

# Fund for Quality

Expanding Early Childhood Education in Philadelphia

## Program Overview

The Fund for Quality is a partnership between Reinvestment Fund and Public Health Management Corporation (PHMC), supported by funding from the William Penn Foundation. Through the provision of business planning support and facilities-related financing, Fund for Quality supports high-quality early childhood education (ECE) providers in expanding their services to reach more low-income families. The Fund for Quality invites STAR 3 or STAR 4 ECE providers to apply for funds to support an expansion project achieved through the renovation of an existing center or by expanding services to a new site.



## Planning Supports

Providers will be asked to initially apply for project planning awards. An application round will open summer 2016, with award decisions made by September 15, 2016.

Under a formal *Planning Grant Agreement*, Awardees will first embark on a *Guided Planning Phase* and receive grant funds to support organizational planning and project predevelopment to ensure the provision of high-quality services at the expansion site.

## Capital Investments - Grant Products

Based upon successful completion of the *Guided Planning Phase*, providers will be eligible to apply for capital grant awards. Capital grant awardees will then move on to the *Project Implementation Phase*, where expansion projects will have access to grant funds (up to \$300,000) under a formal *Capital Grant Agreement* for the project.

The grant will be disbursed in stages as set forth in the *Capital Grant Agreement*. Advances will be made for construction costs for work-in-place as verified by a Fund for Quality inspector and for furniture, fixtures and equipment by submitting acceptable documentation (such as invoices, expense vouchers, cancelled checks, etc.).

Throughout the *Project Implementation Phase*, Fund for Quality staff will perform frequent check-ins to ensure plans are on track and providers are executing on their strategic plan and other recommended processes identified during the *Guided Planning Phase*.

## Capital Investments - Loan Product

For expansion projects in excess of the maximum \$300,000 grant award, providers may also qualify for loan support. The loan will be structured to offer capital to expanding businesses on more favorable terms than they would normally be able to access through commercial or community banks, particularly flexible capital.

Project metrics and final underwriting will dictate the final structure of the loan, but each project will benefit from some combination of the following: high loan-to-value limits (up to 90% LTV permitted), interest-only periods up to 12 months during construction, and grant dollars available to contribute to the capital project. See reverse for more information about loan terms.

## PROGRAM HIGHLIGHTS

- Grant funds for providers looking to expand their facility in Philadelphia
- Available to for-profit and non-profit entities
- Substantial planning supports available to awardees including organizational planning, technical assistance for project management and funding for predevelopment expenses

## HOW TO APPLY

Until the application formally opens, download the *Fund for Quality Contact Sheet* from [www.fundforquality.org](http://www.fundforquality.org), complete and email to [fundforquality@phmc.org](mailto:fundforquality@phmc.org)

**SEE REVERSE FOR ELIGIBILITY REQUIREMENTS FOR GRANT AND LOAN FUNDS.**

## ELIGIBLE APPLICANTS

All **grant** and **loan** applicants must meet the following program requirements:

- Existing high quality operator (Keystone STAR 3 and 4)
- Non-profit or for-profit organization
- Currently serving low-income populations (defined as client population of at least 50% subsidy, or waitlist subsidy, Head Start or Pre-K Counts)
- Positive attendance trends and strong business plan
- Organizational capacity for expansion
- Proposed project will increase slot capacity (minimum 10; ideally 40 or more)
- Proposed project to be located in demonstrated area in need of high-quality ECE services in Philadelphia
- Demonstration of ownership or long-term lease of the expansion site (can be forthcoming for a project expansion to new location)

## LOAN CRITERIA AND TERMS

Reinvestment Fund loan approval is contingent on underwriting and the final structures of a loan will be determined by considering the strength of the borrower and project, as evidenced by the following:

- Strong financial condition of borrower and, if applicable, guarantor
- Demonstration of stable enrollment and realistic enrollment projections
- Management experience and depth
- Real-estate security, with a loan-to-value ratio of <90%, based on satisfactory appraisal
- Debt service coverage ratio >1.2x for five year financial operating projections

Please note, for-profit organizations will be asked to submit owner's personal financial statements and tax returns. A credit check will also be performed to assess creditworthiness.

Amount:	Up to \$1.5 million	
	Will consider more on a case-by-case basis and to be determined by the cost of the project, the availability of collateral and the borrower's ability to repay	
Uses:	Acquisition Construction/Renovation	Energy Efficiency Leasehold Improvements
Term:	Construction period of up to 12 months (interest-only period)	
	Five year permanent period (amortizations up to 20 years)	
	Leasehold improvement loans: Loan term not to exceed term of lease	
Customers:	See <i>Eligible Applicants</i>	
Collateral:	Mortgage or leasehold mortgage	
	Security interest in personal property	
Guaranty:	May be required from another creditworthy entity (considered on a case-by-case basis)	

## LENDER FEES

### Interest Rate

Interest rates will be priced and fixed two days prior to loan closing (based on the index rate of 5 year U.S. Department of Treasury).

### Underwriting Fee

0.5% of total loan amount will be due at closing.

### Repayment

Interest only during construction (up to 12 months).

Permanent loans will require balloon payment at maturity.

### Advances

Construction advances for work-in-place as verified by a Reinvestment Fund inspector, subject to 10% retainage.

### Transaction Cost

Borrower is responsible for Borrower and Lender costs associated with closing the transaction, including, but not limited to, outside legal costs, recording fees, search fees, title insurance, appraisal fees, plan review, inspection costs.

All fees must be included in the project budget – many are eligible for predevelopment support through the Fund for Quality, or can be wrapped into the loan amount.

## NOTE

Reinvestment Fund's financing is subject to all terms and conditions typically required by Reinvestment Fund for early childhood education projects, but may vary according to specific project, product type, availability of capital and borrower circumstances such as the availability of collateral, the borrower's financial history and the borrower's ability to repay.