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ECONOMIC SECURITY and OPPORTUNITY INITIATIVE

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Considerations for Child Care Providers & Workers Navigating Financial Support Options During the COVID-19 Crisis

Introduction

In the midst of the COVID-19 crisis, child care providers—home-based and center-based, large and small—are facing tough decisions about how to do what's best for the families they serve, their own families, their workers, and their businesses. Providers have been hit hard by the crisis, even as they're desperately needed right now. Many were in precarious financial situations even before this crisis as they struggled to meet demand and the rising costs of providing high-quality care. Small centers and home-based providers experience unique obstacles. Child care workers face insufficient wages and benefits—supports for them are needed now more than ever.

Although there is no one-size-fits-all solution, this fact sheet offers information to help providers navigate tough decisions that may involve trade-offs between the immediate financial needs of their staff and the long-term viability of their businesses. The first section outlines financial support programs available to help cover providers' business expenses. In some cases, more than one option may be available and desirable. The second section explores the financial supports available to help workers who see their hours cut or are laid off.

Which Financial Support Programs May Be Available to Me & My Business?

There are a number of new emergency programs that may be available to help child care providers (for-profit and nonprofit, home-based and center-based, and family child care and self-employed providers) cover expenses including: payroll and benefits; rent, utilities, and mortgages; cleaning and sanitation; and interest on certain debt obligations. The CARES Act includes $377 billion in small business grants and loans that child care providers may qualify for. There remains some uncertainty around these new programs' funding streams, duration, and other details.

Which program(s) might be best for you depends on a number of factors, including the status of your business (open, reduced hours, or closed); the type and size of your business; the type and amount of benefits provided; and what the funds can be used for. ***Some*** of the available programs are described briefly below. There may be additional programs available, for example, in your state or locality. For more details, see Table 1.

- **PAYCHECK PROTECTION PROGRAM (PPP) LOANS:** Potentially forgivable (see Box 2 for more information) Small Business Administration (SBA) loans of up to $10 million to help small businesses (500 employees or fewer) retain workers during the crisis. The loan covers costs for an eight-week period. At least 75 percent of the loan is supposed to be used for payroll, while other covered uses include mortgage interest payments and rent and utilities. Funding for PPP has been inadequate, though a second round of funding has been authorized.

- **MAIN STREET LENDING PROGRAM:** Federal Reserve loans for small- and mid-sized businesses. There are three loan types: one for businesses with no more than 15,000 employees, one for businesses with $5 billion or less in revenues in 2019, and one for businesses that can manage increased risk-sharing. To qualify for a loan, employers must make good-faith efforts to maintain payroll and retain workers, and comply with other restrictions. As of May 1, the program has not yet been launched.

- **ECONOMIC INJURY DISASTER LOAN (EIDL):** SBA loans for small businesses (500 employees or fewer) experiencing "temporary loss of revenue" due to the COVID-19 crisis, with loan advances available for up to $10,000 that do not have to be repaid. Loans can be used for salaries, benefits, and any expenses or debts, including rent and utilities, that are unable to be paid due to the crisis. Funds for the EIDL have run low and had to be replenished during the crisis. Recently, the SBA reduced the maximum loan amount from $2 million to $150,000 and stopped accepting applications from most new applicants.

- **EXPRESS BRIDGE LOAN PILOT PROGRAM:** SBA express loans of up to $25,000 for small businesses in need of immediate assistance while they apply for and await longer term funding, such as EIDL.

- **EMPLOYEE RETENTION TAX CREDIT:** 50% refundable tax credit on wages up to $10,000 (up to $5,000 per employee) available to any businesses that closed due to COVID-19 or that had gross receipts in the past quarter that were less than half the previous year's receipts. Employers cannot apply for this if they received a PPP loan.

- **PAYROLL TAX DEFERRAL:** Deferral of the deposit and payment of employer's Social Security taxes, some of their railroad retirement taxes, and some of self-employed individuals' self-employment taxes. Individuals must deposit half of the deferred amount by December 31, 2021 and the other half by December 31, 2022. Employers who are granted a PPP loan are not able to use this deferral once their loan is forgiven.

BOX 1. WHAT TO KNOW ABOUT THE NEW DISCRETIONARY CHILD CARE & DEVELOPMENT BLOCK GRANT (CCDBG) FUNDING

CCDBG is the largest source of federal funding that provides child care assistance to working families with low incomes. While a crucial source of funding for much-needed quality child care services, CCDBG funding has not kept pace with demand and the high costs of child care. Due to inadequate funding, just one in six children eligible for child care assistance under federal law receives it. In the wake of the COVID-19 crisis, Congress appropriated an additional $3.5 billion in flexible funding for CCDBG under the CARES Act that can be used to address the unmet child care needs of essential workers regardless of income and to help keep child care programs up and running.

States have been using CCDBG to support providers by providing grants that enable programs to stay open and increased payments, for example. CCDBG funding and requirements vary by state. For more information on CCDBG funding, child care providers should consult their state and/or local Child Care Resource and Referral agency and Child Care Development Fund (CCDF) administrators.

BOX 2. WHAT TO KEEP IN MIND IF APPLYING FOR PPP OR EIDL

- **CONSIDER YOUR OPTIONS:** Providers should compare PPP loans (which are potentially fully forgivable) with EIDL loans (for which only the $10,000 advance is potentially forgivable) to see which option would provide better support to them. PPP offers a larger loan amount than EIDL (up to $10 million compared to $150,000) and has a lower interest rate (1 percent versus 3.75 percent). You can apply for both but you can't use funds from both loans at the same time for the same purpose.
- **HAVE A BACKUP PLAN:** Only 15 percent of business owners who were approved for PPP loans have actually received funds so far. The second round of PPP funding is likely to run out quickly, so act quickly and have a backup plan if you choose to apply. Providers who have already had to lay off workers may have a difficult time qualifying for loan forgiveness, unless they know they can hire all their employees back.
- **CONTACT YOUR FINANCIAL INSTITUTION:** For PPP loans, businesses that have pre-existing relationships with private banks have been more likely to be able to submit an application, have their application approved, and have it be approved quickly. (Small child care centers and home-based providers, like other small businesses, are less likely to have such existing relationships). There are a lot of pending applications from the first round of PPP funding. Reach out to your bank or local Community Development Financing Institution (CDFI) to see if they are accepting new PPP loan applications. Note that some nonbank and alternative lenders such as PayPal have also been able to process PPP applications.

RESOURCES

National Employment Law Project (NELP) has compiled detailed information on several of the programs listed above. Providers can also consult resources like the U.S. Chamber of Commerce Small Business Loan Guide or the Treasury Department's Small Business Resource Directory. Contact your local chamber of commerce or local entrepreneur support organizations (e.g. small business development centers, minority business development agencies, women's business centers, startup accelerators, etc.) for additional support in navigating and applying for relief funds.

What's Best for Workers & My Business if Hours Reductions or Layoffs Become Necessary?

This section outlines the financial supports available to employees if hours reductions or layoffs become necessary. It also covers some of the potential impacts on employees and providers.

UNEMPLOYMENT SUPPORTS AVAILABLE TO WORKERS

Unemployment supports available to workers depend on whether workers are laid off, furloughed, or given reduced hours. Workers generally do not need to know which program they are applying for; they can apply for these programs through their states' unemployment agency websites, and the state will determine which benefits they are eligible for.

- **UNEMPLOYMENT INSURANCE (UI):** Regular UI provides cash payments to workers who lose their jobs through "no fault of their own." UI is a joint federal-state program, meaning each state has its own UI program with its own wage, work, and other requirements, but all states follow the same federal guidelines, which have significant flexibility to provide benefits to workers who are temporarily laid off, furloughed, or experience job loss. States can waive the usual one-week waiting period for benefits (and many already have).
- **PANDEMIC UNEMPLOYMENT COMPENSATION (PUC):** Provides an additional $600 per week on top of the weekly unemployment benefit. PUC is a new emergency program that is fully federally funded and runs through July 31, 2020.
- **PANDEMIC EXTENDED UNEMPLOYMENT COMPENSATION (PEUC):** Makes an additional 13 weeks of state UI benefits available to workers once they have exhausted regular state UI. PEUC is fully federally funded through December 31, 2020.

- **PANDEMIC UNEMPLOYMENT ASSISTANCE (PUA):** Covers workers who have a COVID-19-related reason for needing UI assistance but are not eligible for regular UI. This includes workers who have exhausted regular UI benefits, gig workers, independent contractors, self-employed workers, workers looking for part-time work, and workers with a limited work history. Eligible workers may access PUA for up to 39 weeks through the end of 2020.

- **PARTIAL UI BENEFITS:** Workers can receive partial UI if they participate in a Short-Time Compensation program (see below) or if they have an interim part-time job while they are searching for a permanent full-time position.

- **SHORT-TIME COMPENSATION (STC) OR WORK SHARING (SHARED WORK):** In states that have work share programs, employers can avoid laying off workers and instead reduce their hours by moving them to part-time schedules through work sharing arrangements. Employees are then able to collect partial UI compensation to offset their reduced hours.

POTENTIAL IMPACTS ON YOUR WORKERS & ORGANIZATION

Layoffs and hours reductions will impact your workers' access to pay and benefits (see Table 2). In some cases, these effects can be mitigated through options such as STC or partial UI, or furloughing workers rather than laying them off. The financial costs of various options and implications for staff retention and re-opening depend on a number of factors.

Workers' Pay & Retention

Hours reductions will typically result in greater income for workers than layoffs. In some cases, workers may have similar or modestly higher cash income if their hours were reduced partially or reduced to zero. (For example, if a worker qualifies for UI or PUA plus the $600 in PUC, which is currently available through July.) Workers may qualify for partial UI benefits and PUC if they experience a reduction in hours—whether or not they are part of an STC arrangement. Workers with reduced hours may have less pay *and* fail to qualify for UI if STC is not available in their state or their employer does not participate in the program. (They might still qualify for PUA or be able to apply for partial UI).

Furloughed workers are required to take an unpaid leave of absence but retain their job and can apply for UI benefits. Furloughing workers, rather than laying them off, helps workers remain attached to their employment. Workers who are laid off would have to be re-hired in order to come back to work at the business. Layoffs may be unavoidable in some cases. However, retaining trained employees by furloughing them to keep them on payroll or by participating in STC when possible may make it easier to scale up operations when conditions allow.

There may also be other factors that will impact your workers. Many workers may prefer having the benefits (including health coverage continuity) and attachment to work. Talking to your employees about what would work better for their lives is important, especially considering the temporary nature of many recently created benefits.

Workers' Benefits

If a person is on "standby" or "furlough" status, they can generally continue to receive employer-provided benefits such as health insurance while also being eligible for UI. Employees with reduced hours have continued access to health care and retirement benefits under partial UI and STC if there is a work sharing program in place. In contrast, employees who are laid off only retain access to health coverage through COBRA (and without employer contributions to premiums).

Financial Costs

Deciding when to cut hours, offer work-sharing, or lay workers off will also depend on an individual business' financial costs and available options. Table 3 details potential financial costs employers and workers should consider.

Businesses with covered workers typically pay for UI benefits through UI taxes. (Taxes are experience-rated; i.e., they vary in part based on how many employees the business laid off.) However, the Families First Coronavirus Response Act (FFCRA) Act waived the federal requirement for "experience rating" on an emergency temporary basis as needed to respond to the spread of COVID–19. Most states have taken advantage of the waiver.

While nonprofits with covered workers would usually reimburse states for UI claims, the federal government is picking up half the cost under the CARES Act through 2020. Some states, like Virginia, exempt employers with too few employees from paying UI taxes, and those employers and workers do not have access to UI if laid off.

Another relevant consideration is that businesses generally must maintain health and retirement benefits for workers who are participating in STC, or work-sharing, as though they remain full-time.

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Appendix

TABLE 1. COMPARISON OF PROGRAMS AVAILABLE TO CHILD CARE PROVIDERS

	Eligibility (For-Profit/ Nonprofit, Size/# Of Employees)	Benefits Type (Loan, Forgivable Loan*, Tax Credit)	Benefit Amount	What Is Covered (Paychecks, Benefits, Cleaning Supplies, Etc.)	Availability By Provider Status (Open, Limited, Closed)
PPP	For-profit & nonprofit employers with under 500 employees (w/ some exceptions) & businesses that meet SBA's regular size standards	Loan; max of 100% is forgivable if funds are only spent on covered expenses for 8 weeks after loan is approved & if employee/ compensation levels are maintained; if you applied for both PPP & EIDL (see below) & use EIDL for payroll, the $10,000 EIDL advance is subtracted from PPP loan forgiveness	"Loan amount of 2.5 times monthly payroll, up to $10 million. Payroll costs capped at $100,000 on annualized basis for each employee;" 1% interest rate	Salaries; benefits (including health care); mortgage interest payments; & rent & utilities	For child care providers operating at capacity (open), operating w/ reduced staff hours &/or layoffs (limited), or closed. Business owners must pay staff during the period for which they receive the loan. This includes family child care providers, who may not have any other staff but need loan to pay themselves while closed
Main Street Lending Program	Small & mid-sized businesses (i.e. 15,000 employees	Loan	Minimum of $500,000; max. for new loans is either $25	Borrower can't use loan to repay other loan balances or	For child care providers operating at capacity

	Eligibility (For-Profit/ Nonprofit, Size/# Of Employees)	Benefits Type (Loan, Forgivable Loan*, Tax Credit)	Benefit Amount	What Is Covered (Paychecks, Benefits, Cleaning Supplies, Etc.)	Availability By Provider Status (Open, Limited, Closed)
	or fewer) or businesses w/ 2019 revenues of $500,000 or less in good financial standing before COVID-19; Nonprofit organizations are not eligible; program does not have a start date yet, as of 5/1/20		million or 4x or 6x borrower's existing debt, whichever is less; max. for upsizing existing loans (min. of $10 million with max. of up to $200 million or based on borrower's existing debt, or no greater than 6 times the borrower's income & debt; whichever is less); adjustable interest rate of "Secured Overnight Financing Rate plus 250-400 basis points"	other debt, except mandatory principal payments, unless borrower has first repaid eligible loan in full (attested by lender); borrower must attest that they will not seek to cancel or reduce any of their outstanding lines of credit with the lender or any other lender (attested by lender); borrower must use loan funds to maintain payroll & retain workers; Borrower must also comply with all compensation, stock repurchase & dividend restrictions under CARES Act	(open), operating w/ reduced staff hours and/or layoffs (limited), or unable to provide care (closed)
EIDL	For-profit & nonprofit employers with under 500 employees (w/ some exceptions) & businesses that meet SBA's regular size standards	$10,000 cash advance is forgivable as long as funds go towards payroll, paid leave, & mortgage & lease payments, even if providers are not ultimately granted a full loan; entire loan may be forgivable if refinanced into a PPP loan, but not guaranteed	Max. of $150,000 (formerly $2 million) w/ $10,000 cash advance available; determined based on COVID-19 related damages incurred; 3.75% interest rate	Payroll; benefits (including paid leave); any accounts payable; or fixed debts	For child care providers operating at capacity (open), operating w/ reduced staff hours &/or layoffs (limited), or unable to provide care (closed)

	Eligibility (For-Profit/ Nonprofit, Size/# Of Employees)	Benefits Type (Loan, Forgivable Loan*, Tax Credit)	Benefit Amount	What Is Covered (Paychecks, Benefits, Cleaning Supplies, Etc.)	Availability By Provider Status (Open, Limited, Closed)
Employee Retention Tax Credit	Any employer (for-profit & nonprofit) required to "suspend operations or who ha[s] gross receipts 50% less than prior year's gross receipts in the quarter"	Refundable Tax Credit	50% credit on wages up to $10,000 (up to $5,000 per employee), starting 3/12/20 through 12/31/2020	Firms w/ fewer than 100 employees can claim credit for all workers; firms w/ more can do so for workers not working	For child care providers operating w/ reduced staff hours &/or layoffs (limited), or unable to provide care (closed)
Express Bridge Loan Pilot Program	For small businesses that have pre-existing relationship w/ SBA express lender to have access to funds quickly while they wait for their EIDL loan to come through; can receive loans through 3/13/21	Loan w/ max length of 7 years; will be repaid fully or partly by provider's EIDL loans when they have received it	Max. amount of $25,000; Prime rate + 6.5% max interest rate	"To support the survival &/or reopening of the small business"; must be used on working capital	For child care providers operating at capacity (open), operating w/ reduced staff hours &/or layoffs (limited), or unable to provide care (closed)
Payroll Tax Deferral	All employers, including self-employed workers; employers that are granted a PPP loan are not able to have this deferral once loan is forgiven; individuals must deposit half of deferred amount by 12/31/21 & other half by 12/31/2022	Payment Deferral	Deferral of the deposit & payment of employer's Social Security taxes & some of their railroad retirement taxes or some self-employment taxes	Social Security taxes, some railroad retirement taxes, some self-employment taxes	For child care providers operating at capacity (open), operating w/ reduced staff hours &/or layoffs (limited), or unable to provide care (closed)

NOTE: This table may not list all of the requirements for loan forgiveness & requirements may change. Interest rates & other details may also change. Potential applicants should carefully read the most up-to-date information to make sure they understand the requirements, interest rates, & other details.

TABLE 2. CONSIDERATIONS FOR PROGRAMS FOR WORKERS

	Timeliness	Duration	Health Coverage Continuity	Other Benefits Continuity
UI	1-week waiting period for benefits to kick in, though states can waive it (most have)	Varies by state but many states have max. of 39 weeks	Laid off employees would still have access to health coverage through COBRA (though w/o employer contributions to health care premiums) & workers who lose insurance can enroll in ACA marketplace; if a person is on "standby" or "furlough" status, they can generally continue to receive health insurance	Up to employers whether other benefits are continued
Pandemic Unemployment Compensation (PUC)	1-week waiting period for benefits to kick in, though states can waive it & be fully reimbursed by the fed. government	$600 per week supplement to UI & PUA that ends 7/31/20	Same as UI	Same as UI
PEmergency Unemployment Compensation (PEUC)	Received when other UI benefits have been exhausted	Adds additional 13 weeks to UI through 2020	Same as UI	Same as UI
Pandemic Unemployment Assistance (PUA)	Immediately eligible for benefits	39 weeks through 12/31/20	Same as UI	Same as UI
STC	1-week waiting period for benefits to kick in	Maximum of 26 weeks covered by federal government, though duration varies by state	Employees w/ reduced hours would generally have health care & retirement benefits continuation under partial UI & STC if there is work sharing program in place	Retirement benefits & other fringe benefits generally continued

TABLE 3. FINANCIAL COSTS TO EMPLOYERS & WORKERS BY PROGRAM AVAILABLE TO WORKERS

	Financial Costs To Employers (For-Profit)	Financial Costs (Nonprofit)	Potential Financial Costs to Workers
UI	The CARES Act waived federal requirement for "experience rating," which otherwise increases UI tax rates in future years, up to states to implement	Nonprofits would usually have reimbursed states for UI claims, but the federal government is picking up 50% of the costs under the CARES Act, through the year. The CARES Act waived the federal requirement for "experience rating" which otherwise increases UI tax rates in future years, up to states to implement	Under COBRA, workers would pay for health care premiums fully (instead of with employer). Regular state UI benefits count as income in determining eligibility for both Medicaid & marketplace health insurance subsidies. The federal supplemental UI benefits (PUC) do not count as income for Medicaid eligibility, but do count towards eligibility for marketplace health insurance subsidies*
STC	Cost sharing varies from 0%-50% depending on a number of factors	Cost sharing for partial unemployment insurance benefits varies from 0%-50% depending on a number of factors. Fringe benefits generally must continue at employer's cost	Participation in an STC program does not cause workers to incur additional costs related to health insurance or retirement benefits. Employees may be required to continue contributions to group health plans. Total dollar employer contributions may decrease for retirement plans based on percentage of compensation

NOTE: Federal supplemental UI benefits are due to expire in July 2020, absent any Congressional action to extend the benefits.