



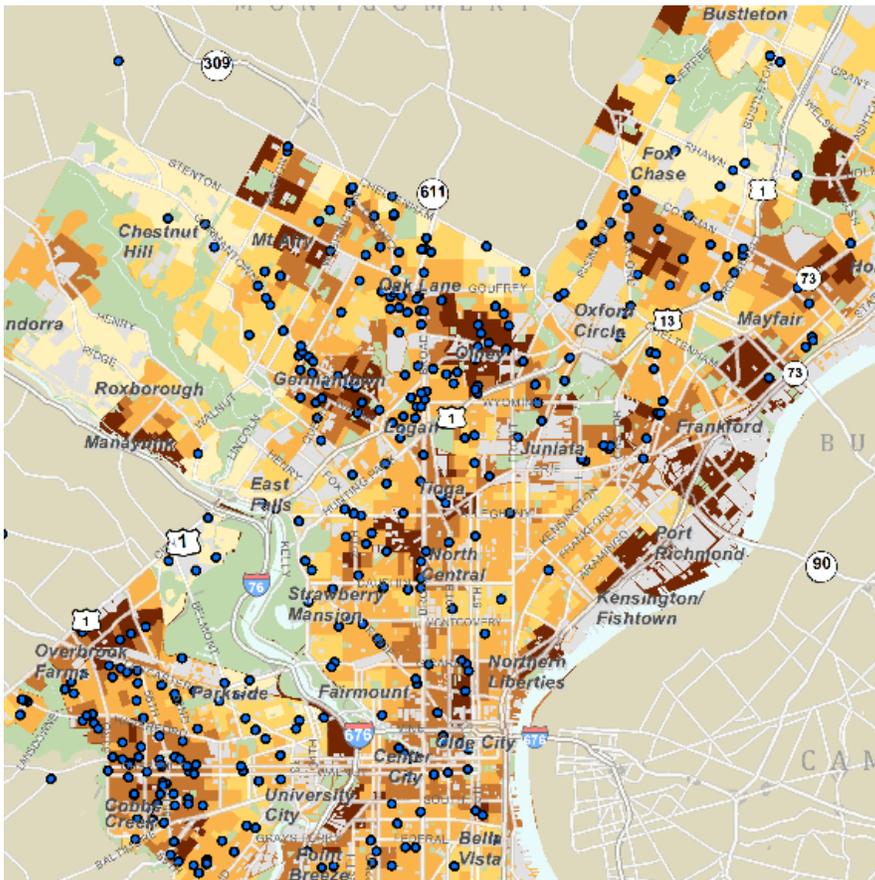
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Emergency Response: An overview of the Philadelphia Emergency Fund for the Stabilization of Early Education (PEFSEE) program

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March 2020 was a precarious time for childcare businesses in Pennsylvania and across the US. In response to the rapid spread of the COVID-19 virus, Governor Wolf mandated the closure of non-essential businesses, including most childcare programs. With the sudden loss of parent tuition, many programs were at risk of permanent closure. National experts predicted that 60% of licensed childcare providers could close and that just 11% of providers could survive a mandated closure without governmental support.¹ The gains in high-quality care that had been accumulated over years of public and private investment in Philadelphia were at risk.²

State and federal officials would eventually launch an unprecedented recovery effort headlined by the CARES Act and Paycheck Protection Program (PPP), but in mid-March resources from those programs were weeks or months away for many providers. To help childcare businesses weather this uncertain time, two of the city's largest philanthropies partnered with Reinvestment Fund, a Philadelphia-based CDFI, to launch the Philadelphia Emergency Fund for the Stabilization of Early Education (PEFSEE) in April 2020. Their initial investments were eventually supplemented by additional funders and the program ultimately provided three rounds of financial support.

This report provides an overview of the PEFSEE program and its accomplishments to-date. The data presented here is drawn from final reporting completed by 402 of the childcare operators that participated in PEFSEE. The programmatic data they provided as a condition of their grant awards, offers a useful window into the status and challenges of the broader childcare landscape in Philadelphia.

The Philadelphia Emergency Fund for the Stabilization of Early Education

The PEFSEE grant program was originally conceived as a fast-acting, flexible stopgap to help Philadelphia childcare programs replace lost revenue or cover new expenses incurred because of the pandemic. Through three rounds of grants between April 2020 and September 2021, PEFSEE directed \$8.3M to 411 childcare programs that managed over 550 individual childcare sites and 5 organizations that provided home visiting and early intervention services.

The timing for each round of funding was designed to fill the gaps between disbursements of state and federal resources and periods when providers would be particularly cash constrained. For example, the first round of funding was intended to reach providers coping with mandated closures before federal programs (e.g., PPP, CARES) were finalized. The third round of funding was intended to alleviate the cash-flow constraints that providers faced paying for expenses to support their fall enrollment before ARPA funds became available in October, 2021.

¹ Steven Jessen-Howard & Simon Workman. "Coronavirus Pandemic Could Lead to Permanent Loss of Nearly 4.5 Million Child Care Slots." (April 24, 2020) Center for American Progress. Available: [Coronavirus Pandemic Could Lead to Permanent Loss of Nearly 4.5 Million Child Care Slots - Center for American Progress](#)

² Jacob Rosch, Emily Dowdall, Ira Goldstein. (2021) "Estimating Changes in the Supply of and Demand for Child Care in Philadelphia." Available: <https://www.reinvestment.com/research-publications/estimating-changes-in-the-supply-of-and-demand-for-child-care-in-philadelphia-2021/>

Summary of PEFSEE Awards, Round 1 through 3

	Round 1 (April – May, 2020)	Round 2 (November, 2020)	Round 3 (August, 2021)	Total
Total Grantees	416	409	388	416
Total Awards	\$5,007,390	\$1,742,500	\$1,549,000	\$8,298,890

Building the Grant Program

Reinvestment Fund was responsible for managing the grant program—recruiting and vetting grantees and disbursing funding. Administering PEFSEE required the rapid development of new systems and processes.

Speed was essential in establishing the PEFSEE program and getting disbursements to grantees quickly was a top priority. In the past, Reinvestment Fund’s grant and loan programs had relied on extensive underwriting processes to ensure that grantees would meet program requirements and have plans to responsibly use grant funding. To accelerate the application review process, Reinvestment Fund developed a low-touch digital application that recognized the unprecedented and emergency circumstances the sector was facing. Unlike traditional program applications, providers were not required to document or justify their financial need with tax returns or other audited financial statements. Instead, applicants were asked to report their previous year’s income, staffing, and enrollment and to estimate their potential revenue loss from a 6-week closure. Their answers to these questions made up the foundation of each program’s application.

To help vet and prioritize applicants, program staff worked closely with Reinvestment Fund’s Policy Solutions Team, an internal evaluation and consulting group which has been studying the city’s childcare sector for the past eight years. Policy Solutions helped establish priority location criteria to ensure resources were distributed throughout the city and supported childcare providers in the neighborhoods with the greatest needs. Data on program income, potential losses, staffing, and enrollment along with the site locations, were used to evaluate application eligibility and determine the appropriate size for each award.

Launching the PEFSEE program also required Reinvestment Fund to develop new IT systems and capabilities. At the time of the program’s launch, many providers did not have access to their normal office technology (e.g., printers, scanners) and Reinvestment Fund staff were themselves working remotely. Reinvestment Fund’s IT staff helped deploy a new online application and ticketing systems to track and monitor inquiries for PEFSEE. The new application system allowed many providers to complete their applications using their phones to fill out the questionnaire and send pictures of relevant documents. Ultimately the technology systems developed for PEFSEE served as a model for the organization’s other COVID relief efforts, including emergency meal awards through the New Jersey Child Nutrition Fund (NJCNF), and small business lending through the Paycheck Protection Program and PA Small Business Grants program.

Although the primary goal of the PEFSEE program was to help stabilize childcare providers, staff recognized early on that the program also offered an opportunity to learn more about the broader childcare sector and how providers were dealing with COVID-19. Moreover, collecting ongoing information would be critical for targeting future rounds of support. Program staff and Policy Solutions worked together to develop program reporting requirements to understand each provider’s enrollment, staffing, major programmatic challenges, and financial status.

Finally, with support from the program’s funders, Reinvestment Fund worked in close collaboration with partners across the sector. A PEFSEE Advisory Committee of external partners, formed at the outset of the program, helped inform and refine program strategy and systems, both in the immediate rollout of the program and throughout the course of the pandemic.

At the outset, partner networks and organizations were integral in making sure that providers knew about the PEFSEE program. Organizations including the City of Philadelphia, the Early Learning Resource Center (ELRC), First Up, Children First, Public Health Management Corporation (PHMC), the Southeastern Pennsylvania Early Childhood Coalition (SEPECC), the Urban Affairs Coalition (UAC), along with many others used their networks to share information about the program and recruit applicants.

After the first round of grants, these partners helped Reinvestment Fund directed PEFSEE recipients to additional resources and technical assistance opportunities, such as PHMC’s Health and Safety grants. In fall 2020, for example, Reinvestment Fund coordinated with the state’s PA 30 Day Fund to recommend eligible PEFSEE recipients for additional funding and to help streamline their program application. During the third round of grants in fall 2021, PEFSEE grantees were given access to free trainings on trauma and trauma-informed care in early childhood settings through First Up.

Characteristics of Program Grantees

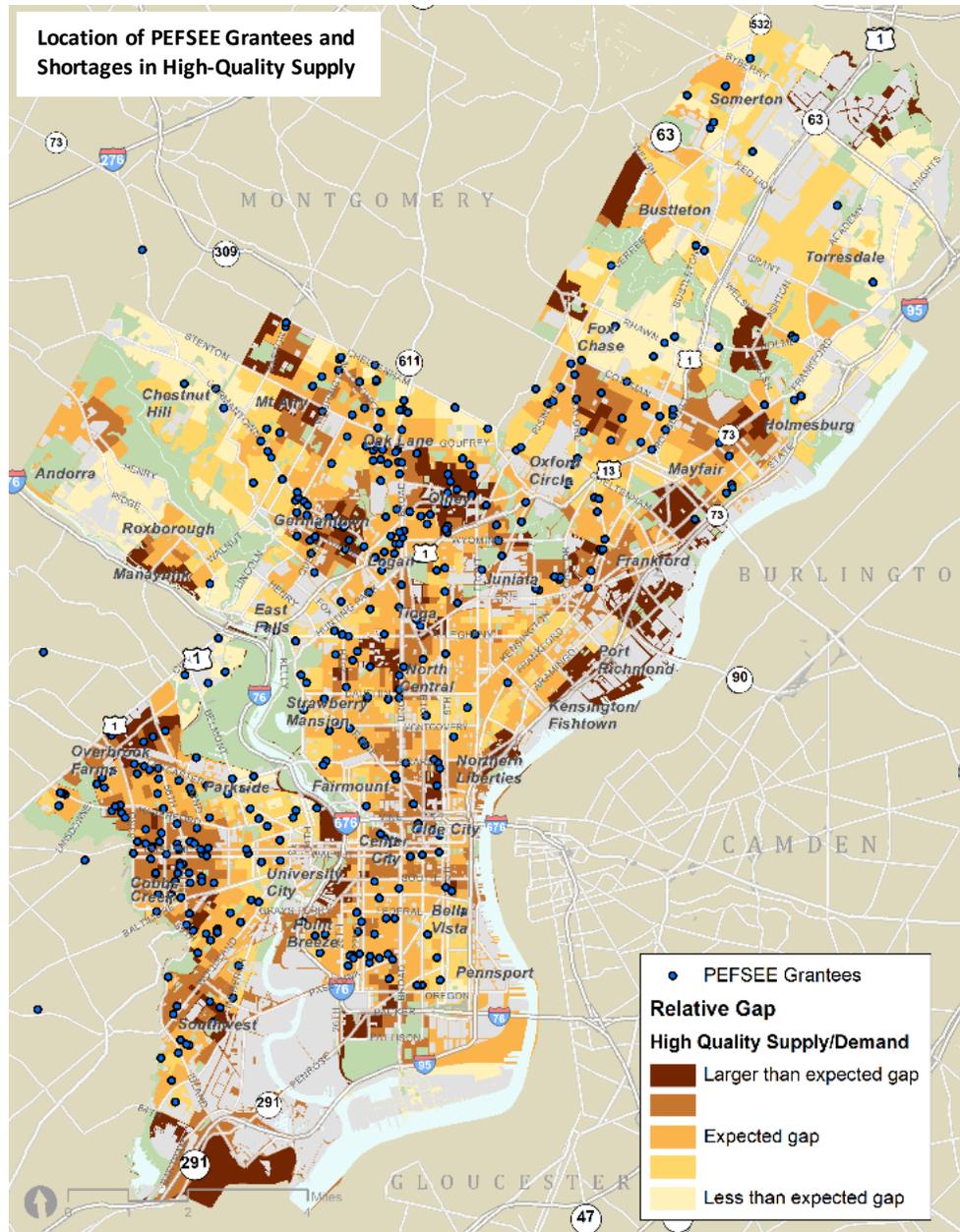
PEFSEE grantees were a diverse mix of organizations serving high need families across the city of Philadelphia. This section describes the characteristics of grantees and the organizations they operated.

Initial funding priority was given to providers in high-need areas that demonstrated a commitment to high-quality operations and committed to retaining and paying their existing staff. The map below compares the location of PEFSEE grantee sites with the level of shortage in high quality childcare across the city. Although PEFSEE grantees were located across the entire city, they were more concentrated in high-need areas than other Philadelphia providers. Thirty-five percent of PEFSEE grantees were located in an area identified as having a large shortage of high-quality childcare—while citywide only 20% of all providers were located in these high shortage areas.

Although PEFSEE grantees were more likely to be in high-need areas, other characteristics of the grantee pool were very similar to the broader childcare sector in Philadelphia.

The table below summarizes the characteristics of all PEFSEE grantees, grantees that completed grant reporting, and all licensed providers in Philadelphia. Funded sites generally mirrored the Philadelphia childcare sector in terms of provider type (center, group, home), proportion of high-quality providers, and the mix of single- and multi-site operators.

Additionally, most business owners who received PEFSEE grants were women of color. Over 90% of grantees were BIPOC women.



Characteristics of Grantees and All Licensed Providers

Program Type	Pct of All PEFSEE Grantees (n = 411)	Pct of PEFSEE Grantees Completing Reporting (n = 402)	Pct of All Licensed Providers (n = 1,485)
Center	68%	69%	65%
Group Home	12%	12%	11%
Family Home	19%	19%	24%
STAR 1 or STAR 2	62%	62%	79%
STAR 3 or STAR 4	38%	38%	21%
Single Site Operator	77%	77%	73%
Multi Site Operator	23%	23%	27%
All Grantees	100%	100%	100%

PEFSEE Impact on Program Operations and Financial Capacity

PEFSEE’s goal was to provide emergency relief to help childcare providers in Philadelphia manage basic expenses—including staffing, mortgage/rent, and utilities—and to help providers address the needs of their families during mandated closures. Now 18 months since the initial grant dispersals, it is possible to begin to appreciate how PEFSEE funding impacted grantees and how grantees are faring as they continue to navigate the pandemic.

The data presented in the following sections is drawn from grant reporting completed by 402 of the 411 childcare operators that received PEFSEE funding. This report focuses on grantees that ran childcare programs and does not describe the five grantees that operated early intervention or home visiting programs.

Operational Status

Preserving sites and keeping them operational was a primary goal of the PEFSEE program. As part of required reporting, grantees were asked to share the operational status of their programs. Operators that managed multiple sites were asked to complete this reporting requirement for each of the individual sites they managed.

By August of 2021 nearly every site that PEFSEE grantees operated reported that they were open in some capacity. Ninety-seven percent of sites were open for at least some in-person learning and 1% were open virtually. Only 3% of sites had closed permanently or temporarily.

The recently completed Childcare Gap analysis for the city of Philadelphia, provides a helpful benchmark for assessing how well PEFSEE worked as a stabilizer for childcare programs. That analysis shows that of the 1,628 licensed sites that were open in 2020 (right before the pandemic closures began in Philadelphia), 13% were closed permanently or temporarily as of May 2021. Among PEFSEE grantees, only 3% were closed.³

³ Jacob Rosch, Emily Dowdall, Ira Goldstein. (2021) “Estimating Changes in the Supply of and Demand for Childcare in Philadelphia” Reinvestment Fund. Available: https://www.reinvestment.com/wp-content/uploads/2021/10/ReinvestmentFund_Report-PHL-Childcare-WPF.pdf

Operating Status of PEFSEE Grantee Sites, July – August 2021

Open for Some In-person Learning	533 (97%)
Open for Virtual Learning Only	3 (1%)
Permanently Closed	7 (1%)
Temporarily Closed	11 (2%)
All Sites	554 (100%)

Access to Resources

Final grantee reports asked providers to describe the other resources and programs that they used to sustain their businesses over the course of the pandemic. In part, PEFSEE resources were intended to support providers until federal and state resources became available, so that providers would not have to rely on expensive credit card borrowing or support from family members to sustain their businesses.

The program was largely successful in both regards. Ninety-seven percent of PEFSEE grantees participated in at least one additional stabilization program and 84% participated in more than 2 programs. The most frequently accessed programs were ELRC CARES Act Funding (rounds 1 through 4), of which 87% of programs participated, followed by the SBA’s PPP program, of which 68% of providers participated.

Additionally, PEFSEE grantees largely did not rely on alternative sources of credit that could have negative consequences on their financial health. Only 2% of PEFSEE grantees reported using a cash advance from a credit card to support their business during the pandemic. However, 11% of grantees did report borrowing from friends or family for their businesses.

Program Staffing

Hiring and staffing are perennial challenges in the childcare sector. The funders who supported PEFSEE were particularly concerned that if providers were unable to retain their staff during mandated closures, these workers would leave the sector, and providers would have difficulty rehiring them. As a result, funding priority was given to programs that demonstrated a commitment to retaining staff during mandated closures.

With 18 months of perspective, we can clearly see that many of these fears were justified. Nationally, childcare employment declined 14% between 2019-Q1 and 2021-Q1 and in Philadelphia, childcare employment declined 23% over the same period.⁴ While PEFSEE grantees also struggled to retain their staff, they fared much better than the sector overall. Comparing provider staffing levels in July and August 2021 with pre-pandemic staffing reported on PEFSEE grant applications shows that the 402 organizations that completed final reporting lost 622 staff members, or 8% of their workforce a rate of loss that, while substantial, was substantially lower than the federally reported citywide rate of loss in childcare employment.

⁴ “Quarterly Census of Employment and Wages: First-Month, Private, NAICS6244 Employment.” U.S. Bureau of Labor Statistics. Available: https://data.bls.gov/cew/apps/table_maker/v4/table_maker.htm

Ongoing Challenges Facing Grantees and Broader Sector

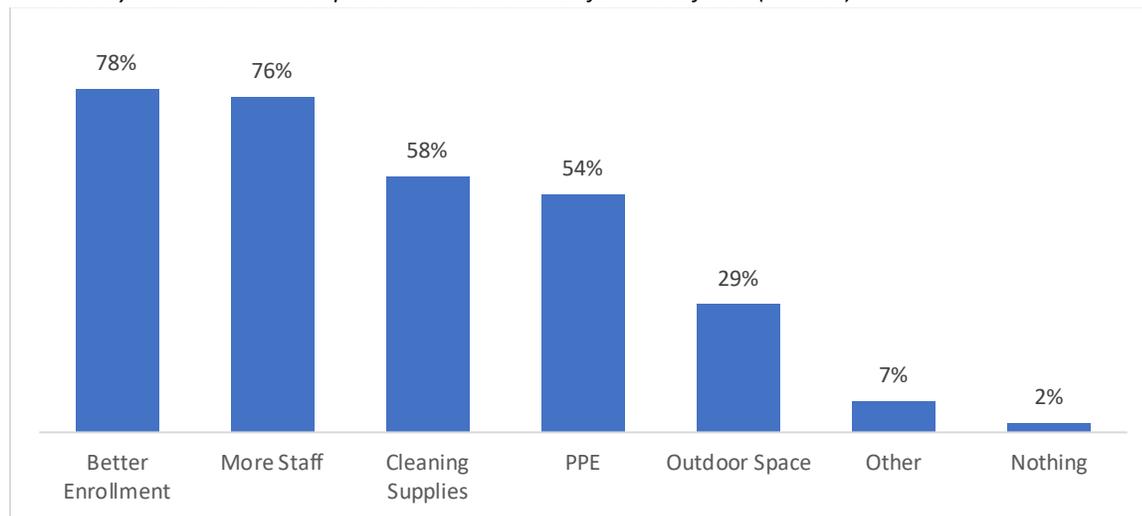
Although the PEFSEE program helped stabilize operations during the worst of the pandemic, grantees continue to face a set of ongoing challenges and many providers continue to need assistance as they navigate fall 2021. Although our data only describe conditions in programs supported by PEFSEE, it is likely that other organizations working in the Philadelphia childcare sector face similar challenges.

Enrollment and Staffing are an Ongoing Concern for Providers

When PEFSEE grantees were asked, as part of their final reporting, to identify their greatest needs for fall 2021, more than three quarters of providers identified enrollment and staffing as their greatest concerns. For childcare providers, challenges with staffing and enrollment go hand-in-hand. Without sufficient staffing, programs cannot open enough classrooms to welcome families back. Although PEFSEE providers appear to be faring better than other Philadelphia providers, the enrollment data they shared with us (described below), highlights the ongoing challenge providers face returning to full enrollment.

Largest Challenges Entering Fall 2021

"What do you need to be well positioned to be successful in the fall?" (n = 395)



Regaining Full-Enrollment

As part of their grant reporting, providers were asked to share information about their current enrollment levels.

During the height of the pandemic, many providers were forced to temporarily reduce their program capacity as a COVID-19 precaution. However, even now that most capacity restrictions have been lifted, program enrollments have not returned to pre-pandemic levels. PEFSEE programs reported that, on average, their enrollment declined 38% between February 2020 and July/August 2021.

Enrollment declines were similar across all types of organizations and programs, however, the largest enrollment declines were concentrated in programs that served school-age children. Across PEFSEE programs, school aged enrollment declined 61%. Infant enrollment, which was the lowest pre- and post-pandemic, declined by 35%. Pre-K and Toddler enrollment declined by the smallest amount, 25% and 28%, respectively.

Program Enrollment, February 2020 and July/August 2021

	Enrollment, Feb. 2020	Enrollment, Jul/Aug 2021	Change in Enrollment
Infants	1,221	797	-424 (35%)
Toddlers	4,785	3,436	-1,349 (28%)
Pre-k	11,555	8,610	-2,945 (25%)
School Age	9,003	3,547	-5,456 (61%)
Total	26,564	16,390	-10,174 (38%)

Although our data only cover PEFSEE grantees, other providers in the city are likely experiencing similar enrollment challenges. The table below summarizes data from Pennsylvania’s Child Care Works subsidy program, which is open to low-income working households. Participation in the program in Philadelphia declined 42% between March 2020 and March 2021.

Change in Number of Children Using Child Care Works Subsidy in Philadelphia, by Age, 2020 to 2021

	March, 2020	March, 2021	Change in Enrollment
Infant & Toddler	9,763	5,408	-4,355 (-45%)
Pre-K	8,778	5,342	-3,436 (-39%)
All Children (Ages 0 – 5)	18,541	10,750	-7,791 (-42%)

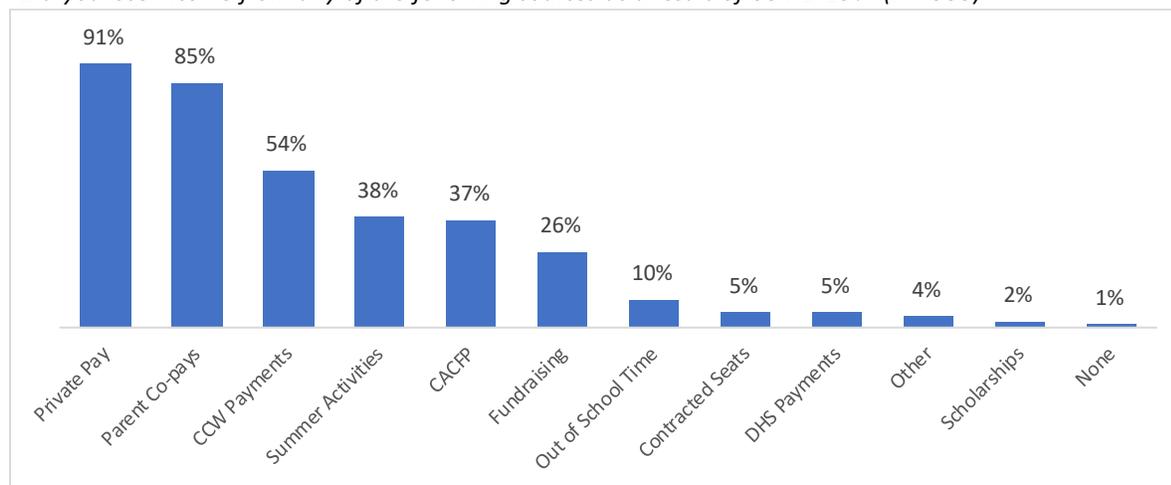
Even prior to the pandemic many providers were already operating on thin margins with limited cash reserves. Prolonged periods of low enrollment are not sustainable without additional resources. Some of the enrollment challenges that providers are facing are likely due to higher levels of unemployment among parents, which could reduce demand for their services. But staffing shortages in the childcare sector also play an important role. Without full staffing providers cannot open all their classrooms.

Changes in Expenses and Income

Although the PEFSEE program helped to temporarily stabilize operations, many programs are entering 2021 still struggling to regain their financial footing. In addition to reporting on enrollment and staffing, providers were asked to describe where their programs had lost revenue and where they were incurring additional expenses. The largest drivers of lost revenue are declining parent tuition payments and the loss of co-pays from parents receiving state-provided childcare subsidies. At the same time, providers report higher expenses, driven by additional cleaning costs, facility modifications, and PPE equipment purchases.

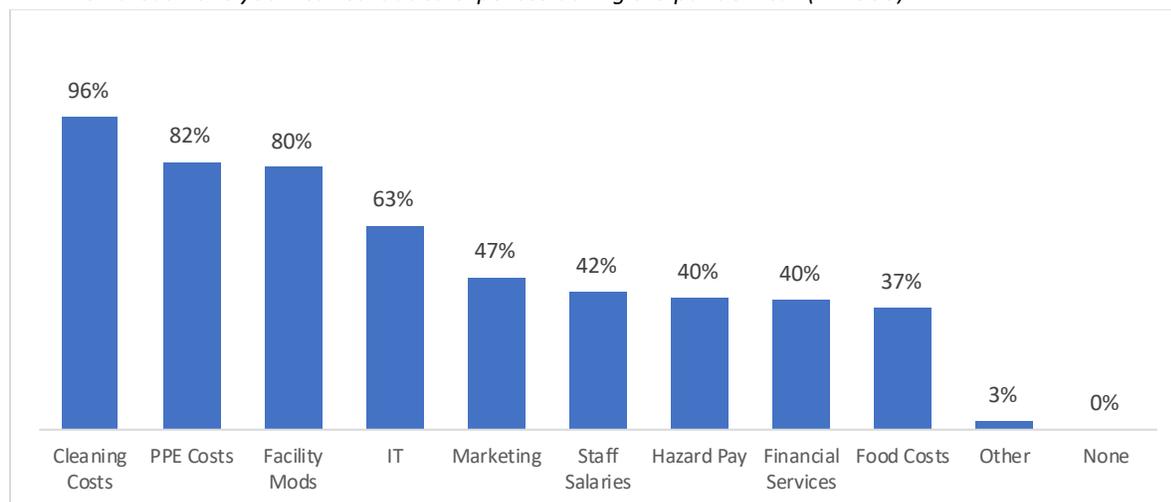
Largest Sources of Declining Income

“Did you lose income from any of the following sources as a result of COVID-19?” (n = 388)



Largest Sources of Increased Expenses

“In which areas have you incurred added expenses during the pandemic?” (n = 388)



Overall Financial Health

In addition to the information described above, 145 grantees shared their financial statements and tax filings, providing a glimpse into their financial health in 2019, 2020, and in the first quarter of 2021. This subset of grantees had similar characteristics to the overall population of grantees, with similar STAR ratings, program types, and numbers of single- and multi-site operators to the overall grantee pool. These data illustrate the positive impact that PEFSEE and other stabilization programs had on providers’ bottom lines during the worst of the pandemic, but also how programs continued to struggle as they entered 2021.

Because childcare providers use different accounting methods to classify staff salaries, it is difficult to compare expenses and net revenue across programs.⁵ Comparing year over year changes in income, however, provides a helpful way to understand and compare the financial health of childcare programs.

The table below shows the median gross income across the 145 programs that provided complete financial information in their applications and program reporting. Full year program income was reported in 2019 (pre-pandemic) and 2020. Results below show projected annual income for 2021 based on reported Q1 income. Incomes are reported separately for grantees that managed multiple sites and single site operators.

Median Gross Income, 2019, 2020, 2021 (Annualized)

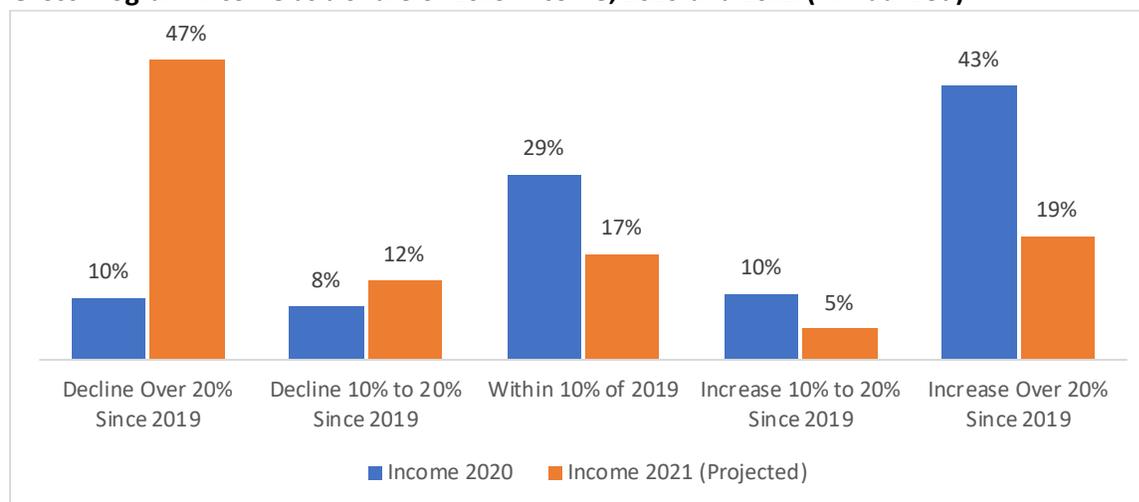
	2019 Income	2020 Income	Projected 2021 Income	Average Pct. Change 2020 to 2021
Single-Site Operators (n = 127)	\$148,000	\$153,414	\$109,008	-22.1%
Multi-Site Operators (n = 18)	\$553,035	\$636,052	\$482,810	-17.9%
All Grantees (n = 145)	\$173,612	\$198,956	\$120,000	-21.6%

As shown above, many providers saw their income increase in 2020 compared to 2019, as resources from PEFSEE and other programs came into the sector to help offset COVID-related expenses. Program revenues were also boosted in 2020 by the state’s licensing agency, OCDEL’s, decision to continue paying reimbursements to programs serving subsidized children during mandated closures. However, now that many of these programs are over, childcare providers are entering 2021 with projected incomes below their 2019 levels. On average, income in 2021 is projected to be more than 21.6% lower than 2019.

The figure below shows how program income in 2020 and 2021 compares to each program’s 2019 benchmark. In 2020 (blue bars), 43% of grantees had income that was 20% *higher* than their 2019 (pre-pandemic) benchmark. In 2021 (orange bars), 47% of grantees were on pace for income to be 20% *lower* than their 2019 benchmark.

⁵ For example, businesses organized as sole proprietorships would not include owner salary as an expense, while businesses organized as an LLC would include all salaries as expenses.

Gross Program Income as a Share of 2019 Income, 2020 and 2021 (Annualized)



While many providers are struggling financially in 2021, not all programs have fared equally. Higher quality providers (STAR 3 or 4) and those that participate in programs that offer contracted slots (e.g., PHLpreK, Head Start) are much less likely to project declining revenues in 2021.⁶ The table below shows how 2021 income compares to 2019 for different PEFSEE grantees by their STAR rating and their participation in contracted slot programs.

Program Income in 2021 (Annualized) as a Share of 2019 Income, by STAR Level, and Contract Status

	Decline Over 20% Since 2019	Decline 10% to 20% Since 2019	Change Within 10% Since 2019	Increase 10% to 20% Since 2019	Increase Over 20% Since 2019
STAR 1 or STAR 2 (n = 92)	53%	12%	12%	5%	17%
STAR 3 or STAR 4 (n = 53)	36%	13%	25%	4%	23%
No Contracted Slots (n = 114)	55%	11%	13%	4%	16%
Has Contracted Slots (n = 31)	16%	16%	29%	6%	32%
All Grantees (n = 145)	47%	12%	17%	5%	19%

As described above, STAR 3 and STAR 4 providers projected a much smaller disruption to their income between 2019 and 2021. Over fifty percent of these high-quality providers projected income increase or change within 10% of their 2019 benchmark, while 53% of STAR 1 and STAR 2 providers projected incomes in 2021 that were over 20% lower than 2019. Programs that did not have contracted slots also struggled. More than half of programs without contracted slots projected a substantial (i.e., larger than 20%) loss in 2021.

Conclusion

The PEFSEE program was developed as a temporary stopgap to help Philadelphia childcare programs replace lost revenue and cover additional expenses incurred because of the pandemic. The data and reporting described here show how resources from PEFSEE and other stabilization programs helped

⁶ Michelle Schmitt, Jacob L Rosch. (September 2021). "Eligibility, Participation, and Barriers to Entry for Contracted Seat Programs in Philadelphia's Child Care Sector." Early Childhood Education Fiscal Hub. Available: https://ecebizopssupports.phmc.org/images/docs/FH_ECE_Contracted_Seats_Programs_in_Philadelphia_FINAL.pdf

boost providers' incomes in 2020 to help offset rising pandemic-related expenses and declines in enrollment.

Through three rounds of grants, the program helped temporarily stabilize the city's childcare sector and allowed providers time to regroup, maintain a continuity of service, and eventually access additional state and federal resources. As of August, 2021, 97% of PEFSEE grantee sites were open in some capacity. A smaller proportion of PEFSEE grantees were closed (permanently or temporarily) than other licensed providers in the city.

Most childcare programs are small businesses and like small businesses in every sector, they need access to capital to grow and thrive. Because funding in the childcare sector does not support the full cost of care, childcare businesses have difficulty accessing the traditional sources of private capital that fund other businesses.⁷ A thriving childcare sector requires a mix of capital sources: private, concessionary, and philanthropic. Philadelphia consistently ranks among the most active counties in the country for Philanthropic grantmaking, CDFI activity, and SBA lending in childcare.⁸ The robust support that the sector receives may also help explain the resilience observed among childcare programs in the city.

However, the COVID-19 pandemic has lasted much longer than anyone in the sector originally anticipated. Even with rising vaccination rates, childcare programs remain in a precarious position. Enrollment across the childcare sector is down and providers are struggling to attract and retain the workforce they need to fully reopen their programs. Although there is need across the sector, our data suggests that STAR 1 and STAR 2 providers and those that do not participate in contracted seat programs are struggling the most with revenue loss and may need additional support and assistance to stabilize their programs and return to full operations.

The state is preparing to disburse a fifth round of CARES/ARPA funding to the sector and anticipates using program funding to provide up to 6,629 grants across the Commonwealth.⁹ These resources along with the continued support of stakeholders in the sector will be critical as childcare providers continue to recover from the COVID-19 pandemic.

⁷ Kristine Alvarez, Alex Epps, Sonia Montoya. (July 2015) "Overcoming Financial Barriers to Expanding High-Quality Early Care & Education in Southeastern Pennsylvania" Nonprofit Finance Fund.

⁸ See: Jacob Rosch, Marci Monaco-Vavrik, Ira Goldstein. (Forthcoming) "Mapping Capital Access in the Childcare Sector Across the US." National Children's Facilities Network.

⁹ For more information about the state's methodology for distributing resources see: https://s35729.pcdn.co/wp-content/uploads/2021/09/Stabilization_Subgrant_Report_081621.pdf



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