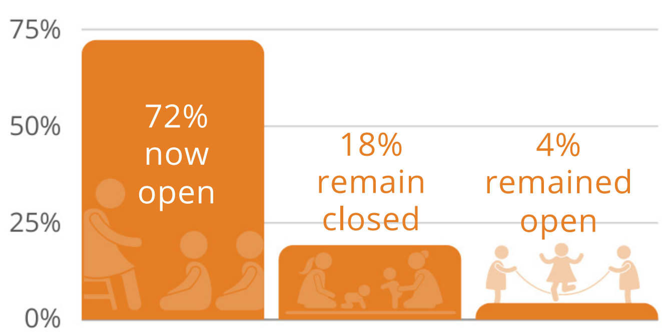
REINVESTMENT FUND

Learnings from the Summer 2020 Restart Survey of Philadelphia Early Childhood Education Providers

More than 379 Early Childhood Education providers in Philadelphia participated in an online survey*—sharing insight into their current situation.

- Operators said they could remain open an average of 6 months under current conditions.
- The top four factors they used to make that decision: length of time they can operate in an unpredictable environment (71%); review of financial projections (61%); length of time they can remain unprofitable (60%); ability to contribute personal funds to keep the business operations (51%).
- 93% said grants for rent and payroll would be helpful followed by unrestricted grants (82%) and forgivable loans (74%) [Working capital and line of credit was 25% and 27% respectively].

Operating Status: Summer 2020

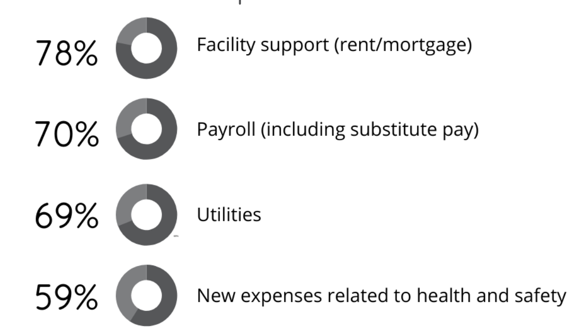


"Due to the low number of children who have returned and the number of children...moving to kindergarten, we had to reduce our staff work hours.

Myself and my partner have been working without pay just to try and stay afloat. It doesn't look like things are going to improve anytime soon so we are trying to make what money is coming in last."

—Althogether Friends Child Care

ECE Provider's top four financial concerns



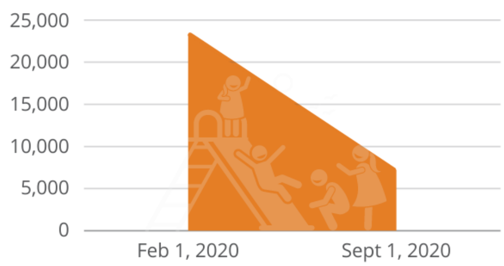
Emergency resources, including the Philadelphia Emergency Fund for Stabilization of Early Education (PEFSEE) have provided grant funds to minimize the loss of capacity and expertise in the sector so that children and families continue to have access to high quality early learning. To date, Reinvestment Fund awarded $6.7 million in grants to 416 childcare providers, early intervention and home visiting services.

Enrollment & Staffing Status

- Providers forecast Sept 1st enrollment of 0-5 children declining by 27% overall of what it was on Feb 1st . The majority of providers (54%) anticipated a decrease in enrollment for children ages 0-5 of at least 25% or more. (*Enrollment on 2/1 was 18,766, expecting 13,666. School age enrollment was also expected to decline, by approximately 40%*).

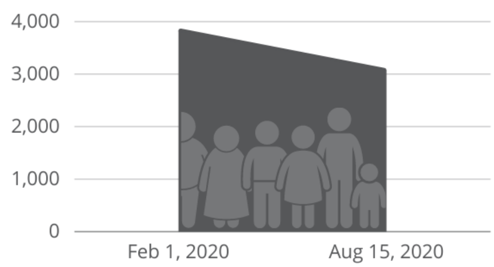
- Providers have attempted to maintain staff. On Feb 1st, there were 4,900 full-time and part-time staff, currently 3,625 remain as FT/PT and another 569 are temporarily laid off.

The enrollment and staffing are what is most concerning – whether or not enrollment decline is due to demand, restrictions because of social distancing, etc. we have revenues about to plummet and expenses staying about the same or increasing slightly.



27%

decline of enrollment of 0-5 children compared to what it was on Feb. 1st is forecasted for Sept. 1st.



10%

approximate decrease in full- and part-time staff. Staff includes 3,072 FT/PT and 407 who are laid off.

*Survey data is as of August 2020.

REINVESTMENT FUND

REINVESTMENT FUND is a national mission-driven financial institution that creates opportunity for underserved people and places through partnerships. We marshal the capital, analytics, and expertise necessary to build strong, healthy, and more equitable communities.

www.reinvestment.com
www.policymap.com

PHILADELPHIA
1700 Market Street
19th Floor
Philadelphia, PA 19103
TEL 215.574.5800

BALTIMORE
1707 North Charles Street
Suite 200B
Baltimore, MD 21201
TEL 410.783.1110

ATLANTA
229 Peachtree Street NE
Suite 750, International Tower
Atlanta, GA 30303
TEL 404.400.1130

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PEFSEE Provider Restart Survey Report - August 2020 Data

The Philadelphia Emergency Fund for Stabilization of Early Education (PEFSEE) aimed to ensure that Philadelphia's early learning sector can weather the COVID-19 crisis. PEFSEE is funded through grants from the William Penn Foundation and Vanguard's Strong Start for Kids Program™ and is administered by Reinvestment Fund. The program ran with an initial six week application window (April 6 through May 12, 2020). This application window roughly overlapped with mandated closures due to COVID-19 for all childcare providers in Philadelphia County from March 16 through June 1 (except for those operating with an emergency waiver).

PEFSEE awards were targeted to replace lost revenue for providers who had to temporarily close operations due to the pandemic or to cover additional expenses incurred as a result of continued or modified operations. Funding targeted: 1) early learning organizations (serving majority children ages 0-5) that needed support to sustain basic expenses, particularly payroll and rent and mortgage assistance; 2) those offering temporary educational enrichment or supporting child and family needs; and 3) those offering care for children of essential workers. PEFSEE prioritized organizations that served high need or vulnerable populations, demonstrated a commitment to high-quality operations, continued to pay staff, and operated sites located in priority need neighborhoods. The program funded 411 childcare providers (hereafter referred to as provider/grantees) and five other organizations providing early intervention and/or home visiting services (see table below).

Awardees	Total Number of Awardees	Percent of Total Awards	Total Dollar Amount Awarded	Percent of Total Dollars Awarded	Licensed Capacity of Awardee	Number of FT/PT Staff Employed	
						1-Feb	1-Apr
Centers	187	45%	$ 3,458,680	51%	12,765	2,109	1,480
Multi-site	101	24%	$ 2,322,980	34%	17,416	2,842	2,238
Homes	76	18%	$ 466,111	7%	465	132	78
Groups	47	11%	$ 412,047	6%	541	224	55
Other	5	1%	$ 90,072	1%			
Total	**416**	**100%**	**$6,749,890**	**100%**	**31,187**	**5,307**	**3,851**

As part of ongoing program compliance, grantees were required to complete interim reporting in mid-August. This report summarizes information from early childhood education (ECE) provider/grantees from that period.

Please note – The following information is <u>not</u> derived from a random sample of the universe of childcare providers and therefore should not be viewed as scientifically representative of that universe. That said, the PEFSEE grantee survey respondents (n = 379) included certified providers at all Keystone STARS levels and there was a purposeful effort to ensure that there was representation of provider types, including centers, multi-sites, groups and homes.

Operating Status

Total estimated income loss	
	% Total
No loss at this time	**1%**
Up to $4,999	**9%**
$10,000-$24,999	**23%**
$25,000-$49,000	**18%**
$5,000-$9,999	**17%**
$50,000+	**29%**
I don't know	**2%**

Respondents represented 92% of the total awardee pool (379 of 416). Of the respondent pool, 72% reported they were open and serving children in person, 5% were operating only virtual programming, and 4% never closed. Another 18% were not open at that time, although 15% of those had identified an opening date. Only one grantee had permanently closed their business at that time.

Financial Viability Concerns

By the time of this mid-August reporting, ECE providers had been experiencing changes in demand for services, declining revenues and in some cases, increasing expenses since March 2020. When asked to estimate losses, 90% of providers estimated $10,000 or more, while nearly 30% of respondents estimated total income loss of $50,000 or more over the five-month period as a result of the crisis.

Provider losses varied based on their size and funding sources. From March through August, programs continued to receive payments for contracted slots through programs such as PHLpreK, PreK Counts, Early Head Start and Head Start based on pre-COVID enrollment. Child Care Works (CCW) family subsidy funding continued to reimburse providers based on enrollment on March 13 and family eligibility status was not re-evaluated. During this time, providers were not allowed to collect family co-pays while closed, which can represent 50% or more of a subsidized payment for some providers[i]. Private pay offered the least steady source of income, since most centers did not have policies in place about charging families during extended closures. Many providers also lost income they would normally receive from the Child and Adult Care Food Program (CACFP) while they were closed, which is often used to pay for salaries and other overhead costs beyond the meal program itself.

Even though most programs were open, many respondents remained concerned about the financial viability of their business. When asked “how many months could you operate under current conditions?”, the average length of time was seven months. STARS 1 providers averaged closer to 6 months while STARS 4 providers averaged 8 months.

Based on the date of data collection, February through April 2021 is the estimated timeframe when providers may determine to close their business permanently.

The top four factors providers/grantees cited as a basis for the decision to close included length of time they can operate in an unpredictable environment (67%); review of financial projections (61%); length of time they can sustain remaining unprofitable (60%); ability to contribute personal funds to keep the business operating (51%). Reviewing data by STARS level, lower quality operators (STARS 1-2) more often cited personal contributions to keep their business afloat as the basis for their prediction and were less likely to review operating projections.

Roughly 78% of awardees noted concern about their ability to make rent or mortgage payments, 70% were concerned about making payroll and paying utilities and 59% expressed concerns about the added costs related to health and safety.

During this challenging time, provider/grantees sought a variety of revenue sources, including grants; forgivable loans (such as the Payroll Protection Program [PPP] and Economic Injury Disaster Loans [EIDL]); borrowing money from friends or family members; drawing down on lines of credit; or seeking commercial loans or cash advances from credit cards. As of mid-August 2020, respondents had successfully accessed nearly $42 million in alternate funding sources – and while many are structured as economic relief funds to those experiencing a temporary loss in revenue sources, up to 76% of funds require outright repayment, or are still unclear as to repayment requirements until operators are able to document adherence to program guidelines (the case for PPP loans).[ii,iii]

Source of Relief Funds	Total Amount Accessed	Percent of Total Funds	Number of Providers	Percent of All Providers
Grant	$ 9,836,023	23%	322	85%
Debt	$ 4,249,500	10%	88	23%
PPP Forgivable Loans	$ 27,841,678	66%	219	58%
Total:	**$ 41,927,201**	**100%**	**379**	100%

Grants were the most common type of relief, accessed by 85% of grantee/providers who responded to the survey, though representing just 23% of total relief dollars. PPP loans comprised the largest source of relief at nearly $28 million, accessed by 58% of grantee/providers. Aside from PPP loans, these provider/grantees had accessed a total of $4.2 million in debt.

Source of Debt	# of Providers	% of Total Awardees	# of Group & Home Providers	% of Total Group & Home Awardees	Total Amt. Received	Avg. Amt. Received
Money borrowed from friend or family	61	16%	20	15%	$ 809,000	$ 13,262
Commercial loan or line of credit	34	9%	4	3%	$ 3,370,900	$ 99,144
Cash advance from a credit card	9	2%	3	2%	$ 69,600	$ 7,733
TOTAL (UNIQUE):	**88**	**23%**	**24**	**18%**	**$ 4,249,500**	**$ 48,290**

The most frequently accessed form of debt was borrowing money from a family member or friend, with 16% of provider/grantees reporting an average amount of roughly $13,000 borrowed. The largest dollar amounts were accessed through drawing on a line of credit or commercial loan, reported by 5% of provider/grantees respectively, for a total of $3.4 million. Just 2% of provider/grantees reported credit card debt. Overall, relatively few providers accessed debt relief compared with 85% that accessed grant funding. While providers in home and group settings borrowed money from a friend or family member at similar rates to centers, they accessed commercial debt at a much lower rate.

When asked about future types of support which would be helpful, 93% said grants for rent and payroll followed by unrestricted grants (82%) and forgivable loans (74%). Working capital and lines of credit were only considered useful by a quarter of providers, noted by 25% and 27% of respondents respectively.

Enrollment

Respondents were asked to supply enrollment figures as of February 1, 2020 to serve as a pre-COVID-19 baseline. Total enrollment was 18,766 children ages 0-5 and 9,394 school age children. Respondents were also asked to project enrollment as of September 1, 2020 to serve as a comparison. Instructions clarified that "enrolled children" included those currently enrolled and attending, in addition to those for whom the program has received completed registration paperwork and a start or return date was identified (not necessarily the same date as September 1). This could include attendance for either in-person or virtual learning. On average, providers with programs for children ages 0-5 anticipated enrollment to fall by 27%, infant enrollment declining the sharpest at 37%. At the time, respondents also anticipated decreases in school age enrollment at a rate of 41% (note that providers may have not anticipated enrollment for full-day school age care in this response given the funding and regulatory unknowns related to full-day school age care at the time of reporting).

Note the information shared reflects changes to <u>enrollment only and not projected attendance</u>. Oftentimes attendance rates are lower than enrollment, and in a situation where payments are administered based upon attendance figures only, it is likely that revenues will decrease at a more substantial rate.

While some providers anticipated no change to enrollment (13%) or even a slight gain, <u>the majority of providers (54%) anticipate a decrease in enrollment for children ages 0-5 of by at least 25%</u>.

Staffing

Although providers attempted to maintain staffing levels, total staff (which includes full time, part time, and temporary layoffs) of all awardees decreased by approximately 14% from February 1, 2020 to August 2020. These 379 providers/grantees reported total staff of 4,900 in February. Total staff maintained in August for providers/grantees was 4,194, while 706 were permanently laid off sometime between February and August. Administrators and support staff were laid off at higher rates than teachers and directors. While total staff decreased by 14% overall, administrative and support staff decreased by 24%, teaching staff decreased by 13% and directors and owners by 6%.

Implications – Next Steps

These findings point to four primary areas of attention and action, which we believe the Philadelphia ECE sector should prioritize and continue to focus on in order to fully help providers through economic recovery and business stabilization:

1. Technical Assistance Navigation
    - Providers responded with their top priorities and needs for technical assistance. The top areas identified included health & safety, financial assistance and decision-making; enrollment/marketing, and supporting special populations. The ECE sector should continue to identify gaps in resources and help providers navigate towards appropriate supports.
2. Address Barriers and Access to Funding Sources
    - Most providers have remained open and in operation, though many anticipate they will need to make a decision to permanently close by spring 2021. It will be critical to continue to support providers over the next four to six months as the COVID-19 pandemic continues to impact the ECE sector. 92% of provider/grantees identified the need for future support from grants, which comprised only 23% of total relief dollars accessed. Providers need to have clear access points to funding sources across all quality-levels, especially for STARS 1 and 2 providers that do not have contracted slots (Head Start, Early Head Start, PreK Counts, PHLpreK) and rely heavily on parent co-pays and/or private pay.
3. Develop/Revise Programs to Meet Provider Needs in an Acceptable Form of Capital
    - Grant funding was overwhelmingly the need identified by providers, followed by forgivable loans, with roughly a quarter saying they could benefit from working capital loans or lines of credit.
    - Programs should include flexible measures in order to be accessible to group and home setting providers. These providers often serve children of essential workers and offer nontraditional hours, and should be prioritized in continued COVID-19 recovery efforts. In its original application, PEFSEE asked providers to estimate losses over a 6-week closure period and allowed sole proprietors who do not pay themselves a monthly salary to provide back-up for that number using previous year income as reported on tax returns. This is an important flexibility to allow relief programs to reach group and home providers who often have the lowest profit margins and greatest challenge accessing supports.
4. Advocacy and Policy Change – Child Care Works (CCW) payment amounts and methodology
    - ECE enrollment was projected to decrease by 27% between February and September, with larger decreases for STARS 1 and 2 providers. who received significantly less from CCW due to low tiered reimbursement rates. These providers, along with providers serving infants and toddlers, also incur greater losses of co-pay revenue, because CCW seats comprise a larger portion of their funding mix and they have less access to contracted slots that guarantee more reliable income and allow for more flexible operations. CCW has required in-person attendance and not reimbursed for virtual learning at this time, as other contracted slots have, and has not allowed providers to collect parent co-pays while closed. This points to the vulnerability of providers who rely on CCW payments and parent copays during the pandemic, as family health and work situations can quickly change.

ENDNOTES

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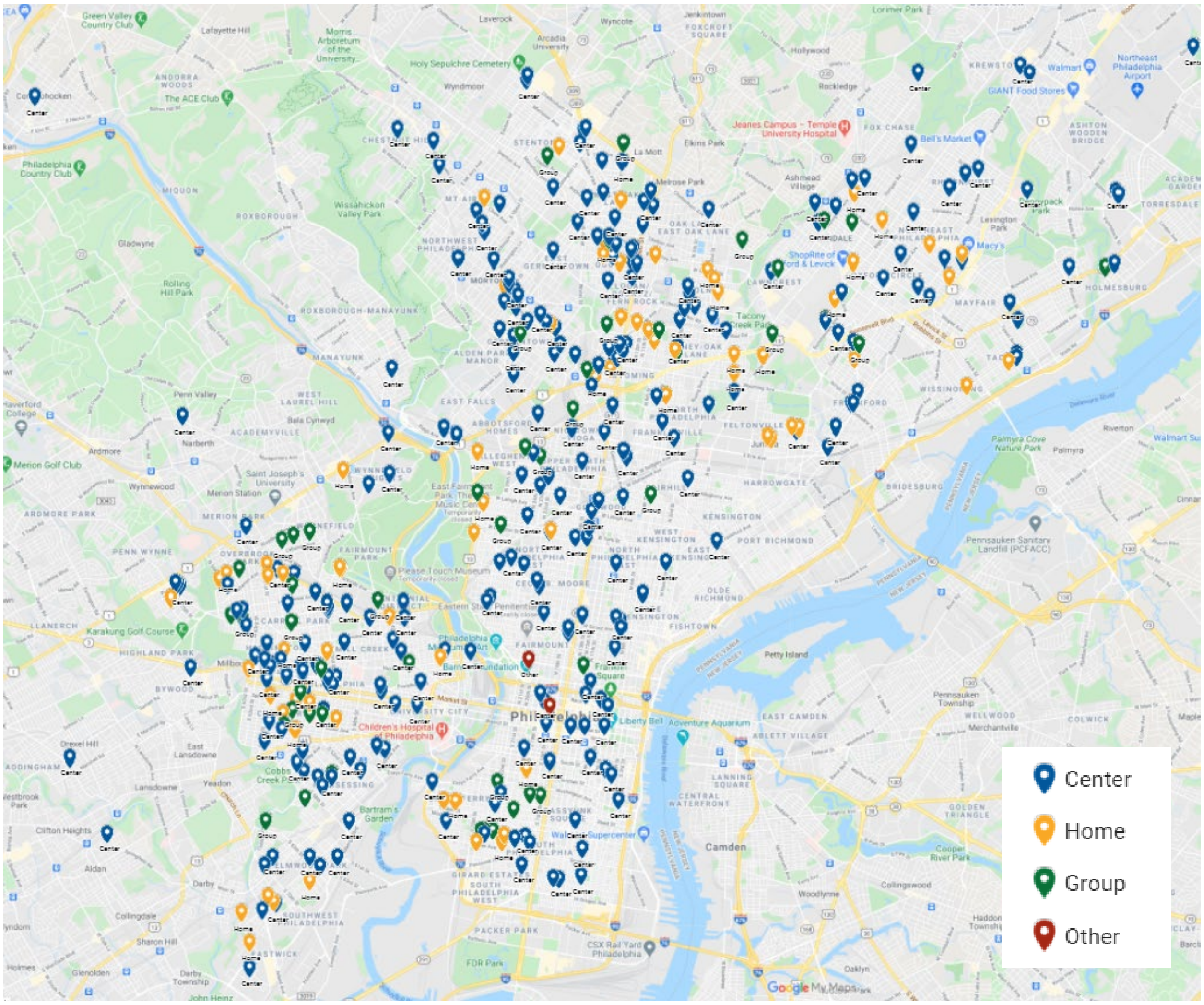
[i] On September 1, CCW payments reverted to being based on attendance, and family eligibility started to be reevaluated. On November 1, CCW payments were switched to be based on current enrollment, though maintained attendance requirements.

[ii] Such funding sources include: Paycheck Protection Program (PPP) loans, SBA EIDL Advances, line of credit drawdowns, commercial lending activity, cash advances from credit cards and/or borrowing money from a friend or family member.

[iii] Reinvestment Fund's PEFSEE Report. https://www.reinvestment.com/pefseereport/

Appendix: Geographic distribution of awardees



**Note that these locations represent legal entity addresses and not all supported sites. All PEFSEE awards funded sites located in Philadelphia.*

View interactive map of awardees at: http://bit.ly/3t654pf
or https://www.google.com/maps/d/viewer?mid=1ECdF6kHmcNpeKjBm5PiaGEF9X2CQsU3f&usp=sharing