



ADMINISTRATIVE SERVICES

Council Meeting: August 29, 2006

Staff Report #: 06-157

Agenda Item: F-1

REGULAR BUSINESS: **Status Report and Possible Direction Regarding Further Steps in the Request for Proposal Process for Preschool and School Age Child Care Services at the Menlo Children's Center**

RECOMMENDATION

Staff recommends that the City Council:

- 1) Review the status of the Child Care Request for Proposal (RFP) process
- 2) Consider the following options regarding the next steps in the process:
 - Determine that the process has resulted in sufficient options for providing child care services at the Menlo Children's Center and direct staff to continue working with the Child Care RFP Review Committee to conduct interviews and return to the City Council with a recommendation
 - Determine that the process has not resulted in sufficient options and direct staff to discontinue the RFP process and either:
 - Direct staff to return to Council with a proposed scope, timeline and feasibility of a new RFP process – or –
 - Direct staff to take no further action at this time

BACKGROUND

In March and April 2006, the City Council deliberated on a variety of strategies to include in the 2006-07 budget to close the City's projected \$2.9 million General Fund shortfall. During these deliberations, the Council directed staff to conduct a Request for Proposals (RFP) process to explore the possibility of outsourcing the provision of Burgess-based child care services as a way to reduce the cost of these services to the City's General Fund. Council commented at that time that the RFP should consider quality and affordability of care in addition to cost savings to the City and that full cost and overhead allocations should be considered in order to make accurate comparisons across all proposals, including a City proposal.

Staff provided the City Council with a status report at its May 16, 2006 Council meeting. This report included:

- An **RFP timeline**, which was to be concluded by the end of September 2006.
- The **scope of services** to be addressed in the RFP, which was to ask responding providers to, in general, match or exceed the level of service currently provided by the City at the Menlo Children's Center (MCC). (Staff notes that the use of the name MCC is intended to include both the preschool and school age child care services that are provided on the Burgess campus.)
- The **role and composition of a child care RFP review committee**, which was to include parents with children in child care both at the MCC and elsewhere, members of the City's Parks and Recreation Commission and Budget Advisory Committee and local child care experts who would not be participating in the submittal of a proposal. The committee was to meet four times over the course of the process to: provide input on the RFP document, bidder's list, and proposal evaluation criteria/process; review proposals and interview the most promising responding agencies.

The purpose of the current staff report is to provide Council with an update regarding the child care RFP process. Such a report seemed timely in light of the number of proposals received. Staff seeks Council's feedback and direction at this point as to the further steps in the RFP process. In particular, staff recommends that Council determine whether the response to the RFP has provided sufficient options for providing MCC child care services and whether the process should be continued as scheduled.

ANALYSIS

Establishment of a Review Committee

A Child Care RFP Review Committee was recruited and held its first meeting on May 31, 2006. The committee has been treated as a Brown Act body with posted agendas so that the process is public and open. The members of the Committee are as follows:

- Kristen Anderson, City Child Care Coordinator, City of Redwood City
- Adam Barnett, parent of a child served by a child care program other than the MCC
- John Boyle, Budget Advisory Committee member
- Sally Cadigan, former San Mateo County Child Care Coordinating Council Resource and Referral Director
- Richard Cline, Parks and Recreation Commission Member
- Mike Gardner, parent of an MCC preschool student
- Kirsten Keith, parent of an MCC school age student
- Scott Leslie, Supervisor of Child Care Services, City of Pacifica
- Jennifer Lombardi, parent of a child served by a child care program other than the MCC

Development/Issuance of the RFP

Staff developed a draft RFP document to reflect the scope of services desired in Menlo Park and drawing upon several different child care RFPs issued by other municipalities and entities. During its May 31 meeting, the committee reviewed and suggested changes to the draft document. In providing input, the committee sought to establish a

scope and set of submittal requirements that would result in thorough, high quality proposals to meet or exceed current service levels, while allowing creativity and minimizing potential obstacles in the response process. In particular, the local child care experts serving on the committee expressed a concern that the City's requirement that transportation be provided to the school age program could be seen as too costly by some child care providers.

Staff revised the document and issued it on June 14, 2006 (see Attachment A). A six-week response period was provided. The RFP was posted on the City's website and sent to a list of 29 private child care providers, including both not-for-profit agencies and for-profit companies. Staff developed the list with the assistance of the Child Care Coordinating Councils of San Mateo and Santa Clara Counties, which searched their resource and referral databases for organizations operating licensed preschool and/or school age care at multiple sites. The list was augmented to include known regional or national organizations that do not currently operate in the two-county area.

Staff conducted a pre-proposal conference and tour on June 28, 2006. Nine organizations attended. An additional two organizations called and expressed an interest in the child care RFP. These potential responders raised questions on a variety of topics, including the program's current personnel and transportation costs, tuition rates, net cost estimates, the City's expectations regarding the payment of rent or the provision of in-kind support, and the views of current MCC parents. A summary of questions and answers was sent to all organizations on the proposers' list and is available upon request.

Proposal Review Process and Initial Review

Also on June 28, the Child Care RFP Review Committee met to discuss the process and criteria that would be used to evaluate proposals. The criteria agreed upon are summarized below.

- Responsiveness to the RFP
- Agency/company qualifications
- Program services/enhancements
- Staffing plan
- Transportation plan
- Reasonableness of tuition/other fees
- Start-up/transition plan
- Net cost to the City
- Proposed program budget

The review process called upon individual committee members to rate each proposal, assigning a score of 1 to 5 for each criterion above. Committee members were then asked to rank each proposal from strongest to weakest, based on the criteria ratings they assigned and the weight they gave to each criterion. More information about the criteria and review process is included as Attachment B.

The deadline for receipt of proposals was July 12, 2006. Three proposals were received from Building Kidz, Learning Adventures and the City of Menlo Park. Copies were provided to members of the Child Care RFP Review Committee for their review using the agreed upon process and the criteria above. (Copies of the proposals were made available for public review, checkout or purchase at the City Manager's Office and Main Library.) Staff also reviewed the proposals and prepared a matrix briefly comparing the responses to each of the RFP's submittal requirements (see Attachment C). A separate comparison was done of the proposed budgets from Building Kidz and the City of Menlo Park (see Attachment D). Learning Adventures was not included in this comparison since their proposal did not include a budget.

The City child care budget used for these comparison purposes was developed by the Finance Director to reflect an updated full cost analysis for the MCC program. The proposal submitted by MCC staff in response to the child care RFP reflected only the direct costs currently included in the 2006-07 program budget and stated that other allocated costs were not known. It is important to note that care was taken to keep the different City roles in the RFP process separate. Staff involved in managing the child care RFP process and evaluating the proposals were not involved in the development of the City's child care proposal.

The Finance Director calculated an estimate of the MCC's allocated costs (such as custodial and maintenance services, workers compensation, general liability and general administrative overhead) and added the currently unbudgeted expense of fully funding the City's retiree health insurance liability, in compliance with recent changes in governmental accounting standards. Taking all of these costs into account, the MCC's fully allocated cost is \$1,471K. With revenues of \$1,139K, this results in a fully allocated net cost of \$332K (see Attachment E). This net cost figure is \$112K less than the prior estimate of the MCC's fully allocated net cost (\$444K), which was developed in 2005 as part of the Your City/Your Decision process. This drop in net cost can be accounted for by certain changes implemented in the 2006-07 budget – i.e. decreases in MCC costs (elimination of the portable building lease and consolidation of preschool and school age supervision), increases in MCC fees, and decreases in some allocated expenses.

Throughout the child care RFP process, members of the City Council and the Child Care RFP Review Committee have stated the importance of understanding both direct and allocated costs and what savings would accrue to the City if the program were to be provided by a third party. As shown in Attachment F, staff estimates a direct cost savings of \$73K. Additional possible savings in allocated costs, which might either be reduced or redirected to other City priorities, are not known at this time. An additional factor in considering the net impact on the City budget of having a third party provide child care services is the potential for a rent payment for use of the MCC facility. For example, the Building Kidz proposal calls for a first year rent payment in the amount of \$109K. Since this proposal includes a variety of revenue and cost assumptions, including a request for in-kind custodial services from the City, further analysis would be needed to determine what the net benefit to the City could be.

Proposal Rating by the Child Care RFP Review Committee

The Committee met on August 23 to discuss the three proposals that were received. The meeting was noticed on August 17 and all agenda materials were posted on the City's website. Approximately 20 members of the public attended the meeting, with eight people speaking under public comment.

The Committee started with a review of the MCC full cost analysis and net cost calculation in order to understand the cost to the City, which was one of the proposal review criterion. They asked questions about how the allocated costs were calculated. Staff responded that there are a variety of costs that the City incurs to provide support (e.g. legal services, hiring, payroll processing, information technology, purchasing) to the city's various programs and services, including the MCC. These costs are not budgeted at the service level, so estimates must be made to assign the relevant portion of these costs to the various services. These estimates are developed using formulas based on such factors as building square footage, number of staff and budget size. Committee Members asked whether it would be possible to have a more precise estimate of allocated costs. Staff responded that consultants with expertise in this area were being retained to conduct a cost allocation, recovery and fee study. Information from this study is expected by January. Committee Members asked how much of the allocated expenses could realistically be saved if the child care program were provided by a private entity. Staff stated that the program is not of such a size that there are full positions dedicated to its support. Because the City's Administrative Services Department is relatively small, staff members are assigned to a range of duties in support of a variety of City programs. Therefore, the challenge will be to look at what opportunities outsourcing the MCC program might represent in the way Community Services department and general administrative support and oversight are structured to see where reductions in cost are possible.

Following this discussion, individual Committee Members stated their ratings of the three proposals received. Eight Committee Members rated the City of Menlo Park's proposal as their first choice. They noted what they saw to be the proposal's strengths in the area of educational philosophy and curriculum, parent satisfaction, staff retention, and experience with transportation. The Building Kidz's proposal was ranked first by one Committee Member, with another member stating it was a close second. It was generally agreed that the Building Kidz proposal represented a viable option, with a number of strengths, including savings to the City, innovative programs, strong management and a subsidy for low-income parents. A variety of questions and concerns were raised about both proposals. These are summarized below. A more detailed list will be developed and explored in the next phase of the RFP process.

The group concluded that Learning Adventures had not presented a viable proposal. The proposal was unresponsive to several areas of the RFP requirements. Most notably, it did not include a program budget. In addition, the lack of sustained operating experience did not provide sufficient confidence in the company's qualifications and capacity to run a program of the MCC's size and quality.

Questions Regarding the City of Menlo Park Proposal

- Actual staff qualifications and performance in relationship to accreditation standards and salary and benefits paid
- Staffing model (full time, part time, teacher, aide) and FTE count
- Opportunities to reduce operating costs
- Opportunities to set tuition rates at a level to more fully cover costs; appropriateness of a City subsidy for parents who are not low-income
- The possibility of a low-income subsidy
- Curriculum options for the school-age program; some parents desire more of an academic focus

Questions Regarding the Building Kidz Proposal

- Sufficiency of staff salary and benefits to hire and retain quality staff; issues regarding pay differentials for retained and new employees
- Discrepancies in staffing numbers and ratios stated in the proposal
- Flexibility in, appropriateness of program philosophy/curriculum (e.g. education emphasis vs. play-based, structure of summer program, etc.)
- Company experience and qualifications
- License violations reported by a public speaker
- Meal choices
- Lack of clarity regarding transportation plan, costs and City role
- Reasonableness of budget (e.g. certain items missing or appear to be under or over stated)
- Plans for coverage on minimum days, in service days and school breaks
- Plans to escort children to classes or activities at other Burgess facilities
- Relationship between Building Kidz enrichment activities and existing Burgess classes

In order to better understand both proposals, Committee members indicated it would be helpful to have comparative information about the salaries and benefits paid by child care programs in the area and the tuition charged by comparable centers.

In addition to the specific proposal questions, issues were raised about privatization in general by committee members and by speakers during public comment. These issues include the following:

- The financial savings from outsourcing child care is uncertain and less than originally anticipated.
- Current parents are happy with the program.
- Children and program staff will be negatively impacted by the transition.
- Some stated that privatization would lead to lower staff compensation, which would lead to higher turnover and lower quality. Others noted that tenure and salary do not guarantee quality and that there are parents happy with the quality of the care at other centers that pay lower salaries.

Discussion of Process Next Steps

As scheduled, the next steps in the process are for:

- Staff to develop interview protocols and questions
- The Committee to conduct interviews on September 6
- Staff to conduct additional information gathering as time permits (site visits, reference checks, follow up questions)
- Staff to return to Council with recommendations on September 26 (to allow sufficient time to complete the process, it may be necessary to extend this timeline slightly)
- Council to act on recommendations (e.g. select a private provider and direct that staff proceed with lease negotiations, or select the current City program to continue, or provide some other direction)

Since it is staff's and the Committee's assessment that only one viable alternative to the City-run program has been identified through the RFP process, it seems timely to check in with Council to determine whether the process has had its intended results of providing the City Council with a meaningful choice and whether it should be continued as scheduled. The options for Council at this point are to:

- Direct staff to proceed and work with the Committee to interview the two viable options: Building Kidz and the City.
- Direct staff to discontinue the current RFP process and return to Council with a proposed scope, timeline and feasibility of a new RFP process.
- Direct staff to discontinue the current RFP process and take no further action at this time.

As Council discusses next steps, it may wish to consider feedback that staff gathered from potential respondents to the RFP. This feedback may provide a sense of whether a larger response to the RFP might be possible if it were issued again, and, if so, what changes to the scope and submittal requirements might be helpful and appropriate. The following were stated by potential respondents as factors in their decision not to submit a proposal:

- Lack of fit with organization's mission
- Concern about financial feasibility
- Concern about community discord related to seeking a private child care provider
- Timing issues (which were secondary to the issues above)

More information regarding the feedback from potential respondents can be found in Attachment G. The Committee reviewed this feedback. They acknowledged that this is a divisive issue, which may have made it less appealing to potential respondents. They also wondered whether the RFP timeline and the lack of certainty about the City's costs might have had an impact. They expressed disappointment that the City did not receive more proposals and therefore more choice. In particular they wondered why the larger organizations with extensive experience and long track records did not apply. Regardless of these concerns, the Committee stated that they felt there were two viable options and that the interview process would be a good opportunity to learn more about them and seek answers to the questions that have been raised.

IMPACT ON CITY RESOURCES

The major impact associated with the next step questions raised in this report relate to the staff time required to either continue the current RFP process or develop and conduct a new RFP process.

The larger question of impact on City resources relates to the cost of providing child care services at the MCC and the potential savings associated with any viable alternatives. The estimated fully allocated net cost for MCC child care services is \$332K. Of this net cost, an estimated \$73K in direct cost savings could be achieved by contracting this service to a private provider. Additional impacts on City resources are unknown at this time. These impacts include allocated costs, which might either be reduced and/or redirected to support other City priorities, and the possibility of receiving a rent payment for the use of the MCC facility.

POLICY ISSUES

The City does not currently have an explicit policy regarding the consideration of outsourcing the provision of City services.

ENVIRONMENTAL REVIEW

Environmental review is not required.

Audrey Seymour, Assistant City Manager

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

- A Menlo Park Child Care RFP Document ([attachment](#))
- B Proposal Review Criteria and Process ([attachment](#))
- C Matrix Summarizing Responses to RFP Requirements ([attachment](#))
- D Comparison of Building Kidz and City Proposal Budgets ([attachment](#))
- E MCC Full Cost Analysis and Net Cost Calculation ([attachment](#))
- F Net Impact on City Budget of Third Party Child Care Provider ([attachment](#))
- G Feedback from Potential Respondents to Child Care RFP ([attachment](#))