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Guidance for Subsidy Providers receiving Paycheck Protection Program Loans, CARES ACT Stimulus funds, and general Subsidy

Subject: How Subsidy Providers should allocate all funding sources

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For Use By: Child Care programs receiving EEC Subsidies

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Background

The Department of Early Education and Care (EEC) is providing this guidance for child care programs receiving multiple sources of funding in response to program closures mandated by Executive Order *Temporarily Closing All Child Care Programs and Authorizing the Temporary Creation and Operation of Emergency Child Care Programs*. This guidance contains the following:

1. Overview of funding streams and guidance for funding allowances
2. Guidance for allocating funds, and
3. Required reporting
4. Frequently Asked Questions

Overview of Funding Streams and Guidance for Funding Allowances

There are three different types of funding sources that child care programs may receive. However, more than one of these funding streams cannot be used for the same specific cost ("double dipping"). In addition, some of the funding streams are specified for particular costs.

Child Care Development Funds (CCDF)

Overview: Subsidy funds that are paid to child care programs that either have a direct contract with EEC or a voucher agreement with one of the seven Child Care Resource and Referral (CCRR) Agencies. Child care programs which fall into this category are currently receiving payments from EEC based on their March 2020 service and attendance levels. FY2020 Center Base Rate Increase: The subsidy daily rate increase of 4.52% was added to all center based child care programs payments in January 2020 (3.52%) and another 1% will be added in June 2020.

Acceptable Use:

- Can be used for general operating expenses for the child care program.
- FY2020 Center Base Rate Increase of 4.52% must be used for salaries, benefits, and stipends for professional development.

Coronavirus Aid, Relief, and Economic Security Act (CARES Act*):

Overview: Child Care Provisions of the CARES Act include payments to the states from the Child Care Development Block Grant to prevent, prepare for, and respond to coronavirus, domestically or

internationally. EEC has received \$45.7 million dollars of this fund; implementation of disbursement of these funds to child care programs is still under development.

Acceptable Use:

- May be used to provide continued payments and assistance to child care providers in case of decreased enrollment or closures.
- Can be used to provide child care assistance to health care sector employees, emergency responders, sanitation workers, and other workers deemed essential without regard to the income eligibility requirements.
- Shall be available to eligible CCDF providers, even if such providers were not receiving CCDF assistance prior to the public health emergency, for the purposes of cleaning and sanitation, and other activities necessary to maintain or resume the operation of programs.

**EEC is still determining how this funding will be implemented and distributed.*

Small Business Administration (SBA) Paycheck Protection Program (PPP):

Overview: A loan designed to provide a direct incentive for small businesses to keep their workers on the payroll. Programs are eligible for loan forgiveness if they use at least 60% of the loan on payroll costs and if employee and compensation levels are maintained.

Acceptable Use:

- Payroll costs (salaries, cash tips, payment for paid leave, benefits, taxes);
- Mortgage interest payments (but not mortgage prepayments or principal payments);
- Rent;
- Utilities;
- Interest payments on other debts.

Guidance for allocating funds

All funds must be allocated in accordance with the allowances described in this document. Wherever possible, a financial accounting system must be used to track the revenue sources, accounts payable, and payroll. A financial accounting system must include a cost allocation mechanism so that reporting on how funds were spent and allocated is made available upon request from EEC, State Auditor's Office, the Small Business Administration, or other applicable reporting authorities.

Child Care programs that are required to submit a yearly Uniform Financial Report (UFR) to the Commonwealth's Operations Service Division should consult with their Independent Auditor to ensure compliance with all OMB-A133 circular requirements.

Where a financial accounting system is not available, and the child program does not have UFR Independent Audit Requirement or other audit requirements, a spreadsheet tracking the funds with a detailed breakdown of expenditures (including salaries, benefits, and other operating expenses) and what funding was used to allocate those funds must be used by the program. EEC has provided an acceptable tracking template that can be utilized by providers.

Funding Sources Chart:

<u>Funding Stream</u>	<u>Time frame</u>	<u>Funding notes</u>	<u>Allowable Expenditures</u> <u>Include:</u>
CCDF (General Subsidy funds)	Two (2) Service Months	EEC Direct Contract Provider Independent Audit would note any surplus if not expending in program's fiscal reporting year. <ul style="list-style-type: none"> • Non-profit 20% surplus limit • For-Profit 5% surplus limit 	Operational Expenses <ul style="list-style-type: none"> • Utilities • Rent/Mortgage • Program Supplies • Insurances/Professional Fees • Technology • Advertising • Printing • Postage
CCDF Subsidy Rate Increase	4.52% Rate increase to be spent by June 30 th , 2020		<ul style="list-style-type: none"> • Stipends for Professional Development • Salaries • Benefits
CARES Act	One-time payment TBD	EEC is still determining how this funding will be implemented and distributed.	EEC is still determining how this funding will be implemented and distributed.
Paycheck Protection Program (PPP):	24 weeks of payroll	The 24-week period used to determine loan forgiveness begins on the date the lender makes the first disbursement of the PPP loan to the borrower. The lender must make the first disbursement of the loan no later than ten calendar days	<ul style="list-style-type: none"> • Payroll costs (salaries, cash tips, payment for paid leave, benefits, taxes); • Mortgage interest payments (but not mortgage prepayments or principal payments); • Rent; • Utilities; • Interest payments on other debts.

		from the date of loan approval. ¹	Please note that at least 60% of PPP funds must be used for payroll costs.
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This document is intended to provide a summary of the various funding sources potentially available to assist programs with economic sustainability during the ongoing pandemic. It is not intended to provide any legal or financial advice to those reading it. The Department of Early Education and Care does not assume any responsibility or liability for any negative actions or consequences that may result from reliance upon this document. Any specific questions about individual circumstances should be directed to your own attorney, accountant, or financial professional.

Frequently Asked Questions (FAQS)

1. What if I have already allocated subsidy funds to pay for payroll beginning in March, can I reallocate those funds with the PPP funds?

No, subsidy funds cannot be reallocated. The SBA’s guidance allows a PPP borrower to deduct payroll costs “paid” or “incurred” during the borrower’s 24-week Covered Period (or an Alternative Payroll Covered Period).

2. Can I carryover EEC unspent funds?

EEC Subsidy providers who are required to submit a UFR must be mindful of all OSD’s compliance, reporting and auditing for human and social Services regulations related to Not-for-profit Contractor Surplus Revenue Retention, 808 CMR 1.03(7) and Commercial Fee, 808 CMR 1.03 (6). Any excess funds that fall within these regulations will result in subsidy funds returned to the Commonwealth. EEC Subsidy Providers should review this with their Independent Auditor.

3. Can I use PPP funds to cover payroll costs now and then reserve subsidy payments to be used after my 24 week period is over?

Providers can reserve the *General Subsidy funds* to be used after the 24 week period is over.

¹ <https://www.sba.gov/sites/default/files/2020-06/Paycheck-Protection-Program-Frequently-Asked-Questions%20062520-508.pdf>