



COMMUNITY SERVICES DEPARTMENT

Commission Meeting Date: June 17, 2009

Staff Report #: 09-01

Agenda Item #: F2

REGULAR: That the Park and Recreation Commission will adopt a recommendation to the City Council on the best way to minimize the General Fund subsidy to the Menlo Children's Center Program, including privatization or continued City operation with modifications.

RECOMMENDATION

Staff recommends that the Park and Recreation Commission, through assessment and discussion, formulate a recommendation to the City Council regarding the best way to minimize or eliminate the City's subsidization of the Menlo Children's Center Program (MCC). The resulting recommendation could include:

1. Privatization of Menlo Children's Center; or
2. continued City operation of Menlo Children's Center

BACKGROUND

In the spring of 2006, the City Council deliberated on strategies to close the projected \$2.9 million General Fund shortfall for FY 2006-07. Outsourcing of programs was considered as one means to close the projected gap. Council directed staff to conduct a Request for Proposal (RFP) process for the Menlo Children's Center programs.

A Child Care RFP Review Committee was created in May 2006 and met over the next three months developing and issuing a RFP, establishing the criteria and process for evaluating the proposals, and reviewing and rating the proposals. Two proposals were received that met the criteria established by the Committee: one from a private company, and one from the City. A status report was then presented to the City Council, requesting further direction (Attachment A). At the August 29, 2006 City Council meeting, Council took no action, tabling the item. This item was not subsequently reagendaized due to substantial turnover on City Council and staff.

Most recently, in the process of considering the annual fee increase at the March 24, 2009 meeting, the City Council tasked the Parks and Recreation Commission with evaluating the City's future role in providing childcare. Since the issue was brought up

in the context of a fee increase, the key question is the level of the ongoing general fund subsidy to MCC. The Council is seeking the Commission's assessment of the acceptability of continued subsidization of the program and, if a subsidy is acceptable, a recommendation on the best approach for minimizing that subsidy.

ANALYSIS

To provide a context for the formulation of a recommendation, the Commission has received general background on childcare center operations, as well as specific information with respect to MCC including:

March 18th Commission meeting:

- City Council overview and direction
- Timeline, process, etc.

April 15th Commission meeting:

- Overview of all licensed child care programs in the Community Services Department, including different funding sources, number of children served, hours of operation.
- Overview of revenues and expenditures
- Current city policies and state regulations on licensed child care (both pre-school, and after school)
- Report of other municipalities and licensed child care, including funding and charges.

May 20th Commission meeting:

- Private child care in the area, including charges
- Survey of potential interest from private users
- Recommendations of criteria for outsourcing
- Funding recommendations to keep MCC services with the City including raising fees, and program reorganization
- Public meeting seeking participant and community input. News releases were sent to local papers (The Almanac, The Daily, and the Post), and posted on the City's website. Letters were sent to parents of children participating in the program and notices were posted where parents sign in/sign out their children.

Options for Consideration:

While there are a range of possible alternatives, the two clearest options are privatization or continued City childcare services. Staff recommends the Commission consider both of these options. Each option is shown below with some discussion regarding the opportunities and challenges presented by each. Staff believes privatization of MCC assumes the elimination of any financial subsidy from the City.

Privatization of MCC

If the privatization option is pursued, a process similar to that conducted two years ago would proceed, including selection of the best vendor based on predetermined criteria, such as: program quality, cost to participants, cost to the City (if any), management credentials, etc. The City would continue as the operator until a private vendor is selected. It should be noted that issuance of an RFP does not guarantee a compliant bidder, especially considering the controversial nature of this program and the current state of the economy.

Opportunities to be gained with privatization may include decreased costs to participants; decreased costs to taxpayers, a different package of services and programs, more extensive marketing and outreach and other program components. Challenges of privatization include lack of direct control over program quality, potentially high teacher turnover (see the profile of the San Mateo child care workforce findings published in 2002), and the time consuming nature of the transition which may cause issues for the children. Additionally, questions of liability, insurance, and location would need to be resolved. Annual savings would range between \$25,000 (based on the 2009-2010 proposed budget) to \$200,000 (projected actual cost for 2008-09).

However, based on analysis of the costs of operations, staff also believes if the decision is made to require certain program components in the RFP, such as a toddler program, a subsidy may be necessary in order to promote affordability and a broader response from prospective vendors. The level of the subsidy and other program requirements would need to be determined in an RFP development process.

Finally, while the City applied in the RFP process in 2006, staff does not currently intend to participate as an applicant in the RFP should Council select the privatization option. From staff's perspective, if the Council's decision is to utilize a private vendor to operate the program, a competitive City response to the RFP would be unproductive.

Continuation of the City MCC program

This option would continue the existing MCC program as a City service with a renewed emphasis on reducing the General Fund subsidy. The opportunities to be gained with this option include maintenance of the high quality and stability of the teachers as emphasized recently by MCC parents. The City program has substantial constancy in teacher and aide retention, resulting in a quality program. Attachment B includes examples of program efficiencies and operational changes that are intended to result in a decreased subsidy for MCC if this option were selected.

The challenges of retaining MCC as a City program include the higher costs of teachers, who receive better benefits than most preschool employees. In addition, some residents believe no subsidy for MCC is appropriate and this could remain a controversial issue for the community into the future.

POLICY ISSUES

The Commission's recommendation will address the level of a General Fund subsidy as well as the manner of delivery for child care services at the Menlo Children's Center. The recommendation could potentially impact fees for services for child care at MCC.

IMPACT ON CITY RESOURCES

The Commission's recommendation could impact the level of the General Fund subsidy for child care at MCC as well as the distribution of overhead costs to other functions if the service were privatized.

ENVIRONMENTAL REVIEW

The action proposed does not require environmental review.

City Staff
Report Author

Barbara Santos George, Director
Community Services Department

PUBLIC NOTICE: Public Notification was achieved by posting the agenda, with this agenda item being listed, at least 72 hours prior to the meeting.

ATTACHMENTS

Attachment A – 2006 staff report

Attachment B – Potential Strategies for Program Changes at MCC