



COMMUNITY SERVICES DEPARTMENT

Commission Meeting Date: February 17, 2010
Staff Report

Agenda Item #: C1

REGULAR: **Mid Year Update on the Menlo Children's Center Preschool Program for Fiscal Year 2009-10 and Adoption of a Recommendation to the City Council to Maintain Menlo Children's Center (MCC) as a City Service**

RECOMMENDATION

Staff recommends that the Park and Recreation Commission adopt a recommendation to the City Council to maintain Menlo Children's Center as a City service as long as revenues cover 90% of budgeted costs and the Center remains within budget for that fiscal year (to be reviewed annually at mid year).

Staff also recommends the Commission approve the draft RFP for use in the event these cost recovery targets are not met.

BACKGROUND

During the February 24, 2009 City Council meeting, the Council assigned to the Parks and Recreation Commission the task of evaluating the Menlo Children's Center (MCC) program in order to make a recommendation as to whether the Menlo Children's Center program should remain a City sponsored program or be privatized. The Parks and Recreation Commission's study began in March 2009 and was completed in July 2009. Three recommendations from the Commission were presented by staff to Council for consideration at the September 1, 2009 study session. The recommendations were:

1. The MCC program should be evaluated as part of the mid-year budget review in February to determine whether the adopted budget revenue and expenditure goals for fiscal year 2009-2010 are being met, while providing a high quality program (based on a parental survey).
2. A Request for Proposal (RFP) should be prepared, although not issued. If the evaluation of the MCC program results in a decision to eliminate the MCC program, the RFP should be issued immediately.
3. Staff should contact two or three high quality child care providers in the area to assess their interest in bidding on providing services, and identify any concerns or issues related to the MCC program or proposed RFP process.

The recommendations were accepted by Council along with the direction to staff to prepare a first quarter financial update in November. Council was provided with the first quarter update at the November 10, 2009 meeting; the Commission received a copy of the report at their December 16, 2009 meeting.

At the January 20, 2010 Parks and Recreation Commission meeting the Commission formed a subcommittee to review the draft RFP for child care services at the Menlo Children's Center prior to the February 17, 2010 meeting.

ANALYSIS

Mid-Year Review of the Budget

The rate of budgeted costs recovered for the MCC program has ranged from 74% to 84.3% for the past five years (Table A). Mid-year review of the MCC preschool finances indicates the program operated at 111.6% recovery of budgeted costs for the first half of the 2009-10 FY. Mid-year expenditures were approximately 5.1% higher than in FY 2008-09, however revenues increased by 46.9%.

Table A: Cost Recovery

Fiscal Year	Revenue	Expenses	% of Cost Recovery
2004-2005	\$559,325	\$715,376	78.2%
2005-2006	\$540,280	\$729,782	74.0%
2006-2007	\$609,758	\$687,279	88.7%
2007-2008	\$599,714	\$739,186	81.1%
2008-2009	\$622,611	\$738,506	84.3%
FY 2009-10 Budget	\$780,080	\$810,396	96.3%

The information in Table B is a mid-year comparison of the revenues and expenditures for the MCC program for FY 2008-09 and FY 2009-10. At mid-year, the program received \$412,418 or 52.9% of the annual budgeted revenues with expenditures at \$369,534 or 45.6% of the budget. This change reflects an improved budgeted cost recovery rate from 80.1% to 111.6% when compared at mid-year with FY 2008-09.

The budgeted costs for the MCC and all other City programs include all *direct* costs, including all personnel (salaries and benefits), training and travel costs of service providers; the purchase and maintenance of equipment and furniture; departmental and food supplies; advertising and miscellaneous cost of the program. In addition, the expenditure budget includes *some non-direct* costs, including personnel costs associated with the departmental administration and supervision of the program/service; utilities, credit card fees and insurance. The budgeted costs do NOT include administrative, supervisory or maintenance costs incurred by other departments for services such as payroll, accounting, City Manager's Office functions, and building and

grounds maintenance. These costs are budgeted in the appropriate overhead departments (Administrative Services and Public Works). Therefore, the *overhead* costs of the MCC program, identified in the citywide Cost Allocation Plan and included in the 2008 Full Cost Analysis of User Fee Services, are not included in these analyses.

Table B: Mid-Year Budget Comparison FY 2008-09 and FY 2009-10

Fiscal Year	Revenue	Expenses	% of Cost Recovery
Mid-Year 2008-09	\$280,723	\$350,657	80.1%
Mid-Year 2009-10	\$412,418	\$369,534	111.6%

MCC Sustainability

There were three areas staff identified as necessary (now and in the future) in order for the center to become sustainable and continue to meet the needs of the community.

- Program expansion
- Improved marketing
- Operational efficiencies

Program Expansion: The summer months were identified as having the lowest enrollment during the course of the year. In order to increase attendance during this time, a camp for graduating preschoolers was started. MCC also expanded the current license to include an additional 44 morning slots in space that was previously not utilized resulting in the introduction of two new half day programs.

Improved Marketing: In the past, marketing of the program relied heavily on word of mouth. Currently, MCC advertises weekly on Craigs List and is periodically featured in local parent magazines. Other marketing efforts include attending Preschool Preview Nights sponsored by PAMP (Palo Alto Menlo Park Mothers), street fairs, and community events. Center tours have been expanded and are now being offered weekly in addition to an upcoming public open house scheduled for March 20, 2010.

Operational Efficiencies: MCC staff needs to continually evaluate the efficiency of daily operations of the center and implement change once identified. During the past six months, improved waiting list procedures have been implemented and MCC has realigned the age groups for the preschool and early preschool rooms that have resulted in a larger age range for each room and increased enrollment. Staff will continue evaluating program efficiencies in order to maintain the Center's long-term sustainability at target budget levels.

Parent Survey

A satisfaction survey was distributed to parents with children currently enrolled in the MCC toddler/preschool program. A total of 10 surveys or 18% were returned and all classrooms were represented. Parents were asked nine questions that had 4 to 6 subcategories. Each subcategory had a point value that ranged from (3) very satisfied, (2) satisfied, (1) not satisfied or (0) neutral or no response. The results of the survey

indicate that parents are satisfied or very satisfied with the program, facility, staff and the fee charged for the service. Survey results are in attachment C.

RFP Development and Review

The 2006 RFP for Menlo Children's Center was updated to produce the draft 2010 RFP (attachment A) presented to the Commission subcommittee. Revisions from 2006 included:

- Incorporating program changes that have occurred since 2006 (summer camp, transitional kindergarten and early birds)
- Licensing changes related to enrollment capacity (offering programs in the school age rooms during unscheduled morning hours)
- Options for serving preschool and/or afterschool care
- A timeline
- Removal of the option for the City to submit a proposal for service
- Revised selection process to include the Parks and Recreation Commission members in the review of the RFP's and exclusion of current staff working directly with MCC from submitting a proposal

Local Child Care Providers

Ten high quality child care providers in the area were contacted and three responded to a series of questions that were developed to assess their interest in bidding on providing services, and identifying any concerns or issues related to the MCC program or proposed RFP process. The questions were:

1. What would you need to be included in an RFP for City child care services in order to motivate you to respond?
2. Would you respond if the RFP included after school care? Why or why not?
3. What obstacles do you see to getting good responses to an RFP for City child care services?
4. What might be most appealing about an opportunity to bid for child care services for the City? What can be done to make a bid process more appealing?
5. Any other advice to the City if we choose to begin a process to privatize child care?

Staff reviewed the responses received from the three child care providers. Although there was interest in responding to an RFP if issued (by all participating providers), providers wanted to make sure that the City's definition of privatization would be included in the RFP process as well as pictures of the site, a copy of the current licensing application, any in-kind expenses the City would cover, current staffing plan (including administration), tuition rates and date of last increase, parent satisfaction and/or areas of concern, the City's primary goals in looking at a third-party provider and the City's role in helping the private program get launched.

Concerns or areas needing to be addressed: providing transportation from the school sites, the RFP having too many expectations or limits in place (for example providing care at a certain rate or if there are employment requirements other than those required

by state licensing), being able to conduct the business independently, transitioning staff from union to non-union and the City addressing the union concern (many providers may be hesitant to consider submitting a proposal if maintaining the teachers as union employees is a requirement).

Responses from child care providers are provided in Attachment B.

IMPACT ON CITY RESOURCES

Mid-year analysis indicates that the MCC program is currently operating at 111.6% cost recovery. If the center is able to maintain the current enrollment level through June 2010 it is estimated that revenues will exceed the budgeted revenue of \$780,080 by \$19,520 resulting in a 98.2% recovery of budgeted costs (based on budgeted expenses for FY 2009-10).

POLICY ISSUES

The operation of the Menlo Children's Center has been under review for the past year. The review is in response to an expressed concern regarding the level of General Fund subsidy the MCC program has received in previous years. Council noted the importance of meeting the budget set in the FY 2009-10 budget that was adopted by Council in June 2009. The Council has discussed a subsidy policy however a final policy has not yet been adopted.

ENVIRONMENTAL REVIEW

An environmental report is not required.

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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: Draft RFP](#)

[Attachment B: Child Care Provider Responses to Questions](#)

[Attachment C: Survey Results](#)