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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 an update on the Paycheck Protection Program (“PPP”)
 - Forgiveness process for PPP1
 - Overview of PPP2
- Review recent developments on Provider Relief Fund reporting requirements

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 PROGRAM SPECIFICS

- Loan designed to provide a direct incentive for small businesses to keep their workers on payroll
- Loans can be used to help fund payroll costs, including benefits, as well as mortgage interest, rent, utilities worker protection cost related to COVID
- Loan will be forgiven if all employee retention criteria are met and funds used for eligible expenses
 - Covered period for forgiveness from 8 weeks to 24 weeks
 - Payroll requirement of 60% of loan
 - PPP loans have an interest rate of 1%
 - Loan Maturity of 2 years (5 years for loans after to June 5th)
 - First required payment deferred until 10 months after covered period or until SBA remits loan forgiveness amount

PPP LOAN FORGIVENESS

- Three 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>

- For loans less than \$150,000, one-page certification attesting that you have complied with program requirements

- 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%

FORM 3510 – JUSTIFY ECONOMIC NEED

- On November 4th SBA released a Questionnaire asking PPP borrowers of \$2M or more to justify economic need
 - Form states that SBA is reviewing loans to maximize program integrity and protect taxpayer resources and that SBA's determination will be based on the totality of borrowers circumstances
- Form 3510 is broken down into two sections
 - Non-profit activity assessment
 - Gross revenues and expenses for second quarter 2020 compared to same 2019 period
 - Has borrower significantly altered operations or voluntarily ceased or reduced operations
 - Liquidity assessment
 - Cash, savings and endowment funds on last day of quarter before application submitted
 - Provide amount of funds received from any CARES Act program other than PPP
 - Both assessment sections allow borrower to provide additional comments
 - Likely very import for senior living providers to explain impact on operations due to COVID

PPP LOAN FORGIVENESS - FAQs

- What is the deadline for submitting forgiveness application?:
 - Borrowers may submit loan forgiveness application any time before maturity date of loan (either two or five years from origination)
 - However, if borrower does not apply for forgiveness within 10 months after end of covered period, loan payments will no longer be deferred and borrower must start making payments
- Do borrowers need to accrue interest expense on a monthly basis even if they are applying for forgiveness?
 - Varies depending on accounting treatment selected by borrower (debt versus conditional contribution), materiality (often deemed immaterial) and opinion of audit firm
- Can bonuses paid to employees qualify for loan forgiveness?
 - Yes but cash compensation per employee is limited to \$100,000 on an annualized basis

OVERVIEW OF STIMULUS PROGRAMS

PAYROLL PROTECTION PROGRAM 2

- **Qualification** – there are now two distinct PPP programs
 - **First Draw PPP1** – If you have NOT previously received a PPP loan you may apply and follow original eligibility rules
 - **Second Draw PPP2** – If you received PPP1 you can apply for PPP2 but must meet stricter requirements - Less than **300** employees, have used or will use FULL amount of first PPP AND can demonstrated at least a **25% reduction** in gross receipts between comparable quarters in 2019 and 2020
- **Structure** – All/portion of loan forgiven should certain conditions be met
- **Amount Provided** – 2.5 times average monthly payroll capped at **\$2 million**
- **Other Considerations/Stipulations**
 - Accepting applications from January 13, 2021 through March 31, 2021
 - Requires same certifications as first PPP loan
 - 60% of eligible cost must still be spent on payroll with rent, interest on loans and utilities making up remaining 40%
 - For the first time 501 (c) 6 eligible (includes chambers of commerce)

OVERVIEW OF STIMULUS PROGRAMS

PAYROLL PROTECTION PROGRAM 2

- **Qualification** – Can demonstrated at least a 25% reduction in gross receipts between comparable quarters in 2019 and 2020
 - How do we account for entrance fees?
 - Common accounting practice is to amortize entrance fees into revenue over extended period of time
 - What if cash entrances fees are down significantly but amortization revenue not impacted as materially?
 - For example community has averaged \$10 million in entrance fee receipts historically and only receives \$5 million in 2020
 - » Cash entrance fees down 50%
 - » Amortization revenue only down 5%
 - Gross receipt definition for 25% requirement is tightly connected to IRS code treatment which makes it hard to transition accounting basis from amortization to cash basis
 - We are lobby hard to anybody that will listen to consider allowing entrance fee to be measured based on cash receipt versus revenue recognition

PUBLIC HEALTH AND SOCIAL SERVICES EMERGENCY FUND
PROVIDER RELIEF FUND

OVERVIEW OF STIMULUS PROGRAMS

PROVIDER RELIEF FUND

- **Public Health and Social Services Emergency Fund – Provider Relief Fund**
www.hhs.gov/provider-relief/index.html
- **Qualification** – \$175 billion to hospitals and healthcare providers on front lines of coronavirus. Senior living distributions enhanced to include non Medicare fee-for-service providers on September 1st
- **Structure** – Payments, not loans, and will not need to be repaid if conditions met
- **Amount Provided to Date** – \$116.9 billion
- **Other Considerations/Stipulations**
 - Payments received by direct deposit
 - Within **90** days of receiving funds, providers must sign attestation confirming receipt of fund and agreeing to terms and conditions

PROVIDER RELIEF FUND ATTESTATION

- 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**
 - Not returning payment within 90 days of receipt will be viewed as acceptance of the terms and conditions

PROVIDER RELIEF FUND

DISTRIBUTIONS TO DATE

- **General Distribution Phase 1 (April 10th and 24th)**
 - \$50 billion to providers who bill Medicare fee-for-service in order to provide financial relief during the COVID-19 pandemic
 - Two rounds totaling 2% of net patient revenues (including **ALL** revenue under TIN)
- **Target Distribution (May 22nd)**
 - \$4.9 billion to skilled nursing facilities
 - Fixed distribution of \$50,000 plus \$2,500 per Medicare licensed bed
- **General Distribution Phase 2 (June 9th)**
 - \$18 billion to Medicaid providers, **opened to Assisted Living facilities Sept 1**
 - Payment equal to 2% of net patient revenues
- **Targeted Distribution (August 27th)**
 - \$2.5 billion to skilled nursing facilities
 - Fixed distribution of \$10,000 plus \$1,450 per Medicare licensed bed
 - \$2 billion in four installments (September – December 2020) based on performance measures
- **General Distribution Phase 3 (October 1st)**
 - \$20 billion true up to eligible providers who have yet to receive 2% of net patient revenues with any remaining funds to providers with excess COVID expenses

PROVIDER RELIEF FUND

DISTRIBUTIONS TO DATE

- Important to determine calculation methodology for funds already received
 - HHS has mathematical rationale for every payment, however recent incentive payments extremely difficult to calculate
 - Reconcile amount received to determine if you are due any additional funds

Life Plan Community

Provider Relief Fund Calculation

General Distribution	
Net Patient Revenue (from most recent 990 filed)	\$ 20,000,000
Multiplier	<u>2.00%</u>
Calculated Payment	<u>\$ 400,000</u>
Less: first distribution (4/10)	212,004
second distribution (4/26)	187,996
add'l (true up/phase 2)	<u>-</u>
Total distributions received	\$ 400,000
Variance	-

Targeted Distribution \$4.9B	
Fixed Distributioun	\$ 50,000
Number of beds	65
Multiplier (per bed)	<u>\$ 2,500</u>
Variable Portion	\$ 162,500
Calculated Payment	\$ 212,500
Total received (5/22)	<u>\$ 212,500</u>
Variance	\$ -

Targeted Distribution \$2.5B	
Fixed Distributioun	\$ 10,000
Number of beds	65
Multiplier (per bed)	<u>\$ 1,450</u>
Variable Portion	\$ 94,250
Calculated Payment	\$ 104,250
Total received (8/27)	<u>\$ 104,250</u>
Variance	\$ -

Example is hypothetical and for illustrative purposes only
Source: HHS.gov, as of January 15, 2021

PROVIDER RELIEF FUND

REPORTING REQUIREMENTS

- On January 15th HHS released new guidance which significantly changes reporting requirements that had been significantly changed several other times previously
 - Recipients that received more than \$10,000 will be required to submit reports that demonstrates compliance with terms and conditions
 - First report no longer required by February 15, 2021 with no clarity on when it will be due
 - Portal opened January 15, 2021 but only for initial registration
 - Question: Should a provider complete registration?
 - No right or wrong answer but we recommend waiting provided not a requirement, there appears to be no advantage in doing so, and things may change again

PROVIDER RELIEF FUND

REPORTING REQUIREMENTS

- Reports will include four data points
 - Demographic information (type of PRF received, TIN, fiscal year end, etc.)
 - Interest earned on PRF Payment (lots still to learn on this)
 - Expenses attributable to COVID not reimbursed by other sources
 - Lost revenues attributable to COVID
 - Additional non-financial data (Personnel, patient metrics, facility metrics)
- For expenses and lost revenues, requires a two step application of funds:
 - Step 1 – healthcare related expenses attributable to COVID that another source has not reimbursed
 - Step 2 – funds not fully expended on expenses are then applied to lost revenues

PROVIDER RELIEF FUND

STEP 1 - EXPENSES

- “Expenses attributable to coronavirus may be incurred both in treating confirmed or suspected cases of coronavirus, preparing for possible or actual coronavirus cases, maintaining healthcare delivery capacity, etc.”
- Two categories of expenses (more detail required for entities receiving more than \$500,000)
 - General and Administrative
 - Mortgage/rent, insurance, personnel, benefits, lease, utilities/operations, other G&A
 - Health Care Related Expenses
 - Supplies, equipment, IT, facilities, other healthcare related
- Expenses must be **net of other reimbursed sources**

PROVIDER RELIEF FUND

STEP 2 – LOST REVENUES

- PRF payments not fully expended on expenses are then applied to patient care lost revenue
- Recipients may choose to apply one of the three following options for lost revenue
 - 1) Calendar Year 2020 vs Calendar Year 2019
 - 2) Calendar Year 2020 budget versus 2020 actual
 - So long as budget approved prior to March 27, 2020
 - How about non calendar year ends?
 - 3) Calculated by any reasonable method of estimating revenue
 - Amazingly broad definition!
 - Recipient must explain why rationale is reasonable
 - Those using this methodology will face increased likelihood of an audit by HRSA

PROVIDER RELIEF FUND

STEP 2 – LOST REVENUE

- Revenue included in net patient care operating income
 - Medicare, Medicaid, Commercial Insurance, and Self-pay patient revenue net of uncollectible amounts
 - No mention of investment income or contributions received
- Do we need to report funds received from PPP, FEMA and other sources?
 - Yes you will need to include in additional data section but we do not believe these funds will be included in lost revenue calculations

PROVIDER RELIEF FUND

FREQUENTLY ASKED QUESTIONS

- Will we receive future guidance and will compliance requirements change again?
 - HRSA plans to offer webinars in advance of reporting deadline and issue FAQ to provider greater clarity
- What if we did not expend all PRF funds by December 31, 2020 ?
 - Recipients will have until June 30, 2021 to use remaining amounts towards COVID expenses or lost revenue
 - For lost revenue can compare Q1/Q2 2021 to EITHER Q1/Q2 2019 or Q1/Q2 2020
- Are PRF still subject to Single Audit requirement?
 - Yes – reporting entities who received more than \$750,000 will be required to complete single audit

QUESTIONS

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