

March 30, 2020

CARES Act Financial Resources to Assist Hospitals and Health Systems during COVID-19 Crisis

Legislation includes several loan and payroll tax provisions that may help hospitals and health systems maintain adequate cash flow

The Coronavirus Aid, Relief and Economic Security (CARES) Act authorized \$2.2 trillion in new spending to help individuals and businesses weather the economic downturn caused by COVID-19, as well as to provide critical resources to the health care system. It included a number of new payment mechanisms for health care providers, such as the opportunity for accelerated and periodic interim payments under the Medicare program and a dedicated \$100 billion to an emergency fund for the Department of Health and Human Services to, in part, make grants to providers. However, several provisions relevant to hospitals and health systems as businesses and employers may provide additional sources of needed revenue. These include:

Small Business Administration (SBA) Loans via the “Paycheck Protection Program.” This new loan opportunity is targeted to both for-profit and nonprofit organizations with fewer than 500 total employees and is intended to help businesses maintain their workforce through the economic downturn. Hospitals that meet all of the eligibility criteria (described below) are eligible to participate and may access funds to pay salaries and benefits, among other uses. Under certain circumstances, these loans (or a portion of them) may be forgiven. The AHA estimates that approximately 700 hospitals may be eligible for a total of \$7 billion.

Payroll Tax Delay. Employers may delay payment of the employer share of the Social Security portion of the Federal Insurance Contributions Act (FICA) between the date of enactment and Dec. 31, 2020. This payroll tax delay essentially functions as an interest-free loan for nine months, which would need to be repaid over the next two years. Nearly all hospitals and health systems would be eligible for these delayed payments unless they had received and had forgiven a small business loan under the Paycheck Protection Program. We estimate that this provision could reduce hospital and health system expenditures by a total of \$15 billion in 2020.

Other Business Loans through the Federal Reserve. The legislation authorizes \$500 billion in business loans using the Federal Reserve’s emergency lending authority. While these loans may be available to a wide range of businesses, the legislation directs the Treasury “to endeavor to implement” loan programs specifically targeted for nonprofit organizations and businesses between 500 and 10,000 employees, subject to additional

loan criteria and obligations on the recipient. Given uncertainty around eligibility and potential uptake among hospitals and health systems, the AHA has not estimated the financial resources that may be available to the field through this mechanism.

More information on the Paycheck Protection Program and the Payroll Tax Delay follow. We intend to provide additional information on the loan program through the Federal Reserve in the near future.

HIGHLIGHTS OF PAYCHECK PROTECTION PROGRAM & PAYROLL TAX DELAY

Paycheck Protection Program

Eligibility: Organizations must meet the following criteria to be eligible:

- Be for-profit or nonprofit. Public/governmental hospitals and health systems do not qualify.
- Have fewer than 500 total employees, including both full- and part-time employees. In calculating the number of employees, the SBA will apply its “affiliation rules,” which are intended to identify whether an organization is under common ownership and control of any other organization and, if so, whether the combined employee count of all affiliated entities falls below the 500 employee threshold. While there are some criteria for determining affiliation, the SBA has some discretion through an assessment of the “totality of circumstances.” The AHA anticipates that most, if not all, hospitals that are part of systems would be subject to the affiliation rules and therefore be unlikely to qualify.

Value of Individual Loans: Applicants may request loans up to the lesser of:

- 2.5 times the amount of average monthly payroll costs, excluding any compensation above an annual salary of \$100,000; and
- \$10 million.

Uses of Funds: Recipients of these loans can use them to pay:

- Salaries and benefits, including state and local taxes;
- Rent, utilities and interest on mortgages; and
- Interest on existing debt.

Terms: These loans are subject to the following terms:

- Lenders must allow borrowers to defer payments on the loan for at least six months (but not more than one year).
- Borrowers that either: 1) retain all of their employees on payroll, or 2) by June 1, 2020 rehire employees to reach their prior staffing levels are eligible for some amount of loan forgiveness. The amount eligible to be forgiven is equal to eight weeks of payroll costs, mortgage interest, rent and utility payments

AHA Estimated Total Value for Hospitals and Health Systems: \$7 billion

Application Process: These loans are available through private lenders and guaranteed by the SBA. Interested organizations should go to the [SBA website](#) for more information.

Payroll Tax Delay

Eligibility: Eligible organizations must meet the following eligibility criteria:

- All employers, regardless of type (e.g., for-profit, nonprofit, public/governmental) are eligible.
- Any organization that has received and had forgiven a loan under the Paycheck Protection Program is not eligible.

Value of Payroll Tax Delay:

- Employers can defer payment of the 6.2% FICA tax, which is applied to wages below \$137,700 in 2020.
- The delay is available for approximately nine months of 2020 (April – December 2020).

Uses of Funds:

- There is no requirement on employers related to use of any money saved through this provision.

Terms:

- These payroll taxes must ultimately be paid, with 50% due by Dec. 31, 2021 and the remaining 50% due by Dec. 31, 2022.

AHA Estimated Total Value for Hospitals and Health Systems: \$15 billion

FURTHER QUESTIONS

If you have questions, please contact AHA at 800-424-4301.