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ZIEGLER INVESTMENT BANKING

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

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PRESENTED BY

Tommy Brewer
Managing Director
Ziegler Investment Banking
804-793-8490 (Office)
804-402-7683 (Mobile)
tbrewer@zielger.com

Tad Melton
Managing Director
Ziegler Investment Banking
804-793-8487 (Office)
804-334-5810 (Mobile)
tmelton@zielger.com

Amy Castleberry
Managing Director
Ziegler Investment Banking
312-705-7258 (Office)
410-279-3618 (Mobile)
acastleberry@zielger.com

Adam Garcia
Director
Ziegler Investment Banking
804-793-8495 (Office)
540-220-2526 (Mobile)
agarcia@zielger.com

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 (enhanced with new PPP legislation)
 - Main Street Lending Program
 - On July 6th, the Federal Reserve announced program is now fully operational which allows borrowers to submit application
 - 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)
 - 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 to December 31, 2020 (improvement in PPP Flexibility Act)
 - 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

MAIN STREET LENDING PROGRAM

- **Main Street Lending Program (MSNLF)**

<https://www.federalreserve.gov/monetarypolicy/mainstreetlending.htm>

- **Qualification** – Less than 15,000 employees OR FY19 revenues less than \$5 billion (currently accepting applications through September 30, 2020)
- **Structure** – Interest rate of LIBOR index plus 3.00% with a 5-year maturity (interest deferred 1-year, principal deferred 2-year). Principal amortization of 15% end of 3rd year, 15% end of 4th year, 70% end of 5th year
- **Amount Provided** – Minimum loan size of \$250,000 with maximum not exceeding 4x EBITDA or \$35 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 COVID-19, maintain its employees/payroll and that proceeds will **NOT** be used to prepay existing debt



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** – \$175 billion to hospitals and healthcare providers on front lines of coronavirus. Senior living distributions to date have been to all facilities and providers that received Medicare fee-for-service reimbursements in 2019
- **Structure** – Payments, not loans, and will not need to be repaid
- **Amount Provided to Date** – \$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 10th, April 24th and May 22nd 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
 - \$68.6 billion remaining with new targeted distributions expected

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

- Reporting Requirements
 - Quarterly reporting required in term sheet but FAQ on June 13th clarified
 - Recipients do **NOT** need to submit a separate quarterly report to HHS
 - However, HHS will be requiring recipients to submit future reports relating to the recipient's use of its PRF money. HHS will notify recipients of the content and due date(s) of such reports in the coming weeks
 - HHS will have significant anti-fraud monitoring of fund distributed and Office of Inspector General will provide oversight as required to ensure funds used appropriately
 - Future requirements likely to 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

FREQUENTLY ASKED QUESTIONS

- Can a provider accept Provider Relief Funds **AND** PPP
 - Yes - but it is important to note that an organization cannot submit the same costs (payroll for example) to be compensated from separate stimulus programs
- In order to accept payment must provider have already incurred expenses or losses?
 - No – providers do not need to prove at time of receipt past or future lost revenues or expenses will exceed payments received
 - Provider can use payments for expenses and losses incurred prior to the date they received payment as long as they were in response to coronavirus
- Has HHS defined what expenses qualify for funding?
 - Yes – HHS has noted that “healthcare related expenses attributable to coronavirus” is a broad term that covers a wide range of items and services including
 - Supplies and equipment used for possible or actual COVID-19 patients
 - Workforce training
 - Developing and staffing emergency operation centers
 - Reporting COVID-19 test results
 - Acquiring additional resources, including equipment, supplies, staffing and technology to expand or preserve care delivery

PUBLIC HEALTH AND SOCIAL SERVICES EMERGENCY FUND FREQUENTLY ASKED QUESTIONS

- Has HHS defined lost revenue?
 - Yes – any revenue that organization as a healthcare provider lost due to coronavirus
- For Life Plan Communities, does lost revenue only apply to nursing or can all business lines be counted?
 - Providers can report lost revenues for ALL business line under the same TIN that are actively caring for patient with COVID-19 or actively working to prevent spread
- Has HHS clarified time period eligible for incurring lost revenue or increased expenses?
 - Yes – HHS can use payments for as long as they have eligible expenses or lost revenue
 - If at the conclusion of pandemic, providers have leftover funds they will return money to HHS

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 \$106.4 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
 - Submission of single audit extended to up to six month beyond normal due date



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	5,461	2,870,516	\$179.1B	\$62,422

Loan Size	Loan Count	Net Dollars	% of Count	% of Amount
\$350k and under	4,603,224	\$226,694,236,256	94.2%	43.4%
\$350K - \$1M	199,456	\$113,442,814,223	4.1%	21.8%
\$1M - \$2M	53,030	\$73,522,278,271	1.1%	14.1%
\$2M - \$5M	24,838	\$73,841,502,099	0.5%	14.2%
Above \$5M	4,840	\$33,982,986,907	0.1%	6.5%

PPP STATISTICS

- For the total program the overall average loan size is approximately \$107,000 with over 86% of all loans being for less than \$150,000
- On July 6th, the SBA released data on borrower's receiving loans. The following are key data points for non-profit loans over \$150,000 included in NAICS category 623311 (Continuing Care Retirement Communities):

Loan Size	Loan Count	Average # of Employees	Median # of Employees	% of Loans
\$350k and under	44	49	40	10.5%
\$350K - \$1M	114	111	105	27.1%
\$1M - \$2M	147	222	216	35.0%
\$2M - \$5M	109	326	319	26.0%
Above \$5M	6	490	500	1.4%
Total	420	204	193	100.0%

PPP FLEXIBILITY ACT

- On June 5th, the President signed into law the PPP Flexibility Act
 - 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 (only for loans prior to June 5th)
 - 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

PPP LOAN FORGIVENESS

- Two forms of application for loan forgiveness:

- Standard Application (form 3508)

<https://home.treasury.gov/system/files/136/3245-0407-SBA-Form-3508-PPP-Forgiveness-Application.pdf>

- EZ Application (form 3508EZ)

<https://home.treasury.gov/system/files/136/PPP-Forgiveness-Application-3508EZ.pdf>

- The EZ application can be used for any size loan if one of the following requirements are met:

- Self employed with no employees
- Did not reduce employees' hours and did not reduce their salaries by more than 25%
- Experienced reductions in business as a result of COVID-19 **AND** did not reduce salaries by more than 25%

PPP LOAN FORGIVENESS

- Information needed for both standard and EZ forms
 - SBA and lender loan number, loan amount and distribution date of loan
 - Number of employees at application date and at forgiveness date
 - Covered period, or alternative covered period, elected
 - Qualified Payroll Costs during Covered Period
 - Qualified interest, rent/lease and utility payments
- The major advantage of utilizing the EZ form is borrowers are not required to provide detailed information to account for FTEs and salary/hourly wage reduction adjustments

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

PPP UPDATES

- PPP application period extended to August 8, 2020
 - \$132.2 billion funding remaining as of July 10, 2017
- If a borrower submitted an application but loan was cancelled prior to safe harbor date, can re-apply for new loan
- While discussed, as of today borrowers who have received funds can NOT reapply for more money
- Borrowers may submit application prior to end of 24-week coverage period however,
 - Lenders have NOT received guidance on forgiveness from SBA and most are not currently accepting applications (guidance expected late July, early August)
 - Delay in ability to submit forgiveness application could impact borrower's financial ratio calculations (specifically DSCR)
 - Borrowers likely still required to maintain FTE's through entire 24 week covered period

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

PPP ACCOUNTING TREATMENT

- PPP loans will **NOT** be subject to single audit
- Revenue recognition
 - Most conservative approach is to delay revenue recognition until loan is forgiven
 - AICPA provided guidance that MAY allow recognition earlier
 - If a NFP entity expects to meet PPP forgiveness criteria and concludes loan represents in substance a grant, it may use IAS 20 accounting
 - IAS 20 recognizes revenue when there is “reasonable assurance” conditions have been met
 - Reasonable assurance in light of SBA auditing all loans greater than \$2 million?
 - Consult your accounting firm, they have likely determine their firms approach to PPP revenue recognition



QUESTIONS

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