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**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 (potentially enhanced with new PPP legislation)
  - Line of Credit with lending institutions
- Programs not currently available or limited success accessing
  - Medicare Advance Payment (Program has been suspended)
  - 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](https://www.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 (could be enhance with new Bill)
  - Deferral should NOT cause a conflict with existing legal documents provided it would be classified as a payable rather than a loan

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](http://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) and \$4.9 Supplement
- **Other Considerations/Stipulations**
  - Payments received by direct deposit on April 10<sup>th</sup>, April 24<sup>th</sup> and May 22<sup>nd</sup> via Optum Bank-HHS PAYMENT
  - Within **90** 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
  - \$50 Billion General Allocation
    - 2018 Gross Patient Revenue DIVIDED by \$2.5 trillion TIMES \$50 billion**
  - \$4.9 Billion Supplement
    - Fixed distribution of \$50,000 plus add'l \$2,500 per Medicare certified bed**
- Certification/Requirements
  - Originally 30 days, extended to 45 days now extended to **90 days**
  - 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 REPORTING REQUIREMENTS

- General Distribution Portal
  - All providers who received distribution payments prior to April 24<sup>th</sup> must provide HHS with accounting of their annual revenues by **June 3<sup>rd</sup>**
  - To be considered for future payments providers must also submit revenue information by **June 3<sup>rd</sup>**
  - Information needed for submission to portal
    - Providers program service revenue as submitted on most recent tax return
    - Estimated revenue losses in March and April 2020 due to COVID-19
    - Copy of most recently filed tax forms
    - Listing of TINs for subsidiary organizations that received funds but do not file separate tax returns

# PUBLIC HEALTH AND SOCIAL SERVICES EMERGENCY FUND REPORTING REQUIREMENTS

- Payment Attestation Portal
  - Sign attestation agreeing to terms and conditions within 90 days of payment
    - Must certify **separately** for each payment received
  - If rejecting funds, must complete attestation indicating this
  - Recipient certifies that:
    - Payments shall reimburse only for health care related expenses or lost revenues attributed to coronavirus
    - Will NOT use payments to reimburse expenses or losses that have been reimbursed from other sources

# *PUBLIC HEALTH AND SOCIAL SERVICES EMERGENCY FUND REPORTING REQUIREMENTS*

- Quarterly Reporting
  - Recipients who accept terms and conditions and received funds in excess of \$150,000 are required to submit reports no later than 10 days after end of quarter (starting with quarter ending June 30, 2020)
  - Report must include:
    - Total amount of funds received from HHS
    - Amount of funds received that were expended or obligated to each project/activity
    - Detailed list of all projects/activities including name and description

# *PUBLIC HEALTH AND SOCIAL SERVICES EMERGENCY FUND REPORTING REQUIREMENTS*

- Has HHS defined lost revenue?
  - Not clearly but FAQ noted that lost revenue can be estimated by comparing year-over-year OR budget to actual OR historic trend before COVID-19
- Has HHS defined what expenses qualify for funding?
  - All non-reimbursable expenses attributable to COVID-19 qualify for funding
- HHS has not clarified time period eligible for incurring lost revenue or increased expenses
- What should a provider be doing to track lost revenue and expenses?
  - Create general ledger accounts to track COVID-19 expenses, by department if possible
  - Maintain all invoices related to COVID-19
  - Establish and document lost revenue methodology
  - **IMPORTANT** – cannot submit same costs (payroll for example) to be compensated from two separate stimulus programs

# PUBLIC HEALTH AND SOCIAL SERVICES EMERGENCY FUND FREQUENTLY ASKED QUESTIONS

- Will there be future payments?
  - CARES Act allocated \$175 billion to healthcare providers of which HHS has distributed \$77.4 billion to date. No guidance has been provided on how/when remaining funds will be distributed.
- 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 will post bi-weekly public list of providers and their payments received once they attest receiving funds and agree to terms and conditions

<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
  
- Will a single audit be required?
  - Recipients recognizing more than \$750,000 in a fiscal year will be required to complete a single audit

# 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](http://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

	<b>Lender Count</b>	<b>Loan Count</b>	<b>Net Approved Dollars</b>	<b>Avg. Loan Size</b>
Round One	4,975	1,661,367	\$342.3B	\$206,022
Round Two	5,454	2,814,232	\$167.9B	\$59,673

<b>Loan Size</b>	<b>Loan Count</b>	<b>Net Dollars</b>	<b>% of Count</b>	<b>% of Amount</b>
\$350k and under	4,196,555	\$217,574,329,726	93.7%	42.6%
\$350K - \$1M	196,770	\$111,974,156,942	4.4%	21.9%
\$1M - \$2M	52,577	\$72,839,574,524	1.2%	14.3%
\$2M - \$5M	24,857	\$73,888,784,828	0.6%	14.5%
Above \$5M	4,840	\$33,957,652,904	0.1%	6.7%

# PPP STATISTICS – NAICS SECTOR DESCRIPTION

	Loan Count	Net Dollars	% of Amount
Health Care and Social Assistance	470,369	\$65,928,653,513	12.96%
Professional, Scientific, and Technical Services	581,708	\$65,086,484,846	12.79%
Constructions	429,185	\$63,441,199,379	12.47%
Manufacturing	218,021	\$53,490,261,475	10.51%
Accommodation and Food Services	339,642	\$40,907,011,686	8.04%
Retail Trade	416,972	\$39,625,529,718	7.79%
Other Services (except Public Administration)	468,297	\$29,878,333,377	5.87%
Wholesale Trade	157,079	\$27,382,331,546	5.38%
Admin. and Support and Waste Management and Remediation Svcs.	223,910	\$26,055,244,298	5.12%
Transportation and Warehousing	152,461	\$16,157,416,945	3.18%
Real Estate and Rental and Leasing	221,738	\$15,154,047,215	2.98%
Finance and Insurance	154,191	\$11,934,915,042	2.35%
Educational Services	73,098	\$11,735,623,051	2.31%
Other (Total of Sectors with Less than 2.00% of Total Amount)	568,928	\$43,457,446,832	8.55%

# 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 130 Communities:
  - Avg./Median number of employees per community – 333/294
  - Avg./Median PPP loan application amount - \$2,433,143/\$2,127,260
  - Number of banks application submitted to – 52
  - Number of communities who qualify but did not apply/returned – 13
  - 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

# HOUSE APPROVED PPP FLEXIBILITY ACT

- On May 28<sup>th</sup>, House of Representatives approved (417-1) PPP Flexibility Act
  - Extension of covered period for allowable used of loan from June 30, 2020 to December 31, 2020
  - Extension of covered period for forgiveness from 8 weeks to 24 weeks or December 31, 2020 whichever is earlier
  - Changes 75% payroll requirement to 60%
  - Extension of maturity of loan from 2 years to 5 years
  - Extends first required payment on loan from 6 months to the date of forgiveness is determined or 10 months
  - Changes safe harbor period for rehires from June 30, 2020 to December 31, 2020
  - Allows borrowers of PPP to take full advantage of Payroll Deferral Program

# HOUSE APPROVED PPP FLEXIBILITY ACT – SENATE REACTION

- On June 1, 2020 Senate Majority Leader Mitch McConnell and Senator Marco Rubio supported house bill
  - Senator McConnell hoped to approve legislation with a unanimous consent agreement the week of June 1<sup>st</sup>
- On June 2, 2020 several Republican Senators express disagreement with House proposal
  - Unlikely to pass on unanimous consent
  - Senator Johnson (Republican from Wisconsin) “There is no rush right now and we really ought to consider if there is a better way to do things”
- Appears likely an adjusted bill will pass but timing specifics on changes and timing unknown

# 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
- Lenders must make decisions on forgiveness within 60 days of the applicant's request
- Once lender issues decision on forgiveness, SBA has 90 days to confirm loan forgiveness
  - For loans over \$2 million, SBA will review loans for compliance with PPP rules during this 90 day period
- No guidance on when forgiveness application must be filed
  - When submitting application it is important to consider when first interest payment is due in relation to lender/SBA time parameters



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

- Latest guidance from leading senior living accounting firms is:
  - PPP loans will NOT be subject to single audit
  - Grant accounting could potentially be used which could allow recording of revenue earlier (still under review)

# QUESTIONS

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