

H.R. 748 – Coronavirus Aid, Relief, and Economic Security Act: Small Business Loans

The McManus Group

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Overview of Key Provisions Relevant to Physician Practices

- **\$349B Small Business Paycheck Protection Program**
 - Loans that can convert into grants for businesses up to 500 employees for businesses adversely impacted by COVID crisis
- **\$100B in Grants from Health Emergency Fund**
 - Funding for health infrastructure and medical supplies related to treating COVID cases

Paycheck Protection Program

Appropriates \$349 billion for to the Small Business Administration (SBA) for loans to help business impacted by coronavirus

Who qualifies?

- ASCs and other businesses impacted by coronavirus with no more than 500 employees

How much is available per firm?

- Lesser of \$10 million; or
- Average monthly payroll of previous year multiplied by 2.5

Duration:

Covered loan period of Feb 15, 2020 to June 30, 2020

The SBA will release guidance within 30 days of enactment

How can SBA Loan Be Forgiven?

The following criteria must be met:

- 1. Loan recipient spends all funds on “Qualified Expenses”**
 1. Payroll up to \$100k per person, prorated
 2. Other business operation expenses: Rent, mortgage, utilities, independent contractors, interest on other debt obligations, health benefits, interest on debt, family, paid sick or medical leave
- 2. For full loan forgiveness you must have no employee-based reduction (reduction formula on next slide)**
- 3. Salaries per employee cannot decrease by more than 25% compared to the most recent full quarter of employment**

To encourage firms to rehire your laid-off employees, they will not be penalized for having a reduced payroll at the beginning of the period so long as they hire back the same number of employees that were employed on February 15 by June 30

Partial Loan forgiveness

1. All spending must be for "Qualified Expenses"
2. Reduces loan forgiveness proportionately to the reduction in number of full-time employees retained compared to last year and reduced by the reduction in pay of any employee greater than 25% compared to last year.
 - Average monthly full-time employees from 2/20-6/20 divided by either:
 - Average number of monthly full-time employees from 2/19-6/19; OR
 - Average number of monthly full-time employees from 1/20-2/20

Example:

- Firm has payroll of 100 employees in 2019 and 150 in 2020, it can pick the lower number as the base (100)

Examples of Loan Forgiveness

Full Forgiveness Example

- Firm had 100 employees February 15, 2020
- Firm laid off 25 employees in March 2020 but rehires them within 30 days of bill enactment and maintains a monthly average of 100 employees through June 30th
- Firm will get full loan forgiveness

Partial Forgiveness Example

- Firm had 100 employees February 15, 2020
- Firm laid off 25 employees in March 2020 and did not rehire
- Firm received a \$1 million loan
- Only \$750,000 of that loan would be forgiven

Applying for a loan

- **Businesses can apply for covered loans through private lenders including credit unions until June 30, 2020**
 - Borrowers make good faith certification that coronavirus-related business concerns make loan necessary, funds will be used to retain workers and/or make mortgage/rent payments
 - Qualifying business concerns include staffing challenges, decrease in sales or customers, closures, or supply chain disruptions
- **Any remaining balance after loan forgiveness will have a maximum maturity of 10 years and maximum interest rate of 4%**
- **Loans will be deferred for at least 6 months and up to 1 year**

Loan Amount Calculation

- **The maximum loan amount shall be the lesser of:**
 - Average total monthly payroll during 12 months before the the loan is made * 2.5 = loan amount
 - For new companies⁺, average total monthly payroll payments for 1/1/20 and 2/29/20 * 2.5 = loan amount
 - \$10 million
- **Payroll costs include the sum of any compensation to an employee:**
 - Salaries or wages (includes full-time, part-time, and contractors)
 - Payment for vacation, parental, family, medical, or sick leave
 - Allowance for dismissal or separation
 - Payment for group health care benefits
 - Payment for retirement benefits
 - Payment of state and local tax on compensation of employees
 - Does NOT include compensation for employees making more than \$100,000 annual salary and qualified sick or family leave covered under the Families First COVID Bill

*This is only applicable for businesses not in business between February 15, 2019 to June 30, 2019

Applying for Loan Forgiveness

- **Borrowers can apply directly to their lenders for loans to be forgiven so long as the funds were used for qualifying expenses**
 - Borrowers must show documentation (including voided checks, payroll tax filings with the IRS, or receipts) that loans were used for qualifying expenses
- **There is no deadline to apply for loan forgiveness and lenders must make a qualification determination within 60 days of receiving an application**
- **The amount of loan forgiveness is not taxable**

Prioritization

- **Prioritizes loans for:**
 - Entities in underserved areas
 - Businesses in rural markets
 - Veterans and members of the military community
 - Minority owned businesses
 - Women
 - Businesses in operation for less than 2 years

\$100B Public Health Emergency Fund

- **Grants to help health care providers:**
 - “Prevent, prepare for, and respond to the coronavirus and to reimburse providers for health care related expenses loss of revenue attributable to coronavirus”
- **Use of Funds:**
 - “Building or construction of temporary structures, leasing of properties, medical supplies and equipment (including PPE), increased worker training, emergency operations centers, retrofitting facilities and surge capacity.”
 - Cannot be expenses or losses that are reimbursed through other sources

Application Process

- **Providers must submit an application, which includes a statement of justification for need and amount requested, Medicare eligibility and the tax ID number**
- **HHS will hire a third-party claims processor (similar to Medicare Administrative Contractor) to handle distribution**
 - The processor will use criteria provided by HHS to determine if the provider is eligible and if the amount is justifiable
- **Guidance from HHS expected shortly**

Distribution of Grant Funds

- **Depending on what Secretary determines is most efficient and practicable, could be made**
 - Pre-payment,
 - Prospective payment; or
 - Retrospective payment
- **Wide latitude is provided to HHS, with many unknowns, including more specific criteria and appeals process**
- **HHS shall conduct audits of the program and send its findings to Congress**

Sequestration Suspension

- **Section 3709 suspends Medicare sequestration from May 1 to December 31, 2020**
 - Removes 2% pay cut on all Medicare services
- **Extends sequester from 2029 sunset to 2030**