

EMERGENCY CASH FLOW PLANNING

STROUDWATER'S CALL TO ACTION IN RESPONSE TO COVID-19

Updated 5/07/2020 12:00 pm with changes from previous version shown in red

Immediate recommended/preferred course:

- Prepare cash forecast
 - Immediately file for Accelerated/Advanced payments which will support operations for next 90 days
 - Recognize receipt of your organization's Public Health and Social Services Emergency Fund (PHSSEF) Grant \$50B distributed on 4/10 and 4/24 and continue preparing information to support
 - Incremental costs of COVID-19 patients
 - Lost revenue due to deferring elective services
 - Recognize that additional grant revenue under the PHSSEF program will be distributed via the remaining \$50B of CARES Act and an additional \$75B with the passage of the Paycheck Protection Program and Health Care Enhancement Act
 - Recognize Small and Rural Hospital Improvement Program (SHIP) grant
 - If applicable, reach out to local Small Business Administration (SBA) lenders and submit application to receive Paycheck Protection Forgivable Loan program (PPP) funds
 - For organizations not eligible for SBA PPP program, evaluate payroll tax credits and deferrals
 - File Federal Emergency Management Agency Request for Public Assistance document and begin tracking eligible costs
 - Evaluate Economic Injury Disaster Loan (EIDL) and Emergency Economic Injury Grants (EEIG)
 - Evaluate Main Street Lending program as source of additional capital
 - Request 12-month principal and interest deferral on USDA Community Facilities Direct Loans
 - Critical Access Hospitals (CAHs) to prepare interim prospective cost report and submit to Medicare Audit Contractors (MACs)
 - File updated Medicare rates with Medicare Advantage (MA) plans
 - Negotiate Periodic Interim Payments (PIPs) with third party payers
 - Work with bank to open and/or expand line of credit
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- **All rural hospitals should immediately prepare cash flow projections.**
 - 26-week financial projection that evaluates the impact of reduced elective/deferred services and potential increased services related to care for COVID patients
 - *Goal: quantify cash flow to determine timing of need for additional working capital*
 - **Accelerated/Advanced Payments**
 - Intended to provide necessary funds when there is a disruption in claims submission/processing or offered in circumstances of national emergencies in order to accelerate cash flow to impacted healthcare providers

- New guidance by CMS on 4/26 indicates that effective 4/26, CMS will not be accepting any new applications for the Advanced Payment Program, and CMS will be reevaluating all pending and new applications for Accelerated Payments
- Amounts (based on 7/1/2019-12/31/2019 PS&R information):
 - 100% of Medicare payment amount for a 3-month period
 - CAHs can request 125% of Medicare payment for a 6-month period
- Timing:
 - Receipt within 7 calendar days of receiving request
 - Request submitted to MACs using forms found on their websites
- Repayment:
 - For most providers, repayment begins 120 past receipt and expected to be repaid in full within 12 months for CAHs and 3 months for others
 - At the end of the 120-day period, 100% of claims submitted by the provider will be offset to repay the accelerated/advanced payment
 - Hardship exceptions allowed if necessary
- Interest:
 - Interest free for first 395 days (one year plus 30-day notification period) for CAHs and 210 days (six months plus 30-day notification period) for others
 - Interest at 10.25% after 30-day notification period
- **Public Health and Social Services Emergency Fund (PHSSEF) Grants (\$100B) plus an additional \$75B signed into law on 4/24**
 - Paycheck Protection Program and Health Care Enhancement Act signed into law on 4/24 approved an additional \$75B to be distributed to healthcare providers
 - Qualifying expenses include all non-reimbursable expenses attributable to COVID-19 including:
 - Building or retrofitting new Intensive Care Units (ICUs)
 - Increased staffing or training
 - Personal Protective Equipment (PPE)
 - Building of temporary structures
 - Foregone revenue from cancelled procedures
 - \$50B of PHSSEF grants are allocated to providers based on providers' proportional share of 2018 net patient revenue and distributed as follows:
 - \$30B of funds distributed as "payments" on 4/10 and 4/17 based on 2019 Medicare fee for service (FFS) payments they received
 - Formula for distribution was as follows:
 - $\text{Distribution} = \text{Provider 2019 Medicare FFS Receipts} / \$484B \times \$30B$
 - The remaining \$20B was distributed on 4/24 to augment providers' earlier distribution so that the combined distributions will be based on providers' proportional share of 2018 total net patient revenue

- On 4/24, a portion of providers were automatically sent advance payments based on the revenue data they submit in CMS cost reports with the remaining payments sent out weekly as revenue information is verified
 - Providers without cost reports will have to submit their revenue to a portal that opened week of 4/20
- Providers who have already received a payment from the Provider Relief Fund are now eligible to apply for additional funds by submitting data
 - Relief Fund Application Portal has been deployed in order to collection information from all providers who have already received distributions prior to 4/24
 - Information required includes provider's "Gross Receipts or Sales" or "Program Service Revenue" and estimated revenue losses in March 2020 and April 2020
- Targeted allocations include:
 - \$10B targeted distributions to hospitals and other facilities that have been particularly affected by the increased burden of caring for coronavirus patients and must submit information to portal **prior to midnight on 4/25 including:**
 - Total number of ICU beds as of 4/10/2020
 - Total number of admissions with a positive diagnosis for COVID-19 between 1/1/2020 and 4/10/2020
 - Allocation for treatment of the uninsured
 - Providers treating uninsured COVID-19 patients after 2/4 can request claims reimbursement at Medicare rates, subject to available funding
 - HRSA notice on 4/27 indicates portal now open at: (coviduninsuredclaim.linkhealth.com) with sign-ups beginning 4/27 and claims begin being submitted on 5/6
 - \$10B allocated to rural hospitals and rural health clinics (RHCs) and rural Federally Qualified Health Centers (FQHCs)
 - *On 5/7, \$10B allocated to rural hospitals, RHCs and rural FQHCs according to the following formula:*
 - *CAH and Rural PPS Providers*
 - *Base Payment (\$3M on \$10M of operating expense):*
 - *50% of first \$2M op exp = \$1M*
 - *40% of second \$2M op exp = \$.8M*
 - *30% of third \$2M op exp = \$.6M*
 - *20% of fourth \$2M op exp = \$.4M*
 - *10% of fifth \$2M op exp = \$.2M*
 - *Add-on to base payment:*
 - *2% of operating expense including the base portion (approximate 2%)*
 - *Rural Health Clinics*

- *Freestanding RHCs: \$103,253K each plus a 3.7% add-on payment*
 - *Provider-based RHC: No base per RHC (expenses included hospital expenses)*
 - *Federally Qualified Health Clinics*
 - *All Sites located in a rural area will receive \$103,253K per site*
 - **Within 45 days of receipt of payments, providers must attest to receipt and accept terms and conditions which include, but are not limited to:**
 - Providers must agree not to seek collection of out-of-pocket payments from a COVID-19 patient that are greater than what the patient would have otherwise been required to pay if the care had been provided by an in-network provider
 - 10 days after end of each calendar quarter, recipients receiving more than \$150K shall submit report to the Secretary and the Pandemic Response Accountability Committee, which will include:
 - Total amount of funds received under all the COVID-19 acts
 - Amount of funds expended or obligated for each project/activity
 - Detailed list of all projects/activities
 - Name and description of the project
 - Estimated number of jobs created or retained by the project
 - Detailed information on sub-contracts/grants awarded
- **Small Rural Hospital Improvement Program (SHIP) Grant (\$150M)**
- Funding to be awarded to states through SHIP grant mechanism and amount to between \$71K and \$84K per hospital
 - In order to streamline the process, eligible rural hospitals will not have to file a grant request to receive these funds
 - The intent of these dollars is to be broad and covers COVID related activities including *“responding to the increased need for testing, clinical services, and equipment to meet the needs of the community as well as to address financial and workforce challenges related to the impact of the COVID-19 public health emergency.”*
 - *“While the FY2020 Coronavirus SHIP funding will be awarded through SHIP, it is specifically for COVID-19 needs and is not intended to fall within the existing SHIP funding categories.”*
 - *“Award recipients may not use grant funds for costs that are reimbursed or compensated by other federal or state programs including but not limited to the SBA PPP, PHSSEF grants, or unemployment compensation.”*
- **Small Business Administration (SBA) Paycheck Protection Program (PPP) (\$349B) and an additional \$310B with the passage of the Paycheck Protection Program and Health Care Enhancement Act**
- Provides 100% federally guaranteed loans to small businesses that may be forgiven if borrowers maintain their payrolls during the crisis or restore their payrolls afterward
 - Program available through June 30, 2020 or ***until funds made available are exhausted on a first come, first served basis***
 - Eligibility

- Small business with fewer than 500 employees (full-time, part-time, and any other status) or otherwise meets the SBA’s standard size
 - **FAQ on 5/3 clarifies that “small business concerns” can qualify if they have greater than 500 employees if:**
 - They meet employee (500) or revenue-based standards (\$41M for hospitals); or
 - If they meet both tests for “Alternative size standards”
 - Maximum tangible net worth not more than \$15M; and
 - Average net income (after taxes) for two fiscal years prior to application is not more than \$5M
 - Tax-exempt nonprofit 501(c)(3) with fewer than 500 employees, or any other business
 - “500 employees” include employees of affiliates where affiliates include:
 - Affiliates based on ownership
 - Affiliates based on stock options, convertible securities, and agreements to merge
 - Affiliates based on management
 - Affiliates based on identity of interest
 - In operation on February 15, 2020 with employees and/or contractors
 - Interim Final Rule dated 4/24 states that governmental entities, otherwise eligible to receive PPP, are eligible “if the hospital receives less than 50% of its funding from state or local governmental sources, exclusive of Medicaid”
 - **FAQ on 5/3 states that “nonprofit hospital exempt from taxation under section 115 of the Internal Revenue Code as meeting the definition of “nonprofit organization” under section 1102 of the CARES Act....”**
- Loans
 - 2.5 times borrower’s average monthly payroll costs, not to exceed \$10M
 - Note that payroll costs include salary, wages, vacation, payment for group healthcare benefits, and state and local taxes assessed on the compensation
 - Excluded costs include compensation of an individual in excess of an annual salary of \$100K, as prorated for the period 2/15/20-6/30/20
- Loan amount forgiven is equal to the amount borrower spent on the following during 8-week period beginning on date of loan origination:
 - Included costs (note that loan forgiveness cannot exceed principal):
 - Payroll costs
 - Interest on mortgage obligation
 - Rent on a leasing agreement
 - Payments on utilities
 - There is a reduction in loan forgiveness if there is a reduction in the number of employees or a reduction of greater than 25% in wages paid
 - Loan forgiveness must be applied for through lender with application to include:

- Documentation verifying number of employees, pay rates, Internal Revenue Service (IRS) payroll tax filings, etc.
 - Documentation on payments on covered mortgage, lease and utilities
 - Certification that documentation provided is true and in accordance with criteria
- Other provisions:
 - Waives borrow and lender fees; “credit elsewhere” test; and collateral and personal guaranteed requirements
 - Interest rate will be 1%
 - No prepayment penalties
 - Loan can be deferred by 6 months
 - Loan maturity is two years
 - 75% of loans proceeds shall be used for payroll costs
- **Payroll Tax Credit and Deferral (for organizations not participating in SBA PPP)**
- Refunded tax credit against an employer’s share of Social Security payroll taxes (6.2%) for 50% of up to \$10K of qualified wages paid to each employee between 3/13/2020-12/31/2020 if either:
 - Employer’s business is fully or partially suspended by government order; or
 - Employer’s gross receipts are below 50% of comparable 2019 quarter (until receipts go above 80% of same quarter)
 - If the employer had greater than 100 employees in 2019, credit is allowed only for wages paid to employees who did not work during the quarter
 - Program not available for any governmental agency
 - Deferral of employer portion of Social Security taxes between 3/27/200 and 12/31/2020 with 50% repayment on 12/31/2021 and 50% repayment on 12/31/2022
 - No penalties or interest if deposited on stated dates
- **Federal Emergency Management Agency (FEMA) Grants**
- Provides grants through the Public Assistance (PA) program to cover costs of “emergency protective measures that are taken to save lives, protect public health and safety, and to protect improved property”
 - Requires President’s Emergency Declaration for covered area
 - Between 3/13/20 and 4/5/20, States were declared Major Disaster Areas
 - Eligibility
 - Grant “Recipients” include states, territorial, or tribal governments
 - Applicants/Subrecipients include:
 - Private non-profit organizations
 - Public hospitals
 - Note: private entities may be eligible if they contact with governmental agency to carry out emergency protective measures
 - All eligible entities must submit their Request for Public Assistance (RPA) as soon as possible and begin tracking their costs for the duration of the response

- Reimbursable Costs
 - 75% of costs of emergency protective measures (Category B) and 100% of management costs (Category Z), not otherwise reimbursed including (but not limited to):
 - Triage and medically necessary tests related to COVID-19 cases
 - Emergency medical treatment of COVID-19 patients
 - Prescription costs related to COVID-19 patients
 - Purchases of PPP, DME, and consumable medical supplies
 - Medical waste
 - Emergency medical transport
 - Excluded costs include long-term medical treatment including inpatient admissions, costs that extend past the emergency period, and administrative costs
- Eligibility
 - Costs must be tied directly to eligible work, adequately documented, and necessary and reasonable to accomplish work including:
 - Labor
 - Overtime only for budgeted staff
 - Unbudgeted staff
 - Equipment and leased equipment
 - Material
 - Contract services
- **Economic Injury Disaster Loans (EIDL) & Emergency Economic Injury Grants (EEIG)**
 - *Note an additional \$10B for grants and \$50B for loans approved by Senate on 4/21/2020*
 - EEIG will provide emergency advance of up to \$10K within three days of applying for EIDL
 - Advance does not have to be repaid
 - Lower interest loans of up to \$2M, with principal and interest deferral available for up to 4 years to pay for expenses that could have been met had the disaster not occurred
 - Interest rate 3.75% for small businesses and 2.75% for non-profits
 - Repayment terms flexible based on borrower's ability to repay up to 30-years
 - Borrowers cannot use EIDL loan proceeds for same purpose of PPP proceeds
 - Eligibility includes small business concerns (meeting SBA criteria) and private, non-profits
- **Main Street Lending Program**
 - Provides up to \$2.3T in loans to U.S. based small and mid-size businesses through one of:
 - Main Street New Loan Facility (MSNLF)
 - Main Street Expanded Loan Facility (MSELF)
 - Primary Market Corporate Credit Facility (PMCCF)
 - Eligibility
 - United States based small and mid-size businesses up to 10K employees or \$2.5M in annual revenues
 - Terms
 - Four-year term loans

- Principal and interest deferred for first year
- Interest at Secured Overnight Financing Rate (SOFR) + 250-400 basis points
- \$1M minimum loan size
- Maximum loan size lessor of \$25M/\$150M or 4X/6X 2019 EBITDA
- Fee of 100 basis points on principal paid by borrower to lender
- Restrictions
 - Borrowers will comply with certain compensation, stock repurchase, and capital distributions until 12 months after the loans are no longer outstanding
 - Proceeds not to be used to repay other loan/line of credit balances
- **USDA Community Facilities Direct Loan 12-Month Payment Deferral**
 - April 21, 2020 Federal Register Notification of Direct Loan Payment Deferrals for the Community Facilities Direct Loan Program
 - Upon written request received from borrowers prior to September 30, 2020, “USDA may assist borrows that are temporarily unable to continue making payments of principal and interest due because of temporary cash flow issues resulting from COVID-19”
 - State Directors have authority to approve payment deferral on loans less than \$10M
 - Agency Administrator review and approval required for loans greater than \$10M and loans that have both a direct loan and a guaranteed loan
- **Enhanced COVID-19 patient payments**
 - 120% for inpatients
 - 20% add-on for patient admitted with COVID-19 through duration of emergency period
 - Telehealth services
 - During emergency period, removes criteria that established patient and allows beneficiary to be seen in their home
 - Allows FQHCs and RHCs to act as distant sites
 - Payment rate to be \$92, after reprocessing of claims in July 2020
 - Costs excluded from the RHC all-inclusive rate
 - Discontinuation of Sequestration
 - Temporary lift of Medicare sequesters from 5/1/20-12/31/20
 - Delay Medicaid Disproportionate Share Hospital (DSH) reductions
 - Delay the scheduled implementation of State DSH reductions through 11/30/20
- **CAH interim cost reports**
 - CAHs to prepare interim cost reports reflected reduced elective services/procedures so that cost-based rates are immediately reflected
 - Medicare Advantage (MA) plans notified immediately of new rates
- **Accelerated payments from third-party contracts**
 - Rural hospitals to immediately reach out to all commercial payers (including MA plans) requesting Periodic Interim Payments (PIPs)

Questions regarding the above summary and related management actions can be directed to:

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