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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

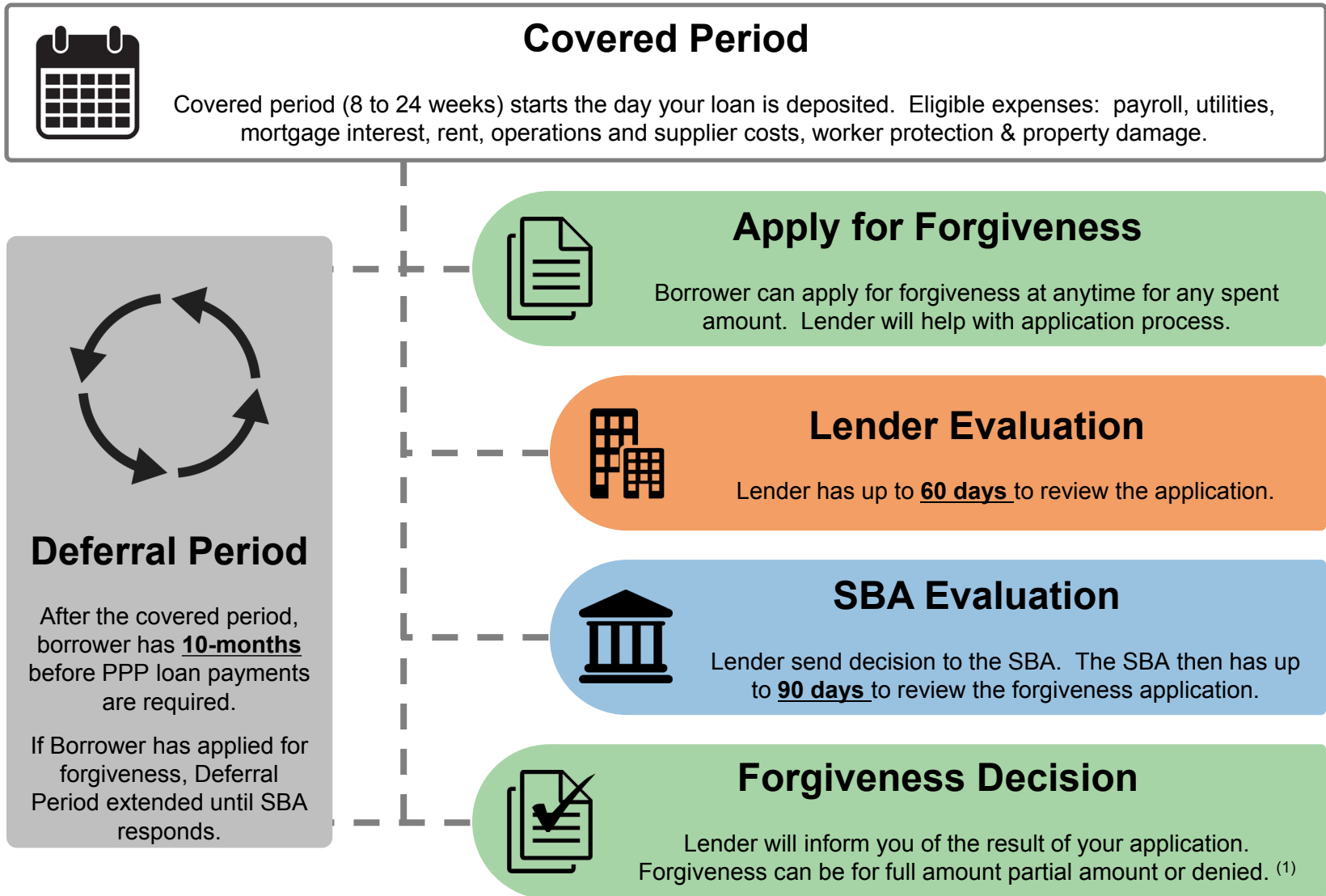
- Provide an update on the Paycheck Protection Program (“PPP”)
 - Forgiveness process for PPP1
 - Overview of PPP2
- Review recent developments on Provider Relief Fund reporting requirements
- Review Employee Retention Credit and applicability to Not-For-Profit (“NFP”) Life Plan Communities

STIMULUS MOST APPLICABLE TO NFP PROVIDERS

- Accelerated/Advanced Payment for Medicare Providers and Suppliers
- Deferral of employer payroll tax
- Business interruption insurance
- **Paycheck Protection Program**
- **Provider Relief Fund**
- FEMA Assistance
- Main Street Lending Program
- State Specific Programs
- **Employee Retention Credit**

PAYCHECK PROTECTION PROGRAM

PPP FORGIVENESS TIMELINE



(1) If borrower does not agree with the lender's decisions, borrower can request that SBA review the forgiveness application again. If borrower does not agree with the SBA's decision, borrower can appeal.

Source: Graphic derived from information from the Small Business Administration, as of 03/16/21

UPDATED ON THE PPP1 LOAN

- \$1.9 trillion stimulus package expanded eligibility for larger 501c(3) organizations that employ more than 500 in aggregate but less than **500 employees per physical location**
- PPP1 Loan Forgiveness
 - Many (most) borrowers have sent in forgiveness application to their bank
 - For loans < \$2 million, process appears to move fairly quickly with few complications
 - For loans > \$2 million, slower process with SBA with responses from only a few received to date (Questionnaire 3510 almost always required)
- What if I haven't applied for forgiveness yet?
 - There is no deadline to apply for PPP loan forgiveness
 - However, if a borrower does not apply for loan forgiveness, payments are deferred for 10 months after end of covered period (between 8 and 24 weeks). Upon the end of the deferral period you will be required to start making monthly payments with loan terms of 1% on a two-year (prior to June 5, 2020) or five-year (after June 5, 2020) term
 - Loan payments will be deferred for borrowers who apply for loan forgiveness until SBA remits the borrower's loan forgiveness amount to lender

UPDATED ON THE PPP1 LOAN FORGIVENESS

- 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
- I have submitted forgiveness application to bank but have not heard back by March 18, 2021, do I need to file a new forgiveness application?
 - Potentially, new forgiveness application went into effect on March 18, 2021 and we have heard from several borrows that they have been required to submit new applications provided their bank has not yet approved their loan. Check with your lender on status.
 - While resubmitting forgiveness application slows down timing and creates more work, fortunately differences in applications are very minor
- Are interest payments on our bonds eligible for forgiveness?
 - Yes although we are hearing from several borrowers that their banks are excluding these interest payments – not sure why.

OVERVIEW OF 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 or will use FULL amount of PPP1 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

OVERVIEW OF PAYROLL PROTECTION PROGRAM 2

- **Qualification** – Can demonstrate 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?
 - 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 accrual/ amortization to cash basis
 - We are lobbying 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

PROVIDER RELIEF FUND

DISTRIBUTIONS TO DATE

- **General Distribution Phase 1 (April 10 and 24, 2020)**
 - \$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 22, 2020)**
 - \$4.9 billion to skilled nursing facilities
 - Fixed distribution of \$50,000 plus \$2,500 per Medicare licensed bed
- **General Distribution Phase 2 (June 9, 2020)**
 - \$18 billion to Medicaid providers, **opened to Assisted Living facilities September 1, 2020**
 - Payment equal to 2% of net patient revenues
- **Targeted Distribution (August 27, 2020)**
 - \$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 1, 2020)**
 - \$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

UPDATE ON PROVIDER RELIEF FUND

- Many organizations still receiving funds with most funds received tied to incentive program for September – December 2020
- New funding approval
 - No news on additional provider relief funds included in package
 - Additional funding for testing and vaccinations
 - Leading Age National asking for help completing survey to make case to Congress for the need for additional funds
- Reporting requirement
 - No new updates since January 15, 2021 HHS release
 - Recipients that received more than \$10,000 will be required to submit reports that demonstrates compliance with terms and conditions
 - Date of first required report unknown
 - 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.

EMPLOYEE RETENTION CREDIT

EMPLOYEE RETENTION CREDIT (“ERC”)

- **What is ERC?**

- A refundable tax credit against certain employment taxes that was established in March 2020 by the CARES Act to address organizations that have been materially impact by COVID-19
- The IRS urges employers to take advantage of the employee retention credit, designed to make it easier for businesses that, despite challenges posed by COVID-19, choose to keep their employees on the payroll.

- **Why are we just hearing about this now?**

- ERC was significantly altered December 27, 2020 in the Taxpayer Certainty and Disaster Tax Relief Act
- Original plan was primarily for organizations with less than 100 qualifying employees and those that received PPP were **NOT** eligible for ERC
- New ERC regulations impacts 2020 qualification standards but significantly improves 2021 opportunity
 - PPP loan recipients are now eligible for ERC
 - Full credit for organizations increased from 100 to 500 or fewer **full time employees**

EMPLOYEE RETENTION CREDIT (“ERC”)

- Most likely opportunity for LPCs is for the first quarter of 2021
- How much is the potential refundable tax credit?
 - For 2021, ERC credit is equal to 70% on up to \$10,000 of qualifying wages per quarter (total value up to \$7,000 per employee per 2021 quarter)

Total Number of Qualified Employees	350
Employees making less than \$40,000 per year	300
Average Annual Compensation	\$ 30,000
Average Quarterly Compensation	\$ 7,500
Credit Percentage	70%
Total ERC for Qualified Employees Making \$40,000 or less	\$ 1,575,000
Employees making more than \$40,000 per year	50
Maximum Quarterly Compensation	\$ 10,000
Credit Percentage	70%
Total ERC for Qualified Employees Making \$40,000 or more	\$ 350,000
Total Potential ERC per Quarter	\$ 1,925,000

EMPLOYEE RETENTION CREDIT (“ERC”)

- ERC qualification requirements
 - Gross Receipts – experienced a 50% (for 2020) or 20% (for 2021) or greater decline in gross receipts compared to the same quarter in 2019
 - Government Mandate – Offices were closed, or operations partially suspended by government order
- Most LPCs did not experience a greater than 20% or 50% decline in gross receipts so qualification dependent on government mandate
 - IRS FAQ on this topic: "orders from an appropriate governmental authority" if they limit commerce, travel, or group meetings due to COVID-19 in a manner that affects an employer's operation of its trade or business, including orders that limit hours of operation
- Ability to meet Government Mandate is subjective with no guidance provided that is specific for LPCs
 - Can vary dramatically based on inconsistent local government mandates and diversity of business operations (nursing, home health, childcare, etc.)

EMPLOYEE RETENTION CREDIT (“ERC”)

- Summarized below is a summary of the key ERC requirements

	Employee Retention Credit	
	2020	2021
Qualification Standards		
Significant Decline in Gross Receipts Threshold	50%	20%
Government Mandate	Yes	Yes
Max Number of Employees Allowed to Claim Credit on All Wages Paid	100	500
Applicable Dates	03/13/20 - 12/31/20	01/01/21-12/31/21
Credit Percentage Applied to Qualified Wages	50%	70%
Per Employee Wage Limit	\$10,000 per yr	\$10,000 per qtr
Maximum Annual Credit Per Employee	\$5,000	\$28,000
Eligible if Obtained PPP Loan	Yes - retro	Yes

EMPLOYEE RETENTION CREDIT (“ERC”)

- How are full time employees determined for 100 (2020) or 500 (2021) test?
 - It is a 1 or none calculation based on number of employees who work 30 hours a week or more
- Is there economic uncertainty provision similar to PPP?
 - No, qualification tied specifically to revenue decline or government mandate
- How is credit administered?
 - Tied to quarterly 941 reporting
 - Reduce qualifying credit from federal taxes withheld from employees
 - May require submitting an amended return if organization has already filed 941
- Who is arbiter related to taking credit?
 - Borrower determines whether it meets criteria and amount of credit
 - Like all 941 submissions, reporting is subject to IRS audit
- If you want to learn more, think you qualify or want to pursue what are recommended next steps?
 - Reach out to your accounting firm for guidance (both audit and tax professionals)
 - Consider getting help documenting qualification
 - Consider getting help documenting determination of qualifying employees

QUESTIONS

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- A registered broker deal with SIPC & FINRA
- Ziegler provides is clients with capital raising, strategic advisory services, equity & fixed-income trading and research
- Founding 1902, Ziegler specializes in the healthcare, senior living, and educational sectors as well as general municipal finance

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