0% interest rate, with a 2-year pay back period, and a six month deferment. There is no collateral or personal guarantee attached to the loan.

We make these recommendations because the survival of our small businesses community is paramount, for the good of our employers, their employees, and our Hawaii community.

A Note for ProService Partners

We're here to help you develop your strategic business plan and identify the best way to manage your PPP funds and cash-flow for the weeks AND months ahead. Please contact us to schedule a consultation.

LEARN MORE >> [Click here to watch the CEO Insights webinar on this topic.](#)

You Can Do This!

This is an extraordinary time for employers and employees in our State.

Remember that you're not alone. Businesses and organizations around the world are facing the same challenges, and we here at ProService Hawaii are here to help.

About ProService Hawaii

ProService Hawaii is the state's leader in HR management. We give local employers access to benefits, payroll, HR and compliance support that make it easier to hire, manage and grow their teams.

ProService drives local business forward by taking care of 2,200 employers and 35,000 employees statewide. We combine the power of passionate local experts with innovative HR products and a simple online platform that is transforming the workplace in Hawaii.



Learn more at proservice.com/coronavirus.