

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 working capital loans available to non-profit senior living providers
- Review Medicare Provider Relief Fund
- Provide an update on the Paycheck Protection Program (“PPP”)

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

OVERVIEW OF STIMULUS PROGRAMS

- If considering a working capital loan (in addition to the Paycheck Protection Program and Provider Relief Fund) the following are programs available to non profit senior living providers
 - Federal Payroll Tax Deferral
 - Medicare Advance Payment
 - Line of Credit with lending institutions
- Programs not currently available or limited success accessing
 - Economic Injury Disaster Loans & Emergency Advance
 - Only accepting agricultural applications
 - Main Street Lending Program
 - Viable program but Federal Reserve still working to operationalize, no guidance on when applications will be accepted
 - FEMA
 - Many have submitted applications, but unaware of funds being received

OVERVIEW OF STIMULUS PROGRAMS

FEDERAL PAYROLL TAX DEFERRAL

- **Federal Payroll Tax Deferral**

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

- **Qualification** – Eligible for any provider of payroll
- **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 should NOT cause a conflict with existing legal documents provided it would be classified as a payable rather than a loan

OVERVIEW OF STIMULUS PROGRAMS

MEDICARE ADVANCE PAYMENT

- **Medicare Advance Payment**

[cms.gov/files/document/Accelerated-and-Advanced-Payments-Fact-Sheet.pdf](https://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

PUBLIC HEALTH AND SOCIAL SERVICES EMERGENCY FUND
PROVIDER RELIEF FUND

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 be repaid
- **Amount Provided** – \$50 billion distributed based on Net Patient Service Revenue (2018 or 2019 cost report if already reviewed)
- **Other Considerations/Stipulations**
 - Payments received by direct deposit on April 10th and April 24th via Optum Bank-HHS PAYMENT
 - Within 45 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

- **Calculation** - combined payments equal:
 - **2018 Gross Patient Revenue DIVIDED by \$2.5 trillion TIMES \$50 billion**
 - Change in calculation from round one 2019 Medicare FFS to round two Gross Patient Revenue resulted in many providers receiving significantly more than originally anticipated
- **Certification/Requirements**
 - Originally 30 days but extended to 45 days
 - By May 24, 2020 – deadline for April 10, 2020 first payment received
 - By June 7, 2020 – deadline for April 24, 2020 second payment received
 - Payment shall reimburse recipient only for healthcare related expenses or lost revenues that are attributable to coronavirus
 - Not later than 10 days after end of each quarter recipient shall submit a report detailing expenses and lost revenue attributed to coronavirus

PUBLIC HEALTH AND SOCIAL SERVICES EMERGENCY FUND FREQUENTLY ASKED QUESTIONS

- What if amount of distribution is greater than expected?
 - If a provider does not have or anticipate having COVID-related lost revenue or expenses equal to or in excess of payment received, they should return funds
- Can a provider accept one payment and reject another?
 - YES – a provider may reject any payment and still be eligible for future distribution payments
- If a provider wishes to return a payment, how does it do so?
 - Contact financial institution and initiate a ACH return using return code “R23 - Credit Entry Refused by Receiver”
- Will those receiving funds and the amount received be public?
 - YES – HHS has posted a public list of providers and their payments received once they attest receiving funds and agree to terms and conditions. The list will be updated biweekly

<https://data.cdc.gov/Administrative/HHS-Provider-Relief-Fund/kh8y-3es6>

PUBLIC HEALTH AND SOCIAL SERVICES EMERGENCY FUND FREQUENTLY ASKED QUESTIONS

- What is the accounting entry when funds are received?
 - Most accountants recommending debit cash and credit deferred revenue
 - Timing to recognize into income will vary based on when revenue losses and COVID expenses are experienced

PAYCHECK PROTECTION PROGRAM

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

PPP STATISTICS

	Lender Count	Loan Count	Net Approved Dollars	Avg Loan Size
Round One	4,975	1,661,367	\$342.3B	\$206,022
Round Two	5,463	2,571,167	\$188.9B	\$73,486

- Round One ran out of funds on April 16, 2020
- Congress authorized an additional \$310 billion for Round Two
 - Program resumed accepting applications on April 27, 2020
 - Round two funding going much slower with funds still available 16 days after roll-out
 - Smaller average loan size likely due to \$60 billion earmarked for distribution by small and minority owned lending institutions who have smaller corporate customers

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 127 Communities:
 - Avg./Median number of employees per community – 334/287
 - Avg./Median PPP loan application amount - \$2,441,877/\$2,164,760
 - Number of banks application submitted to – 50
 - Number of communities who qualify but did not apply/returned – 12
 - Qualifying using alternative size standard – 6
 - Qualifying using religious exemption – 5
- We are not aware of anybody who applied and has been denied by either the Lender or SBA

PPP CERTIFICATION

“Current economic uncertainty makes this loan request necessary to support on going operations of the applicant”

- Clarification on April 23, 2020 via FAQ #31
 - “Borrowers must make 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”
- Clarification on April 29, 2020 via FAQ 39
 - SBA and Department of Treasury will review all loan in excess of \$2 million following the lender’s submission of borrower’s loan forgiveness application

PPP CERTIFICATION

- Clarification on May 13, 2020 via FAQ #46 and #47
 - All borrowers of loans less than \$2 million will be deemed to satisfy the good-faith certification requirement
 - Borrowers of loans with greater amounts can still satisfy the requirement but the SBA will review individual circumstances
 - If SBA determines borrower did not have an adequate basis for making good-faith certification, SBA will notify borrower and if borrower repays loan the SBA will NOT refer for administrative enforcement
- Summary
 - It is applicants responsibility to make good-faith certification of qualification based on all published Treasury and SBA guidance
 - If audited and SBA determines borrower did not have adequate basis for making good-faith certification, penalty is to repay loan plus interest accrued
 - Headline risk – publicity associated with having to justify or repay loan

PPP TIMING

- Lender must disburse funds no later than ten calendar days after date of SBA approval of loan
- Eight week (56-day) covered period must be the same as the day you received the PPP loan proceeds from lender
 - Exception is alternative covered period for applicants who pay bi-weekly or more frequently
- Lenders must make decisions on forgiveness within 60 days of the applicant's request
 - While further guidance may be forthcoming, SBA audit for loan greater than \$2 million will occur during this period
- No guidance on when forgiveness application must be filed
 - However, first interest payment on loan due six month from receipt which gives approximately 60 days to file for forgiveness to avoid paying interest on portion that may be forgiven

PPP LOAN FORGIVENESS

- SBA issued PPP Loan Forgiveness Application with instructions on May 15, 2020
<http://home.treasury.gov/system/files/136/3245-0407-SBA-Form-3508-PPP-Forgiveness-Application.pdf>
- Applications consist of:
 - PPP loan forgiveness calculation form
 - PPP Schedule A
 - PPP Schedule A worksheet
 - Optional demographic information form
- Forgiveness application answers many questions but similar to program application it is anticipated further guidance will continue to be provided through FAQs

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 - PAYROLL

- Covered Period
 - Borrower is eligible for forgiveness on eligible payroll cost for the eight week period (56-day) following the receipt of loan
 - First day of coverage period must be the same as the PPP loan disbursement date
- Alternative Payroll Covered Period
 - If borrower pays bi-weekly (or more frequently) can elect to calculate eligible payroll costs using eight week period (56-day) that begins on the first day of their first pay period following PPP loan disbursement date
 - Certain eligible costs can NOT use alternative period (interest, rent etc.)
- Payroll costs include both paid **AND** accrued costs
 - Payroll cost **paid** during eight week period included
 - Includes costs incurred before but paid during covered period
 - Includes all payroll costs **incurred** during covered period as long as paid during or in first pay period after covered period

PPP LOAN FORGIVENESS - PAYROLL

- Payroll costs include:
 - **GROSS** pay to employees
 - Payroll cost limited to \$15,385 per employee (annualized \$100,000)
 - Employer paid contribution to:
 - Employee health insurance
 - Employee retirement plans
 - State and local taxes assessed on employee compensation
 - Can **NOT** include employers portion federal taxes paid (FICA etc.)
 - Bonuses paid to employees
 - While not specifically addressed, it is assumed bonuses incurred and paid for work performed within covered period can be included
 - Unclear if accelerated bonuses not associated with work performed during eight-week period eligible
 - Reminder – total pay during eight week period cannot exceed \$15,385

PPP LOAN FORGIVENESS - FTE

- FTEs are calculated by looking at each individual employee
- For each employee, average number of hours paid per week divided by 40 hours (previous guidance was 30) with maximum for each employee of 1.0
 - Simplified method can be used which assumes a 1.0 for employees who work 40 or more and 0.5 for all others
- FTEs during covered period compared to LOWER of FTEs between:
 - February 15, 2019 through June 30, 2019
 - January 1, 2020 through February 29, 2020
- FTE reduction quotient is determined by dividing FTEs during covered period by FTEs during chosen reference period

PPP LOAN FORGIVENESS – FTE EXCEPTION/SAFE HARBOR

- Exceptions: Applicant CAN include in the calculation of FTEs in covered period the following if position was **NOT** filled by new employee:
 - Any positions for which borrower made a good-faith, written offer to rehire
 - Any employees who during the covered period were
 - Fired for cause
 - Voluntarily resigned
 - Voluntarily requested and received reduction of their hours
 - Any FTE reductions in these cases do **NOT** reduce loan forgiveness
- Safe Harbor if **BOTH** of following conditions are met:
 - Borrower reduced FTEs in period beginning February 15, 2020 and ending April 26, 2020
 - Borrower restored FTE level by no later than June 30, 2020

PPP LOAN FORGIVENESS NON PAYROLL COSTS

- Eligible non-payroll costs include:
 - Interest on mortgage obligations
 - Can not include any payment of principal or prepayment of interest
 - Business rent or lease payments
 - Utility payments, including:
 - Electricity, gas, water, transportation, telephone, internet
- All eligible non-payroll cost must have been in place prior to February 15, 2020
- Eligible non-payroll cost cannot exceed 25% of the total forgivable amount

PPP LOAN FORGIVENESS DOCUMENTATION

- Payroll
 - Bank account statements
 - Tax forms (941, state quarterly reporting requirements)
 - Payment receipts, cancelled checks or account statements documenting employers portion of insurance/retirement
- FTE
 - Payroll tax forms (941, state quarterly) for:
 - February 15, 2019 – June 30, 2019
 - January 1, 2020 – February 29, 2020
 - Documents may cover periods longer than specific time period
- Non-payroll
 - Copy of amortization schedules, lease agreements and invoices (or cancelled checks) for all cost included in application
- Application includes detailed list of documents each borrower needs to maintain but not required to submit

PPP BEST PRACTICES

- File with Trustee additional debt compliance certificate
- Set up dedicated bank account to track use of PPP proceeds
 - If unable to create separate bank account, develop a clear system that confirms proceeds were spent on allowable expenditures
- Include in files as much documentation as possible
- Certifications
 - Application for PPP – document and include in files rationale for requesting
 - Forgiveness certification requires a lot of math based certifications, review with knowledgeable third party to confirm interpretation/accuracy

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 likely be classified as “forgiveness of debt”/“grant”/“contribution” and will be included above the performance indicator

QUESTIONS

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