Like most mothers, Elvia McKinley is seeking the highest-quality child care for her 2½-year-old son, Johnny Augustus. She wants him to do circle time, sing “Itsy Bitsy Spider” and hear stories read with dramatic expression — preferably within a reasonable distance of her Bayview home.

So far it’s been hard for McKinley, who’s also searching for work as a home caretaker, to find a program that isn’t fully booked. But she might find help from a new funding system San Francisco will roll out next month.

Beginning Saturday, the city will shift priorities in its $100 million annual child care budget, pumping more money into subsidies for low-income children — called Early Learning Scholarships — and doing away with grants that helped child care providers pay their teachers.

Officials at the city’s Office of Early Care and Education say the move will help stretch state and local dollars and chip away at a waiting list of more than 3,000 young children, all in need of financial aid to pay for day care.

But the shift has caused panic among providers, many of whom are operating on such thin margins that even a slight reduction in income could cause their businesses to sink.

Among them is Natalie Kriger, whose facility near Stonestown, Laffodils Preschool and Child Care, became an unforeseen casualty of the new system. Reluctant to raise tuition enough to compensate for the $10,000-a-month payroll assistance she lost from the city, Kriger has decided to close up shop in August.

“All the funding that used to go to livable (teacher) wages and workers’ comp is being redirected to child subsidies, which are really important,” Kriger said. “But if providers don’t have the old wage supports, they won’t be able to keep their staffs. They’ll have to reduce hours or let them go.”

Under the old system, the city offered nine types of financial assistance for child care programs. Any program was eligible for funding if at least 25 percent of its children were low-income, kids the child care providers usually took at a big loss.

With the new formula — approved by the Board of Supervisors last year — the city funds day care facilities based on how many needy kids they serve. San Francisco has also extended financial aid for families so that they can continue receiving subsidies even if the parents start earning more money — up to $106,656 for a family of three.

The new system is more efficient because it cuts down administrative costs, said Sandee Blechman, executive director of the nonprofit Children’s Council, which administers San Francisco’s child care subsidies. More importantly, she said, it provides an incentive for child care providers to enroll more low-income children.

And that’s the first step toward big societal change, Blechman said. She cited “an abundance of research” showing that structured infant care and preschool environments set kids up to succeed the rest of their lives.

Children who get high-quality care are “more ready for kindergarten ... more likely to graduate from high school, more likely to earn higher salaries as adults, and less likely to rely on welfare or fall into the criminal justice system,” she said.
The city has tried for decades to create a child care system that meets all of those social credos. In the 1990s, San Francisco became the first city in the country to invest local dollars in child care subsidies, and 13 years ago voters passed a measure to offer a discount on preschool for every 4-year-old in the city.

Now San Francisco has many competing goals. Blechman and others want to lower the cost of day care and make it available to everyone. They want to raise the salaries of child care workers and preschool teachers who can’t afford to live in San Francisco. They want to elevate the quality at all facilities, so that kids throughout the city get a well-rounded curriculum of science projects, crafts, cooking, music and imaginative play.

“We really want to make this as universal as possible,” said Supervisor Norman Yee, a longtime advocate for parents and families whose district includes residential areas on the city’s west side.

There just isn’t enough funding to do everything, Blechman said. The city’s child care budget has grown from about $64 million a year at the beginning of Mayor Ed Lee’s term to $100 million this year, pending approval from the Board of Supervisors.

But Blechman estimates it will cost another $100 million to increase salaries for child care workers and get all 3,000 needy children off the subsidy waiting list.

The Office of Early Care and Education will evaluate its new budget strategy over the next five years and make adjustments as needed, said the office’s director, September Jarrett.

In the meantime, some programs will have to get leaner. “I was in a meeting with 200-plus people in the room in January when (city officials) announced the way they were going to handle grants,” said Pat Sullivan, director of Baby Steps Nature School near Stern Grove. “Some people just broke out crying.”

Sullivan said the budget shift — however well-intentioned — adds another element of stress to child care providers who are also bracing for the Saturday increase to San Francisco’s hourly minimum wage, from $13 to $14. Some will have to make staff cuts: Heather Morado, executive director of Holy Family Day Home in the Mission, said she eliminated some administrative positions and did extra fundraising to prepare for the change.

Jarrett said the city is offering about $3 million in transitional funding for programs that really need it.

And then there is Laffodils, which couldn’t survive under the new system because Kriger wanted to keep a generous ratio of 1 teacher for every 2 kids — more than the city funding could support.

That disappoints Scott and Shelly Holbert, who described Laffodils as a sanctuary for their son, Alec, who has autism. Before discovering Kriger’s program, the Holberts spent two years cycling through preschools that didn’t work out. In one of them, the teachers dealt with Alec by strapping him in a stroller. Seeing Kriger shut her doors “is a damn shame,” Scott Holbert said.

Other programs welcome the new setup. “I’ll get to raise compensation for my staff,” said Yohana Quiroz, director of the children, youth and family division at Felton Institute, which has schools serving low-income kids in the Mission, the Bayview and Visitacion Valley.

McKinley is also optimistic. A single mother who receives welfare funding through the state’s CalWorks program, she recently began interviewing for jobs.

She’s still waiting for a phone call from Children’s Council saying she’ll get a subsidy. “I’ve been the only (caretaker) for my baby for 2½ years,” she said. “And now I’m going back to work, but I don’t want to just put him anywhere. I want to be picky.”

Rachel Swan is a San Francisco Chronicle staff writer. Email: rswan@sfchronicle.com, Twitter: @rachelswan