



Memorandum

TO: HONORABLE MAYOR, CITY
COUNCIL AND REDEVELOPMENT
AGENCY BOARD

FROM: Les White
Harry S. Mavrogenes

SUBJECT: AMENDMENT OF SAN JOSE
DAY NURSERY AGREEMENT

DATE: November 27, 2006

Council District: 3

RECOMMENDATION

It is recommended that the City Council and Redevelopment Agency Board approve the second amendment to the agreement with the San Jose Day Nursery, increasing the Agency contribution by \$300,000, for a total City/Agency contribution not to exceed \$1,300,000, for the development and renovation of San Jose Day Nursery's existing facilities located at 33 North Eighth Street, and amend term of the covenants from 20 years to 30 years.

OUTCOME

Approval of the proposed amendment will ensure that the infant center at the San Jose Day Nursery opens on schedule, and provide 12 new spaces for a total of 24 Smart Start childcare spaces for infants.

BACKGROUND

The San Jose Day Nursery, the oldest day care in Downtown San Jose, is one of only two infant centers in the Downtown. It has a great reputation for providing high quality child care for all families, including families in need. San Jose Day Nursery has a high retention rate for its teachers who have years of experience in child care development.

On March 30, 2004, the City Council and Agency Board authorized the negotiation and execution of an agreement with San Jose Day Nursery for the renovation of its existing facility to accommodate a Smart Start San Jose Early Care and Education Center for an additional 40 children for a total of 112 children. Of the 40 additional new child care spaces, 12 are for infants and 28 are for preschool children. The Project was scheduled for construction in two Phases:

Phase 1: The renovation of an existing structure to increase childcare/preschool capacity by 28 spaces.

Phase 2: The installation of a modular building to accommodate an infant care center providing 12 new child care spaces for a total of 24 Smart Start child care spaces.

The agreement was executed on September 27, 2004 and a ground breaking ceremony was held on June 15, 2005. On March 28, 2006, the City Council approved the first amendment to the San Jose Day Nursery authorizing an additional \$144,000 for increased costs associated with the rehabilitation of the historic building. Phase 1 of the project is now successfully complete and the grand opening was held on October 6, 2006.

ANALYSIS

Although Phase 1 of the project was faced with many unforeseen conditions and challenges, it was successfully completed. The challenges that resulted in significantly higher construction costs were related to the historic rehabilitation component of the project. To complete Phase 1 of the project, \$144,800 from Phase 2 was transferred to Phase 1 and an additional \$144,000 was authorized to complete Phase 1.

Agency funding is available to assist in closing the funding gap for Phase 2. The proposed amendment will augment Phase 2 project funds with \$300,000 of Agency funds to ensure that the infant center will open on schedule next year. The costs associated with Phase 2 of the project are demolition, new modular unit construction, site work, materials, and labor. Thus far, San Jose Day Nursery has met all project timelines and is in compliance with the timelines for commencement of Phase 2. The new infant center will provide much-needed space for 24 infants.

In order to place a value on our Smart Start investment, Keyser Marston Associates (KMA) has valued operating expenses at an average of \$15,600 per infant space and \$11,300 per preschool space per year. If tuition and supplemental state funds are factored in, there is a remaining shortfall related to the Smart Start covenants of \$2,700 per year for infants and \$4,000 per year for preschoolers. The net present value of applying the San Jose Smart Start covenants in years twenty-one through thirty would be \$421,000. This valuation does not include the added public benefits related to infants attending a high quality program which include higher educational attainment, employment rates, income levels, and savings rates, and less criminal activity. This added public benefit is valued at \$4 to \$9 per Agency dollar invested (\$1.2 to \$2.7 million) in cost savings to the public and society as a whole per KMA analysis.

In consideration of the additional funds, the term of the Smart Start covenants will be extended from 20 years to 30 years. These covenants require operation of the facility consistent with the City's Smart Start standards and give priority to Project Area residents.

PUBLIC OUTREACH/INTEREST

Although the proposed action does not meet any of the criteria for added outreach efforts, the memorandum will be posted on the City's website for access by the public.

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. (Required: Website Posting)

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- Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. (Required: E-mail and Website Posting)
- Criteria 3:** Consideration of proposed changes to service delivery, programs, or staffing that may have impacts to community services and have been identified by staff, the Board or Council, or a community group that requires special outreach. (Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)

COORDINATION

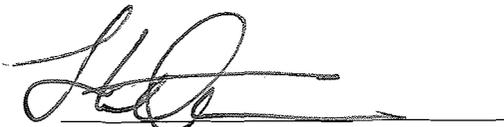
Development of this amendment was coordinated with the Library Department's Early Care and Education office, the City Attorney, the Mayor's Office, and the Agency's General Counsel.

BUDGET REFERENCE

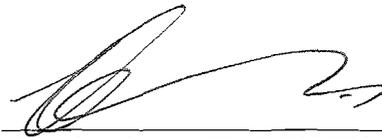
Funding is provided in the Redevelopment Agency's Adopted FY 2006-07 Capital Budget, Child Care Development Fund Project line in the Merged Redevelopment Area.

CEQA

TBD



LES WHITE
City Manager



HARRY S. MAVROGENES
Executive Director