



Early Childhood Education Fiscal Hub

Insight into the Business Practices of Child Care Providers in Philadelphia

ECE Business Practices Survey responses and opportunities for interventions

February 2021



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Introduction

Developed in 2017, the Early Childhood Education Fiscal Hub (Fiscal Hub) focuses on improving the financial stability of early childhood education (ECE) providers in Philadelphia through resources, technical assistance, and policy advancement.

In 2019, Fiscal Hub project partners and Reinvestment Fund's Policy Solutions created the Philadelphia ECE Business Practices Survey to understand the business practices and financial needs of providers in Philadelphia. The survey served two purposes: first, to understand the financial management practices of a diverse sample of providers that could be shared with stakeholders to inform quality improvement initiatives across the city; and second, to calibrate the level and types of technical assistance provided to respondents interested in participating in the Fiscal Hub. The instrument, which was administered as a web-based survey between August 2019 and June 2020, reached 109 unique providers.¹

The onset of COVID-19 and the temporary shutdown of many child care providers shined a bright light on the importance of fiscal and business practices within the ECE sector. Even in the best of circumstances, ECE business models are challenging, and disruptions from the COVID-19 pandemic have underscored the importance of strong budgeting, planning, and fiscal controls.

This document summarizes the results of the Fiscal Hub's Philadelphia ECE Business Practices Survey and examines the responses across provider types and the connections between frequency of fiscal practices and confidence in those practices. Implications for potential technical assistance interventions based on these findings are also included.

¹The majority of survey responses were provided prior to the onset of the COVID-19 pandemic. Although we initially hoped to analyze how the pandemic impacted provider's business practices, the lack of representative responses occurring after the pandemic made these analyses difficult.

Key Findings

In analyzing the responses of the 109 providers that completed the survey, we identified the following takeaways:

- **Providers expressed strong interest in coaching and technical assistance to improve their business practices.** Respondents expressed the most interest in coaching around their budgeting practices and financial reporting systems. However, across provider types, there was a strong interest in all topic areas (e.g., invoicing, enrollment tracking, financial record-keeping, budgeting and financial reporting).
- **The wide range of enrollment tracking approaches suggests an opportunity to provide support and standardization in the sector.** Methods for tracking enrollment varied widely across providers, with only about half of providers using software to record and track data. Allocating time to record data and challenges using software were the most common barriers to enrollment tracking.
- **Many providers are not regularly creating budgets and express little confidence in the accuracy of their work.** Only 29% of respondents budgeted quarterly or monthly and less than half (48%) reported they were confident or very confident in their annual budgets. Budgeting with confidence appears to be a precursor to more advanced competencies, such as calculating the cost of care.
- **Technical assistance around invoicing and reimbursement policies may need to be tailored differently for family and group homes and child care center providers.** There was significant divergence in how family or group home providers and child care centers providers used invoices and calculated late fees, as well as their confidence in these systems. For example, despite not calculating expected Child Care Works (CCW) reimbursements each month, family and group homes were much more confident in their ability to calculate how much they were owed by CCW than were child care center providers.

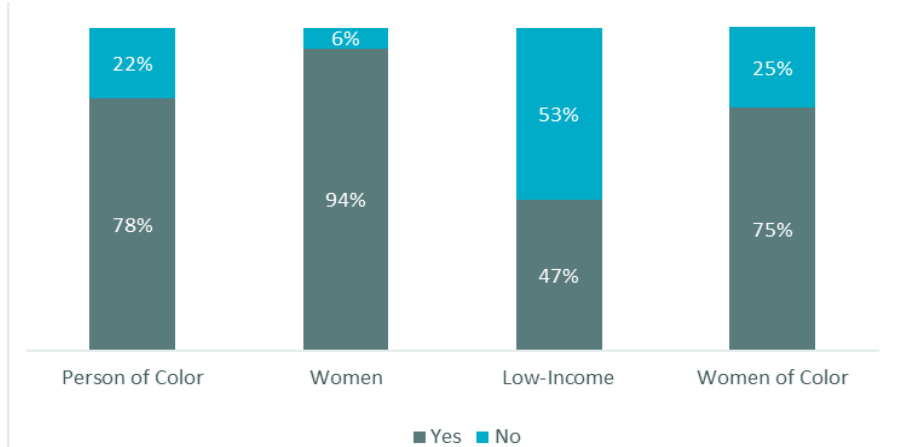
Summary of Respondent Characteristics

Of the 109 providers that completed the survey, 93 (85%) operated child care centers and 16 (15%) were family and group homes. Nearly every provider (106 of 109) accepted CCW subsidies.

Most providers (78%) completing the survey worked at child care facilities led by women of color. Nearly all (94%) child care providers represented in the survey were owned or run by women; 79% were owned or led by people of color. Almost half of the programs surveyed (47%) were owned by individuals earning less than 80% of national median family income.² All family and group homes that provided responses were owned by women. Eighty-nine percent of family and group homes were owned by individuals earning less than 80% of federal median family income, compared to 42% of child care centers.

Provider Respondents Were Mostly Women and/or People of Color

Is your business owned or controlled by... (n = 109)



The respondents who completed the survey were more heavily weighted towards high-quality and center-based providers compared to child care providers citywide. Half of the providers completing the survey had 3 or 4 STAR ratings, compared with only 19% of providers in Philadelphia (as of October 7). Only 14% of providers that completed the survey were family or group providers, while 35% of providers in the city were family or group homes.

Summary of Provider Characteristics: Respondent Operators and Operators Citywide

	High Quality Providers (STAR 3 or STAR 4)	Child Care Centers	Family and Group Home
Sample of Providers that Completed the Survey	50%	86%	14%
Providers Across Philadelphia	19%	65%	35%

Source: OCDEL, "Child Care Providers Listing Current Monthly Facility County Human Services". Available: <https://data.pa.gov/Human-Services/Child-Care-Providers-Listing-Current-Monthly-Facil/ajn5-kaxt/data> (accessed 10/20/19)

²The 2018 National Median Family Income was \$73,891; 80% was \$59,113.

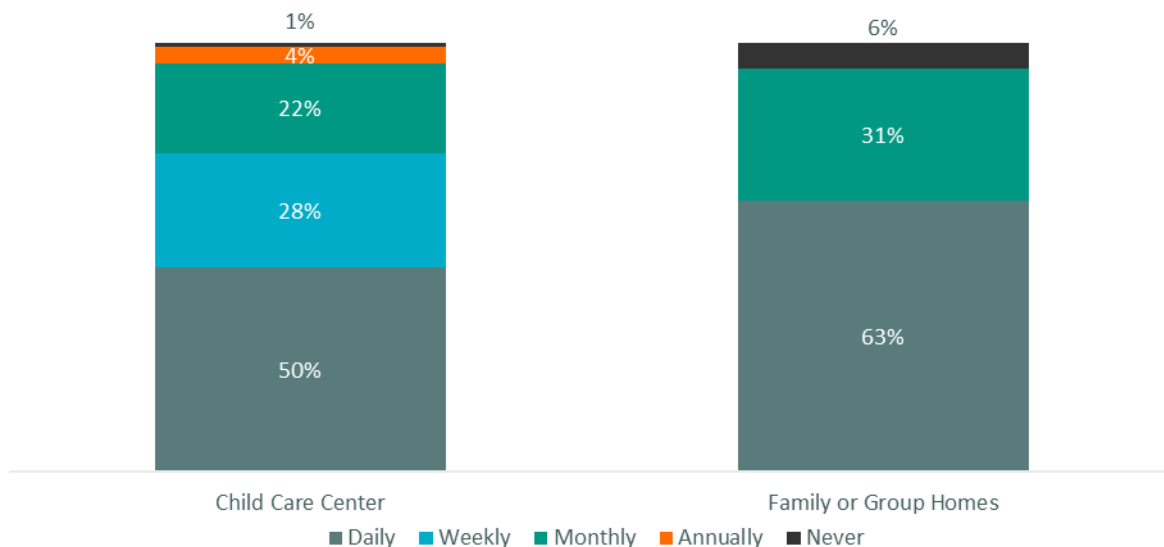
Enrollment Tracking

In general, providers were confident in their ability to record and track program enrollment, but 71% still wanted help. Nearly half of providers (51%) record enrollment daily, while 23% record enrollment weekly. Tracking enrollment by age group is more common than tracking enrollment by funding source (80% vs 70%), and 59% tracked enrollment by both age and funding source. Asked to rate their confidence in the accuracy of their enrollment records, 70% reported that they were confident or very confident. Yet, despite high confidence in their records, 71% of respondents reported that they would like help improving their enrollment tracking.

Enrollment practices vary in frequency across family and group homes and child care centers. Perhaps due to their smaller size, family and group homes tracked enrollment more frequently than child care centers. Nearly two-thirds of family and group homes (63%) tracked daily enrollment compared to 50% of child care centers. A little over a quarter (28%) of child care centers recorded weekly enrollment. No family or group homes reported recording weekly enrollment. Six percent of family and group homes did not track enrollment at all compared to just 1% of centers. Since family and group homes often have a smaller capacity than child care centers, they may feel comfortable tracking enrollment without regular formal reports. Both home-based and center-based providers wanted support to improve enrollment procedures, with 72% of child care centers and 69% of family and group homes requesting support.

Most Providers Track Enrollment Daily

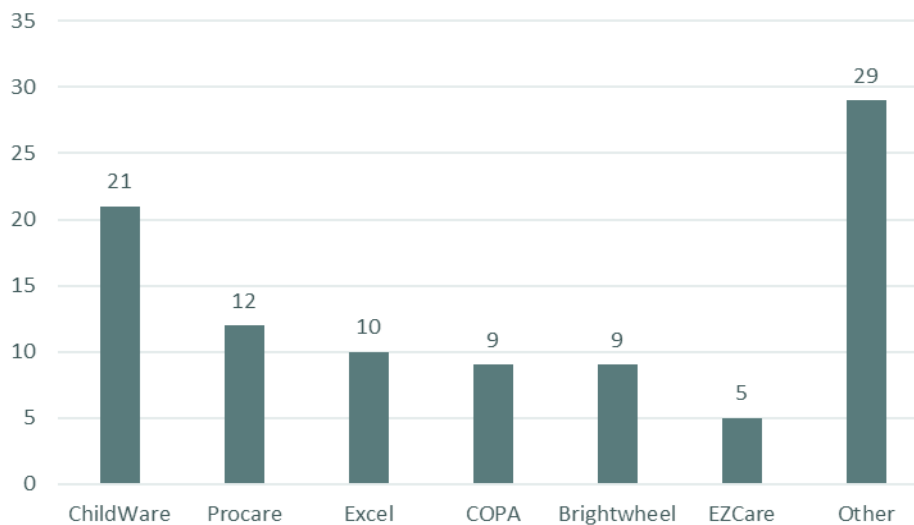
How often do you record enrollment information, such as new enrollments, discharges, or changes in enrollment? (n = 94)



Methods of enrollment tracking varied significantly. Forty-eight percent of respondents did not use any type of child care management software to track enrollment. Among providers that use software, the platform(s) used varied widely. ChildWare and Procare were the most common software platforms but many providers used multiple platforms to track enrollment. Among providers that used software, over a third (37%) used more than one software platform. The reliance of providers on multiple software platforms for tracking enrollment is related to several factors, including funder requirements for attendance and other reporting in specific software systems. For instance, providers with Head Start slots must use COPA to report enrollment, attendance, and other data. Providers with PHLpreK slots must use ChildWare. Providers must enter attendance data for children paid through CCW into PELICAN.

Providers Use a Variety of Platforms to Track Enrollment

Which software do you use for tracking enrollment? (Select all that apply) (n = 57)

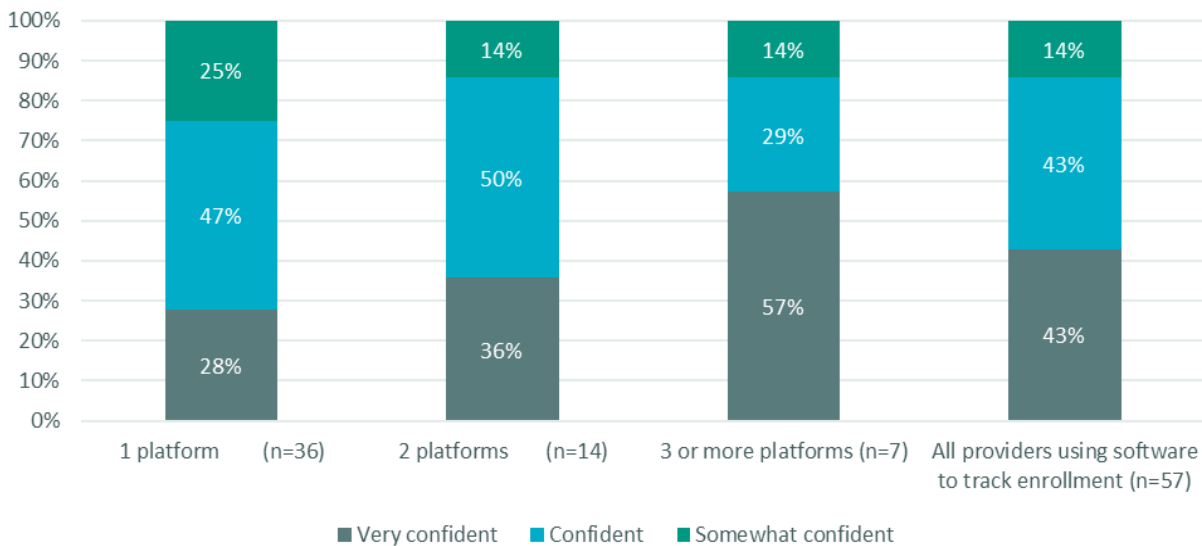


**Other platforms used: Smartcare (5x), KidKare (3x), Child Manager (2x), PowerSchool, PELICAN, My Kids Day, Kindertales, iCherub, Google Spreadsheets, EZCare for billing, Cloud 9, ChildPlus.*

Most respondents using software used a single software platform to track enrollment (63%), but providers using multiple platforms had higher confidence in their enrollment numbers. A quarter of providers (25%) that used software to track enrollment used two different software platforms to track their enrollment and 12% used three or more software platforms. Generally, using multiple software platforms for a single purpose would be problematic; however, respondents who used more than one software platform for tracking enrollment indicated a higher level of confidence in their enrollment data. Seventy-five percent of providers using one platform reported feeling very confident or confident in their enrollment data compared to 86% of both providers using two platforms and providers using three or more platforms. *In our experience working with providers through the Fiscal Hub, providers using more than one software platform are most likely braiding funding from multiple sources or are required by their funders to use multiple systems for reporting.*

Providers Using Multiple Platforms had Higher Confidence in their Enrollment

Confidence in enrollment data for providers using one or more software platform to track enrollment (n=57)



Requests for help with enrollment tracking are tied to increasing frequency of enrollment tracking and software usage. Although most providers were interested in help with enrollment tracking, providers that did not record enrollment daily or weekly were the most likely to request enrollment tracking support. Similarly, providers that did not use child care management software were the most likely to request support with enrollment tracking. *Providers using more than one enrollment platform may be weaving together multiple funding sources, each requiring a separate system to track enrollment. These providers may already have developed sophisticated methods to track their more complicated funding situation and therefore are less likely to need support.*

Providers That Recorded Enrollment Information Less Frequently Are More Likely to Request Enrollment Tracking Support

Cross-tabulation between desire for help improving enrollment tracking and frequency of recording enrollment information (n = 108)

		Frequency of recording enrollment information		
		Daily	Weekly	Less Frequently
Wants help improving enrollment tracking	Yes	62%	72%	89%
	No	38%	28%	11%

Providers That Do Not Use Child Care Management Software Are Most Likely to Request Enrollment Tracking Support

Cross-tabulation between desire for help improving enrollment tracking and usage of child care management software (n = 108)

		Uses child care management software	
		Yes	No
Wants help improving enrollment tracking	Yes	61%	82%
	No	39%	18%

Staff time and training were among the most common pain points when tracking enrollment, particularly for centers. When asked to rate the most challenging aspects of tracking enrollment, the most common responses were related to finding staff time for training, using the software to document changes to enrollment, and training staff to use the software.

In general, tracking enrollment appeared to be less complicated for family and group homes. Nearly a third of family or group homes said they did not find tracking enrollment difficult (31%), which likely reflects these providers' lower enrollment levels and simpler funding streams. Family or group homes that did identify challenges identified slightly different difficulties than child care centers, naming recording information from parents (25%) as their biggest challenge. This may indicate that their difficulties are less about tracking children once enrolled and more about gathering information from parents and caregivers at the start the of enrollment process.

Staff and Capacity Constraints Top List of Challenges for Providers

What aspects of tracking enrollment do you find most challenging? (Select Up to 3) (n=108)

	Child Care Centers	Family or Group Homes	All Providers
Finding staff time to track enrollment	26%	13%	24%
Documenting changes to enrollment	24%	13%	22%
Training staff to use the software	24%	13%	22%
Recording information from parents	11%	25%	13%
Navigating the software to find information	12%	0%	10%
Using our system to enter data	8%	0%	6%
Other (Please specify)	4%	0%	4%
None – I do not find it challenging	15%	31%	17%

Enrollment Insight and Potential Technical Assistance Intervention

Findings from this survey and from the project's previous data collection efforts suggest that some providers may assume enrollment is synonymous with attendance. While both enrollment and attendance are important, there are distinct implications related to the two. Many providers focus on attendance tracking and reporting, as several subsidy programs require attendance data as the basis for reimbursement. Full Time Equivalent (FTE) enrollment tracking³ considers the availability of slots and how effectively those slots are being utilized, which enables a provider to analyze and address total program utilization, classroom utilization, vacancies by age group, and other critical metrics tied to financial sustainability. *In our experience working with providers through the Fiscal Hub, we find that although providers consistently indicate that they track enrollment, they are generally unable to provide monthly enrollment data by age group and funding source when it is requested.*

Providers that use a child care management software to enter enrollment and attendance data on all children served, regardless of funding source, are required to complete duplicate data entry into additional, funder-specific data systems. This double data entry discourages providers from using a child care management software as a single tool for reporting on all children, and thereby limits the ability of the child care management software to report comprehensive and helpful enrollment data for the program as a whole. *Through trainings and technical assistance, the Fiscal Hub is supporting providers to create and use a spreadsheet as an enrollment tool for real-time tracking, regardless of and separate from child care management software.*

Differentiating Attendance and Enrollment

Attendance is the count of children that are in attendance on any given day. Attendance data are used to track meals and snacks provided each day, to ensure that all children in the facility are accounted for safely in case of an emergency, and to submit as part of the invoicing process.

Enrollment is the count of children, by age, by schedule, and by funding program that are expected to attend the program. Enrollment is typically organized by classroom and recorded weekly to monitor vacant slots, note critical incidents (e.g., a child's movement into a new age band, withdrawals, new enrollment) that impact revenue, and to generate average annual enrollment figures by age group. It is important for providers to track enrollment using FTE values rather than individual children. This ensures that providers are aware of the impact of their enrollment policies on revenue, and supports them in "matching" part-time enrollments to ensure that all seats are filled all day every day. Enrollment data is typically tracked in tandem with a comparative number (e.g. the number of slots in a classroom, the number of slots in a Head Start contract) against which the provider can contextualize actual performance.

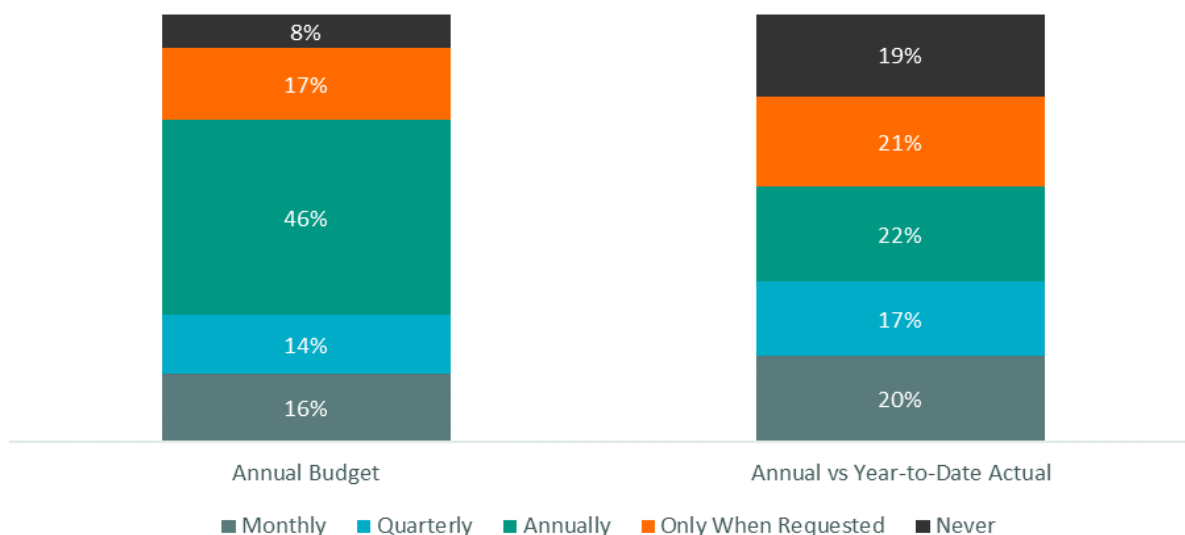
³A child (birth through age five) is considered one FTE if he/she is enrolled for five days per week for five hours or more per day. (Source: Keystone STARS Enrollment Calculation Tool, Center Group <https://www.pakeys.org/keystone-stars/stars-resources/>)

Budgeting and Cost of Care

For many respondents, budgeting appears to be an infrequent or ad-hoc exercise. Only 30% of respondents budgeted quarterly or monthly, with most budgeting annually (46%), never (8%), or only when requested (17%). Fewer respondents compare annual to year-to-date actual budget figures with any regularity. Less than half (40%) reported that they *never* or *on an ad-hoc basis* create annual vs. year-to-date actual budget reports.

Many Providers Are Not Updating Budgets or Analyzing Budgets with Regularity

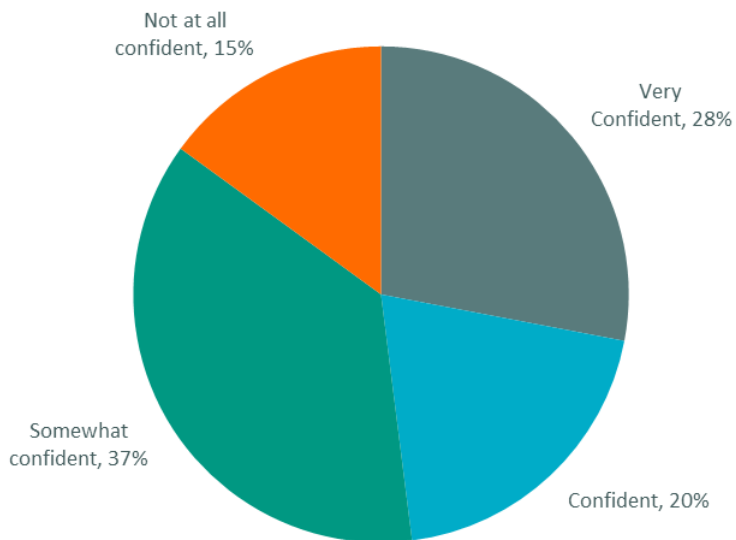
How often do you create the following reports? (n = 109)



Respondents were not confident in the accuracy of their budget data, and few believed they could accurately capture the cost of care. Most respondents were not confident in the accuracy of their budgets: less than half (48%) reported they were confident or very confident in their annual budgets. Even fewer believed they could accurately measure the cost of care in their program, a measure of the true cost to providers of serving a child. Only 41% reported that they were confident or very confident that they could calculate the cost of care in the program.

Respondent's Confidence in Quality of Annual Budget is Low

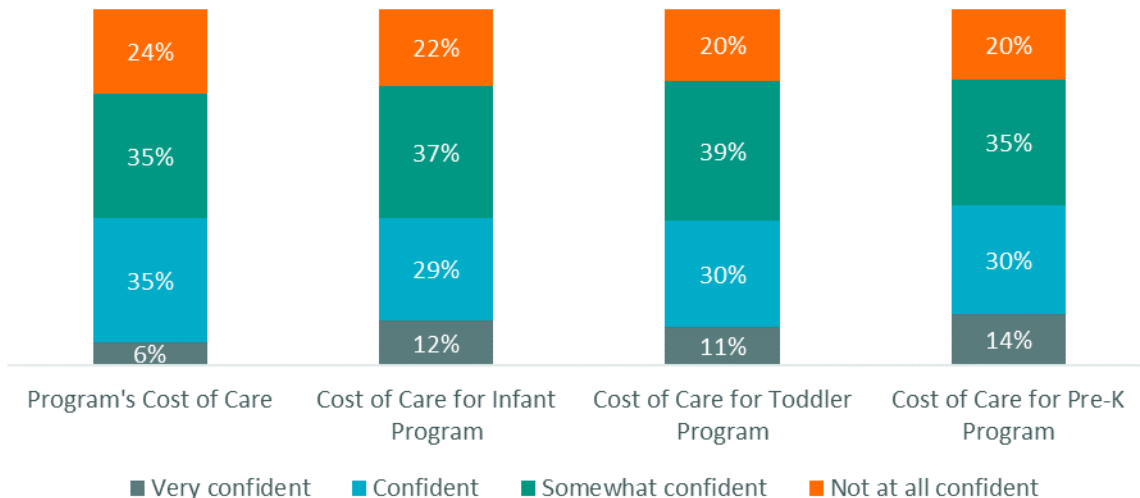
How confident are you in the accuracy of these reports? - Annual Budget (n=100)



Provider's confidence in their ability to track costs is low. Less than half of providers were very confident or confident in their ability to track cost of care by program or age group. Confidence calculating costs for pre-K programs was highest at 44%. This may be related to participation in PHLpreK, which requires an extensive budgeting process for serving preschoolers and can be converted to calculate the cost of care per preschooler with relative ease.

Respondent's Confidence in Quality of Cost Data is Low

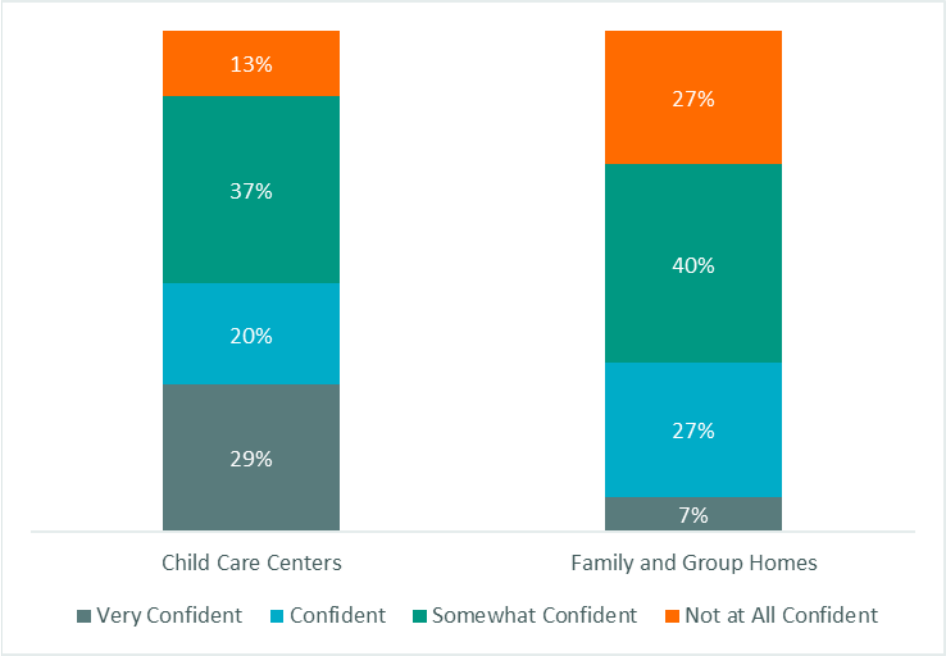
How confident are you that you could calculate the cost of care in your program and in each age group? (n = 109)



Family and group homes have the lowest levels of confidence in their annual budget data. While family and group providers created budgets at the same frequency as child care centers, just a third of family and group providers were confident or very confident in their annual budget data, compared with 49% of child care centers.

Family and Group Homes Have Low Confidence in their Annual Budgets

How confident are you in the accuracy of these reports? - Annual Budget (n = 90)



Providers with a strong grasp of costs were more confident in their budgets. Providers confident in their ability to calculate the cost of care were also more confident in the accuracy of their budgeting. Among providers that were confident in their ability to calculate the cost of care, 75% were confident in the accuracy of their budgets. Among those that were not confident that they could calculate the cost of care in their center, only 27% were confident in the accuracy of their budgets.

Confidence in Cost Management Associated with Confidence in Budget Accuracy

Cross-tabulation between confidence in budget accuracy and confidence in ability to calculate cost of care (n = 85)

		Calculating Cost of Care	
		Confident or Very Confident	Somewhat or Not Confident
Accuracy of Budgets	Confident or Very Confident	75%	27%
	Somewhat or Not Confident	25%	73%

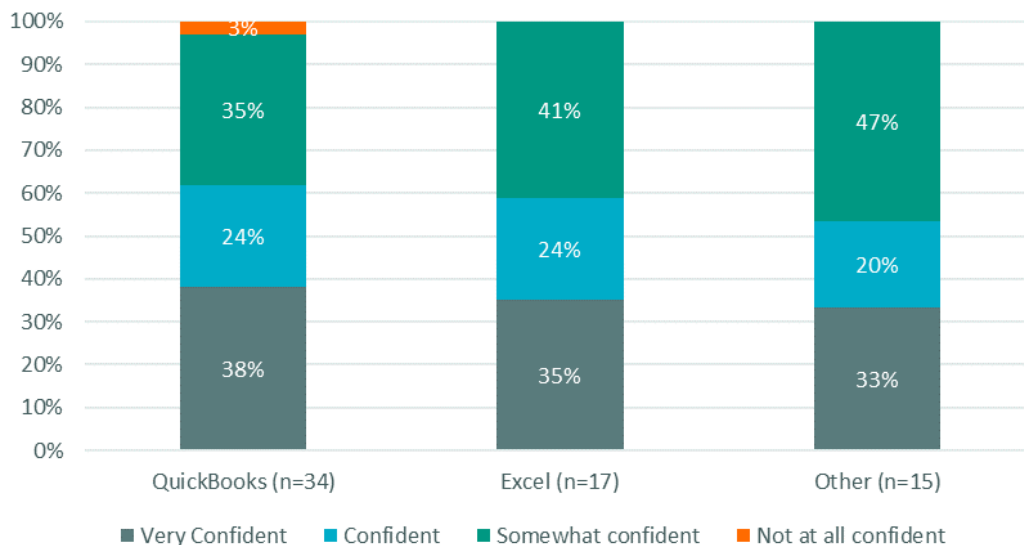
While the use of software for budgeting and enrollment tracking were similar, there was less diversity in platforms. Respondents were as likely to use budgeting software as they were to use enrollment tracking software. Fifty-three percent of respondents reported using software to develop budgets, and 52% reported using enrollment tracking software. Eighty percent of providers using budgeting software also used enrollment software.

Unlike enrollment tracking, where the most common platform was only used by only one quarter of respondents, providers overwhelmingly used QuickBooks and Excel as their budgeting platforms, with 90% of providers using one of the two software platforms for budgeting.

Confidence in budgeting accuracy was consistent for providers using QuickBooks and Excel, but lower for providers using other software platforms. Providers using QuickBooks and Excel had high levels of confidence in their budgets. Sixty-two percent of QuickBooks users and 59% of Excel users were very confident or confident in their annual reports. Providers relying on other software platforms were slightly less confident; just 53% felt very confident or confident in their annual reports.

Respondent Confidence Was Mostly Consistent Across Software Platforms

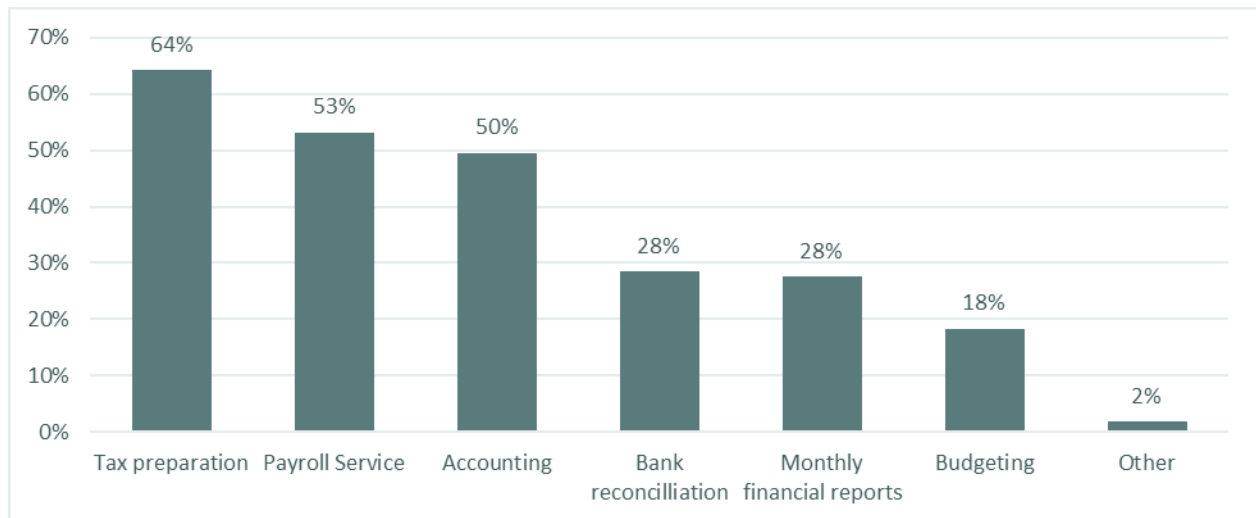
How confident are you in the accuracy of these reports? - Annual Budget (n=66)



Many providers are using outside financial services to support their business operations. Outside accountants and bookkeepers were most commonly employed for tax preparation (64%), payroll service (53%), and accounting (50%). Among respondents that used an accountant or bookkeeper, 76% were confident or very confident that the accountant understood their business. Most providers using an outside accountant were also using either QuickBooks or Excel to create their financial reports.

Most Common Financial Services Provided by Outside Accountants and Bookkeepers

Do you use an outside accountant or bookkeeper for any of the following financial services? (Select all that apply) (n = 109)

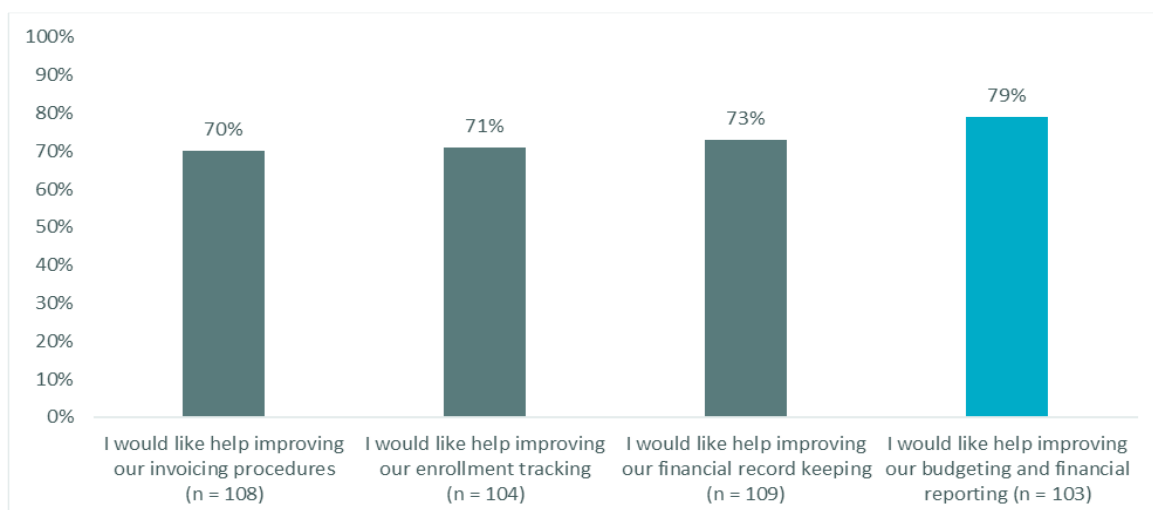


Support with budgeting and financial reporting was among the most requested forms of technical assistance. More than three-in-four providers (79%) requested support to improve their budgeting and financial reporting practices—the most common request for support. Requests for budgeting and financial support were slightly higher among child care centers (79%) than family or group homes (71%).

Most surveyed providers also reported that they would benefit from one-on-one technical assistance on analyzing financial data or using data to make business decisions, 84% and 86% respectively. Interest in training staff for these tasks was much lower (32% to 29%, respectively). Interest levels were similar for child care centers and family or group homes.

Budgeting, Financial Reporting, and Record-Keeping Topped List of Technical Assistance Requests

Would you like help improving...



This chart shows the responses from four survey questions. The number of respondents (n) is shown for each question.

Budgeting and Cost of Care Insights and Potential Technical Assistance Interventions

Respondents' answers highlighted the need to explore strategies that address a lack of financial literacy across providers. As the COVID-19 crisis has revealed, competencies around budgeting and calculating the cost of care are critically important during periods of economic uncertainty. The low levels of confidence that providers indicated in their ability to budget or measure costs suggests the need for new tools and technical assistance to support owners' and directors' ability to manage their businesses. The high number of providers already outsourcing financial activities to accountants and bookkeepers suggests that there may be additional opportunities to explore shared service models, particularly as interest in training staff remains low.

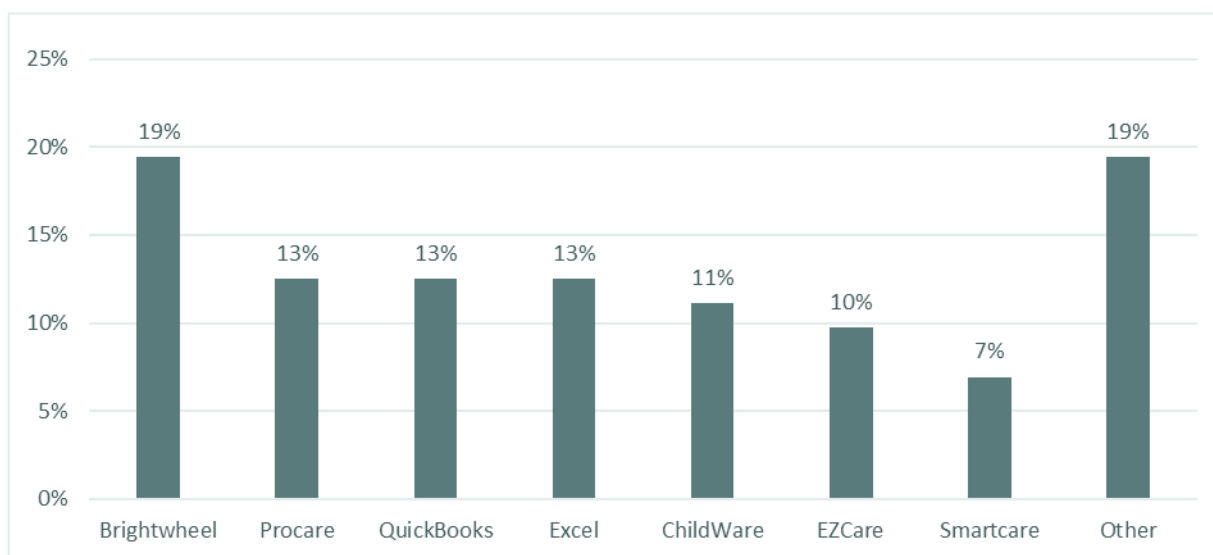
To help support these activities, the Fiscal Hub has developed a standard chart of accounts tailored to the ECE sector locally and state-wide, which tracks critical revenue and expense line items that feed into accurately capturing the cost of care. The Fiscal Hub further developed a budgeting and accounting training and technical assistance series to help providers align their budgeting categories and accounting software to this chart of accounts to more easily and consistently track the cost of care. In order to get an accurate figure, however, understanding annual FTE enrollment is necessary. This will necessitate improving providers' budgeting and enrollment tracking systems concurrently to improve their financial performance.

Invoicing and Financial Controls

Most, but not all, providers are invoicing parents for tuition and fees. Nearly 68% of providers reported invoicing parents for tuition and fees. Most are using software to generate invoices, but as was the case with enrollment tracking, the software platforms that providers used varied greatly. The most common software selected on the survey were Brightwheel and “Other.”

Wide Diversity in Software Platforms Used for Invoicing

Which software do you use for invoicing parents (check all that apply)? (Select all that apply) (n = 72)



Other platforms used: KidKare (2x), Kinderlime (2x), Cloud9, Evolv, Kindertales, Smartcare, Child care Manager, “Paper distribution & personally email,” Text message, “Self-Generated Invoice for School Age Children only”, Microsoft Word, Sage

Child care providers were better able to calculate uncollected fees than family or group homes. Eighty percent of providers reported the ability to calculate uncollected fees from parents and caregivers that were 60 days past due, but a greater percentage of child care centers were able to do so compared with family and group homes. While 84% of child care centers could calculate fees that were 60 days overdue, only 56% of family or group homes were able to do the same. Provider ability to collect unpaid fees declined over time. Seventy-three percent of providers could calculate uncollected fees that were 180 days past due.

Calculating expected reimbursements from CCW is more challenging for providers.

Understanding expected revenue from CCW payments, which are an important source of revenue for many providers, is critical. Most providers (56%) reported calculating an expected CCW reimbursement each month, but fewer than half of providers were confident or very confident that they could accurately calculate the money CCW owed their program since their last invoice (43%). CCW rates are subject to change based on several variables, such as a child's enrollment schedule, a child's date of birth, and the number of absences that the child has had since the beginning of the calendar year. The CCW invoicing process requires the

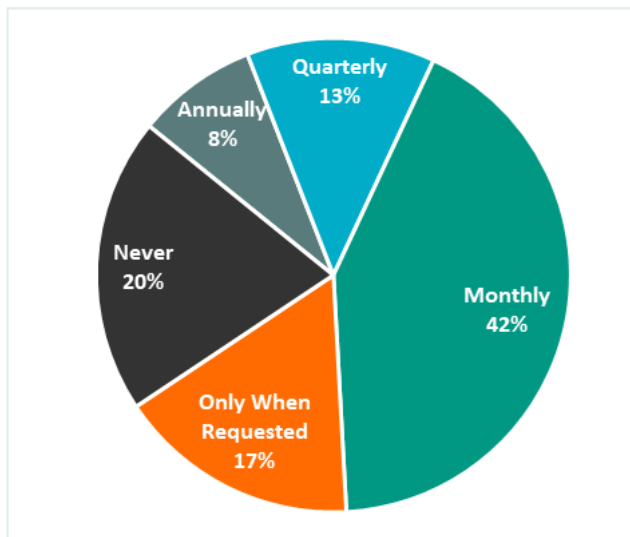
submission of attendance data but does not generate an expected payment amount for the services rendered per child per month.

CCW reimbursement calculations varied by facility type. Fifty-nine percent of child care centers calculated anticipated CCW reimbursements compared to only 47% of family or group homes. Confidence in CCW reimbursements also varied by facility type. Sixty-seven percent of family or group homes were very confident or confident in their ability to calculate CCW reimbursements compared to 39% of child care centers. It is not clear why family or group homes had more confidence in their ability to calculate CCW reimbursements despite not doing so regularly. It may be that the process was simpler for them due to lower enrollment levels or less attendance volatility.

Few providers are monitoring their statements of cash flow on a regular basis. One in five providers (20%) reported never creating a statement of cash flow and only 42% reported creating a cash flow statement on a monthly basis. More than half (52%) of respondents who create a statement of cash flow reported that they were confident or very confident in the accuracy of their reporting.

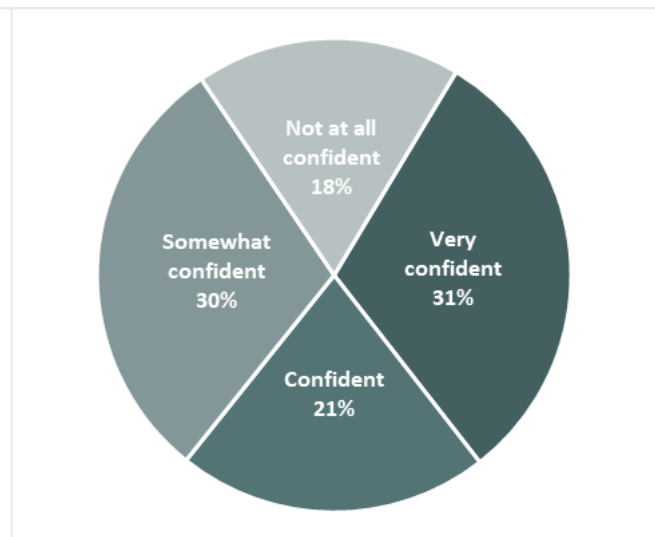
1 in 5 Providers Do Not Create Cash Flow Statements

*How Often do You Create a Statement of Cash Flow?
(n = 109)*



About Half of Providers are Confident in the Accuracy of Their Cash Flow Statements

*How Confident Are you in the Accuracy of your
Statement of Cash Flow Report? (n = 94)*



Seventy percent of respondents would like coaching and technical assistance to improve their invoicing procedures. Most respondents indicated that they would like coaching to improve how they invoiced, but there were differences between the child care centers and family or group homes. Seventy-three percent of child care centers wanted support to improve invoicing procedures compared to only half of family or group providers.

Invoicing and Financial Controls Insight and Potential Technical Assistance Intervention

Providers' responses around financial controls and invoicing point to a number of troubling factors. It is generally understood that reimbursement rates and fees for service in the child care industry are often set below actual costs. As a result, it is critical for providers to collect every dollar that is owed to them, particularly from state agencies responsible for child care subsidy payments and reimbursements. Responses in the survey suggest that while providers may be invoicing for their services, many do not have a sense of the collection rate or accuracy of a collected reimbursement (or both).

Additionally, many providers are not tracking their cash flow on a consistent basis. Understanding cash flow is necessary to ensure operations are sustainable over the long run, but more importantly, that providers can meet their short-term obligations. Staffing costs (e.g., staff wages, benefits, payroll taxes) account for approximately 70% or more of expenses for most child care providers. When cashflow is constrained, providers will be immediately challenged to meet payroll. We expect that disruptions from the COVID-19 pandemic have exacerbated these challenges.

Closing

These preliminary findings provide a new look into the business practices of a diverse sample of child care providers in Philadelphia. While our results point to several challenges and shortcomings in child care providers' current fiscal and business practices, they also highlight a strong interest among providers in coaching and technical assistance to improve the financial management of their businesses.

The Fiscal Hub's experience working with providers to improve their business practices provides further evidence that child care providers are motivated to improve their financial systems and practices, but often lack the knowledge, resources, and assistance to do so. The Fiscal Hub's experience highlights the need to simplify or link the wide array of software systems used by providers, particularly when tracking enrollment. To this end, Fiscal Hub supports providers in creating a spreadsheet for tracking enrollment in real time. Providers also need guidance to create standard policies and procedures around invoicing and on instituting appropriate financial controls. The Fiscal Hub has developed a standard chart of accounts tailored to ECE providers and developed budgeting and accounting training and technical assistances so providers can align their budget categories to their accounting software. Because these results provide only a snapshot understanding of providers' business practices, more data should be collected to understand how business practices will change and evolve over time. Expanding our analysis to include data collected regularly from a larger sample of providers across the city and state can help to inform targeted business management technical assistance, adjust to evolving needs, and guide policy decisions and future investments that would support providers in improving their financial stability.