

# Economic Update: Likely Impact of COVID-19 on the Local Economy

...and Resources to Help You Through It



**Sanjay Varshney** brings three decades of proven investment expertise as a senior wealth management executive at Wells Fargo Private Bank. Dr. Varshney is also a Professor of Finance at Sacramento State and Founder/Chief Economist of the Sacramento Business Review.



**Heather Luzzi** is the District Director (Sacramento Office) of the U.S. Small Business Administration. She directs and manages all SBA programs and activities located within 22 North Eastern counties of California.



**Curt Rocca** is the Managing Partner of DCA and a seasoned chief executive with a background in leading high-growth organizations from inception to exit. He oversees DCA's M&A practice as well as the private equity Fund.



**Kim Silvers** is the President of Silvers HR, with business experience from both the private and public sectors. She has held positions in Human Resources management in Fortune 500 & 1000 companies including the retail, distribution, software and production industries.

# A FEW NOTES

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## **DISCLAIMER**

The material in this presentation is for informational purposes only and should not be considered advice of any kind including, without limitation, tax, legal, accounting, investment or other professional advice. This information should not be used as a substitute for professional services. If legal, accounting, investment, or other professional advice is required, the services of a professional should be sought. The material presented does not constitute an offer to sell, a solicitation of an offer to buy, or a recommendation of any security or any other product or service offered by DCA Capital Partners, DCA Partners or any of the panelists.

## **QUESTIONS**

If you have questions during this presentation you may submit them through the Q&A button or email them directly to [aschroeder@dcapartners.com](mailto:aschroeder@dcapartners.com)

# AGENDA

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**1**

Speaker  
Introductions

**2**

Current Situation  
Assessment

**3**

Impact on Local  
Industries and  
Businesses

**4**

Likely Real Estate  
Impacts

**5**

Resources for  
Assistance

**6**

Overview of the  
Coronavirus Aid,  
Relief and  
Economic Security  
Act (CARES)

**7**

Forecasted  
Recovery and  
Prosperity Timeline

**8**

Questions

# INTRODUCTIONS

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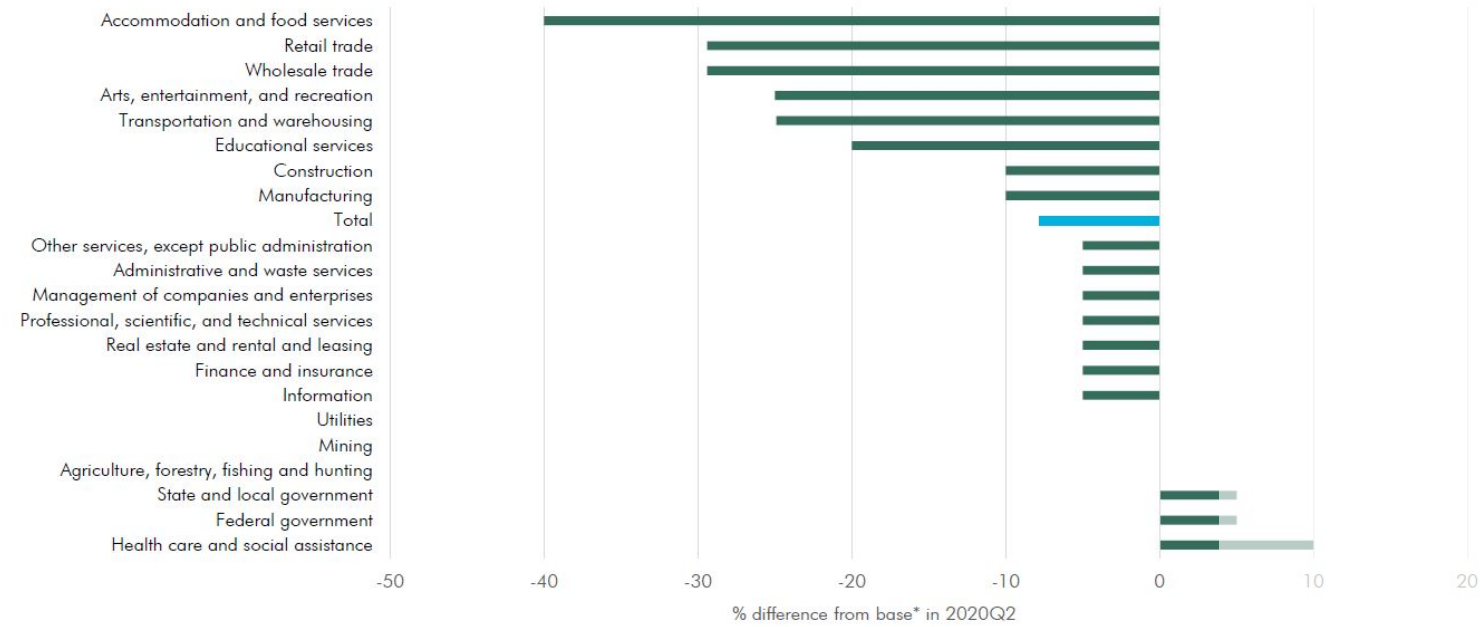
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# IMPACT ON INDUSTRIES

## ASSUMED IMPACT BY INDUSTRY



Source: CBRE Research, March 2020. \*Base = February forecast.

CBRE

COVID-19 ECONOMIC IMPACT AND SECTOR UPDATE  
CBRE ECONOMETRIC ADVISORS

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# PROGRAMS FOR EMPLOYEES

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- **Families First Coronavirus Response Act (FFCRA) H.R. 6201**

- Divisions of the Legislations effective April 1, 2020; sunsets December 31, 2020

- **Emergency Family and Medical Leave Expansion Act (We call it “EFML”)**

- Applies to employers with fewer than 500 employees
- Applies to employees unable to work/telework due to need to care for a child under age 18 if the school/childcare closed for public emergency; or childcare provider is unavailable due to COVID-19
- Employees must have worked for employer for 30+ days
- Provides up to 12 weeks of protected time off of work
- Weeks 3-12 paid by employer (2/3<sup>rd</sup> of employee’s Regular Rate of Pay up to \$200/day max. \$10K)
- Employer with than 50 employees – possible exemption



# PROGRAMS FOR EMPLOYEES, CONT.

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- **Emergency Paid Sick Leave Act (“EPSL”)**

- Applies to employers with fewer than 500 employees
- Applies to employees unable to work/telework for any of the following reasons:
  - (1) The employee is subject to a Federal, State, or local quarantine or isolation order related to COVID-19.
  - (2) The employee has been advised by a health care provider to self-quarantine due to concerns related to COVID-19.
  - (3) The employee is experiencing symptoms of COVID-19 and seeking a medical diagnosis.
  - (4) The employee is caring for an individual who is subject to an order as described in subparagraph (1) or has been advised as described in paragraph (2).
  - (5) The employee is caring for a son or daughter of such employee if the school or place of care of the son or daughter has been closed, or the childcare provider of such son or daughter is unavailable, due to COVID-19 precautions.
  - (6) The employee is experiencing any other substantially similar condition specified by the Secretary of Health and Human Services in consultation with the Secretary of the Treasury and the Secretary of Labor.
- Applies to employees on 1<sup>st</sup> day of employment
- Provides employees two weeks (up to 80 hours) of employer paid leave if unable to work/telework for the above reasons (full-time 80 hours, part-time avg. of hours)
- Pay – Reasons 1, 2, 3 paid at 100% (cap \$511/day or \$5,110) and reasons 4, 5, 6 paid at 2/3 of the employee’s regular rate of pay (cap \$200/day or \$2000)
- Employer with fewer than 50 employees – possible exemption for #5
- Back to (1) above – “ *An employee may not take EPSL where the employer does not have work for the employee*” (DOL Temporary Regulations 4/1/2020)

# PROGRAMS FOR EMPLOYEES, CONT.

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- **Federal Pandemic Unemployment Assistance**

- \$600 (flat fee) additional weekly UI benefit to covered individuals up to 4 months (7/31/2020)
- Up to 13 more weeks of unemployment compensation (39 wks total)
- Temporary financing of Short-Time Compensation (Work Sharing) payments up to 26 weeks
- Special UI program for gig workers, independent contractors, and self-employed individuals, and individual whose work histories might not otherwise qualify.

# PROGRAMS FOR EMPLOYERS

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- **Tax Credit – U.S. Dept. of Treasury and IRS**

- Tax credit available to recover costs employers pay to employees for EFML and EPSL
- Transaction and documentation process just outlined at the IRS website.
- Recommend having pay codes within payroll system to track tax credit
- Eligible Employers that pay qualified leave wages will be able to retain an amount of all federal employment taxes equal to the amount of the qualified leave wages paid, plus the allocable qualified health plan expenses and the amount of the employer's share of Medicare tax imposed on those wages, rather than depositing them with the IRS.
- The federal employment taxes that are available for retention by Eligible Employers include:
  - federal income taxes withheld from employees,
  - the employees' share of social security and Medicare taxes, and
  - the employer's share of social security and Medicare taxes with respect to all employees.

# CARES ACT – IS THIS REALLY FREE MONEY?

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- Establishes a \$349 billion Paycheck Protection Program (PPP)
- Expected to be up and running by April 3
- Most businesses are eligible
- Also available to sole proprietorships and independent contractors
- Businesses can go to a participating SBA 7(a) lender, bank, or credit union, apply for a loan, and be approved on the same day (best to start with the bank that you currently have a relationship with)
- Capital without collateral requirements, personal guarantees, or SBA fees
- SBA will forgive that portion of the loan proceeds (often 100%) that are used to cover the first eight weeks of payroll costs, rent, utilities, and mortgage interest

# PAYROLL PROTECTION PROGRAM (PPP)

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**This program  
will be offered  
directly from  
Lenders**



SBA will Guarantee loans up to

**\$10 million**

Loans can be for up to two months of your average monthly payroll costs from the last year plus an additional 25% of that amount

**0.5% Interest rate to borrower**

**2-Year Term**

# PAYROLL PROTECTION PROGRAM (PPP), CONT.

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- ***All loan terms will be the same for everyone regardless of lender.***
- **The loan amounts will be forgiven as long as:**
  - The loan proceeds are used to cover payroll costs, and most mortgage interest, rent, and utility costs over the 8-week period after the loan is made; and
  - Employee and compensation levels are maintained.
- Payroll costs are capped at \$100,000 on an annualized basis for each employee. Due to likely high subscription, it is anticipated that not more than 25% of the forgiven amount may be for non-payroll costs.
- Loan payments will be deferred for 6 months.
- **So...in summary:**
  - Virtually all businesses impacted by COVID-19 qualify
  - Loan amount = 2.5x average monthly payroll
  - Interest rate incredibly low (0.5%)
  - Loan term – 2 years
  - Payment deferral – 6 months
  - Loan forgiveness – up to 100% if used for qualifying purposes (payroll, rent, mortgage, utilities)
  - How to secure - visit your existing bank or qualified SBA 7(a) lender

# 7(B) ECONOMIC INJURY DISASTER LOAN (EIDL)

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- **Loan amount up to \$2 Million**

- The amount of the loan will depend on a variety of factors.
  - (e.g., loss in revenue, payroll costs, rent payments, etc.). Most loans of up to \$500,000 will be processed using a mostly automated application and funds should be delivered within a week or two of submission.

- **What is the interest rate?**

- For-profit companies: 3.75%
- Non-profit companies: 2.75%

- **What can I use the loan proceeds for?**

- You may use the loan proceeds to meet ordinary and necessary financial obligations that cannot be met as a direct result of the disaster, including payroll costs, salaries, sick leave, rent or mortgage payments, material costs, and pre-existing debt.

- **What information is the SBA using to underwrite the loan?**

- SBA will approve loans based on the information in the application and a credit score.

- **When does repayment start?**

- Repayment starts 12 months from the date of the note.
- Loan is Amortized for 30 years
- No Prepayment penalty
- Loans up to \$200,000. No personal Guaranty required
- Collateral is required over \$25,000; however, there is no real estate collateral required. A blanket UCC-1 will be filed against all business assets

# 7(B) EIDL ADVANCE LOAN

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- **Advance Facts & Requirements**

- Applicants are eligible for an advance of up to \$10,000 that may be requested immediately
- No requirement to repay advance, even if denied for a disaster loan
- If someone has already submitted an EIDL application, they must reapply using the new streamlined application and check the box for the advance as well because the advance was not previously available.

- **Document Requirements**

No documents required – just the application



# SOURCES OF FINANCING FOR VARIOUS NEEDS

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- **Banks**
  - Start with your existing relationship
  - Other qualified 7(a) lenders listed at [dcapartners.com/lenders](https://dcapartners.com/lenders)
- **SBA, Sacramento District Office**
  - (916) 735-1700
- **Community-based**
  - Donate4Sacramento (\$1 million fund; up to \$25,000 per company)
    - [Donate4sacramento.org](https://Donate4sacramento.org)
- **Venture Capital**
  - Moneta Ventures (seed stage, series A, tech-based)
    - (916) 270-2700
    - [info@monetaventures.com](mailto:info@monetaventures.com)
- **Subordinated Loans or Private Equity**
  - DCA Capital Partners (\$10M+ in revenue, established companies)
    - (916) 960-5346
    - [jhorner@dcapartners.com](mailto:jhorner@dcapartners.com)

# DCA CAPITAL PARTNERS

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**If your Company does over \$10M in revenue, and 2.5x monthly payroll won't get you where you want to be...**

- DCA Capital evaluates companies based on long-term prospects and quality management teams, not short-term challenges
  - We have never had one of our portfolio companies fail, even during the great recession of 2008
- Equity or debt capital for a variety of solutions
  - Short-term cash flow crunch
  - Balance sheet deleveraging
  - Long-term growth and expansion
  - Acquisitions
  - Shareholder/partner buyouts
  - Wealth diversification and risk sharing
- Typical (but not the only) financing structures
  - Equity Investments
  - Subordinated Loans



# CURRENT SITUATION ASSESSMENT

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## **19 days to go from all-time record to bear market.**

- Second fastest ever. Took 280 days to enter bear market in 2008-09
- Oil price collapse made things worse

### **UNEMPLOYMENT**

- Last week unemployment claims were 3.3M (12X).
  - Compare to 665,000 in 2009
- 29,000 jobs created in Jan/Feb each in California. 3.9% unemployment. Over 1M unemployment claims over last 2 weeks
- Expectation of 15%/10% decline in Q1/Q2 GDP. Peak unemployment closer to 10%, and GDP growth -2.5% for year

### **RECOVERY PROGRAMS**

- Unlike 2008-09 – crisis in the financial system – credit – no villains this round, no moral hazard, 96-0 vote explains that
- 8Bill+100 Bill+2.14 Trillion for CARES ACT. Took less 11 weeks to act versus 500 days + in 2008 crisis
- Federal Reserve has already put programs totaling \$4 trillion. Combined with CARES=6tril, 30% of US GDP

### **INDUSTRIES**

- Tourism/Travel/Entertainment is down 80%. Airlines 90%. Retail biggest loser. Manufacturing/Construction Ok
- Hotels occupancy under 30%. Container traffic International trade down. Infotech stable. Media and Streaming up
- Less impact on housing unlike 2008. CMBS market affected – retail/industrial worse than office or multifamily or residential
- Local economy cushioned by government but also vulnerable to gig economy and service sector job losses
- Benefit to essential services industries – grocery stores including Costco, healthcare, supply chain to essential services

# WHERE DO WE GO FROM HERE?

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## Equity Markets

- Best week last week in S&P 500 since 1938 in 90 years. Worst week in markets before that
- Best point and percent gains, worst point and percent losses last month; 2 of the worst one-day crashes since 1987
- Stocks down 37% from high. Rebounded 20% last week. Down about 15-25% from highs.
- Bear markets followed by recessions. Average bear market is 20 months. Avg recession 13 months
- Of 13 bear markets since Great Depression, 12 of them retested the lows over the next 2 months
- In last 25 years, 8 of 10 best days S&P were in 2008-2009
- Missing 20 best days versus 30 best days. Average equity fund investor underperformed S&P
- Strategic asset allocation versus tactical.
- Bottoming is a process – breakdown, consolidation, recovery. V shaped/U Shaped/L Shaped
- Coming out need to determine quality at each asset class level

## Local Economy

- Sacramento has government as cushion – hence ranks as one of least affected cities compared to Las Vegas most affected.
- Central Valley has agriculture and manufacturing similarly cushioning the impact.
- One third of workers in Sacramento are gig economy workers – many affected. Unemployment will likely spike from 3% to double digit.
- Expect Q2 and Q3 to be extremely disruptive. Expect 10% contraction in Q2, and another 7-10% in Q3. (Roughly \$10 billion hit to economy.)
- Recession in Sacramento likely deep but short, especially in the leisure and hospitality sectors.
- Q4 we should bounce back with 2020 GDP growth at zero or slightly negative. Expect a good rebound in 2021.
- Residential real estate will remain stable. Commercial will see lot of disruption. Construction should stay stable due to skilled worker shortage.
- Banks should stay stable due to ample liquidity from Fed. Small Business survival is key due to large number of jobs in SBEs. Speed of money reaching SBEs is also key.

# QUESTIONS FROM THE AUDIENCE

Submit questions through the  
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directly to  
[aschroeder@dcapartners.com](mailto:aschroeder@dcapartners.com)



# THANK YOU, PANELISTS!

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