

# Treatment of PPP Loan Forgiveness

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## FAR Part 31.201-5

*The applicable portion of any income, rebate, allowance or other credit relating to any allowable cost and received by or accruing to the contractor shall be credited to the Government either as a cost reduction or by cash refund.*

# “FAR Contracts”

Defined as:

Federal Acquisition Regulation (FAR) based,  
actual-cost type contracts



# FHWA Guidance (HCFB-30 Memorandum)

1. Forgiven PPP funds **may not** be used to pay for **direct costs** on FAR contracts.
  - a. This includes both direct costs *billed* to FAR contracts and direct costs that are *not* billed to the FAR contract

# FHWA Guidance (HCFB-30 Memorandum)

2. Forgiven PPP funds can be used to pay for indirect costs.

- a. Credits for forgiven PPP funds must therefore be allocated via, and be recovered through, a **reduction to indirect costs**.

# My firm received PPP loan forgiveness. Now what?

- ▶ Calculate the amount, if any, that is ultimately creditable to applicable MDOT FAR contracts through a 2-step process:
  1. Calculate an Indirect Cost Credit
  2. Calculate the Recoverable Amount

## Which period will the calculation apply to?

The Indirect Cost Credit and Recoverable Amount shall be calculated and applied to the period\* in which **forgiven PPP funds were spent.**

\*Period = Consultant's fiscal year used for financial reporting purposes in accordance with generally accepted accounting principles

# Calculating the Indirect Cost Credit

Total amount of forgiven PPP loan

Less: PPP funds spent on unallowable indirect costs

Less: PPP funds spent on direct costs for contracts other than FAR contracts

**= Indirect Cost Credit**



# Calculating the Recoverable Amount

- ▶ **Step 1:** Segregate the direct labor base into 1) MDOT FAR Contracts and 2) all other contracts
- ▶ **Step 2:** MDOT FAR Direct Labor / Total Direct Labor = % of base represented by MDOT FAR Contracts
- ▶ **Step 3:** Indirect Cost Credit (from previous slide) \* % of base represented by MDOT FAR Contracts = **Recoverable Amount**

## My firm has calculated the Recoverable Amount. Now what?

- ▶ Provide the Indirect Cost Credit and Recoverable Amount calculations to MDOT
- ▶ Calculations are subject to MDOT review.
- ▶ **MDOT may request detailed support for any figures in the calculations.**

## How will MDOT collect the Recoverable Amount?

- ▶ MDOT will recover the PPP credit through reduced future invoices.
- ▶ MDOT will work with each firm to determine the repayment period/amount each invoice will be reduced.
- ▶ Reduced invoices will continue only until the credit (Recoverable Amount) is fully recovered.

# When should my firm provide the calculations to MDOT?

1. Consultants will notify CSD of the PPP loan forgiveness. Consultants will have to provide notification and required information within 60 days from the date of the loan forgiveness or the formalization of this as policy, whichever is later.
2. In addition to the loan forgiveness notification, consultants will calculate the recoverable amount and provide support for their calculation. CSD will send the calculation and support to OCA for review.
3. Consultants should also provide a plan on how they intend to reduce future invoices. MDOT anticipates allowing up to one year to reduce invoices and fully recover costs.
4. CSD will send a letter approving 1, 2, and 3, above. If necessary, additional information will be requested.

## How will MDOT collect the Recoverable Amount?

- ▶ MDOT will *not* require firms to negotiate or invoice using a reduced indirect cost rate (i.e. an indirect cost rate including a PPP loan forgiveness credit)
- ▶ This will mitigate the effects of the credit on future contract estimation and negotiation

# Q & A

