

**SENATE FISCAL AGENCY  
 MEMORANDUM**

**DATE:** April 30, 2020

**TO:** Members of the Michigan Senate

**FROM:** Ellyn Ackerman, Ryan Bergan, John Maxwell, Fiscal Analysts; and Steven Angelotti, Associate Director

**RE:** Federal Stimulus Acts in Response to the Coronavirus Pandemic: Paycheck Protection Program and Health Care Enhancement Act

House of Representatives bill (H.R.) 266, the Paycheck Protection Program and Health Care Enhancement Act was signed into law on April 24, 2020, and provides a fourth round of Federal aid related to the Coronavirus disease 2019 (COVID-19) pandemic. The Act provides an additional \$310.0 billion for the Paycheck Protection Program (PPP); \$60.0 billion in additional funds for loan and other grant programs identified in the Coronavirus Aid, Relief, and Economic Security (CARES) Act; and \$100.0 billion in supplemental appropriations for the Public Health and Social Services Emergency Fund, of which \$75.0 billion is for hospitals and health care providers, and \$25.0 billion is for research, manufacture, purchase, and expansion of capacity for COVID-19 tests.

**H.R. 266 DETAILS**

**Division A - Small Business Programs**

**Sec. 101 - Amendments to the Paycheck Protection Program, Economic Injury Disaster Loans (EIDL), and Emergency Grants.** The Act increased the appropriation for the PPP by \$310.0 billion, from \$349.0 billion to \$659.0 billion. It set aside at least \$60.0 billion for loans to be made by small financial institutions (those with less than \$50 billion in assets) and community development financial institutions.

The PPP is a loan program operated by the US Small Business Administration for small businesses and certain other organizations to provide short-term cash flow assistance during the covered period, which is from February 15, 2020, through June 30, 2020. Loans generally are available for businesses, nonprofit organizations, veterans organizations, and tribal business concerns with fewer than 500 employees, including sole proprietorships, self-employed individuals, and independent contractors. The maximum loan amount is 250% of average monthly payroll costs. In addition to the above amount, a borrower that received an EIDL after January 31, 2020, may refinance that loan under the PPP. The maximum loan amount for any eligible organization is \$10.0 million. Loan proceeds can be used for employee-related costs (payroll, health care, sick leave, etc.), interest on a mortgage or rent, utilities, and interest on other debt obligations incurred before the covered period. The loan principal may be forgiven under certain circumstances. The amount forgiven will be the amount of eligible costs incurred in the eight-week period beginning on the loan date, but no more than the original principal amount of the loan. To receive the full amount of loan forgiveness, the borrower generally must maintain the same number of employees it had before February 15, 2020, and salary or wages of each employee of at least 75% for the covered period. For more detailed information about the program, see the

Senate Fiscal Agency memo re: Federal Stimulus Acts in Response to the Coronavirus Pandemic (March 31, 2020).

The Act also increased the appropriation for EIDL loans by \$50.0 billion, and emergency grants for EIDL loans by \$10.0 billion, from \$10.0 billion to \$20.0 billion. These are loans administered by the US Small Business Administration that can be used for immediate needs, like sick leave, payroll, increased material costs, rent or mortgage on the business property, and debt payments that cannot be covered because of loss of revenue. The funds may not be used for certain expenditures, such as physical repairs, expansions, bonuses, or the refinancing of long-term debt. The requirements and terms of EIDL loans are different from PPP loans, and it is possible for a business to qualify for and receive both types of loans. The emergency grants provide up to \$10,000 that applicants can use while waiting on an underwriting decision for an EIDL loan. The grants can be used for the same purposes as an EIDL loan. They do not need to be repaid, even if the applicant is denied an EIDL loan. The Act specifies that small agricultural enterprises (fewer than 500 employees) are eligible for EIDL loans and emergency grants.

To the extent that these programs can keep businesses and other organizations open and maintain payroll, the State will avoid a reduction in business tax and income tax revenue. Consumption taxes may avoid a reduction that likely will accompany reduced spending by laid-off employees or employees and owners with reduced income. Additionally, unemployment insurance payments out of the Michigan Unemployment Trust Fund may be reduced if more employers are able to keep employees on payroll and avoid layoffs.

## **Division B - Additional Emergency Appropriations for Coronavirus Response**

### **Title I: Department of Health and Human Services**

**Grants to Hospitals and Certain Other Health Care Providers.** The Act provides \$75.0 billion for the Provider Relief Fund to be spent through grants or other mechanisms to eligible health care providers for health care related expenses or lost revenue attributable to the public health emergency resulting from COVID-19. For the purposes of the Act, "eligible health care provider" is defined as a hospital, public entity, not-for-profit entity, Medicare and Medicaid enrolled supplier or provider, or institutional provider that provided diagnoses, testing, or care for individuals with diagnosed or presumed cases of COVID-19. Funds appropriated in the Act are available to cover costs stemming from temporary structures, leasing of properties, purchasing medical supplies and equipment, increased workforce and training, emergency operation centers, retrofitting facilities, and surge capacity. These payments are in addition to the \$100.0 billion appropriated in the CARES Act and will not run through the State. As with the CARES Act funding, eligible health care providers must submit an application to the Secretary of Health and Human Services that includes a statement justifying the funding need. Because grants will flow directly to eligible health care providers, there will be no direct impact on the State; however, it is estimated that the statewide impact on health care providers could be approximately \$2.25 billion. When combined with the previous funding, the total statewide impact could be \$5.25 billion.

As with the CARES Act, the Paycheck Protection Program and Health Care Enhancement Act does not specify a formula governing the distribution of the \$75.0 billion in aid to hospitals and other health care providers. However, the Federal Department of Health and Human Services released additional information on the distribution of the initial \$100.0 billion on April 22. Of the total funding in the CARES Act, \$50.0 billion was allocated for general distribution to Medicare facilities and providers so that the distribution was allocated proportional to a providers' share of

2018 net patient revenue. Of the \$100.0 billion, \$10.0 billion was allocated to hospitals in areas that have been highly affected by COVID-19. Hospitals that wanted to receive funding allocated for high-impact areas had to report by April 23 their total number of Intensive Care Unit Beds as of April 10 and the total number of admissions with a positive COVID-19 diagnosis between January 1 and April 10. Using this data and factoring in a hospitals' Medicare Disproportionate Share Hospital Adjustment, the Department of Health and Human Services distributed targeted funding to eligible hospitals. Additionally, \$10.0 billion of the \$100.0 billion was allocated for rural health clinics and hospitals to be distributed based on their operating expenses using a methodology that distribute payments proportionately to each facility and clinic.

**State/Local Testing and Public Health Efforts.** The Act includes \$11.0 billion for states and other entities to develop, purchase, administer, process, and analyze COVID-19 tests, and to conduct epidemiological surveillance and trace contacts. The Act requires states and other entities that receive funding to provide a COVID-19 testing plan within 30 days after enactment. The plan must include the number of tests needed monthly, month-by-month estimates of laboratory and testing capacity, and a description of how the state or other entity will use its resources for testing. The Act allocates \$750.0 million of the \$11.0 billion to tribes, tribal organizations, urban Indian health organizations, or health service providers to tribes; and \$2.0 billion to eligible entities according to the Federal Fiscal Year (FY) 2018-19 Public Health Emergency Preparedness (PHEP) formula. In FY 2018-19, the State received \$16,185,611 through the PHEP, from a total FY 2018-19 grant of \$622,858,200 (or approximately 2.5%). Assuming that the State receives 2.5% of the funding allocated through the PHEP formula, it is estimated that the direct impact on the State will be approximately \$50.0 million. The \$11.0 billion included in the Act is in addition to the \$1.5 billion distributed through the PHEP formula in the CARES Act. When combined with the previously passed funding, the total State impact of COVID-19 related funds distributed through the PHEP formula is estimated to be \$68.8 million.

Of this \$11.0 billion, the Act appropriates \$4.3 billion to be distributed to states, localities, and territories according to an unspecified formula methodology based on the relative number of cases of COVID-19. According to the Centers for Disease Control and Prevention, there are 957,875 total cases of COVID-19 in the United States as of April 26, with 37,778 (or 3.9%) of those cases being reported in Michigan. Generally, absent other information, the Senate Fiscal Agency assumes 3.0% of Federal funding goes to the State of Michigan. Using the 3.0% figure as the lower end of the range and 3.9% as the higher end, the direct State impact of this funding is estimated to be between \$127.5 million and \$165.8 million.

**Community Health Centers.** The Act includes \$600.0 million for grants to community health centers and Federally qualified health centers. Because the funding will flow directly to eligible community health centers or Federally qualified health centers, there will be no direct impact on the State; however, it is estimated that the statewide impact on eligible entities will be approximately \$18.0 million. This funding is in addition to the \$2.1 billion included in the CARES Act for community health centers and the \$100.0 million included in the Coronavirus Preparedness and Response Supplemental Appropriations Act. The Act states that the Secretary of Health and Human Services may set a minimum amount for each eligible entity receiving funding through this portion but does not specify on what that minimum be based. When combined with estimates of funding flowing to entities within the State of previous allocations, the total estimated statewide impact is approximately \$53.8 million.

**Rural Health Clinics.** The Act includes \$225.0 million for Rural Health Clinics to be distributed using the procedures developed for distribution of the Provider Relief Fund. The Act states that the Secretary of Health and Human Services may set a minimum amount for each eligible entity receiving funding through this portion but does not specify on what that minimum be based. Although funding will not flow through the State, it is estimated that the impact on rural health clinics will be approximately \$6.75 million.

**Other Funding.** The Act also includes \$4.8 billion in funding set-asides that will not flow through the State, and therefore will not have a direct impact. This funding includes \$1.0 billion for the Centers for Disease Control and Prevention for surveillance, epidemiology, and contact tracing; \$1.8 billion for the National Institute of Health to research, develop, and implement rapid testing and other testing technologies; \$1.0 billion for the Biomedical Advanced Research and Development Authority for the development, manufacture, and purchase of tests or related supplies and activities; \$22.0 million for the Food and Drug Administration for COVID-19 testing; and \$1.0 billion to cover the costs of testing for uninsured individuals.

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c: Chris Harkins, Director