

ZIEGLER INVESTMENT BANKING

THE LATEST ON STIMULUS PACKAGES IMPACT ON NON-PROFIT SENIOR LIVING PROVIDERS

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PRESENTATION OBJECTIVES

- Provide a summary of stimulus programs that are potentially available to non-profit senior living providers
- Provide an update on the Paycheck Protection Program (“PPP”)
- Review continuing disclosure best practices related to COVID-19 and stimulus programs

SUMMARY OF STIMULUS PROGRAMS AVAILABLE TO NON-PROFIT SENIOR LIVING PROVIDERS

OVERVIEW OF STIMULUS PROGRAMS

- Programs structured as forgivable loans or grants
 - Paycheck Protection Program (“PPP”)
 - Public Health and Social Services Emergency Fund – Provider Relief Fund
 - FEMA Assistance

OVERVIEW OF STIMULUS PROGRAMS

PAYROLL PROTECTION PROGRAM

- **Payroll Protection Program**

www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program-ppp

- **Qualification** – Generally for organizations with less than 500 employees
- **Structure** – All/portion of loan forgiven should certain conditions be met
- **Amount Provided** – 2.5 times average monthly payroll
- **Other Considerations/Stipulations**
 - Requires certifications, most applicable likely being “Current economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant”
 - Proceeds must be spent on payroll, rent, interest on loans and utilities

OVERVIEW OF STIMULUS PROGRAMS

PUBLIC HEALTH AND SOCIAL SERVICES EMERGENCY FUND

- **Public Health and Social Services Emergency Fund – Provider Relief**

www.hhs.gov/provider-relief/index.html

- **Qualification** – All facilities and providers that received Medicare fee-for-service reimbursements in 2019 are eligible
- **Structure** – Payments, not loans, and will not need to repaid
- **Amount Provided** – \$30 billion distributed based on 2019 Medicare revenue -
Divide 2019 FFS payments by \$484 billion and multiply by \$30 billion
- **Other Considerations/Stipulations**
 - Payment by direct deposit started April 10th via Optum Bank-HHS PAYMENT
 - Within 30 days of receiving funds, providers must sign attestation confirming receipt of fund and agreeing to terms and conditions

OVERVIEW OF STIMULUS PROGRAMS

PUBLIC HEALTH AND SOCIAL SERVICES EMERGENCY FUND

- **Public Health and Social Services Emergency Fund – Provider Relief**

www.hhs.gov/provider-relief/index.html

- **2nd Tranche** – Additional \$20 billion will be distributed starting April 24th
- **Amount Provided** – Converting methodology from 2019 Medicare revenue to providers share of 2018 net patient revenue
- **Other Considerations/Stipulations**
 - \$20 billion will be distributed to augment providers allocation so that whole \$50 billion distribution is allocated proportional to providers' share of 2018 net patient revenue
 - Question: What if there was a material difference in providers overall percentage between 2019 FFS revenue and 2018 net patient revenue?
 - Second allocation to senior living providers likely NOT as high (if any)

OVERVIEW OF STIMULUS PROGRAMS

PUBLIC HEALTH AND SOCIAL SERVICES EMERGENCY FUND

- **FEMA Public Assistance Program for COVID-19 Expenses**

www.fema.gov/coronavirus

- **Qualification** – Non profits regardless of size that are providing emergency protective measures
- **Structure** – 75% of eligible expenses covered by FEMA
- **Amount Provided** – dependent upon cost of services provided
- **Other Considerations/Stipulations**
 - Most common cost eligible for reimbursement by senior living providers are non-deferrable medical treatment of infected persons (including PPE), training specific to the declared event and enhanced medical capacity
 - Can not receive funds from HHS/CDC or other federal agency for same purpose
 - Program is governed and administered by states

OVERVIEW OF STIMULUS PROGRAMS

- Programs structured as loans
 - Medicare Advance Payment
 - Federal Payroll Tax Deferral
 - Economic Injury Disaster Loans & Emergency Advance
 - Main Street Lending Program

OVERVIEW OF STIMULUS PROGRAMS

MEDICARE ADVANCE PAYMENT

- **Medicare Advance Payment**

www.cms.gov/files/document/Accelerated-and-Advanced-Payments-Fact-Sheet.pdf

- **Qualification** – Providers who have billed Medicare within 180 days and are not under active review or delinquent in overpayments
- **Structure** – Loan that must be repaid within 120 days from date of advance (210 for nursing homes, home health agencies)
- **Amount Provided** – Up to 100% of Medicare payment amount for a three-month period
- **Other Considerations/Stipulations**
 - Need to complete a simple, straight forward application
 - Medicare committed to reviewing and issuing payment within seven calendar days of receiving request

OVERVIEW OF STIMULUS PROGRAMS

FEDERAL PAYROLL TAX DEFERRAL

- **Federal Payroll Tax Deferral**

www.irs.gov/newsroom/deferral-of-employment-tax-deposits-and-payments-through-december-31-2020

- **Qualification** – Eligible for any provider of payroll, however **those receiving PPP are NOT** eligible for both programs
- **Structure** – 50% of the deferred amount must be deposited by December 31, 2021 with remaining due on December 31, 2022
- **Amount Provided** – Employer's portion of Social Security taxes can be deferred through December 31, 2020
- **Other Considerations/Stipulations**
 - Employers who receive PPP loan CAN defer deposit up until the date the lender issues decision to forgive PPP loan
 - Deferral is allowed for paid leave credits under Family First Coronavirus Relief Act

OVERVIEW OF STIMULUS PROGRAMS

ECONOMIC INJURY DISASTER LOANS & EMERGENCY ADVANCE

- **Economic Injury Disaster Loans & Emergency Advance**

www.sba.gov/disaster-assistance/coronavirus-covid-19#/

- **Qualification** – Generally for organization's with less than 500 employees
- **Structure** – Up to \$10,000 can be forgiven with balance structured as a loan with 2.75% interest rate with repayment up to 30 years
- **Amount Provided** – Up to \$2 million loan
- **Other Considerations/Stipulations**
 - New stimulus package approved April 23 includes \$10 billion in new funding for grants (\$10,000) and \$50 billion for loans
 - Loan specifically for economic injury suffered due to Coronavirus
 - Loans may be used to pay fixed debts, payroll, A/P and other bills

OVERVIEW OF STIMULUS PROGRAMS

MAIN STREET LENDING PROGRAM

- **Main Street Lending Program**

www.federalreserve.gov/monetarypolicy/mainstreetlending.htm

- **Qualification** – Less than 10,000 employees OR FY 19 revenue less than \$2.5 billion
- **Structure** – Interest rate SOFR index plus 250-400 basis points with four year maturity (principal and interest deferred for one year)
- **Amount Provided** – Minimum loan size of \$1 million with maximum not exceeding four times EBITDA or \$25 million
- **Other Considerations/Stipulations**
 - Federal Reserve will purchase 95% through a special purpose vehicle with lender holding remaining 5% (program will be administered by lender)
 - Applicant must attest that funds are necessary due to coronavirus and that proceeds will **NOT** be used to repay existing debt

OTHER PROGRAMS POSSIBLE AVAILABLE TO NP CCRC'S

- Telehealth – provision to expand telehealth services under Medicare
- Families First Coronavirus Response Act
- State specific programs
 - For example North Carolina Medicare providers receiving additional 5% payments
- \$75 billion set aside for PPE supplies

PAYCHECK PROTECTION PROGRAM

PAYCHECK PROTECTION PROGRAM OVERVIEW

- The Paycheck Protection Program (“PPP”) is a loan designed to provide a direct incentive for small businesses to keep their workers on the payroll
- PPP administered by the Small Business Administration (“SBA”)
- SBA will forgive loans if all employees are kept on the payroll for eight weeks and the money loaned was used for payroll, rent, mortgage interest or utilities
- Initial \$349 billion exhausted April 15, 2020 with second round of \$321 billion expected to be approved April 23, 2020

PPP ELIGIBILITY...WHO WE KNOW IS ELIGIBLE

- Small business, 501(c)(3) nonprofits, tribal business concerns and veteran's organizations that:
 - Have **less than 500 employees** or applicable size standard for industry as provided by SBA
 - Sole proprietors, self-employed or independent contractors
 - Were in business on February 15, 2020
- Any business concern that employs not more than 500 employees per **physical location** and are:
 - In the hotel and food service industry
 - Are franchises In the SBA Franchise Directory
 - Are small business that receive financial assistance from small business investment companies

PPP ELIGIBILITY

- We are aware of two PPP qualification methodologies used by single-sites with greater than 500 employees or multi-site organizations who in aggregate do not qualify but have less than 500 employees per campus
 - **Alternative size standard**
 - Addressed in question #2 on SBA frequently asked questions
 - A business qualifies for PPP if both of following test are met:
 - Maximum tangible net worth (net assets) is not more than \$15 million, and
 - Average net income from past two fiscal years is not more than \$5 million
 - **Religious Exemption**
 - Addressed in SBA April 3, 2020 affiliation rules applicable to PPP
 - Organizations are exempt from affiliation rules, if the relationship of a faith-based organization to another is based on religious teaching or belief that otherwise constitutes a part of exercise of religion
- Ziegler believes it is critical that organization's seeking qualification under one of these two methods review with legal counsel

PPP ROUND #1 STATISTICS

Summary

Lender Count	Loan Count	Net Approved Dollars*
4,975	1,661,367	\$342,277,999,103

* Net Approved Dollars do not reflect amount required for reimbursement to lenders per statute with CARES Act.

Loan Size

Loan Size	Approved Loan	Approved Dollars	% of Count	% of Amount
<\$150K	1,229,893	\$58,321,791,761	74.03%	17.04%
>\$150K - \$350K	224,061	\$50,926,354,675	13.49%	14.88%
>\$350K - \$1M	140,197	\$80,628,410,796	8.44%	23.56%
>\$1M - \$2M	41,238	\$57,187,983,464	2.48%	16.71%
>\$2M - \$5M	21,566	\$64,315,474,825	1.30%	18.79%
>\$5M	4,412	\$30,897,983,582	0.27%	9.03%

PPP ROUND #1 STATISTICS

States and Territories

State	Approved PPP Loans	Approved PPP Amount
AK	4,842	\$921,927,504
AL	27,922	\$4,862,690,120
AR	21,754	\$2,722,726,557
AS	2	\$419,583
AZ	19,280	\$4,846,959,062
CA	112,967	\$33,413,693,192
CO	41,635	\$7,392,960,359
CT	18,435	\$4,151,934,451
DC	3,253	\$1,247,218,727
DE	5,171	\$1,090,415,848
FL	88,997	\$17,863,199,837
GA	48,332	\$9,464,475,442
GU	508	\$102,418,346
HI	11,553	\$2,046,450,982
IA	29,424	\$4,315,688,444
ID	13,627	\$1,850,034,026
IL	69,893	\$15,972,578,071
IN	35,990	\$7,491,445,351
KS	26,245	\$4,288,652,108
KY	23,797	\$4,149,467,684

State	Approved PPP Loans	Approved PPP Amount
LA	26,635	\$5,100,534,501
MA	46,937	\$10,360,907,178
MD	26,068	\$6,537,733,687
ME	14,993	\$1,944,425,549
MI	43,438	\$10,381,310,070
MN	46,383	\$9,014,060,040
MO	46,481	\$7,547,822,023
MP	56	\$12,619,835
MS	20,748	\$2,481,000,606
MT	13,456	\$1,470,300,136
NC	39,520	\$8,005,752,270
ND	11,002	\$1,548,384,035
NE	23,477	\$2,988,890,489
NH	11,582	\$2,006,858,477
NJ	33,519	\$9,527,794,260
NM	8,277	\$1,424,408,711
NV	8,674	\$2,013,939,889
NY	81,075	\$20,345,681,101
OH	59,800	\$14,108,889,927
OK	35,557	\$4,615,708,450

State	Approved PPP Loans	Approved PPP Amount
OR	18,732	\$3,806,104,476
PA	69,567	\$15,697,648,689
PR	2,856	\$658,573,638
RI	7,732	\$1,335,777,801
SC	22,933	\$3,807,578,397
SD	11,324	\$1,369,616,339
TN	34,035	\$6,542,045,089
TX	134,737	\$28,483,710,273
UT	21,257	\$3,695,399,459
VA	40,371	\$8,721,170,223
VI	240	\$62,242,612
VT	6,983	\$1,000,127,478
WA	30,421	\$6,959,680,159
WI	43,395	\$8,317,705,842
WV	7,861	\$1,351,223,328
WY	7,618	\$837,018,372

Approvals through 4/16/20



SELECT SENIOR LIVING STATISTICS

- Ziegler has kept a data base of senior living providers who have applied for PPP loans
- Key statistics – Sample Size of 80 Communities:
 - Average number of employees per community – 309
 - Average PPP loan application amount – \$2,350,713
 - Number of banks application submitted to – 36
 - Number of communities who qualify but did not apply – 5
 - Qualifying using alternative size standard – 4
 - Qualifying using religious exemption – 1
 - Number of communities with SBA# – 50% (of those who applied)
 - Number of communities who have been funded – 30% (of those who applied)
- We are not aware of anybody who applied and has been denied

UPDATE ON ROUND 2 PPP FUNDING

- An additional \$321 billion expected to be approved on April 23, 2020
 - \$261 billion for general loan and administrative costs
 - \$30 billion by lenders with between \$10 - \$50 billion in assets
 - \$30 billion by lenders with less than \$10 billion in assets
- Even with additional funding we are aware of several banks who will NOT be accepting new applications
 - Focusing only on existing applicants who they were not able to submit before initial funds exhausted
- Secretary Mnuchin committed to clarifying applicants certification requirements
 - Focused on insuring applicants meet the intent of legislation
 - Specifically mentioned public company's with alternative access to funding should not apply

UPDATE ON PPP FUNDING

Question 31: Do businesses owned by large companies with adequate sources of liquidity to support the business's ongoing operations qualify for a PPP loan?

- Answer: In addition to reviewing applicable affiliation rules to determine eligibility, all borrowers must assess their economic need for a PPP loan under the standard established by the CARES Act and the PPP regulations at the time of the loan application. Although the CARES Act suspends the ordinary requirement that borrowers must be unable to obtain credit elsewhere (as defined in section 3(h) of the Small Business Act), borrowers still must certify in good faith that their PPP loan request is necessary. Specifically, before submitting a PPP application, all borrowers should review carefully the required certification that “current economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant.” Borrowers must make this certification in good faith, taking into account their current business activity and their ability to access other sources of liquidity sufficient to support their ongoing operations in a manner that is not significantly detrimental to the business. For example, it is unlikely that a public company with substantial market value and access to capital markets will be able to make the required certification in good faith, and such a company should be prepared to demonstrate to SBA, upon request, the basis for its certification.

PPP IMPACT ON EXISTING DEBT

- PPP is structured as loan therefore borrowers with existing outstanding debt will need to meet one of their existing additional debt tests
- The following are the most likely additional debt provision that will allow for PPP
 - Historic pro-forma test
 - Funds available for debt service from most recent audit
 - Maximum annual debt service taking into account existing debt and new PPP debt incurred
 - Balloon provision may prove helpful
 - Basket/other additional debt
 - Most indentures include ability for borrow an amount not to exceed 10% of Total Revenues
 - While the PPP loan is unsecured, subordinate debt provisions unlikely to be satisfied due to loan not mentioning subordination

STANDARD OFFICERS CERTIFICATE

COMPLIANCE CERTIFICATE OF [SENIOR LIVING PROVIDER]

The undersigned is the President and CEO of [SENIOR LIVING PROVIDER] (the “Obligated Group Representative”). This Certificate is delivered pursuant to Section 4.16 of the Master Trust Indenture dated as of April 1, 2014 (the “Master Indenture”), between the Obligated Group Representative and [TRUSTEE], as master trustee (the “Master Trustee”), in connection with the issuance of a promissory note to [LENDER] by the Obligated Group Representative in connection with a loan guaranteed by the Small Business Administration of the United States pursuant to its Paycheck Protection Program in the amount of \$XX (the “Promissory Note”).

The terms used in this Certificate shall have the meanings given to such terms in the Master Indenture.

The Obligated Group Representative hereby certifies:

1. As of the date of this Certificate, no Event of Default exists under the Master Indenture.
2. The Obligated Group Representative approves the issuance and delivery of the Promissory Note.
3. As required for the issuance of the Promissory Note pursuant to Section 4.16(a)(i) of the Master Indenture, for the most recent Fiscal Year for which audited financial statements have been filed with the Master Trustee as required by the Master Trustee, the Historical Pro Forma Debt Service Coverage Ratio of the Obligated Group was not less than 1.20:1, as evidenced by the attached **Exhibit A**.

Dated: _____

SENIOR LIVING PROVIDER

By: _____
President and CEO

PPP LOAN FORGIVENESS

- Loan recipients will be eligible for loan forgiveness equal to the sum of the following costs incurred over the 8-week period after disbursement is made to applicant:
 - Payroll cost excluding compensation above \$100,000
 - Payment of interest on mortgage obligation
 - Payment of rent obligations
 - Utilities payments
- The amount forgiven can be 100% of amount borrowed plus interest
- No more than **25%** of the forgiveness can come from non-payroll costs

PPP LOAN FORGIVENESS

- Amount of loan forgiving based on four items:
 - 1) Did applicant spend enough on allowable costs?
 - If qualified amount not equal to original amount of loan, difference remains outstanding
 - 2) Did applicant maintain FTEs?
 - Reduction in FTEs reduces amount forgiven
 - 3) Did applicant maintain wages at least 75% of prior periods?
 - Amount of reduction greater than 75% reduces amount forgiven
 - 4) Was enough of qualified spending on payroll (at least 75%)
 - Spending more than 25% of proceeds on non-payroll related expenses reduces amount forgiven

PPP LOAN FORGIVENESS

- The amount of loan forgiven is impacted by:
 - For number of employees, qualifying percentage is calculated by:
 - Total number of FTEs for covered period (8 weeks after loan) **DIVIDED BY**
 - Lower of FTEs from:
 - Period between 02/15/19 – 06/30/19
 - Period between 01/01/20 – 02/29/20
 - There is a reduction greater than 25% in wages paid to employees
 - If employee A wages were reduced from \$100,000 to \$60,000 the \$15,000 difference between \$75,000 and \$60,000 is **NOT** forgiven
 - Less than 75% spent on payroll
 - If only 70% spent on payroll amount forgiven is limited to the 70% payroll plus 25% non-payroll

PPP LOAN FORGIVENESS

- What if I have already laid off employees or reduced compensation?
 - Reductions in employment or wages that occurred between February 15 and April 26, 2020 will not reduce forgiveness **IF** by June 30, 2020 the borrower eliminates the reduction in employees or wages
- What is the definition of FTE?
 - FTE is calculated based on employees working **30 hours** per week
- Is the eight week period based on cash or accrual basis of accounting?
 - Unclear – we recommend choosing one method and apply consistently for all applications and be prepared to present data for alternative method not selected

FORGIVENESS BEST PRACTICES

- Set up dedicated bank account to track use of PPP proceeds
 - When qualified expenditure paid, requisition from dedicated account to operating account
 - If unable to create separate bank account, develop a clear system that confirms proceeds were spent on allowable expenditures
- Maintain clear documentation on allowable expenditures
 - Payroll reports and payroll tax filings
 - Preferable in same format as used for application submission
 - Third party invoices for utilities and rents
 - Debt service schedules
 - Remember – only INTEREST is allowable (not principal)
 - Bank statements

PPP OUTSTANDING LOAN

- For the portion of the loan that is not forgiven:
 - All payments are deferred for six months but interest will accrue over this period
 - Term of the loan is 2 years at an interest rate of 1%
 - Loan can prepaid anytime prior to maturity with no prepayment penalties or fees
 - Loan is unsecured

ACCOUNTING TREATMENT

At Incurrence	
<u>Debit</u>	<u>Credit</u>
Cash	Long-Term Debt
Monthly Interest	
<u>Debit</u>	<u>Credit</u>
Interest Expense	Interest Payable
Amount Forgiven	
<u>Debit</u>	<u>Credit</u>
Long Term Debt	Revenue*
Interest Payment	

* Latest guidance from leading senior living accounting firms is that the revenue caption will be called “forgiveness of debt” or “contribution” and will be included above the performance indicator

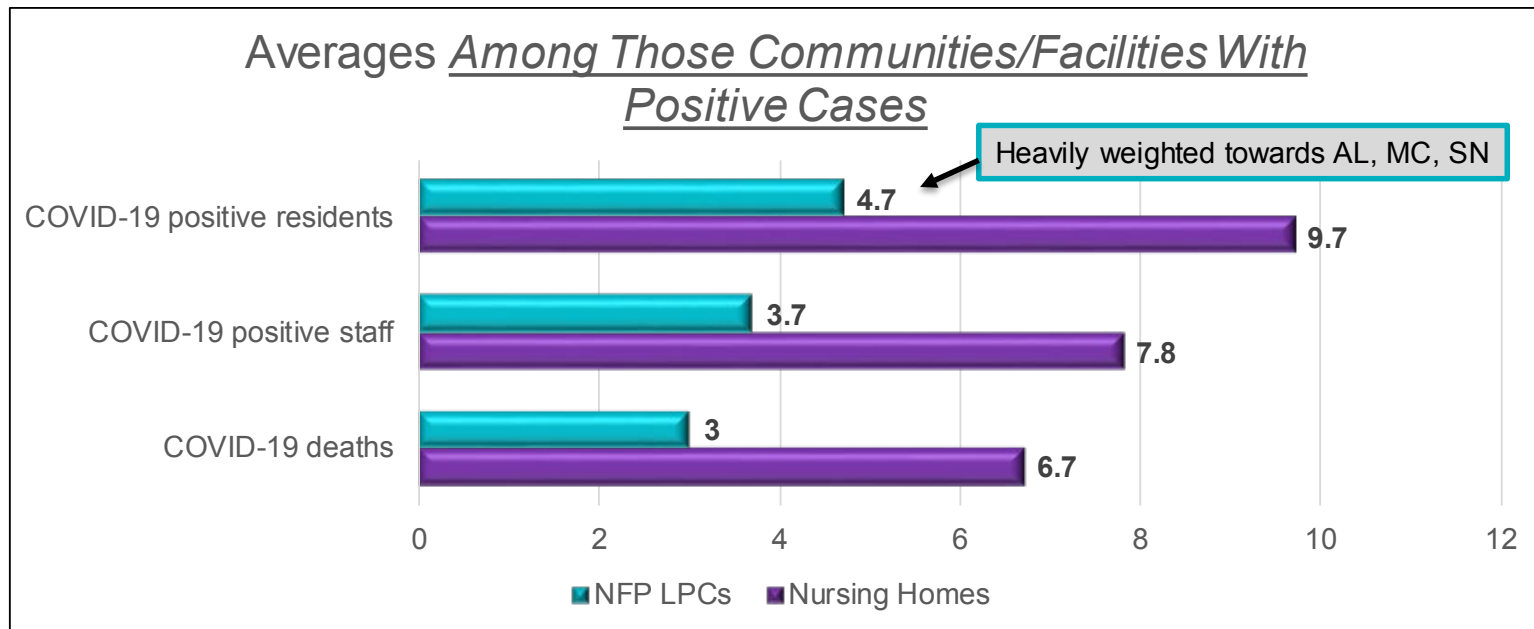
ACCOUNTING QUESTIONS – COVENANT TREATMENT

- Do initial proceeds count for liquidity covenants?
 - Yes due to funds being used for operating expenses
- Can you use PPP in income available for debt service for DSCR?
 - Not at incurrence of the loan
 - Yes for the amount forgiven (would be recognize in period forgiven)
- Can you use forgivable amount in the calculation of NOM?
 - Likely yes but ultimately be determined based on auditors classification of revenue (to be determined)

COVID-19 AND CONTINUING DISCLOSURE

COVID-19 TRACKING

- Ziegler taking role in tracking COVID-19 cases, particularly in the NFP Senior Living Sector
- NFPs have implemented restrictions and have taken an approach towards transparency
- Vast differences in COVID-19 impact market-by-market
- Roughly 25% of LPCs only have cases among staff, no resident cases



Source: Ziegler Investment Banking, April 21, 2020; public listings

NOTE: Disclosure details vary depending on source, particularly with some of the state listings of positive nursing homes; data is directional in nature

COVID-19 STATS OF ZCS MONITORED BORROWERS

ZCS actively monitors over 200 senior living borrowers. Of these borrowers:

- 37% have reported positive COVID-19 cases as of 4/22/20
- For the other 63% we are unsure whether no cases or not reporting
- 36% of those with cases were multi-site providers
- 31% are LZ 200 ranked
- 47% rated by Fitch and 4% by S&P

	Cases	Total	Percent
Monitored Borrowers with cases	74	202	37%
Directly Reported	53	74	72%
Learned through Other Means	21	74	28%
Reported on website	47	74	64%
Reported on EMMA	6	74	8%
Reported on CD call	7	74	9%
Reported using multiple methods	10	74	14%

COVID-19 TOPICS FOR DISCUSSION WITH INVESTORS

- **Actual virus case statistics and safety protocols:**
 - General (cases of both residents and staff, deaths)
 - Operations related (preparedness, staffing, supplies)
- **Sales and Occupancy:**
 - Census related (current admissions status for each level of care)
 - Local senior living marketplace
- **New Projects / Construction, if applicable**
 - Project Related (ILU sales status)
 - Construction related (progressing or stalled, opening dates, move in, etc.)
- **Financial:**
 - Balance Sheet (virus impact on unrestricted liquidity) / Investment portfolio mix
 - Bank relationships and lines of credit, if needed
 - Government Entity Support/ CARES Act
 - Paycheck Protection Program application status, what portion expected to be forgiven
 - Accounting treatment of PPP funds (debt, not grant)
 - Potential need for investor waivers/consents related to Additional Indebtedness covenant
 - Loan impact on financial ratios (DCOH, DSCR, NOM, etc.).

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