CALTRANS Guidance for Paycheck Protection Program (PPP) Loan Forgiveness

As of April 15, 2022

This guidance provides clarification regarding how to treat forgiven PPP loans in indirect cost rates (ICR) for federally funded, government contracts. It applies only to PPP loan amounts that were forgiven, and loan amounts repaid do not require such treatment.

Background

The Federal Acquisition Regulation (FAR) requires a credit to the Government, either as a cost reduction or by cash refund, when a firm receives an allowance, rebate or other credit relating to an allowable cost. The FAR, in 48 CFR 31.201-5 says in part "…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."

The Federal Highway Administration (FHWA) issued Memorandum HCFB-30 dated March 24, 2021, and stated that when PPP loan proceeds are applied to a firm's costs (direct or indirect) within the scope of a federally funded contract and the PPP loan is forgiven, appropriate adjustments to consultant accounting records become necessary to comply with 48 CFR part 31.

The Defense Contract Audit Agency's December 11, 2020, memorandum on PPP loans, loan forgiveness and subsequent credits to the government, confirmed that 48 CFR 31.201-5 is applicable to PPP loans.

Definitions

Credit: A credit is defined for this guidance document as a reduction to the firm's indirect cost rate, when required as a result of a forgiven PPP loan.

Contract Year: For PPP Loan forgiveness adjustment purposes, the contract year is defined as twelve (12) months from contract execution.

Credit Required in Indirect Cost Rate for Forgiven PPP Loans

When forgiven, the PPP loans have the effect of a prepayment of overhead expenses. PPP loans which are forgiven must be reflected in the Indirect Cost Rate (ICR) schedule as a credit to the applicable indirect cost pool accounts to which the loan amounts were applied in accordance with the loan forgiveness application and 48 CFR 31.201-5. An adjustment (to the indirect cost rate) will provide an equitable allocation of the credit across different contracts and customer types for FAR-based contracts only.

- Credit for PPP loan forgiveness will be made through a reduction of the A&E firm's indirect cost rate for the year in which PPP funds were forgiven.
- Caltrans will not accept direct credits to projects if PPP funds were initially expended for direct costs on Caltrans contracts. PPP funds initially applied to Caltrans contracts direct costs must be reallocated as indirect costs and credited to the indirect cost rate.

- Forgiven PPP loan funds spent on otherwise allowable indirect costs will be included in the credit to the indirect cost pool according to the examples shown below under Examples - Fiscal Year to Apply the Credit for Loan Forgiveness.
- All firms will be required to complete and submit a Paycheck Protection Program Certification Form.
- Firms should be prepared to submit a copy of the application for loan forgiveness along with documentation to support how the firm expended the PPP loan received.
- Caltrans will only seek recovery of the forgiven PPP loan through a credit to the ICR and not a direct payment from the firm. The resulting indirect cost rate schedule will include a reference for each cost pool subject to the credit per 48 CFR 31.201-5.
- Indirect cost rates should disclose information regarding PPP loans including loan amounts, approval dates, forgiveness status, forgiven amounts, covered period for forgiveness, application of forgiven funds and repayment of principal.
- Forgiven PPP loan funds spent on direct labor or other direct costs for commercial or government clients that were not reimbursed through contracts subject to 48 CFR Part 31 or spent on otherwise unallowable indirect costs may be excluded from the credit to the indirect cost pool. Adequate documentation will be required and verified to show the costs that will reduce the required credit. For example, direct costs excluded from the credit should be supported by job-cost and labor distribution reports showing the direct costs that were excluded, including the project number, contract description, and the customer for each contract charged with such costs. Please note, if excluded direct costs were also billed to your clients it may invalidate the intent of the forgiven PPP loan, and Caltrans may need to notify the SBA.
- PPP loan funds may not be used for an employee's compensation over $100,000 per year. As such, compensation over this limit cannot be included in the accounting for use of a forgiven PPP loan. Further, credits from excess compensation as calculated under FAR and the AASHTO Audit Guide will be made in full on the ICR schedule.
- Contracts that have already been executed without the PPP Loan Forgiveness ICR credit will remain and the credit will be applied in future contracts

Examples - Fiscal Year to Apply the Credit for Loan Forgiveness

If a firm receives notice of forgiveness prior to the fiscal year end, then it will be reflected in that year's financial statements.
Example: Firm A has a calendar year end fiscal period. Firm A receives a PPP loan in June 2020 and receives confirmation the full amount has been forgiven in September 2020. Firm A would include a credit in the ICR schedule for the full amount forgiven.
Firm A's ICR is 175% before any adjustment for loan forgiveness
Firm A's ICR is 150% after PPP loan forgiveness adjustments.
Assuming this applies to a three-year contract, the rates will be applied as follows:

	Contract Year 1	**Contract Year 2**	**Contract Year 3**
Indirect Cost Rate	150%	175%	175%

If a firm receives forgiveness after the fiscal year end, but before the financial statements are issued, the forgiven amount should be included in that year's financial statements.
Example: Firm B has a calendar year end fiscal period. Firm B received a PPP loan in June 2020 and received confirmation the loan was forgiven in February 2021 and the financial statements have not been issued. Those financial statements should be amended to reflect the forgiven loan and the credit should appear in the ICR schedule.
Firm B's ICR is 175% before any adjustment for loan forgiveness
Firm B's ICR is 150% after PPP loan forgiveness adjustments
Assuming this applies to a three-year contract, the rates will be applied as follows:

	Contract Year 1	**Contract Year 2**	**Contract Year 3**
Indirect Cost Rate	150%	175%	175%

If a firm has not yet decided to apply for forgiveness, or the amount forgiven is not known, the firm would apply any credit for forgiven loans in the fiscal year in which the amount becomes known.
Example: Firm C has a calendar year end fiscal period. Firm C received a PPP loan in June 2020 and when the financial statements were issued, Firm C had not determined if any of the loan would be forgiven. Firm C would issue the financials for 2020 without recognizing the loan forgiveness. If the loan is then forgiven at a later time, the firm would recognize the forgiven amount on that subsequent year's financial statements. The credit associated with the FY2020 PPP loan forgiven funds would then apply to the FY2021 ICR schedule.
Firm C's 2020 ICR is 175%
Firm C's 2021 ICR is 170% before any adjustment for loan forgiveness
Firm C's 2021 ICR is 140% after PPP loan forgiveness adjustments
Assuming three-year contracts with Caltrans, the rates will be applied as follows:

2021 Contracts	**Contract Year 1**	**Contract Year 2**	**Contract Year 3**

Indirect Cost Rate	150%	175%	175%
2022 Contracts			
Indirect Cost Rate	140%	170%	170%