


CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292
FAX (415) 252-0461

February 22, 2013

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst 

SUBJECT: February 27, 2013 Budget and Finance Committee Meeting

TABLE OF CONTENTS

Item	File	Page
5	13-0020 Contract Modification – Children’s Council of San Francisco Management of Preschool Subsidies – Not to Exceed \$40,730,000.....	1

Item 5
File 13-0020

Department:
First 5 Children and Families Commission

EXECUTIVE SUMMARY

Legislative Objectives

The proposed resolution would approve a modification to an agreement previously awarded by First 5 San Francisco (First 5) to the Children's Council of San Francisco (Children's Council), a non-profit agency, for the Children's Council to provide fiscal services for First 5's Preschool for All program (see below). The modified agreement (1) increases the existing agreement's not-to exceed amount by \$30,830,000, from \$9,900,000 to \$40,730,000; and (2) extends the term of the agreement from a one-year term to a three-year term that commenced on July 1, 2012 and terminates on June 30, 2015.

Key Points

- The Preschool for All program offers reduced cost or free, part-day preschool for four-year-old children residing in San Francisco who attend a Preschool for All preschool site¹. Preschool for All is funded by the Public Education Enrichment Fund (PEEF) in which a portion of General Fund monies are allocated each year to improve the quality of public education in San Francisco. First 5 receives one-third of the annual PEEF appropriations to support the Preschool for All program. In the FY 2012-13 budget, the City appropriated \$53,100,000 to the PEEF and First 5 San Francisco was allocated approximately \$17,700,000.
- Due to the large number of preschools that participate in the Preschool for All program (136 preschools), First 5 requires a third-party, fiscal services agency to process child enrollment reimbursements. On July 1, 2012, First 5 entered into an agreement with the Children's Council of San Francisco for a one-year term to provide fiscal services in an amount not-to-exceed \$9,900,000 following a competitive Request for Proposal (RFP) process. Because the original agreement was less than \$10,000,000, the agreement did not require approval from the Board of Supervisors.

Fiscal Impact

- The proposed modification to the existing agreement between First 5 and the Children's Council would increase the total not-to-exceed amount by \$30,830,000, from \$9,900,000 to \$40,730,000 for FY 2012-13 through FY 2014-15. \$229,000 (0.6% of \$40,730,000) pays for the Children's Council's fiscal services, and \$40,501,000 (99.4% of \$40,730,000) pays for reimbursements to Preschool for All providers and associated technical assistance and training.
- The proposed modification increases the FY 2012-13 budget by \$1,830,000, from \$9,900,000 to \$11,730,000, to restore State preschool funding cuts and fund increased Preschool for All enrollment.
- The FY 2013-14 and FY 2014-15 budgets are each \$14,500,000, an increase of \$2,770,000 or 23.6% as compared to the revised FY 2012-13 budget of \$11,730,000, to fund expected increases in Preschool for All enrollment in those years.

Recommendation

- Approve the proposed resolution.

¹ First 5 provides funds for Preschool for All sites based on minimum program and teacher education criteria and compliance with relevant State and City laws.

MANDATE STATEMENT AND BACKGROUND

Mandate Statement

Pursuant to San Francisco Charter Section 9.118, agreements of \$10,000,000 or more, or for a term of more than ten years, are subject to Board of Supervisors approval.

Background

First 5 San Francisco's Preschool for All Program

The Preschool for All program, which was established by Proposition H in 2004, is a citywide universal preschool program that aims to expand preschool access and improve the quality of preschools in the City and County of San Francisco by providing financial resources, training, and technical assistance to public and private preschools. Most notably, the Preschool for All program offers reduced cost or free part-day preschool for four-year-old children residing in San Francisco, based on available funding and qualified preschools. First 5 San Francisco (First 5) has administered the Preschool for All program since 2004.

Preschool for All is funded by the Public Education Enrichment Fund (PEEF), which was passed as Proposition H by San Francisco voters in March 2004 and will sunset in FY 2014-15. Pursuant to City Charter Section 16.123-2, the City is required to appropriate a specified amount of General Fund monies to the PEEF each year, which is then allocated to the San Francisco Unified School District and First 5. First 5 receives one-third of the annual PEEF appropriations, to support the Preschool for All program. In the FY 2012-13 budget, the City appropriated approximately \$53,100,000 to the PEEF from the General Fund, and First 5 San Francisco was allocated approximately \$17,700,000 of those dollars.

According to Ms. Ingrid Mezquita, Senior Program Manager for First 5's Preschool for All Program, First 5 provides funding and technical assistance to 136 Preschool for All sites including 230 Preschool for All classrooms in San Francisco. To become a Preschool for All site, the preschool must meet the baseline criteria including: 1) a minimum of score of 4.5 out of 7.0 on the Environmental Rating Scale,² 2) minimum teacher education qualifications, and 3) compliance with relevant State and City laws. The preschool must also undergo an initial screening, site-visit, and submit several applications. Of the 136 Preschool for All sites, 67 are non-profits, 17 are family child care facilities, 8 are for-profit, and 44 are public including 31 from the San Francisco Unified School District, 4 from the City College of San Francisco, and 9 from San Francisco State University.

Due to the fact that there are 136 preschools that participate in the Preschool for All, First 5 requires the services of a third-party, fiscal services agency, the Children's Council, to process child enrollment reimbursements to participating Preschool for All provider sites. The Children's

² The Environmental Rating Scale assesses the child care environment, based on seven criteria, including (a) space and furnishings, (b) personal care routines, (c) language reasoning, (d) activities, (e) interaction, (f) program structure, and (g) parents and staff.

Council also provides monthly expenditure reports to First 5, and participates in Preschool for All evaluation efforts including data collection.

Existing Agreement

On July 1, 2012, First 5 San Francisco awarded an agreement to the Children's Council of San Francisco (Children's Council), a non-profit agency, for a one-year term to provide the fiscal services mentioned above. The not-to-exceed \$9,900,000 agreement amount allocated \$75,000 to the Children's Council for fiscal services and \$9,825,000 for reimbursements to 136 Preschool for All providers and associated technical assistance and training costs. The agreement was awarded by First 5 San Francisco based on a competitive Request for Proposal (RFP) process issued on February 9, 2012. Because the original agreement was less than \$10,000,000, that agreement did not require approval from the Board of Supervisors.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a modification to the agreement previously awarded by First 5 San Francisco to the Children's Council for the Children's Council to provide fiscal services for First 5's Preschool for All program. Under the agreement, the Children's Council (1) processes child enrollment reimbursements for Preschool for All preschool sites, (2) provides monthly reports to First 5, and (3) provides support for the evaluation of the Preschool for All program.

The proposed modification would:

- Increase the existing agreement's not-to exceed amount by \$30,830,000, from a not-to-exceed total amount of \$9,900,000 to \$40,730,000; and
- Extend the term of the agreement from a one-year term to a three-year term that commenced on July 1, 2012 and would terminate June 30, 2015.

The proposed modified agreement defines a not-to-exceed agreement amount for each fiscal year over the three-year agreement term as shown in Table 1 below.

Table 1
Annual Not-to-Exceed Grant Agreement Amounts

	FY 2012-13	FY 2013-14	FY 2014-15	Total
Original Agreement	\$9,900,000			\$9,900,000
Modified Agreement	<u>1,830,000</u>	<u>14,500,000</u>	<u>14,500,000</u>	<u>30,830,000</u>
Total	\$11,730,000	\$14,500,000	\$14,500,000	\$40,730,000

The \$1,830,000 increase in the revised FY 2012-13 budget of \$11,730,000 is due to an increase in payments to Preschool for All providers as shown in Table 1 above. According to Ms. Mezquita, the proposed increase is composed of (1) \$1,300,000 that will be used to restore State

preschool funding cuts to Preschool for All providers³ and (2) \$530,000 to offset the 6% increase in Preschool for All enrollment in FY 2012-13.⁴

The proposed modified agreement requires the Children's Council to process reimbursement checks quarterly and monthly for all non-San Francisco Unified School District Preschool for All preschool centers and family child care providers, respectively. The Children's Council enters into a fiscal agreement with each Preschool for All site, which defines the annual child reimbursement. First 5 calculates the reimbursement amount for each child enrolled at a Preschool for All site and the Children's Council then, based on this calculation, provides payment to the individual Preschool for All sites.

First 5 calculates the per child reimbursement based on the following:

- 1) Education level of the lead teacher in the classroom;
- 2) Number of four-year-old children in the classroom (must be San Francisco resident); and
- 3) Any existing public subsidy funding the preschool space.

To date, \$4,930,024 has been expended under the original agreement with the Children's Council of San Francisco.

On February 13, 2013, the Children and Families Commission approved the proposed modification to the existing agreement.

FISCAL IMPACTS

The three-year budget for FY 2012-13 through FY 2013-14 of \$40,730,000, under the proposed modified agreement, is shown in Table 2 below.

³ On January 9, 2013, the Children and Families Commission approved the use funds to backfill state preschool funding cuts.

⁴ The original grant agreement's budget was based on FY 2011-12 PFA enrollment, which has increased by 200 children, from 3,200 children to 3,400 children, in FY 2012-13.

Table 2
Proposed Modified Three-Year Agreement Budget from FY 2012-13 to FY 2014-15

Expenditures	FY 2012-13 Revised Budget	FY 2013-14	FY 2014-15	Total	Percent of Total
<u>Children's Council Fiscal Services</u>					
Personnel	\$40,756	\$41,000	\$41,000	\$122,756	
Fringe Benefits	12,018	13,000	13,000	38,018	
Administrative Costs ¹	19,826	20,000	20,000	59,826	
Other Program Expenditures ²	2,400	3,000	3,000	8,400	
Children's Council Services Subtotal	75,000	77,000	77,000	229,000	0.6%
<u>Payments to 136 Preschool for All Providers including Technical Assistance</u>					
Preschool for All Providers ³	10,780,000	13,548,000	13,548,000	37,876,000	
Training & Technical Assistance	875,000	875,000	875,000	2,625,000	
Payments to 136 Preschool for All Providers including Technical Assistance Subtotal	11,655,000	14,423,000	14,423,000	40,501,000	99.4%
Total	\$11,730,000	\$14,500,000	\$14,500,000	\$40,730,000	100%

¹ Includes audit services, insurance, postage, reproduction, rent, utilities, telephone, and staff salaries and benefits

² Includes software and supplies, bank and payroll fees and staff training and conferences

³ Reimbursements to Preschool for All providers based on the number of children enrolled

As noted in Table 2, the 136 Preschool for All providers, who provide reduced cost or free part-day preschool to four year-old children who reside in San Francisco are allocated 99.4 percent, or \$40,501,000, of the modified three-year agreement totaling \$40,730,000. The Children's Council is allocated .6 percent, or \$229,000, of the total modified three-year agreement.

The average cost per child enrolled in Preschool for All in FY 2012-13 is approximately \$3,170 for 3,400 children, resulting in \$10,780,000 of payments to providers as shown in Table 2. Funding per provider varies depending on the number of four-year olds in each classroom and the number of classrooms on each site.

Funding for the proposed modification in FY 2012-13 would come from the Public Education and Enrichment Fund (PEEF), which is a General Fund set-aside, previously appropriated by the Board of Supervisors in First 5's FY 2012-13 and FY 2013-14 budgets and a Proposition 10 State set-aside grant. Funding for the agreement in FY 2014-15 is also planned to come from First 5's annual PEEF appropriation, subject to the Board of Supervisors appropriation approval.

Ms. Mezquita noted that Preschool for All enrollment is predicted to increase in FY 2013-14, increasing expenditures for Preschool for All providers. However, because Proposition H sunsets after FY 2014-15, First 5 will cap enrollment and expenditures in FY 2014-15, and fund

future years' Preschool for All enrollment from the Proposition H Sustainability Fund⁵ until those funds are fully expended.

RECOMMENDATION

Approve the proposed resolution.

⁵ The Proposition H Sustainability Fund is First 5's reserve fund used to maintain the quality of the PFA program. The Proposition H Sustainability Fund's beginning balance for FY 2012-13 is \$16,598,283.