Session 1: CARES Act Paycheck Protection Program

April 6, 2020

The link to the recording is here. Use passcode nGZ39nRh to unlock.
Welcome!

- There is no hold music when your audio connects, so thank you for your patience. The presentation will begin shortly.
- ALL Attendee audio is muted.
- Use one of the 3 audio options: Call Using Computer (recommended option), Call Me (BEST telephone option), or Call In (MUST enter ATTENDEE ID)
- Chat to ALL PANELISTS.
- This session is being recorded.
Welcome!

Opening Remarks:
Sandra Morgan, HCA SVP Physician and Provider Relations and Transfer Centers
Erik Larsen, HCA VP Special Assets
# Agenda

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Paycheck Protection Plan Overview

Erik Larsen
Before We Begin

**DISCLAIMER:** These slides and the information presented is as of **April 6, 2020**, and subject to revision and interpretation based on pending rules and regulations. In addition, these slides and the information presented is only a summary of more detailed information and may not contain all the information that is important or relevant to you. These slides and the information presented are solely for your information, and no representation or warranty, expressed or implied is made. You should not place undue reliance on the accuracy, fairness or completeness of the information presented.

**SCOPE:** This HCA program is intended to assist independent physicians, including those on our medical staff, have access to hospital medical records or receive primary care physician notifications, but not PSG physicians. Our PSG physicians (both employed and foundation model) are likely not eligible to participate in the PPP loans or the Medicare Advance program based on the eligibility criteria for such programs. PSG is evaluating, however, and plans to pursue on behalf of PSG any actionable programs.
Summary of Program and Key Loan Terms

The CARES Act is a $2 trillion economic stimulus package that includes $349 billion in Small Business Administration (SBA) 7(a) and SBA Express loans designated to keep staff employed and provide emergent liquidity to keep businesses of less than 500 employees from failing.

The Paycheck Protection Program (PPP) provides federally guaranteed loans of up to $10 million and includes the potential for partial or complete forgiveness of a loan, as long as employers maintain their payroll or restore their payrolls afterward and satisfy other criteria.

| Loan Application | • As of April 3, applications for PPP loans for small businesses and sole proprietorships were made available through SBA authorized lenders. As early as April 10, applications for PPP loans are available for submission specific to independent contractors and self-employed individuals. |
| Coverage Period | • Retroactive to February 15, 2020 and extends through June 30, 2020 |
| Maximum Loan Amount | • Equals the lesser of (i) 2.5x the average total monthly payroll costs from past year, or (ii) $10 million |
| Use of Proceeds | • Payroll costs, interest on mortgages, or other debts incurred before the covered period, rent and utilities (limitation of 25% for non-payroll costs) |
| Loan Terms | • 1.0% fixed interest rate  
• 2-year term (only applies to unforgiven loan balance) |
| Loan Deferral & Forgiveness | • Payment of principal, interest and fees will be deferred for 6 months; however, interest will continue to accrue over this period  
• Up to 100% of the principal amount may be forgiven subject to proper documentation and may not apply to entire loan amount  
• Not more than 25% of the forgiven amount may be for non-payroll costs |
Latest Updates: Paycheck Protection Program

• Program went live Friday, April 3 for small businesses and sole proprietorships. Independent contractors and self-employed can apply as early as April 10.
• SBA and Treasury have provided updated guidance through the weekend and promised more to come.
• Current program is $349B and first come, first served with some estimates for program demand in excess of $1 Trillion, but the Treasury Secretary, Sen. Rubio and others have indicated support for expanding the program as needed, but that would most likely require congressional action.
  o Wells Fargo reports having accepted their maximum allowable $10B in loan applications
  o Band of America received over 99,000 applications for over $25B in loan volume in its first day
• Many lenders are still experiencing challenges going-live with technical glitches and incomplete rules from Treasury and the SBA.
• Program started on Friday with existing SBA lenders, but regulators have created a simplified and accelerated process for other lenders to join program.
• Many banks started with rules for prioritizing different groups of existing clients, which some have since relaxed, however all lenders are still subject to Bank Secrecy Act and Anti-Money Laundering regulations which will impact timing for applicants establishing new lending relationships.
Needed Information for the Application

Borrower must complete an Application Form and provide payroll documentation and a good-faith certification as to COVID-19 impact, use of funds, attestation of no other pending applications for a covered loan, and no duplicative funds received.

To calculate eligible loan amount (Collect all source documentation):

- Payroll reports for 2019 and 2020 year-to-date for employees and officers that show:
  - Gross wages
  - Paid time off/paid vacation
  - Pay for family, medical, or sick leave
  - State and local taxes assessed (form 940, 941 or 944)
  - Allowance for separation or dismissal
  - 1099s for independent contractors (if applicable)
- Completed 2019 tax return OR 2019 Profit and Loss Report and Balance Sheet
- Funds received in the form of an Economic Injury Disaster Loan from January 31, 2020 to April 3, 2020
- Payments for group health care benefits including premiums paid in 2019 to 2020 year-to-date
- Payment of any retirement benefits paid in 2019 and 2020 year-to-date

To verify forgiveness amount:

- Quarterly IRS forms 940, 941 or 944 for the following dates:
  - March 31, 2019 and June 30, 2019
  - March 31, 2020 and June 30, 2020, when available
- Documentation in the form of canceled checks, payment receipts and bank statements showing payment of the following items from Feb. 15, 2020 to June 30, 2020:
  - Mortgage Interest
  - Rent payments
  - Utilities
Is My Practice Eligible to Apply?

- An entity generally is eligible for the PPP if: (i) it was in operation on February 15, 2020 and (ii) it, combined with its affiliates, is:
  - A small business under existing SBA regulations, or
  - Has 500 or fewer employees whose principal place of residence is the U.S.

- How do I count employees to be sure my practice qualifies?
  - The number of employees is based on the average number of employees for each of the pay periods for the preceding completed 12 calendar months.
  - Employees include full, part-time and temporary employees and employees working for the practice through a leasing or temporary agency.
  - Part-time and temporary employees are counted the same as full-time.
  - An owner of a practice is considered an employee, so long as the owner works a minimum of 40 hours.
  - Generally, employees exclude independent contractors and volunteers.
• Affiliate Rules: When counting the number of employees, a practice must also include all of the employees of any affiliate. Generally, affiliation exists when one business controls or has the power to control another. Affiliation with another entity may arise out of:
  – Ownership;
  – Stock options, convertible securities or agreements to merge;
  – Management; or
  – Identity of interest between close relatives (identical (or substantially identical) business or economic interest)

• Control may be affirmative or negative control. The ability by a minority shareholder to prevent a quorum or otherwise block action by the board of directors or shareholders would be considered control.

• Ultimately, the application of the affiliate rules can be complex and fact intensive, practices need to consider all existing contractual or investment interest of the practice, its owners and their close relatives.
How Do I Calculate How Much I Can Borrow?

- **HOW MUCH CAN I BORROW?**
  - Loans can be up to 2.5x the borrower’s average monthly payroll costs, not to exceed $10 million
  - Calculation of the maximum loan amount does not equate to the calculation of the maximum forgivable amount

- **HOW DO I CALCULATE MY AVERAGE MONTHLY PAYROLL COSTS?**
  - Average monthly sum of included payroll costs (listed below) from the last 12 months

- **INCLUDED PAYROLL COSTS ARE:**
  - Gross wages before deductions for taxes withheld, benefit deductions per payroll:
    - Salary, wage, commission, or similar compensation
    - Cash tips or equivalents
    - Vacation, parental, family, medical or sick leave
    - Dismissal or separation allowance
    - Payment of state or local taxes assessed on employee compensation
  - Employer portion of group healthcare benefits payments
  - Retirement benefits payments

- **EXCLUDED PAYROLL COSTS ARE:**
  - Compensation of employees and owners in excess of $100,000 annually
  - Compensation for employees with a principal place of residence outside of the United States
  - Taxes imposed or withheld under Chapters 21, 22 or 24 of IRS Code of 1986
    - April 2, 2020 Guidance (2 g.iii) – “Federal employment taxes imposed or withheld between Feb 15, 2020 and June 30, 2020, including employee’s and employer’s share of FICA and Railroad Retirement Act taxes, and income taxes withheld from employees
  - Sick leave and family leave wages for which credits are allowed under sections 7001 and 7003 respectively of the Families First Coronavirus Response Act
How Do I Calculate How Much I Can Borrow? (Continued)

- SPECIAL TOPIC
  - As an owner of the physician practice, can I include my own compensation in the loan amount calculations?

  - If you are an owner who is also a full-time employee of the business who receives wages (salary, wage, commission or similar compensation), your wages, up to the $100,000 maximum per employee, can be included in the eligible monthly payroll costs.
    - Distributions you receive as an owner of the business are not eligible for inclusion in the monthly payroll cost amount.
How Do I Calculate How Much I Can Borrow? (Continued)

Where do I find the information for these calculations?

### KEY PAYROLL CATEGORIES

<table>
<thead>
<tr>
<th>Included Payroll Costs</th>
<th>WHERE THIS INFORMATION IS TYPICALLY LOCATED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Wages</td>
<td>Practice P&amp;L, Payroll Register*, 1099s, IRS 940,941,944**, OTHER***</td>
</tr>
<tr>
<td>Salary, wage, commission, or similar compensation</td>
<td>YES</td>
</tr>
<tr>
<td>Cash tips or equivalents</td>
<td>YES</td>
</tr>
<tr>
<td>Vacation, parental, family, medical or sick leave</td>
<td>YES</td>
</tr>
<tr>
<td>Dismissal or separation allowance</td>
<td>YES</td>
</tr>
<tr>
<td>Payment of state of local taxes assessed on employee compensation</td>
<td>YES</td>
</tr>
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<td>Employer portion of group healthcare benefits payments</td>
<td>YES</td>
</tr>
<tr>
<td>Retirement benefits payments</td>
<td>YES</td>
</tr>
</tbody>
</table>

### Excluded Payroll Costs

- Compensation of employees and owners in excess of $100,000 annually: YES
- Compensation for employees with a principal place of residence outside of the United States: YES
- Taxes imposed or withheld under Chapters 21, 22 or 24 of IRS Code of 1986: YES
- Federal employment taxes including FICA and Railroad taxes and income taxes withheld: YES
- Sick leave and family leave wages for which FFCRA credits are allowed: YES

* Payroll register may be from an independent third-party who is preparing payroll for the practice or from an internal reporting software when payroll is prepared by the practice.

Whether payroll is prepared internally or externally, the payroll register should be able to identify wage information by individual and by earning type, including vacation, parental, family, medical or sick leave.

** May be requested by the lenders as specific documentation to be provided.

*** TPA=Third-Party Administrator
How Will Loan Forgiveness Work?

• What we know:
  o Loan must be used for payroll costs, mortgage interest, rent and utilities, and **not more than 25% of the forgiven amount may be for non-payroll costs.**
  o You will also owe money if you do not **maintain your staff and payroll or restore it by June 30.**
    ▪ Number of Staff: Your loan forgiveness will be reduced if you decrease your full-time equivalent employee headcount.
    ▪ Level of Payroll: Your loan forgiveness will also be reduced if you decrease salaries and wages by more than 25% for any employee that made less than $100,000.
    ▪ Re-Hiring: You have until June 30, 2020 to restore headcount and salary levels for any changes made between February 15, 2020 and April 26, 2020.

• To receive forgiveness you must **submit a request** to the lender that is servicing the loan and **include documents** that verify the number of full-time equivalent employees and pay rates, as well as the payments on eligible mortgage, lease, and utility obligations. You **must certify** that the documents are true and that you used the forgiveness amount to keep employees and make eligible mortgage interest, rent, and utility payments.

• The lender must make a decision on the forgiveness within 60 days, and forgiven indebtedness shall be excluded from gross income for IRS purposes.
Loan Forgiveness: Key Considerations

• Additional guidance from the SBA is still needed.
• Document, document, document…
  o Maintain records for your application calculations
  o Maintain detailed receipts and records of your expenses during the covered period
• Keep in mind an amount equal to 75% of the loan proceeds must be paid out in qualifying payroll costs over the 8 weeks following the date of the loan.
  o If you or any employee has reduced or deferred compensation below the amounts used to calculate the maximum loan and the deferment continues during the 8 week period, it may reduce your payroll payments below the 75% threshold for forgiveness
• Amounts not forgiven will remain outstanding as an unsecured loan subject to 1% interest and maturity 2 years after the original loan date, with all payments deferred for the first 6 months.
Case Study

• Medical Practice of Everywhere, LLC
  o 4 Physician owners with average annual 2019 salary and benefits of $250,000 each (not including owner distributions)
  o 10 full-time employees with average annual 2019 wages and benefits of $60,000 each
  o The practice also has:
    ▪ Monthly rent and mortgage interest of $10,000
    ▪ Monthly utilities of $5,000
  o On March 31, 3 staff employees were laid off and 7 reduced pay by 25%, and 4 physicians reduced pay 50%

• Key topics:
  o How much can I borrow?
  o What are eligible costs?
  o How should I think about loan forgiveness?
## Case Study

**Sample Practice (Partnership, LLC or Corporation)**

### MAXIMUM LOAN CALCULATION

<table>
<thead>
<tr>
<th>Employees</th>
<th>Number of FTEs</th>
<th>Individual Annual Payroll Costs</th>
<th>Eligible Payroll Costs</th>
<th>2019 Total Eligible Payroll Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physician Owners</td>
<td>4</td>
<td>$250,000</td>
<td>$100,000</td>
<td>$400,000</td>
</tr>
<tr>
<td>Staff</td>
<td>10</td>
<td>$60,000</td>
<td>$60,000</td>
<td>$600,000</td>
</tr>
<tr>
<td><strong>Total Annual Eligible Payroll Costs</strong></td>
<td></td>
<td><strong>$1,000,000</strong></td>
<td></td>
<td><strong>$208,333</strong></td>
</tr>
</tbody>
</table>

**FORGIVENESS CALCULATIONS**

**IF WORKFORCE IS RESTORED TO 2019 LEVELS:**

- **8 Weeks of 2019 Equivalent Payroll (2019 / 52 Weeks * 8 Weeks):** $153,846
- **Non-Payroll Costs: Monthly Mortgage Interest (Not Principal), Utilities and Rent:** $15,000
- **8 Weeks of Non-Payroll Costs (8 weeks = 56/30.5 Days = 1.84 Months):** $27,541
- **Covered Period Payroll Costs (IF RESTORED) For 100% Forgiveness This Must Be > 75%:** $153,846
- **Covered Period Non-Payroll Costs:** $27,541
- **Total Eligible Payments During Covered Period:** $181,387
- **Portion Potentially NOT Forgiven if Maximum Loan Accepted:** $26,946

**IF APRIL 1 EFFECTIVE PAYROLL REMAINS IN PLACE FOR COVERED PERIOD:**

<table>
<thead>
<tr>
<th>Employees</th>
<th>Number of FTEs</th>
<th>Individual Annual Payroll Costs</th>
<th>Eligible Payroll Costs</th>
<th>Eligible Payroll Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physician Owners</td>
<td>4</td>
<td>$125,000</td>
<td>$100,000</td>
<td>$400,000</td>
</tr>
<tr>
<td>Staff</td>
<td>7</td>
<td>$45,000</td>
<td>$45,000</td>
<td>$315,000</td>
</tr>
<tr>
<td><strong>Total Annual Eligible Payroll Costs</strong></td>
<td></td>
<td><strong>$715,000</strong></td>
<td></td>
<td><strong>$137,541</strong></td>
</tr>
<tr>
<td><strong>8 Weeks of April 1 Effective Payroll For 100% Forgiveness This Must Be &gt; 75%:</strong></td>
<td></td>
<td><strong>80.0%</strong></td>
<td></td>
<td><strong>$110,000</strong></td>
</tr>
<tr>
<td><strong>Covered Period Non-Payroll Costs:</strong></td>
<td></td>
<td><strong>20.0%</strong></td>
<td></td>
<td><strong>$27,541</strong></td>
</tr>
<tr>
<td><strong>Total Eligible Payments During Covered Period:</strong></td>
<td></td>
<td><strong>100.0%</strong></td>
<td></td>
<td><strong>$137,541</strong></td>
</tr>
<tr>
<td><strong>Proportional Headcount Reduction (11/14 = 79%) Further Reduces Potential Forgiveness:</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>$108,068</strong></td>
</tr>
</tbody>
</table>
Key Takeaways for Practices

1. Call your bank as soon as possible to determine if they are a PPP lender.
   - If so, apply as fast as possible.

2. Begin collecting the necessary information to apply.
   - Discuss with your practice manager.
   - Call your accountant and 3rd party payroll provider (if applicable) to request needed information.

3. Consult with a lawyer if you have unique eligibility considerations, such as an employee count around 500, or potential affiliate questions or issues.

4. Prepare today for loan forgiveness by keeping documentation of all application calculations and detailed records of costs incurred during the covered period of the PPP loan.
Expert-led Q&A
Meet Our Panelists

Rob Harris, Partner at Waller Lansden

Rob Harris is a Partner and the Financial Services Industry Chair at Waller based in Nashville, Tennessee. Rob specializes in commercial finance. His areas of focus include acquisition and development financing, senior and subordinated credit facilities, double lockbox structures to facilitate healthcare asset-based lending, healthcare cash-flow lending and leveraged recapitalizations.

David McMillan, Managing Principal, Consulting Services, PYA, PC

David leads PYA’s national consulting practice and serves as the firm’s Chief Financial Officer. For nearly three decades, he has served clients across the country, leading engagements that include strategic planning exercises, merger and acquisition projects, physician-hospital alignment projects, compensation design, and fair market valuation services.

Debbie Ernsberger, Principal, PYA, PC

Debbie has 21 years of experience providing tax planning and review of federal and state returns for healthcare entities, insurance companies, businesses, and tax-exempt organizations. She provides analysis and guidance to hospitals and practices groups on compensation, mergers and acquisitions, and joint ventures, and does due diligence to support them.
Questions?

Please submit your using the Webex chat feature
Coming Soon!
Medicare Accelerated and Advance Payment Program Webinar

Erik Larsen
Closing Remark and Next Steps

Sandra Morgan
Thank you!

Access CARES Act, PPP and other COVID-19 resources here, including the following information packets:

• Paycheck Protection Program
• SBA Loan Workflow
• Accelerated and Advance Payment Program
• Health Care Provider Grant Program
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