



DATE: December 6, 2016

CATEGORY: New Business

DEPT.: City Manager's Office

TITLE: **Consideration of Child-Care Center Contract Modifications**

RECOMMENDATION

Consider and approve a three-part recommendation for operator agreement modifications and budget direction for the City of Mountain View's Child-Care Center:

1. Authorize the City Manager to execute an amendment to the Child-Care Center operator agreement.
2. Appropriate \$50,000 in the Child-Care Commitment Reserve (CCCR) to subsidize low-income child-care students during Fiscal Year 2016-17. (Five votes required)
3. Direct the City Manager to include \$100,000 in the CCCR in the Fiscal Years 2017-18 and 2018-19 budget.

BACKGROUND

This report provides a summary background on the City of Mountain View Child-Care Center (Center) development, the Center's financing, operating business terms, the two Center operators, associated financial concerns expressed with operations and requested operator agreement modifications, staff recommendations, and alternatives the City Council may wish to consider.

The City has a long-standing commitment in support of making child care available to families in Mountain View. The City Council and staff have actively engaged in addressing child-care needs and access for nearly two decades (Attachment 1). The process began with the development of the Mountain View Los Altos Child-Care Task Force and eventually led to the City's Child-Care Center.

The Child-Care Center is a City-owned building at 260 Escuela Avenue, behind the Senior Center, and operated under contract with a private provider. Since service

began in 2008, the Center has had two operators, each chosen by competitive Request for Proposal (RFP) process. The Center serves up to 96 infants, toddlers, and children between the ages of 6 weeks to 5 years. On January 15, 2008, the Council set child-care policy direction, and approved the following recommendations for the operation of the Center:

1. Named the new Child-Care Center the “City of Mountain View Child-Care Center.”
2. Established a priority list for enrollment in the Center as follows: first priority – low-income City of Mountain View residents; second priority – all other Mountain View residents; third priority – employees of the City of Mountain View; fourth priority – nonresidents.
3. Established the definition of low-income family for qualifying for the first priority of enrollment as consistent with the State/County child-care subsidy income level guidelines.
4. The Council additionally set an operational goal to have 30 percent of the Center’s enrollment allotted for low-income families. To achieve this goal, 29 children of the 96 served would be low-income Mountain View families.

Child-Care Center Financing

The Council approved construction of the Center as part of the Fiscal Year 2005-06 Capital Improvement Program. With a budget of \$3.5 million, funding for the Center consisted of a \$2.8 million Program-Related Investment (PRI) from the David and Lucile Packard Foundation (Packard), \$400,000 from the CIP Reserve, and \$300,000 from the Construction/Conveyance Tax Fund. The Packard PRI was a loan calculated over a 15-year payback term at a 1.0 percent interest rate with a balloon payment due in the eighth year. Annual PRI payments were \$201,947 for seven years with the balloon payment of \$1.56 million in year eight.

Both Center operating agreements have required an annual operator payment of \$201,084 to cover the annual Packard PRI payments for the first seven years. To afford the eighth year balloon payment to Packard in January 2016, the Council approved establishing a reserve, the Child-Care Commitment Reserve, and allocated \$1.2 million from the Fiscal Year 2005-06 unallocated available balance, projecting with interest earning the amount that would be sufficient for the balloon payment in year eight. The funds were sufficient and the loan was fully repaid in January 2016.

Business Terms

In addition to the annual operator payment and the goal of 30 percent low-income families, the Center agreement also includes a requirement for National Association for the Education of Young Children (NAEYC) accreditation, and the provision of infant care (Attachment 2). Established in 1985, NAEYC is a national, voluntary accreditation system which sets professional standards for early childhood education programs. Programs that achieve this accreditation are limited. According to their website, there are 652 NAEYC centers in California.

Two Child-Care Operators

The first operator of the Center, Children's Creative Learning Center (CCLC), agreed to the core business terms noted above and accomplished them with varying degrees of success. In August 2008, CCLC and the City finalized the operating agreement and CCLC began operations. Through the life of their agreement, CCLC paid the \$201,084 annual operator payment. Regarding the 30 percent low-income goal, CCLC did not meet the goal. CCLC had approximately 8 percent low-income enrollment with an average of 5 to 8 children receiving subsidies over their term of operations and reserved slots for up to 29 low-income families.

While there were over 100 Mountain View families on the waiting list to enroll, no third party or outside funding existed to cover the subsidized cost of enrollment for low-income families. To assist with the financial stability of the Center, in 2011, the City agreed to release a majority of slots reserved for low-income children enrolling with subsidy vouchers, as the County/State significantly reduced child-care subsidy funding during the recession.

In July 2011, CCLC achieved accreditation by NAEYC. During the course of their operating agreement, CCLC served 56 children in their first year of operation, 68 in their second, 83 in their third, and 84 in their fourth and final year. CCLC expressed financial concerns with meeting the business terms and requested modifications in late 2012; these concerns were formally submitted in writing to the City in January 2013. CCLC sought an operator payment reduction to \$100,000 annually, and a reduction in the low-income subsidy they provided from \$50,000 to \$25,000 per year. The Council directed staff to pursue alternate providers after a review of the proposed changes to operator agreement terms by CCLC. In February 2013, staff developed and released an RFP for the operation and management of the Mountain View Child-Care Center.

After the competitive RFP process that included a careful evaluation of all proposals, staff recommended the selection of the second operator, Community

Gatepath/Learning Links (Learning Links) who the Council deemed best able to meet Council's financial and operational goals (Attachment 3). As a nonprofit, Learning Links demonstrated in its proposal that it had a history of collaborating with local school districts, social services, and private foundations to serve the needs of children. They also felt their nonprofit status would make it easier to attract funding for low-income subsidies.

ANALYSIS

Business terms approved by the Council for the second operator, Learning Links, included similar terms as the first operator—annual payments, the goal of 30 percent low-income families with an 18-month plan to reach the goal, NAEYC accreditation, and the inclusion of infant care (Attachment 3). Learning Links agreed to the core business terms noted in the RFP and offered an enhancement of inclusionary teaching. The inclusion model offers a preschool setting where children with special needs, and those without, learn, play, and prepare for kindergarten together.

Learning Links began operating the Center in February 2014, with an annual operator payment of \$201,084. To date, Learning Links has not been able to meet the 30 percent low-income goal. When fully staffed, the Center serves up to 96 infants, toddlers, and children. The enrolment fluctuates, with a current enrollment of 80 students, including six low-income Mountain View resident spaces reserved, four of which are currently enrolled.(Attachment 4).

Learning Links was required to provide an outreach plan to meet Council's goal of 30 percent low-income student enrollment within 18 months of commencement of operations. All of the families who currently receive low-income subsidies at the Center qualify for the highest level of support and are paying \$300 month. Learning Links actively sought low-income scholarships with numerous foundations and applied for over 15 grants to fund low-income enrollments through their 18-month outreach plan.

Learning Links also began to provide enhanced learning experiences with an inclusive preschool model to meet the needs of typically and nontypically developing children. Learning Links is in the process of applying for NAEYC accreditation, as it did not achieve it within the 18-month timeline specified in the Center agreement. The process of securing NAEYC accreditation and implementing inclusion has taken more time, but Learning Links is committed to each. Each model contributes to an enhanced level of care and learning.

In June 2015, Learning Links formally expressed financial concerns with meeting the business terms of their contract. In August 2016, under a new leadership, the nonprofit

reviewed its mission and fiscal realities to ensure the viability of all programs. At the close of their 18-month plan, Learning Links began to express concerns about the operating agreement terms. Learning Links reports that a number of issues have affected their original fiscal assumptions upon entering into the operating agreement and they are unable to find additional funding for low-income subsidies (Attachment 5).

Learning Links notes this has resulted in concerns about the long-term fiscal impact of the operator agreement. Learning Links advises it would need to commit to as much as \$590,000 annually to serve 30 percent low-income children at the Center. Based on their experience, Learning Links estimates a subsidy of \$100,000 could serve up to 16 percent or 15 low-income children with a focus only on preschool children ages 2 to 5 years.

It is obvious after nearly 10 years of operations by two organizations that the policy goal for 30 percent low-income students is not realistic without a substantial subsidy. Since the Center started operations, the enrollment ratios for low-income children were as high as approximately 10 percent and as low as 4 percent, never getting anywhere near the 30 percent goal. Clearly, the current model is not working and, long-term, the City should have a policy discussion on its goal and role regarding child-care services.

Each operator proposed a number of operating agreement modifications to deal with the fiscal constraints of meeting the 30 percent low-income goal. Given the experiences of each operator combined with the lack of State funding, inability to secure grants or donation support, and the present fiscal realities for Learning Links, if Council wishes to continue child-care services in the short run and see additional low-income students enrolled, staff recommends Council consider authorization for the City Manager or his designee to execute the following changes in business terms in the operator agreement with Learning Links:

- For the remainder of the operating agreement, staff recommends up to \$100,000 (prorated) per fiscal year to be funded from the Child-Care Commitment Reserve to support subsidies for low-income children. The recommended subsidy would be for 50 percent of tuition for low-income families. Learning Links estimates it can serve an additional 9 to 10 low-income children with this subsidy. Learning Links would be required to maintain current subsidies for 6 children. The subsidy funding is recommended to be paid biannually in conjunction with biannual progress reports from Learning Links.
- Learning Links would continue its operational process of a sliding tuition scale with varying fees based on family income. The guidelines use the Community Child-Care Council (4Cs) of Santa Clara County as the first, low-income bracket of

five ranges (e.g., a family of 3 making \$3,518 per month would pay \$300). This opportunity for a sliding scale was not initially reflected in the agreement operating terms.

- Provide two additional “in-service” days for Learning Links staff, after advance noticing to Center families. This provides for NAEYC training and preparation for Learning Links staff.

At this time, staff is not recommending operator agreement changes to the 30 percent low-income goal. It should remain the goal to work toward, including serving infants and toddlers, as feasible. An assessment of changes to the policy goal for low-income enrollment would be best considered in the context of a broader policy discussion prior to the expiration of the current contract in 2019. In the meantime, staff will continue to monitor the agency’s progress and be prepared to bring a report to Council in 2018 about the City’s policy and priorities regarding child care.

FISCAL IMPACT

Initial funding for the Child-Care Center was in part provided by the David and Lucile Packard Foundation PRI for the construction of the facility. The City provided \$1.9 million of funding through various funding sources and had an annual debt service to the Packard Foundation of \$201,084 per year. As of January 2016, this loan has been fully repaid and there is a balance in the Child-Care Commitment Reserve generated from operator payments and interest earnings.

As of June 30, 2016, there was an available balance in the Child-Care Commitment Reserve of \$260,652. There is now \$196,084 available annually from the operator payment of \$201,084; \$5,000 is appropriated for miscellaneous City costs associated with maintenance of the Center. There is no restriction as to the use of these funds and it was originally thought that after full repayment of the Packard PRI, the operator payment could be used to support other General Fund programs.

The recommended appropriation is \$50,000 to subsidize low-income child-care students during Fiscal Year 2016-17 and will require five votes of the City Council. Staff is also recommending the City Council to direct the City Manager to include \$100,000 from the CCCR in the Fiscal Years 2017-18 and 2018-19 budgets.

CONCLUSION

It is recommended that the Council consider and approve the three-part recommendation for an amendment to operator agreement and budget direction for the City of Mountain View's Child-Care Center.

ALTERNATIVES

The Council may wish to consider the following alternatives to the recommendation:

1. Do not approve recommendations for operator agreement modifications for the Child-Care Center.
2. Do not approve the budget appropriation for low-income students at the Child-Care Center.
3. Direct staff to hold a discussion about the City's priorities regarding child care in the first half of 2017.
4. Direct staff to pursue alternate providers for the operation the Child-Care Center before the end of the current operating agreement.
5. Provide other direction.

PUBLIC NOTICING

Agenda posting, and meeting advisory and a copy of the report was sent to the current operator, Learning Links, and to the founding funder, the Packard Foundation. Learning links also provided a meeting advisory to enrolled families.

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- Attachments:
1. Child-Care Center Summary History
 2. [Child-Care Center at Community Center Complex – Approval of Business Terms with Children’s Creative Learning Centers](#)
 3. [Agreement with Community Gatepath/Learning Links for the Operation of the Mountain View Child-Care Center](#)
 4. Learning Links Enrollment Update for October 2016
 5. Learning Links Request to the City for Contract Modifications (Letter Received June 10, 2016)