Early Childhood Education Fiscal Hub Phase 2

Project overview, key observations, interventions, and recommendations to improve the financial stability of child care programs

December 2021

PUBLIC HEALTH management corporation

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Early Childhood Education Fiscal Hub Project **Phase 2**

The Early Childhood Education Fiscal Hub (Fiscal Hub) is a partnership of Public Health Management Corporation (PHMC), Reinvestment Fund, CoMetrics, and Children's Village. Generous funding from the Vanguard Strong Start for Kids Program™ and William Penn Foundation supported this project. The opinions expressed in this report are those of the authors and do not necessarily reflect the views of the Vanguard Strong Start for Kids Program™ or William Penn Foundation.

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The Fiscal Hub would like to thank our advisory committee members for their guidance and support:

Kristine Alvarez, Nonprofit Finance Fund

Amanda Atkinson, Public Health Management Corporation

Marnie Aylesworth, Pennsylvania Key

Diane Barber, Pennsylvania Child Care Association

Melanie Brennan, Kencrest Services

Kellie Brown, William Penn Foundation

Angela Coaxum, Your Part-Time Controller

Teresa Collins, 1199c Training and Upgrading Fund

Elana Como, Northwest Institute of Research

Donna Cooper, Children First (formerly Public Citizens for Children and Youth)

Stuart Forman, Kinder Academy

Amy Friedlander, Amy Friedlander Consulting

Diane Getzinger, Caring People Alliance

Eva Gladstein, City of Philadelphia

Mary Graham, Children's Village

Karen Grimm-Thomas, Pennsylvania Office of Child Development and Early Learning

Curt Gussler, Pennsylvania Key

Lynn Karoly, RAND Corporation

MaryKay Mahar, Public Health Management Corporation

Abigail McMahon, Public Health Management Corporation

Mai Miksic, Children First (formerly Public Citizens for Children and Youth)

Dainette Mintz, Urban Affairs Coalition

Luanda Morris, Urban Affairs Coalition

Elizabeth Ozer, First Up

Sean Perkins, City of Philadelphia, Office of Children and Families

Rashanda Perryman, Vanguard Group

Carl Reese, Kencrest Services

Aliya Johnson Roberts, Pratt Street Learning Center

Tyrone Scott, First Up

Nicholas Shamkalian, Ann Kids

Philip Sirinides, University of Pennsylvania

Rose Snyder, Pennsylvania Association for the Education of Young Children

Leslie Spina, Kinder Academy

Louise Stoney, Opportunities Exchange

Sara Vernon Sterman, Reinvestment Fund

Fiscal Hub Partners

Public Health Management Corporation

Public Health Management Corporation (PHMC) is a nonprofit public health institute with a mission to create and sustain healthier communities. PHMC has served the Greater Philadelphia region since 1972. PHMC and its 11 affiliates have over 2,300 employees across 42 program locations serving approximately 350,000 clients annually through hundreds of programs. Service areas include behavioral health/recovery, primary care, chronic disease management and prevention, early intervention, education, workforce development, family services, and much more, plus the research and evaluation necessary to assess and target service needs effectively.

Reinvestment Fund

Reinvestment Fund is a national mission-driven financial institution that creates opportunity for underserved people and places through partnerships. It marshals the capital, analytics, and expertise necessary to build strong, healthy, and more equitable communities. Since 1985, Reinvestment Fund has made $2 billion in cumulative investments and loans. It is supported by over 850 investors that include individuals, foundations, religious institutions, financial institutions, civic organizations and government.

CoMetrics

CoMetrics enables independent businesses, cooperatives and nonprofit organizations to harness the power of data to transform their performance and impact. Founded in 1995 and incorporated as a Minnesota cooperative in 2003, CoMetrics currently serves over 300 organizations in eight sectors ranging from retail grocery to nonprofit affordable housing developers to impact investors. Its proven model can deliver value across a broad range of sectors, industries, and business types. CoMetrics builds the capacity of its partners to be data-driven. Its tools create timely, accurate and actionable analytics that improve financial management, drive innovation, and better measure social impact.

Children's Village

Children's Village is a non-profit organization that educates young and school-age children, current and future teachers, and families. Children's Village is distinguished by teaching excellence, a comprehensive and holistic framework and its focus on inclusion and diversity. Beyond the walls of its classrooms. Children's Village is a passionate early learning advocate and offers professional development for educators, center directors, and family child care providers.

Contents

Project Overview

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 data collection, resources, technical assistance, and policy advancement.

This report summarizes efforts through phase 2 from 2019 through 2021, which focused on refining and streamlining the online tool for data collection and decision-making, providing tiered technical assistance to support providers' efforts to stabilize their businesses, and reviewing policies that may present barriers to financial stability.

The Fiscal Hub work was guided by an advisory committee who provided input and supported decision making around overall project components, advancing policy recommendations, and engagement with policymakers, funders, and other stakeholders. This work was also supported by the metrics committee who provided input and supported decision making around refinements to the online tool and data collection process, provider recruitment, and technical assistance support.

Midway through the project, the COVID-19 pandemic hit and disrupted businesses. In March 2020, Early Childhood Education (ECE) providers were immediately impacted by a statewide order to close their businesses. Owners and program administrators were forced to make swift business decisions in a fearful and uncertain context, impaired by health and revenue concerns. At this point, Fiscal Hub partners and other stakeholders developed a plan to pivot work to provide more direct services to help providers survive through the closure.

Fiscal Hub traditional data collection focused on past budgets and gap analysis to identify where improvements could be made in the future. The pandemic and the ongoing environment of insecurity for the ECE field punctuated the fact that providers needed to know how they could save money today and where their next payment was coming from tomorrow.

Most ECE providers reopened for business during summer 2020 but continue to operate in uncertainty. One year later, in 2021, they still struggle with staffing shortages, low enrollment, and increased operating costs. On one hand, the pandemic elevated child care to the world as a vital business for the economy. On the other, it highlighted how vulnerable child care businesses are, even in good times, and the critical need for increased business supports to owners and administrators in the field.

Components

Phase 2 of the Fiscal Hub was designed to take what was learned through data collection and develop interventions to help owners and administrators implement best practices to improve their business management systems and skills.

Data Collection	Technical Assistance
• Collecting financial and programmatic data from providers in Philadelphia. • Analyzing data and sharing best practices and trends.	• Teaching best practices in financial and business management.
Resources	**Policy Center**
• Developing tools, templates, and guides to help standardize budgeting practices and manage fiscal operations. • Developing a proposed set of ECE industry standards so providers can set targets for making improvements. • Developing an online tool that show's a provider's performance across key benchmarks related to financial stability and quality.	• Addressing barriers to providers' financial stability.

Data Collection and Analysis

Approach

Fiscal Hub partners continued to collect and analyze provider data to inform resources, technical assistance support, and policy advancement. Most data were collected prior to the COVID-19 pandemic. Data was collected in the following ways:

Understanding business practices: In collaboration with Reinvestment Fund's Policy Solutions, Fiscal Hub partners created a short 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. Findings from this survey, Insight into the Business Practices of Child Care Providers in Philadelphia, were issued in February 2021.

Understanding provider performance across key benchmarks and cost of care by age level: Fiscal Hub partners continued efforts from the pilot phase to collect and analyze granular financial and programmatic provider data that could be shown across a unique set of key benchmarks related to financial stability and program quality developed by the Fiscal Hub. Fiscal Hub partners aimed to collect data from a diverse set of child care providers through recruitment efforts and by requiring providers who were participating in Reinvestment Fund and PHMC grant initiatives that were jointly and separately administered (i.e., Fund for Quality, ECE Loan Fund) to complete survey materials.

Each participating organization consented to submit fiscal year 2018 tax returns and complete a survey to gather detailed supplemental information from the corresponding year. A data validation process was then completed on each provider using tax returns to validate the survey responses. When surveys did not align with tax returns, profit and loss detail was applied to tax returns to generate proportional splits of revenue and expenses. Aside from tax returns, all programmatic data was self-reported by providers and data sources (i.e., enrollment records) were not validated. Data was then uploaded into CoMetrics' unique online tool, which allowed providers to see their performance across key benchmarks and for Fiscal Hub partners to analyze data for trends and best practices. Based on previous advisory committee feedback, we also revised data collection to capture a provider's cost of care per age group, which required gathering detailed data on teaching staff wages by age level and full-time equivalent (FTE) enrollment.

This data collection process and the use of the CoMetrics' online tool were intended to help providers better use data to make informed business decisions and to support the Fiscal Hub to analyze the data across providers for trends and share with stakeholders for advocacy purposes.

According to business practices survey respondents, there was a high demand from providers to better analyze their financial information or use data to improve business decisions. However, we've learned that providers often don't have the financial systems in place or time to support data collection. Most challenging were areas related to components to capture the cost of care by age level (teaching staff wages by age level and FTE enrollment). Based on provider feedback, we learned that even high-quality providers struggle with providing historical information on these data sets as there is currently no single software or tool that tracks this information. Providers need to reference several reporting forms (Child Care Works, Child and Adult Care Food Program) and/or childcare management systems (PELICAN, Childware, etc) to document every enrollment. Thus, the time needed to complete surveys became burdensome, as providers indicated they needed multiple staff to work on surveys and/or struggled with competing priorities (i.e., teacher shortages, STARS designation).

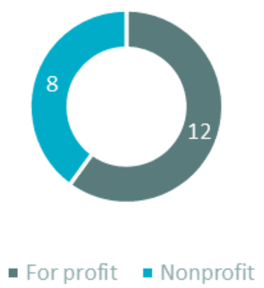
Modifications were made to support providers in survey completion — increasing in-person TA, changing data collection years, and providing an enrollment training combined with individualized TA. However, the pandemic business disruption forced providers to focus their time and attention on the financial, logistical, and legal ability to remain open; the changing regulation around the provision of child care in a pandemic; completion of loan and grant applications; procurement of Personal Protective Equipment (PPE); and, other critical, timely issues. These immediate concerns left little to no time for providers to document historical financial data that wasn't already on hand in order to populate the online tool.

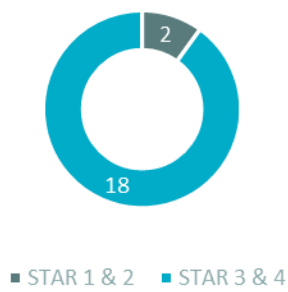
As a result of these challenges a basic version of the survey was developed that requires limited data collection for providers with more simplistic systems in place. This will allow them to develop foundational practices (e.g., basic budgeting) that were identified through the business practices survey as being out of reach for the majority of respondents, while scaffolding strategies to report on more advanced systems (e.g., FTE enrollment) in the future.

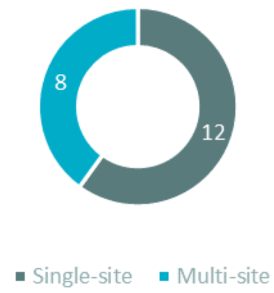
Overview of Provider Cohort

A diverse set of 20 legal entities representing 40 child care centers of various types, structures, and sizes participated in the Fiscal Hub's phase 2 data collection. More than half (55%) participated in phase 1 of the Fiscal Hub's data collection, indicating a commitment to deeper understanding and analysis of business financial metrics.

Centers were split between operating as for-profit (12) and nonprofit (8) providers. While not aligned with legal status, 12 were independent single-site centers and 8 were multi-site centers. The majority (90%) of providers were high-quality (STAR 3 or 4). If providers had multiple sites, the average STAR rating across sites was used.







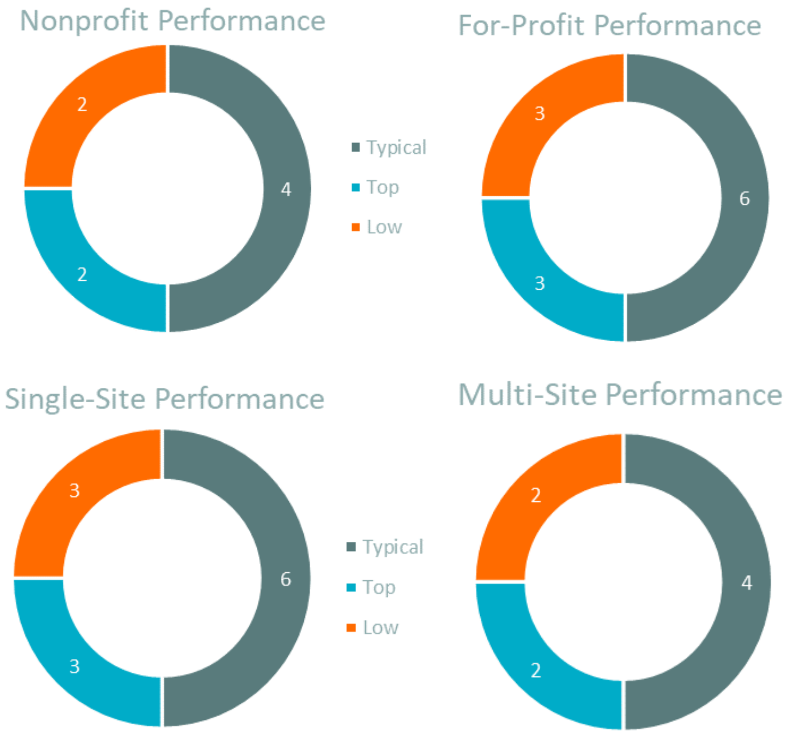
Key Observations

Based on analysis of aggregate data in the Fiscal Hub, several trends emerged and are shared below.

Data was analyzed through multiple lenses to reflect the diverse structures represented across the provider cohort. While some graphs show findings across the total cohort, the majority of graphs show side-by-side comparisons between for-profit and nonprofit providers, as well as by single-site and multi-site providers. Data from each lens is broken further into top (upper quartile or 75% to 100% of cohort) and typical (middle quartile or 25% to 75% of cohort) performers, which was determined by a provider's performance across the set of key benchmarks related to financial stability and quality programming developed by the Fiscal Hub. To learn more read Overview of the online tool . The following graphs reflect data collected from 2018.

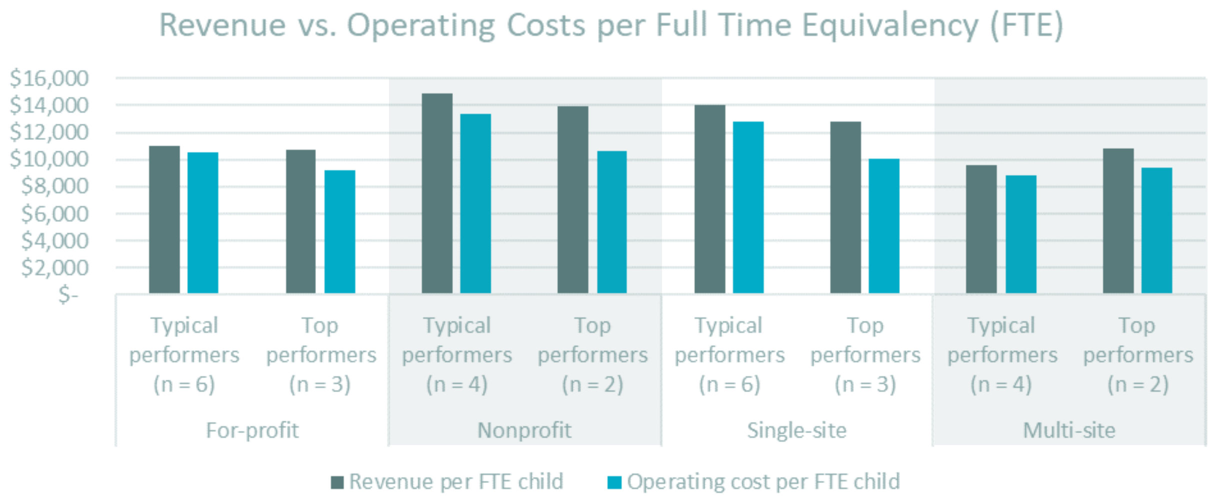
Please note that "per FTE child" metrics are calculated by the total number of full-time equivalent (FTE) children enrolled. A child (birth through age 5) is considered one FTE if he/she is enrolled for five days per week for five hours or more per day. School age children are converted to an FTE child based upon their participation in school year versus year-round programming.

Due to the small sample size of providers, findings should not be generalized as representative of city-wide provider trends. While the total cohort graphs reflect data from the 20 legal entities, representing 40 child care centers, that participated, the side-by-side comparisons by structure and quality levels reflect reduced samples sizes to show findings by the top and typical performers in these segments.



Because the majority of providers submitting survey data are high quality, large centers in Philadelphia that serve children and families on subsidy and are able to braid funding sources, operating margins, while varying, are positive. In segmenting the data set between typical and top performers, one sees the importance of high enrollment for business sustainability, by maximizing revenue and efficiency to lower per child costs.

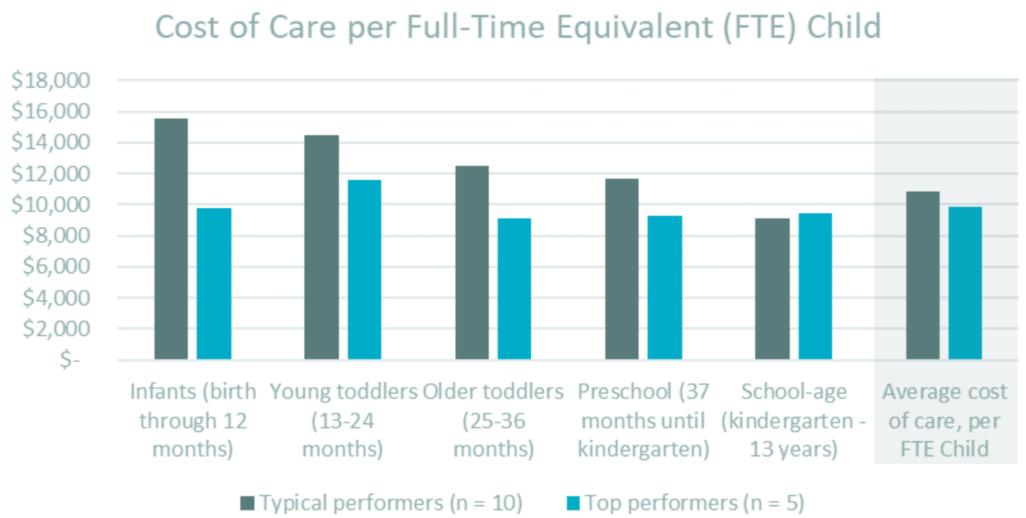
Income and Expenses



- Across participating providers, revenue per FTE child exceeded operating cost per FTE child. While comparing cost and income per child on average is useful for assessing profitability of the business overall, more refined data sets – cost and income per child, per age group – are needed to fully interpret the financial data to make operational decisions about the size and use of classroom space.

- Typical and top multi-site performers and for-profit top performers had the lowest operating costs, ranging from $8,800 to $9,450. Operating costs are dependent on a number of factors – including teacher compensation and child to staff ratios. Those providers offering infant and toddler care will have higher operating costs than those focused solely or primarily on preschool or those with large out of school time programs. Per child operating costs, reported here, are also predicated on enrollment – the higher the enrollment, the more efficient the operations and the lower the operating costs per child become.

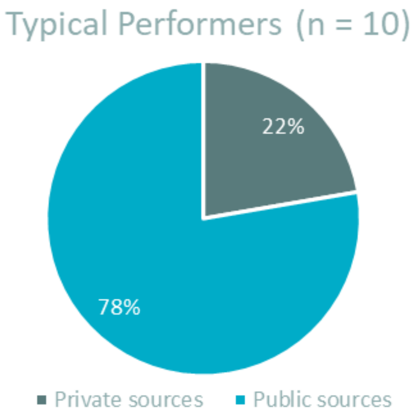
- Nonprofit typical and top performers and single-site typical performers earned the highest amount of revenue per FTE child, around $14,000. Their revenue came from primarily public sources, ranging from 63 to 77%. By achieving higher levels of quality, providers can qualify to participate in multiple funding programs (such as Head Start, PreK Counts, etc) and braid funding sources for each child based on the child's schedule of care, family income, place of residence, and other eligibility factors. While this requires administrative and financial resources on the part of the providers, it is a viable strategy for financial stability given that each single funding source alone does not cover the full cost of quality care.

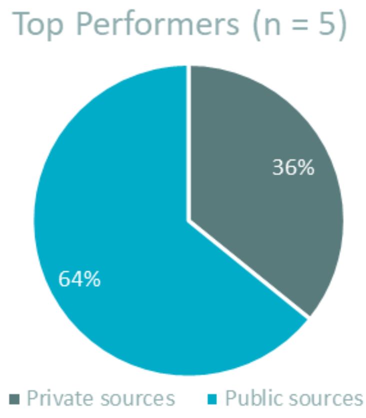


- Typical performers had higher costs of care per FTE child across most age groups with infant and young toddler costs the highest at $15,543 and $14,497 respectively.

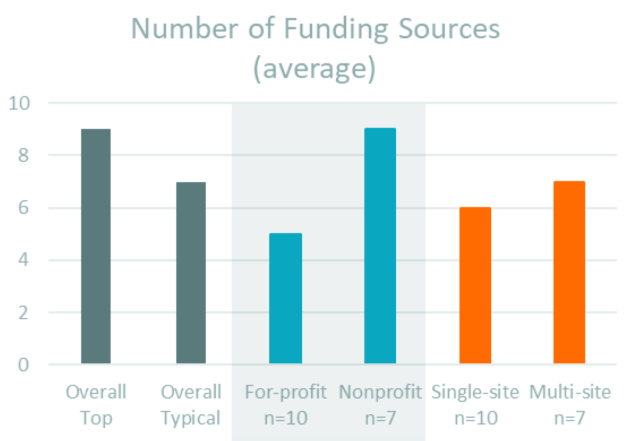
- Through this data collection, we learned many providers don't have the financial systems in place or time to provide the data at the detailed level necessary to calculate the cost of care per FTE child by age level. Most challenging was capturing data by age level, such as teaching staff wages and FTE enrollment. Staffing expenses are typically not broken down by the age level in which they work. Based on provider feedback, we learned that even high-quality providers struggle with providing historical information on these data sets as there is currently no single software or tool that tracks this information.

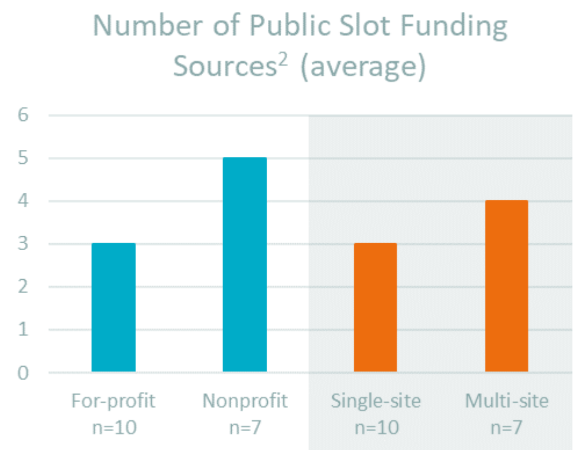
Income: Funding Sources





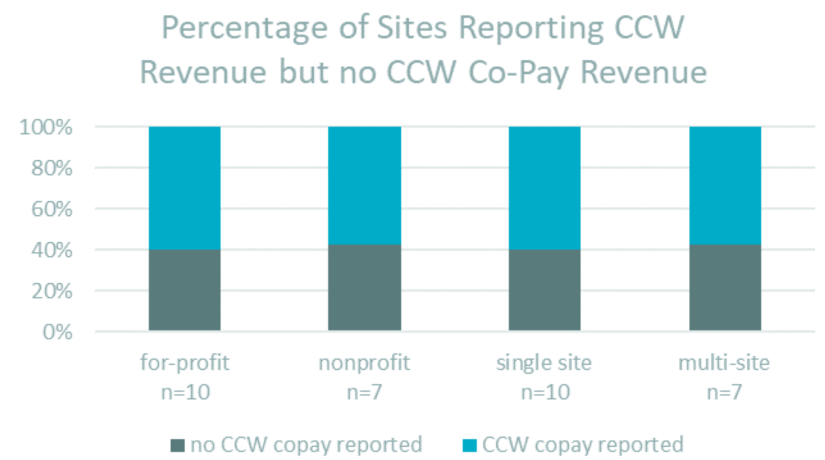
- Overall, top and typical performers earned most of their revenue from public sources. This is not generally true for the field, where, according to the Bi Partisan Commission (BPC) "Demystifying Child Care Affordability" blog posted on August 31, 2020,[1] only 6.4% of children in ECE programs receive public subsidies. We don't have complete data on all Philadelphia child care providers, however, the subset of providers engaged with the Fiscal Hub clearly serve children from the most vulnerable families.





- The pandemic highlighted the dependability of public funding sources, particularly those that contract a specified number of slots. This stable, ongoing funding was a critical ballast for providers serving children from vulnerable families when private pay parents took their children out of care and even when programs needed to close for a period of time. Analysis of eligibility criteria, applications, and program participation shows that only between 17 and 39% of child care programs in Philadelphia are eligible to participate in these critical contracted seat programs. A single funding source doesn't achieve the stability braided funding does, nor does it cover the cost of care. More information on this analysis is below in the POLICY section.

[1] https://bipartisanpolicy.org/blog/demystifying-child-care-affordability/
[2] Child Care Works, Child Care Works co-pay, PHLpreK, PreK Counts, Head Start, Early Head Start, Child and Adult Care Food Program, Out of School Time, Department of Human Services



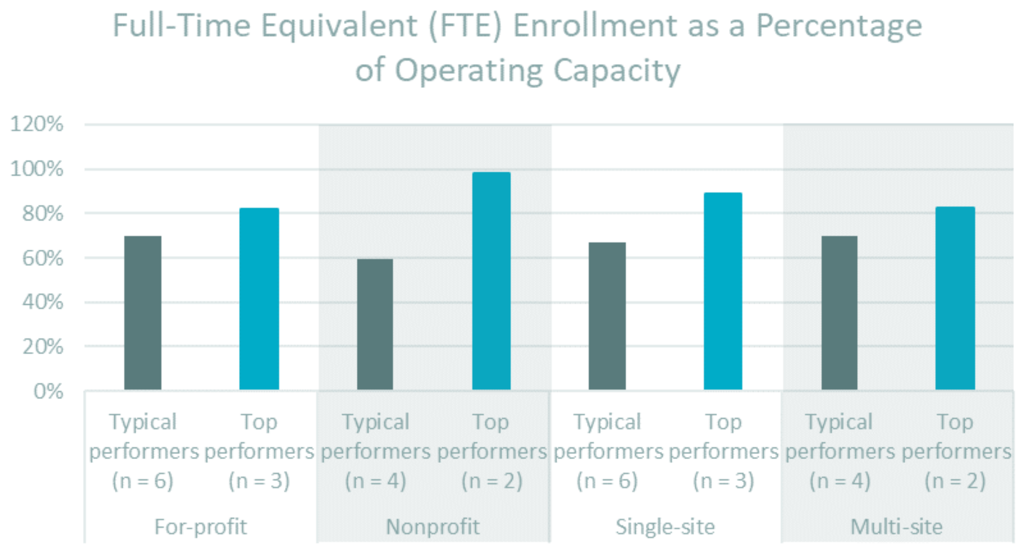
- In PA, one of the policy changes made by OCDEL due to the pandemic, was the cessation of provider collection of parent co-pays for those families receiving subsidy. However, the survey data, which was collected pre-pandemic, were confounding as related to co-pay. A substantive percentage of providers across legal structure, number of sites, and performance reported receiving subsidy and did not report parent co-pay revenue. This could be an indication that respondents did not complete this section correctly and included the co-pay in another funding category, or documentation of a trend among providers to forego or to struggle to collect the required parent co-pay.

- Of the 17 participants who provided detailed information on their funding sources, nonprofit and multi-site providers had, on average, both the highest number of funding sources overall and the highest number of public funding sources for slots.

- Sources of private pay included on the survey were both ongoing and substantive – such as private pay tuition, and episodic and varying in size – such as grants, inter-agency subsidy, fees related to field trips, contributions, and other charges. Of the 17 participants with detailed sources, 13 received revenues from grants and other contributions ranging from 1% to 22% of their total revenue. Eighty-five percent of those were in the 1% to 3% range.

Income: Enrollment

- Top and typical performers both served over 200 children in their programs. This, like dependency on public funding, is atypical of the ECE field. While there are several large, for-profit chains in Philadelphia, according to Open Data PA,[3] 75 children is the average capacity for child care centers in Philadelphia. The relatively large program size of survey respondents may skew the data to an improved financial position than would be the case among the more widely seen small centers in Philadelphia.



- Top nonprofit and single-site performers' FTE enrollment was at 89 to 90% of operating capacity. This aligns with the industry standard target of having enrollment rates at 90% or greater of operating capacity, which ensures that revenue is aligned with variable costs.

- Typical nonprofit and single-site performers had the lowest enrollment rates at 59 to 67%. As documented through the Iron Triangle of ECE Finance,[4] without maximizing enrollment the per-child cost of care increases beyond the per child revenue, causing operating losses that are not sustainable.

- Since March 2020 ECE enrollment has dipped and fluctuated at levels not typically seen in the past. Public funding sources initially proved stabilizing, thanks to emergency policy modifications that allowed provider payment based on pre-COVID enrollment for a period of time. However, as policies have reverted to those in place pre-pandemic and enrollment continues to be depressed, many providers are experiencing the negative impact of low enrollment on revenue as anticipated by the Iron Triangle.

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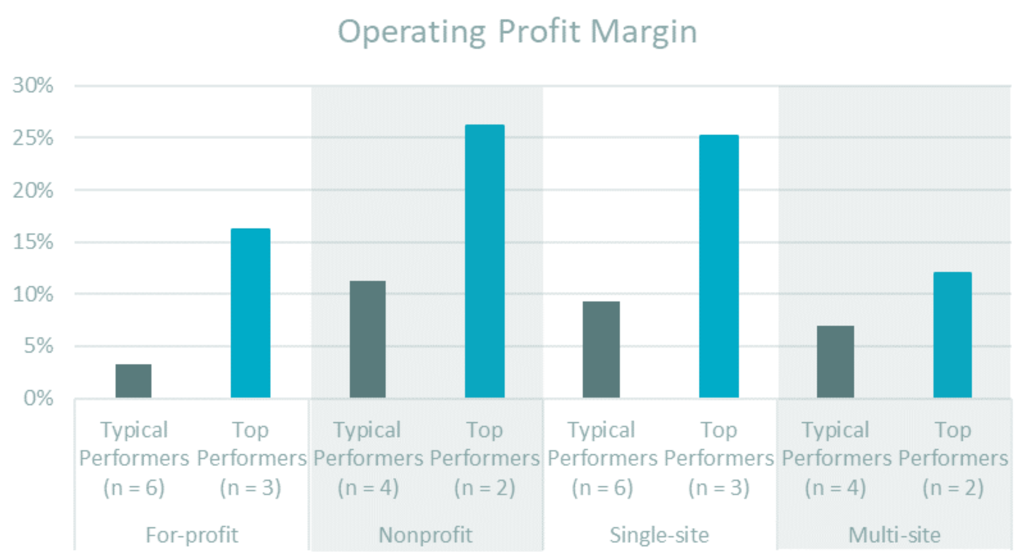
[3] https://data.pa.gov/Human-Services/Child-Care-Providers-Listing-Current-Monthly-Facil/ajn5-kaxt/data
[4] https://static1.squarespace.com/static/5f4d7a7ef6c82325c5ec80c0/t/6022c4f255bfb533e539fe4b/1612891378726/OppEx_2021_IronTriangle.pdf

Data gathered through our business practices survey indicated that methods for tracking enrollment varied widely across providers, with only about half of providers using software to record and track data. In our experience working with providers through the Fiscal Hub, we have found 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. More frequently providers are tracking daily attendance which is the count of children that are in attendance on any given day and does not indicate a child's age or funding source.

Growth and Earnings: Operating Margin

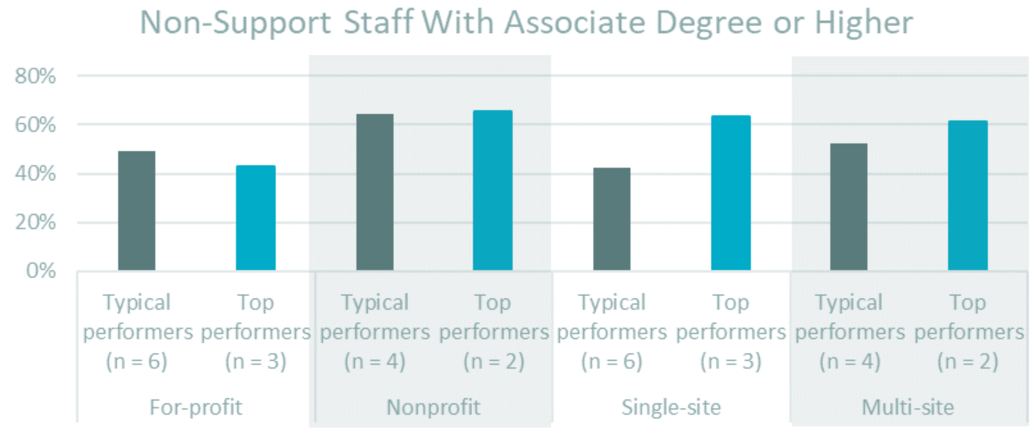


- While all top performers showed an operating margin over 10%, nonprofit and single-site top performers had around 25% operating margins.
- Typical for-profit performers were closer to break-even operating margins. Many providers in the early childhood sector often operate closer to these margins,[5] which is the minimum ECE industry standard target to be at break-even or better. However, some were participating in the Fund for Quality and/or the Philadelphia ECE Loan Fund, so they may have had to meet certain fiscal management requirements, and this may be a reason why operating margins are favorable.

Keep in mind, top performers reflect providers that have stronger financial performance and meet some important quality metrics. As such, those providers will most likely be the ones to achieve higher operating margins. The correlation of nonprofit top performers and high operating margins may be a result of restricted or temporarily restricted grants showing as revenue on tax returns. This funding was not removed during analysis and could be inflating results.

[5] https://nff.org/report/overcoming-financial-barriers-expanding-high-quality-early-care-education-southeastern

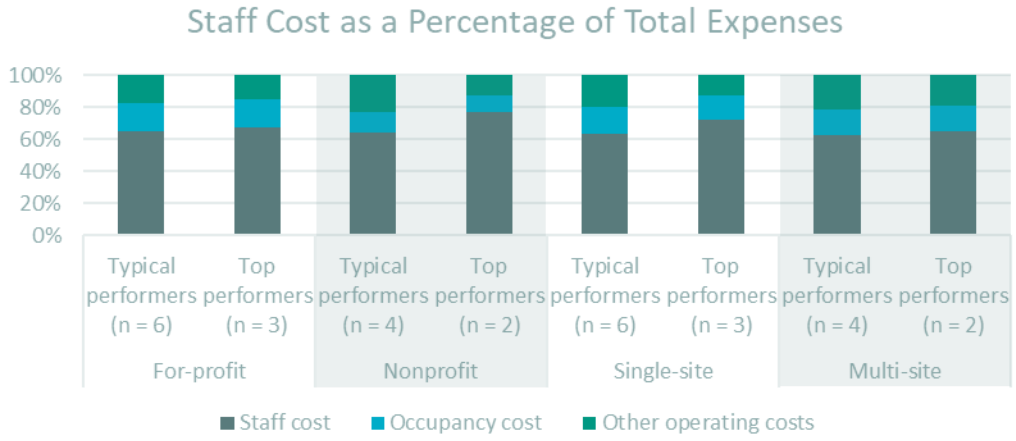
Quality: Non-Support Staff Credentials



- Typical and top nonprofit performers, top single-site performers, and top multi -site performers had over 60% of their non-support staff (directors, assistant directors, lead teachers, assistant teachers, and aides) with associate degrees or higher. The Pennsylvania Keystone STARS quality rating and improvement system assigns points for sites based on staff credentials and degrees. The STAR 3 and 4 level of survey respondents would suggest this high percentage of non-support staff with associate degrees or higher. Nationally, just over half of center-based teaching staff reported having some degree according to BPC.[6]

- Providers that attain STAR 3 and 4 level can qualify for local, state, and federal funding sources, such as PHLpreK, Pre-K Counts, and Head Start which have educational degree requirements for teaching staff.

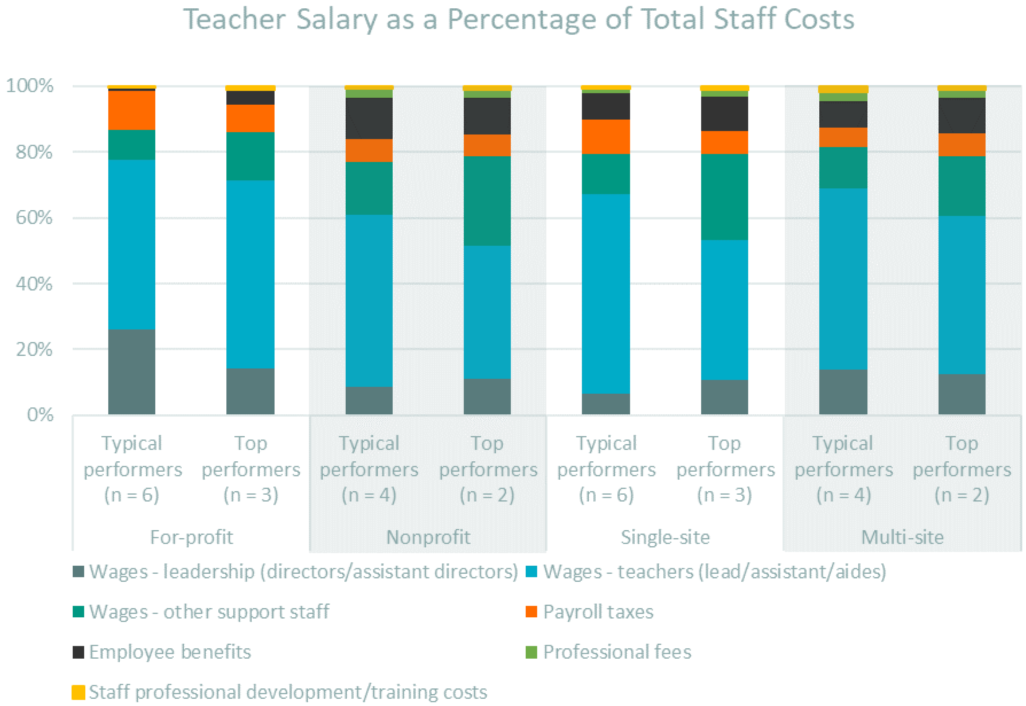
Quality: Staffing Costs



- Total staff costs were the largest expense for all providers, ranging from 63 to 77% of total expenses. Staffing costs should account for 70% to 80% of a program's expenses, given the required ratios in child care, and it is important to track against a budget on a consistent basis.

[6] https://bipartisanpolicy.org/blog/characteristics-of-the-child-care-workforce/

- Staffing costs as an aggregate, doesn't tell the whole story. The breakdown of staffing costs between teachers, support staff, and leadership is another critical metric for assessing quality.



- More than half of the peer groups had over 50% of total staffing costs going toward teacher salaries with the highest being typical single-site performers at 61%. Program quality is dependent on staff credentials and higher-credentialed staff demand higher wages. A competitive wage also reduces teacher turnover, creates a stable program environment, and often improves enrollment and family retention. According to the U.S. Bureau of Labor Statistics, the median hourly wage for child care workers was $12.24 in May 2020.[7]

- The percentage of staffing costs going toward teacher salaries should be at 75 to 85% to be able to recruit and retain highly qualified and credentialed teachers. In addition, strategies to lower administrative costs, such as increased automation, should be considered so that more revenue can be directed to teacher compensation.

- The number of benefits as a percentage of total staffing costs varied greatly among the four segmented groups. Typical for-profit performers offered virtually no benefits and top for-profit performers offered some. The nonprofit programs offered the highest percentage of employee benefits as a percentage of overall staffing costs.

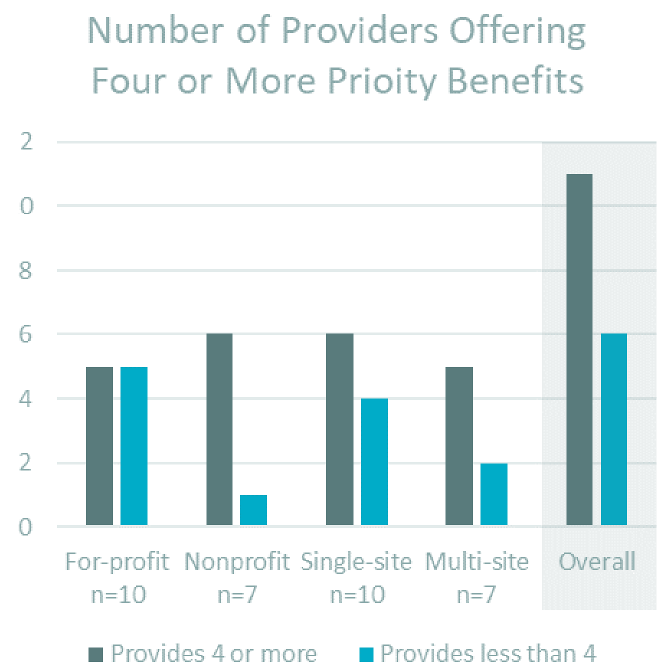
[7] https://www.bls.gov/ooh/personal-care-and-service/childcare-workers.htm

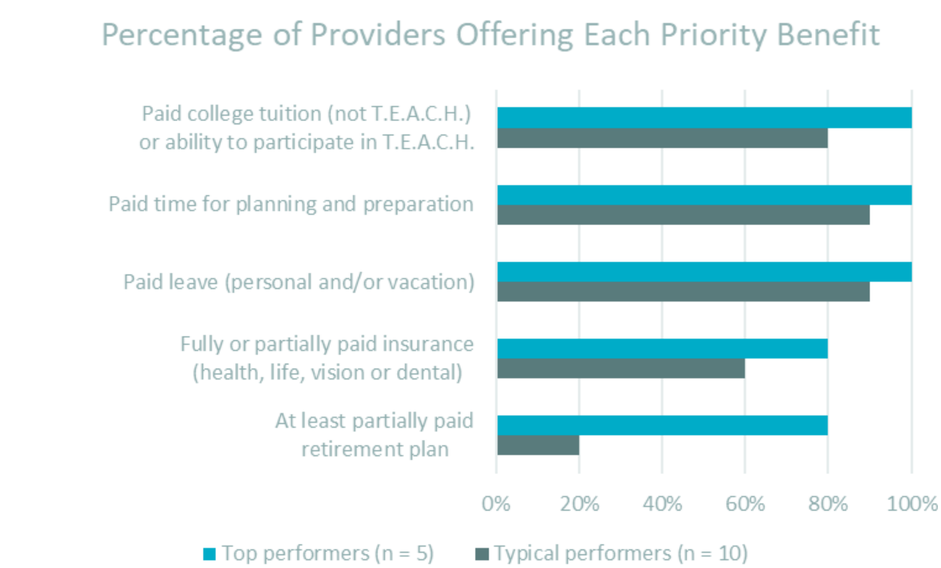
- Support staff wages as a percentage of total staffing costs also varied greatly among the four segmented groups. A comprehensive service model offering two-generational programming impacts these results, driving costs related to family home visits and operation of an onsite commercial kitchen. Programs that work with individuals for whom English is a second language need translation and interpretation staff, programs that serve a high percentage of children with special needs may employ psychologists and other experts to screen for and address early intervention. Some of these costs may be grant funded, but it is worth noting the picture that the data paint regarding how variable even high quality, large centers in Philadelphia truly are.

- Wages for leadership was a lower percentage of total staffing costs at nonprofit organizations than at for-profit providers – where among typical performers the percentage reached more than 20%. This may be related to inequitable pay for these positions, inefficient organizational plan, and/or unusually low teacher wages.

- One would expect to see economies of scale in terms of leadership costs at multi-site providers, but this is not the case. Licensing, Keystone STARS requirements and other challenges to centralizing and streamlining leadership across sites limits the ability of multi-site providers to truly scale operations. For instance, the regulations require a full-time director at any center with 45 or more children enrolled. A multi-site provider with 3 locations serving 50 children each, needs to employ three directors. If this requirement was not in place, with the use of automation and centralization of functions that each director must perform, such as scheduling staff, approving payroll, and recruiting staff, multi-site providers could realize real economic benefits of scale.

Quality: Priority benefits offered to full-time staff

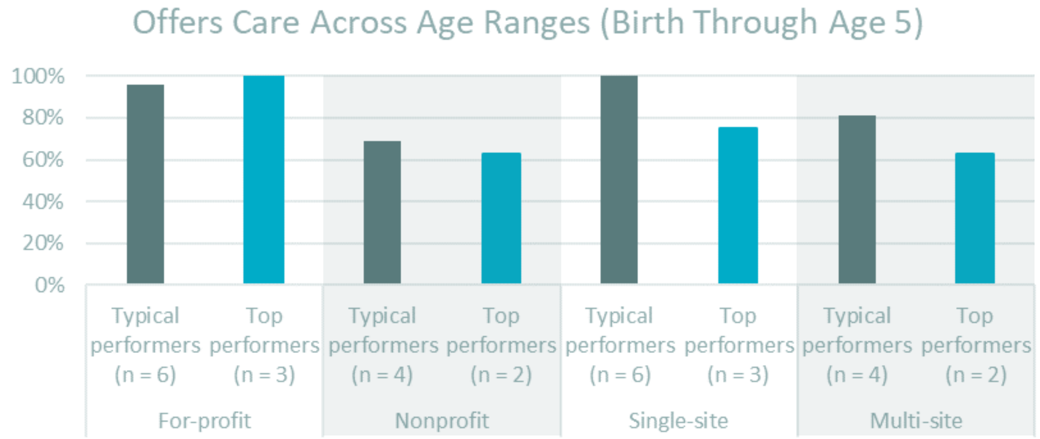




- Most providers across the cohort offered three to four priority benefits with the most common being paid time off, paid planning time, and paid tuition for college (not T.E.A.C.H. or ability to participate in T.E.A.C.H.) as the most common. Typical performers were least likely to offer the benefit of a full or partially paid retirement plan (at 20%), which was offered by 80% of top performers. A similar disparity is found among percentages of providers offering full or partially paid insurance (health, life, vision or dental), with just 60% of typical performers and 80% of top performers doing so.

- The target is to offer at least four priority benefits to full-time staff, which helps create a comprehensive compensation package and, given the current national staffing shortage, may help child care programs attract and retain staff. In late September 2021, the Start Strong PA campaign released the results of a survey around child care teacher/staff shortages. More than 1,000 providers responded to the survey and 92% reported staffing shortages, 51% reported shortages so severe that they were forced to close one or more classrooms. The classroom closures have created waiting lists at these programs of 26,000 children. Clearly, teacher compensation, long depressed to poverty wages in the ECE field, is a critical issue in the current environment of increased starting wages and signing bonuses in other sectors and increased health risks related to COVID in child care settings.

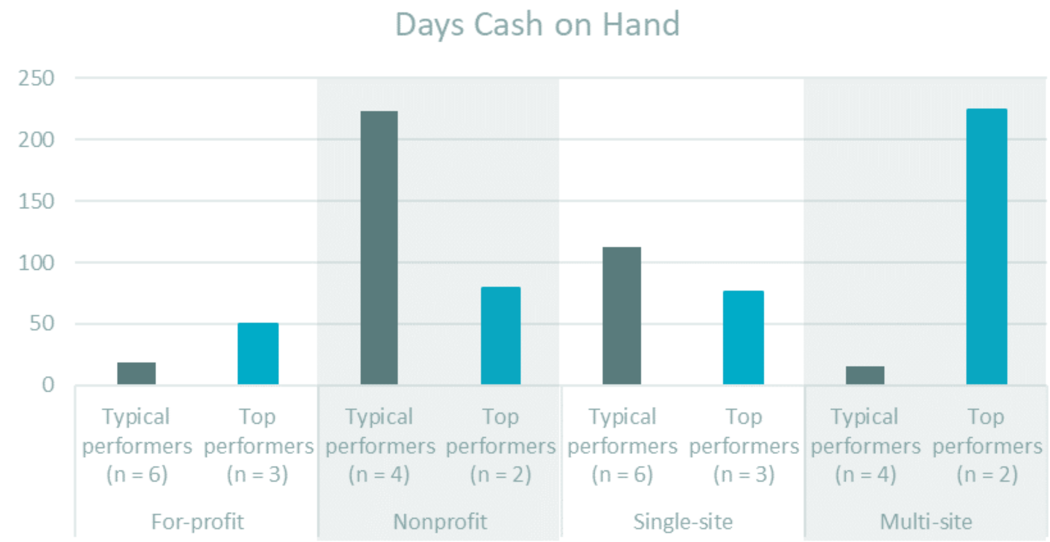
Quality: Care Across Age Ranges



- Most typical and top performers across participating providers serve over three age ranges. The survey included 5 age ranges aligned with subsidy payment rates: infants, young toddlers, older toddlers, preschool, and school age (kindergarten to 13 years).

- Providers offering care to additional ages of children may qualify for additional funding programs, accommodate siblings better, and otherwise meet family needs and offer options that support maximized enrollment.

Financial Health: Days Cash on Hand



- While the majority of top and typical performers showed days of cash on hand over the standard 60 day minimum, typical and top for-profit performers and typical multi-site performers fell below this threshold with only 15 to 50 days cash on hand.
- The target is to have at least 60 days cash on hand to ensure that expenses could be paid even during a two-month period of unanticipated revenue loss.

Interventions

A big focus of the past two years was to provide direct services, or interventions, to help providers improve their business practices to stabilize their businesses. To accommodate the variety of providers' needs and priorities, tiered resources were developed to support the maximum number of providers in the most efficient way. And as everything else in the world seemed to do, the Fiscal Hub's interventions shifted over time due to the impact of the pandemic and as we learned more about providers' needs through data collection. By pivoting to assist providers with their immediate needs, we were able to engage providers who haven't participated in quality improvement initiatives in the past.

ECE providers' business experiences and resources are as individual as the programs they operate. A varied approach to learning was necessary. Tier 1 supports provide tools and templates which are readily accessible to all on the PHMC ECE Business Supports website. Tier 2 supports provide group learning for providers who are at similar points on the business learning continuum. And Tier 3 supports offer individualized one-on-one technical assistance (TA) to work on specific business strategies. Being forced to switch to online communication and learning platforms during the shutdown and beyond has increased providers' ability and willingness to use technology essential for remote group learning, such as Zoom.

Tier 1 Supports: Tools and Resources

The Fiscal Hub resources have assisted in guiding TA and encouraging consistency in aligning providers to best financial management practices across engagements. All can be accessed through the PHMC ECE Business Supports website.

Tools and templates

Based on provider needs and requests, the Fiscal Hub developed several tools and templates designed for child care providers.

- Standard Chart of Accounts
- Annual Budget Projections (3 years)
- Cash Flow Statement
- COVID-19 Impact Tracking Tool

Child Care Business Basics: Guide to Accounting and Financial Management Concepts

Seeing the need for child care owners and directors to understand financial management fundamentals, The Fiscal Hub partnered with Vanguard's financial experts in 2020 to develop a financial guide designed for child care businesses. This guide helps providers understand basic financial concepts and demystifies financial statements.

ECE industry standards

During the pilot phase, Fiscal Hub partners drafted a preliminary set of ECE industry standard metrics and practices that support provider financial stability and demonstrate the importance of fiscal best practices upon ECE authorizing and regulatory agencies. These standards continue to be reviewed and updated as needed. The provider metrics and suggested targets enable providers to track financial performance and make more informed business decisions and serve as a useful, universal guide for TA providers. In addition, they offer funders, regulators, and policymakers a way to assess historic financial impact and performance, current financial standing, and ongoing financial sustainability of ECE providers. It is important to note that funding structures would need to shift to meet industry standards. This is not achieved through provider changes in business acumen. As the industry struggles to recover from the pandemic business disruption, the standards, available in Fiscal Hub February 2019 report, may need to be reviewed and revised through that lens.

Online tool

Utilizing CoMetrics' unique platform, Fiscal Hub partners created the online tool in 2017 so that providers could clearly see their financial data, identify areas of risk, and understand how they were performing compared to their peers. The Fiscal Hub pilot phase revealed that providers needed a lot of support to complete the survey for data input. In Phase 2, Fiscal Hub partners developed a "quick" version of the survey in hope of lessening the burden on providers. For more information, see Overview of the Online Tool..

TIER 2 SUPPORTS: Group Learning

Budgeting and Accounting PD-TA series

Promising strategies emerged from lessons learned from COVID TA which led to an elevated necessity of targeted provider support for basic fiscal practices. The pandemic resulted in a high provider interest in fiscal quality improvement services as many struggled to stabilize their operations and lacked the financial systems to take advantage of the grant and loan opportunities. We also learned that to collect the data for the online tool, providers need more support to develop systems to gather and report this data in a meaningful way. In supporting a larger group of providers attempting to access loans and emergency business supports, the risks associated with a lack of basic financial recordkeeping and reporting systems became prominent. A common denominator evident throughout Fiscal Hub TA (pre and throughout the pandemic) was providers not having or not effectively using accounting software, such as QuickBooks.

Thus, in the fall of 2020 the Fiscal Hub developed a Budgeting and Accounting PD-TA series which helped a cohort of providers learn foundational budgeting practices and procedures, as well as how to implement QuickBooks Online. Providers were offered group trainings delivered by a certified QuickBooks trainer, one-on-one TA, and a free one-year QuickBooks Online subscription.

…we are now able to implement the chart of accounts which are being entered into QuickBooks, utilize QuickBooks as a tool rather than just purely a reporting mechanism, and as a result, begin a growth plan for the Center.

Budgeting and Accounting Series participant

First Up Family Child Care PD/TA Series

First Up approached the Fiscal Hub to explore what business supports could be provided for some of their Family Child Care providers. Again, using what was effective in the COVID-19 TA, a PD/TA series was developed which consisted of four group trainings, followed by up to five hours of one-on-one TA to support family providers in improving their business practices and operations. Training topics included Budgeting 101 for Family Providers, Introduction to Marketing and Social Media, and Engaging Families. TA trends included help with setting up and using social media accounts and updating marketing plans. All trainings and TA were held virtually.

TIER 3 SUPPORTS: Individualized TA

One-on-One TA

Intensive one-on-one TA began at the end of 2019 and was aimed at helping providers improve around financial management best practices. TA was initially tied to data collection and helping providers analyze their performance across key benchmarks displayed in the online tool.

"I have never thought to seek assistance for my business until being challenged with COVID-19 and its effects on my business… [my consultant] inspired me to take a deeper look into my business and discover ways to improve as a business owner."

COVID 19 TA participant

The business disruptions caused by the pandemic since March 2020 required the Fiscal Hub to be flexible in working with providers. Most child care programs were forced to close, limiting access to these providers. Dire circumstances demanded the attention of directors and owners to focus on the survival of their businesses. At this point Fiscal Hub shifted focus as well to help providers with their immediate needs to stabilize their businesses by reducing expenses, applying for grants and loans, understanding and managing new legal and HR concerns, and creating reopening plans to maintain their enrollment and staff when they had the opportunity to safely open their doors again. Our ability to pivot using the Fiscal Hub's established network of resources and content experts resulted in additional funds from the ELRC Region 18 which enabled us to temporarily increase capacity to serve additional providers. For more information about COVID technical assistance, please see Business Stabilization TA Exit Survey Results.

During the fall of 2020, Fiscal Hub was able to shift back to more traditional TA offerings; however, we needed to adjust our approach to continue to meet providers business stabilization needs. Analyzing historical financial performance and trends from 2018 in the online tool also seemed less valuable in the midst of the current context, so one-on-one TA was no longer tied to data collection and mainly offered around general fiscal management best practices to a limited number of providers who had participated in some form of Fiscal Hub activities through this phase. TA consultants worked with six providers through engagements lasting up to 25 hours over several months.

TA Partnership with First Up EQUIP Program

Technical assistance was offered in partnership to child care providers in the First Up EQUIP program. EQUIP is a quality improvement initiative to help providers achieve STAR 3 status. Each EQUIP provider received a Program Administrative Scale (PAS) assessment conducted by the PHMC ECE Quality Assessment team. This TA was intended to address challenges highlighted by the assessments and improve future PAS scores which in return increases quality and stability of a program.

While the TA action plan was individualized for each participating provider, some common themes emerged—revising HR systems, policies, and procedures, improving marketing plans, reviewing accounting and child care management systems automation, supporting growth and expansion including a change in business legal structure.

Policy

One of the Fiscal Hub team's intentions is to elevate the importance of fiscal management as a key component of high-quality operations, assess provider needs and test assumptions about their use of financial best practices, and adjust TA strategies based on our learnings.

Fiscal Hub participation meets Keystone STARS standards

Receiving approval from the PA Office of Child Development and Early Learning in 2020 for providers to meet Keystone STARS Leadership and Management standards through Fiscal Hub participation is critical in aligning messaging on the importance of providers using best practices in financial management. Specific standards include:

- LM 3.4.7—A salary scale based on level of education/training and experience is utilized.
- LM 3.4.11—Program participates in shared services opportunities which support cost savings, greater efficiencies related to operations, and/or program quality enhancements.

This not only provides the opportunity to motivate providers to participate but allows further incentive to connect with other quality improvement initiatives (Early Learning Resource Center, First Up's EQUIP program, etc.).

Standardize budgeting practices

During the pilot phase the Fiscal Hub created a Standard Chart of Accounts specific to Philadelphia providers and a more general one that could be used across Pennsylvania and beyond. In phase 2 the Fiscal Hub further specified the Philadelphia Chart of Accounts to include one for centers and one for family child care providers and began efforts to promote standardizing budgeting practices across funding sources. In the latest application round the city funded PHLpreK program used the Fiscal Hub Standard Chart of Accounts as a budget template in the application package.

Publicly funded Contracted Seat Programs

In an industry plagued by low operating margins and limited reserves, the financial stability and higher reimbursement rates provided by seats that are funded from contract programs are an important financial lifeline for providers. In Philadelphia, the three largest programs that offer contracted seats are Head Start Supplemental Assistance, Pre-K Counts, and PHLpreK. To understand more about how these programs are used in Philadelphia, Fiscal Hub collaborated with Policy Solutions at Reinvestment Fund to examine the eligibility criteria for each program, current participation rates, and to speak with providers to understand more about their experience with program applications.

Policy Solutions conducted focus groups and interviews with five ECE providers who had never applied to Pre-K Counts, PHLPreK, or Head Start Supplemental Assistance and with three ECE providers who had applied for at least one of these programs but were not awarded seats. The purpose of the focus groups and supplemental interviews was to learn more about the perceptions of the costs and benefits of contracted seats, and the supports and services that could encourage them to apply in the future.

These primary themes emerged:

- Most providers learn about programs informally though social networks.
- Providers were unsure if financial benefits justified the time and expense of participation, even though contract programs are an important financial piece to sustainability.
- Financial reporting and requirements around partnerships are the most challenging aspect of applications.
- Providers requested more feedback on applications and support with partnerships.

Analysis of eligibility criteria, applications, and program participation shows that between 17 and 39% of child care programs in the city are eligible to participate in a contracted seat program. A review of applications to two programs, Pre-K Counts and PHLpreK, shows that many eligible operators did not apply, suggesting more work could be done to encourage and facilitate program applications. You can read the full examination of Eligibility, Participation, and Barriers to Entry for Contracted Seat Programs in Philadelphia's Childcare Sector. A review of program data and conversations with providers who had and had not applied to contracted seat programs in the past suggest three lessons for stakeholders is shared in the RECOMMENDATIONS section below.

Policy Review Spotlight

In February 2021 OCDEL released updated subsidy rates to go into effect March 1, 2021. While these included increases, rates vary regionally in alignment with the 19 Early Learning Resource Center districts. For instance, for full-time, center-based care for an infant, weekly rates vary from a low of $30.17 in region 2 (Cameron, Clarion, Clearfield, Elk, Forest, Jefferson, McKean, Potter and Warren Counties) to a high of nearly double - $59.20 in region 19 (Chester County).

Market rates continue to be tied to income level, rather than cost of care to establish base subsidy rates. Providers in less affluent communities receive less funding and the families that they serve receive lower quality programming, than providers and families in wealthier communities. The ongoing use of market rates only continues to exacerbate the impact of income disparities on our educational system. As providers develop improved skills and practices in recording, analyzing, and using financial data, they can calculate actual cost of care per age group and offer the stark contrast between public rates of pay and provider costs. As a result of this policy, providers located in low-income communities are unable to offer family sustaining wages to their teachers and achieve or maintain other key drivers of quality.

Recommendations

Quality Initiatives

Tiered business supports are needed to effectively accommodate the varying competencies of providers to improve their understanding and implementation of best business practices.

i. Data collection efforts have raised awareness of the continuum of supports needed to assist providers in reporting the data that the Fiscal Hub surveys are collecting. While we assumed a higher level of competency in providers, we have seen that even high-quality providers are not implementing best business practices.

ii. Provider's needs and current practices varied across the providers who engaged in the Fiscal Hub. Data from the report, Insight into the Business Practices of Providers in Philadelphia, shows that while 78% of providers report being confident or very confident in the accuracy of their enrollment records, 68% of providers would like assistance in improving their enrollment tracking. Further anecdotal evidence shows that many providers may think they are tracking enrollment, but they are actually tracking daily attendance. Report findings also show that over 40% of providers surveyed stated they are not using child care management software to track enrollment.

iii. Implementing tiered supports allow more access to a wider range of providers in a more cost-efficient way. Not all providers need intensive on-on-on TA and can benefit from group learning with their peers.

iv. Fiscal Hub's focus on standardizing budgeting practices and TA approach creates a model that can be used locally and state-wide.

Funders

Standardize fiscal data collection and reporting across funding platforms.

i. Through data collection, TA efforts, and provider feedback, it is clear providers struggle with the multitude of financial reporting, budgeting and other application requirements of individual funders. The use of a Standard Chart of Accounts for budgeting purposes would help providers apply for funds from several funding sources. Using the same reporting platform and metrics would ease the burden of data collection for multiple funders.

Increase the participation of Philadelphia child care providers in contracted seat programs.

i. Quality improvement efforts to increase STAR ratings are critical. A high STAR rating is an important eligibility criterion for all contracted seat programs. While some programs have pathways for STAR 1 and STAR 2 programs to participate, the easiest path to eligibility is through achieving a STAR 3 or STAR 4 rating. Continuing to support providers as they work to improve their STAR rating is critical to expanding the pool of programs that are eligible to participate in a contracted seat program.

ii. Application transparency and one-on-one support are essential. Providers identified the PHLpreK program's transparency and one-on-one support as models that other programs should adopt. Providers were frustrated with a perceived lack of transparency around application scoring and eligibility in Head Start Supplemental Assistance and Pre-K Counts. Providing more and more timely feedback to providers who have applied unsuccessfully to contracted seat programs would help encourage greater and more successful participation. Additionally, providers asked for greater one-on-one support and the ability to ask application questions to a live person. Existing application supports and checklists were useful but did not adequately address providers concerns and confusions.

iii. Explore ways to broker partnerships between programs. Programs like Pre-K Counts award extra points or require program partnerships as part of their applications. Providers reported their frustration with this portion of the application. While they saw the value in partnerships and many were interested in creating them, they found it very difficult to both identify eligible partners and to negotiate partnership agreements while running their existing programs and fulfilling their many responsibilities. There may be an important role for the city or other stakeholders to play in helping to broker partnerships between programs interested in applying to contracted seat programs whether through supporting networking or program matchmaking or by creating model partnership contracts and templates that providers could use.

Policy Makers

Look at the whole business and use common business standards.

i. Establishing quality standards for child care programs has become the norm. As of 2017, 49 states and the District of Columbia either have statewide or regional Quality Rating and Improvement System (QRIS); are engaged in a pilot phase; or are planning for QRIS. However, much of the focus is on program quality and not business operations. And while quality programming in child care is well defined, the business side of child care operations is much less clear. Many industries have industry standards to guide quality and sustainability. Child care programs could benefit from a common set of business standards, benchmarks to work toward to improve and sustain their businesses.

ii. Quality programming doesn't happen in a vacuum. Without solid business practices, a program is unable to maintain the financing, staffing structure, and accountability it takes to operate at that level. Include meaningful business management metrics in quality improvement systems and integrate business coaching into the quality improvement framework.

Vary funding strategies to sustain child care industry.

i. Expense management was the priority of activities in this project as providers have limited control over revenue. But frequently, just focusing on cutting expenses has little impact on the bottom line over time. "Let's fix providers" shouldn't be the only angle taken to fortify the child care industry.

The Next Phase

While policymakers develop plans to improve and infuse resources into the child care system and city-wide efforts find ways to better coordinate all quality technical assistance supports across Philadelphia, the Fiscal Hub offers the opportunity to continue helping the local ECE system respond to provider's varying financial management needs through the pandemic recovery period. The next phase of the Fiscal Hub's work will focus on:

- **Training quality coaches and early learning specialists to integrate business supports and resource referrals into their existing quality improvement services with ECE providers.** Though highly skilled in a variety of early childhood topics and expertise, coaches and early learning specialists typically have not been trained to help providers align to best practices in early childhood education financial management. By providing training and resources to improve their financial literacy, ECE professionals will be able to better identify provider basic business management weaknesses (i.e., bad budgets, lack of salary scale, need for automating services) through their typical quality improvement interactions. They will also expand their toolkit of business resources and experts to whom they can refer providers. This will support providers in learning to strengthen their businesses and to achieve sustainability of their program services and financial structure.

- **Continuing tiered business management supports and resources to providers.** The Fiscal Hub will continue group learning opportunities to assist providers in their budgeting and financial management needs. Tiered resources will also be provided through PHMC's ECE Business Supports Project to deploy critical resources, including individualized technical assistance, to help providers respond to enrollment volatility, operational challenges, and gain access to and improve management of infusions of recovery funding.