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

May 18, 2020
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

• 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

Source: IRS.GOV, as of April 22, 2020
OVERVIEW OF STIMULUS PROGRAMS
MEDICARE ADVANCE PAYMENT

• Medicare Advance Payment

• 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, straightforward application
  – Medicare committed to reviewing and issuing payment within seven calendar days of receiving request

Source: CMS.GOV, as of April 22, 2020
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

Source: HHS.gov, as of May 18, 2020
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

Source: HHS.gov, as of May 18, 2020
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

Source: HHS.gov, as of May18, 2020
PUBLIC HEALTH AND SOCIAL SERVICES EMERGENCY FUND FREQUENTLY ASKED QUESTIONS

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

Source: HHS.gov, as of May 18, 2020
PAYCHECK PROTECTION PROGRAM
OVERVIEW OF STIMULUS PROGRAMS
PAYROLL PROTECTION PROGRAM

• Payroll Protection Program

• 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

Source: Small Business Administration, as of May 18, 2020
PPP STATISTICS

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<th>Lender Count</th>
<th>Loan Count</th>
<th>Net Approved Dollars</th>
<th>Avg Loan Size</th>
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<td>Round One</td>
<td>4,975</td>
<td>1,661,367</td>
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<td>Round Two</td>
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<td>2,571,167</td>
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• 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

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

Source: Ziegler Investment Banking, as of May 18, 2020.
“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

Source: Small Business Administration, as of May 18, 2020
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 borrow 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

Source:  Small Business Administration, as of May 18, 2020
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

Source: Small Business Administration, as of May 18, 2020
PPP LOAN FORGIVENESS

• SBA issued PPP Loan Forgiveness Application with instructions on May 15, 2020

• 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

Source: Small Business Administration, as of May 18, 2020
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

Source: Small Business Administration, as of May 18, 2020
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

Source: Small Business Administration, as of May 18, 2020
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

Source: Small Business Administration, as of May 18, 2020
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

Source: Small Business Administration, as of May 18, 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

Source: Small Business Administration, as of May 18, 2020
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

Source: Small Business Administration, as of May 18, 2020
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

Source: Small Business Administration, as of May 18, 2020
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.

Source: Ziegler Investment Banking, as of May 18, 2020
QUESTIONS
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