CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: May 22, 2024 Budget and Finance Committee Meeting

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EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolutions would authorize the Director of Property to execute the following leases with Trinity Center, LLC for office space at 1145 Market Street: (1) 20,000 square feet for the Law Library, for an initial term of 15 years, with initial annual rent of $599,000 (File 24-0422); and (2) 19,659 square feet for the Health Service System (HSS), for an initial term of approximately 10 years and two months, with initial annual rent of $588,787 (File 24-0423). Each lease would have one five-year option to extend and three percent annual rent escalation (with the Law Library lease having a partial market reset in Year 11).

Key Points

- The City has leased office space at 1145 Market Street since at least 1997. The Law Library and HSS each lease space at 1145 Market Street, with leases that expired in 2023 and remain in holdover status. The Real Estate Division (RED) has negotiated new leases with the landlord for the Law Library and HSS.
- Under the proposed leases, the Law Library would remain in the same offices on the 2nd and 4th floors. HSS would move a portion of its space from the 1st floor to the 2nd floor, which would help to consolidate its operations into consecutive floors (2nd and 3rd floors). The HSS lease includes a $325,200 tenant allowance, which RED anticipates will be sufficient for all costs associated with the move and buildout. An appraisal has determined that the proposed initial annual rent of $29.95 per square foot is at or below fair market rent.

Fiscal Impact

- The proposed leases would have initial annual rents of $29.95 per square foot, or $599,000 for the Law Library lease and $588,787 for the HSS lease, for a total of $1,187,787 between the two leases. Over the initial 10-year periods of the leases, the City would pay approximately $13,616,647 in total rent. In Year 11 of the Law Library lease, rent would be escalated three percent to a floor, then adjusted to 70 percent of the difference between that amount and fair market rent at the time. If an option to extend the term for one or both leases is exercised, the rent for the extension term would be set at 95 percent of fair market rent at that time.
- Compared to the holdover rental rates currently paid, the City would save approximately $933,831 in initial annual rent with the proposed rental rate of $29.95 per square foot.

Recommendation

- Approve the proposed resolutions.

MANDATE STATEMENT

City Administrative Code Section 23.27 states that any lease with a term of one year or longer and where the City is the tenant is subject to Board of Supervisors approval by resolution.

BACKGROUND

The City has leased office space at 1145 Market Street since at least 1997. City departments located at 1145 Market Street include the Health Service System (HSS) and Law Library, as follows:

- The Law Library leases approximately 20,000 square feet on the 2nd and 4th floors. The lease expired on June 30, 2023 and remains in holdover status at an annual rental rate of $1,180,000, or $59 per square foot.[1]
- HSS leases approximately 19,560 square feet on the 1st and 3rd floors and pays annual rent of $941,565 ($48.14 per square foot). HSS's lease expired on November 30, 2023, and the landlord has allowed the City to continue paying the same rental rate.

The Real Estate Division (RED) has negotiated new leases with the landlord for HSS and the Law Library.[2]

DETAILS OF PROPOSED LEGISLATION

The proposed resolutions would authorize the Director of Property to execute the following leases with Trinity Center, LLC for office space at 1145 Market Street:

- **File 24-0422** approves a lease of approximately 20,000 square feet for the Law Library on the 2nd and 4th floors, for an initial term of 15 years, from August 2024 through July 2039, with one five-year option to extend through July 2044, with initial annual rent of $599,000 ($29.95 per square foot), with three percent annual escalation, and a partial market reset in Year 11.
- **File 24-0423** approves a lease of approximately 19,659 square feet for HSS on the 2nd and 3rd floors, for an initial term of approximately 10 years and two months, from June 2024 through July 2034, with one five-year option to extend through July 2039, with initial annual rent of $588,787 ($29.95 per square foot), and three percent annual escalation.

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[1] Under State Law, the 1870 Act, the City and County of San Francisco is required to provide a Law Library for public use. The 1870 Act established the Law Library as a legal entity, separate from the City and County, and requires the Board of Supervisors to appropriate General Fund monies for "fuel, lights and stationary and all necessary conveniences and care, rooms convenient and accessible to the Courts, sufficient for the use and accommodation of said law library and those who have occasion for its use."

[2] In addition, RED and the landlord agreed to a separate lease for office space on Floors 1, 8, 9, 10, and 11 for the Department of Public Health (DPH), Drug Market Agency Coordination Center (DMACC), and Office of Civic Engagement and Immigrant Affairs (OCEIA), which was approved by the Board of Supervisors in April 2024 (File 24-0347).

The proposed resolutions also authorize the Director of Property to execute any amendments to the leases, including options to extend (while providing notice to the Board of Supervisors).[3]

The key terms of the proposed leases are shown in Exhibit 1 below.

Exhibit 1: Key Terms of Proposed Leases

Premises	Law Library (File 24-0422): 20,000 square feet on Floors 2 and 4 HSS (File 24-0423): 19,659 square feet on Floors 2 and 3
Term	Law Library: 15 years, from August 2024 through July 2039 HSS: Approximately 10 years and 2 months, from June 2024 through July 2034
Options to Extend	Each lease has one 5-year option to extend. Rent reset to 95% of fair market value.
Annual Base Rent	$29.95 per square foot ($599,000 for Law Library, $588,787 for HSS)
Rent Escalation	3% annually. On Year 11 of the Law Library lease, rent is escalated 3%, then adjusted to 70% of the difference between that amount and the fair market value.
Tenant Allowance	$325,200 for the HSS lease (none for Law Library)
Electrical Costs	City pays Landlord as a passthrough cost without markup
Operating Costs	City pays percentage share of increase in operating costs over base year (2025)

Source: Proposed leases

An appraisal conducted by Colliers International has determined that the proposed annual rent of $29.95 per square foot is at or below fair market rent. An appraisal was not required under Administrative Code Section 23.27 because the proposed rent is less than $45 per square foot.

The Law Library would remain in the same offices on the 2nd and 4th floors and therefore does not need a tenant improvement or moving allowance. HSS would move a portion of its space from the 1st floor to the 2nd floor, which would help to consolidate its operations into consecutive floors (2nd and 3rd floors). According to Jeff Suess, Transaction Team Manager, RED anticipates that the $325,200 allowance will be sufficient to cover all costs associated with the move and buildout. The landlord would also provide swing space on an upper floor for HSS to use during the move.

The Law Library lease would commence on August 1, 2024. The HSS lease would commence after Board of Supervisors and Mayor approval and the 2nd floor buildout is complete, which Transaction Team Manager Suess anticipates will be approximately June 15, 2024.

FISCAL IMPACT

The proposed leases would have initial annual rents of $29.95 per square foot, or $599,000 for the Law Library lease and $588,787 for the HSS lease, for a total of $1,187,787 between the two leases. Over the initial 10-year periods of the leases, the City would pay approximately

[3] The original resolutions submitted to the Board of Supervisors incorrectly stated that the Law Library lease had an initial term of 10 years, rather than 15 years, and that both leases had two five-year options to extend, rather than one five-year option. On May 15, 2024, the Budget and Finance Committee amended the resolutions to make these corrections and continued the items to the May 22, 2024 meeting. The amended resolutions have been included with the legislative files.

$13,616,647 in total rent.[4] In Year 11 of the Law Library lease, rent would be escalated three percent (to a floor of $40.25 per square foot), then adjusted to 70 percent of the difference between that amount and fair market rent at that time (but not to an amount lower than the floor). If an option to extend the term for one or both leases is exercised, the rent for the extension term would be set at 95 percent of fair market rent at that time.

Compared to the holdover rental rates currently paid, the City would save approximately $933,831 in initial annual rent with the proposed rental rate of $29.95 per square foot.

Under the leases, the City would pay its percentage share of the increase in the building's operating expenses over the base year. Based on the percentage of leased premises in the building, the combined percentage share of the two leases is 30.36 percent. The base year would be calendar year 2025, so the City would begin paying operating costs in 2026. RED cannot estimate the operating costs at this time. The City would also pay electrical costs as a direct passthrough from the landlord. RED estimates that initial electrical costs are approximately $1 per square foot, or $39,659 between the two leases.

Rent would be paid by the Law Library and HSS, which are primarily funded by the City's General Fund.

RECOMMENDATION

Approve the proposed resolutions.

[4] This amount excludes rent for the two-month period of June and July 2024 for the HSS lease.

Item 4 File 24-0257	Department: San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the third amendment to the lease between the Airport, as landlord, and Elevate Gourmet Brands – SFO Group, as tenant, for (1) the removal of the San Francisco Mac & Cheese Kitchen facility from the lease, (2) reimbursement of $279,627 from the Airport to the tenant for unamortized construction costs, and (3) reduction of the Minimum Annual Guarantee from $375,000 to $185,000 and the Annual Promotion Charge from $1,991 to $405 to reflect the square footage reduction of the remaining premises of the lease. There are no changes to the lease term.

Key Points

- In February 2019, the Board of Supervisors approved a concession lease agreement between the Airport, as landlord, and Elevate Gourmet Brands – SFO Group, as tenant, for the Terminal 3 Coffee and Quick Serve Concession Lease for a term of eight years, with two one-year extension options, for a total term of ten years (File 18-1180). The lease is for two facilities totaling 1,991 square feet in Terminal 3: (1) a Coffee Space of 405 square feet (Green Beans Coffee) and (2) a Restaurant & Bar Space of 1,586 square feet (San Francisco Mac & Cheese Kitchen). Construction of the San Francisco Mac & Cheese Kitchen facility was suspended because of the COVID-19 Shelter-In-Place order and remained suspended because of the absence of passenger traffic.
- Under the proposed third amendment, the Mac & Cheese Kitchen facility would be removed from the lease because the facility is needed for use by United Airlines, which will be displaced from various offices and its main Terminal 3 lounge during the Terminal 3 West Modernization Project construction.

Fiscal Impact

- Under the proposed third amendment, the Minimum Guaranteed Rent (MAG) will be reduced from $375,000 to $185,000, a reduction of $1,330,000 in MAG rent over the remaining seven years of the lease term (assuming the lease is extended through September 2031) compared to rent projected under the existing lease. However, the Airport anticipates receiving approximately $90,850 per year in increased rent from United Airlines for use of the premises. The Airport will also reimburse $279,627 to the tenant for unamortized construction costs relating to San Francisco Mac & Cheese Kitchen's design and demolition work.
- Rent paid by the tenant to the Airport will be MAG rent or percentage rent, whichever is greater. The Airport expects percentage rent to exceed the MAG.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(c) states that modification of any lease of real property for a period of ten years or more or that has revenue to the City of $1 million or more is subject to Board of Supervisors approval.

BACKGROUND

In October 2018, the Airport Commission selected Elevate Gourmet Brands – SFO Group[1] for the Terminal 3 Coffee and Quick Serve Concession lease following a competitive solicitation process. Elevate Gourmet Brands – SFO Group was the highest scoring vendor (91 out of 100) of the seven that submitted proposals for the lease.[2] In February 2019, the Board of Supervisors approved a concession lease agreement between the Airport as landlord and Elevate Gourmet Brands – SFO Group as tenant for the Terminal 3 Coffee and Quick Serve Concession Lease for a term of eight years, with two one-year extension options, for a total term of ten years (File 18-1180). The lease is for two facilities totaling 1,991 square feet in Terminal 3: (1) Coffee Space of 405 square feet (Green Beans Coffee), and (2) Restaurant & Bar Space of 1,586 square feet (San Francisco Mac & Cheese Kitchen). In March 2020, the tenant opened Green Beans Coffee. However, construction of the San Francisco Mac & Cheese Kitchen facility was suspended because of the COVID-19 Shelter-In-Place order and remained suspended because of the absence of passenger traffic. The Mac & Cheese Kitchen restaurant never opened.

Amendment History

The lease has been amended two times by the Airport following Board of Supervisors' authorizations of the COVID-19 Rent Relief and the COVID-19 Lease Extension Programs. In October 2020, the Board of Supervisors authorized the Airport to implement the COVID-19 Rent Relief Program. The program waived Administrative Code and Environment Code requirements for certain leases with Airport concession tenants, as well as waived various types of rents and fees for certain periods related to COVID-19, varying by concession sector[3] (File 20-1278). In April 2024, the Board of Supervisors authorized the Airport to implement the COVID-19 Lease Extension Program for certain Airport Food and Beverage, Retail, and Service Concession tenants, allowing the Airport to offer a lease extension of up to three years and six months to eligible concessionaires (File 24-0049). Under the second amendment, the lease term was extended by three years and six months (through September 30, 2031) for the Green Beans Coffee facility in Terminal 3. The San Francisco Mac & Cheese Kitchen facility was not included in the Lease Extension Program because the Airport was already planning to repurpose the site.

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[1] Elevate Gourmet Brands – SFO Group is a joint venture between Elevate Gourmet Brands, Inc. (85 percent ownership interest) and Aimhigh ESG, LLC (15 percent ownership interest).

[2] One proposal was deemed nonresponsive.

[3] Financial relief for the Food and Beverage Concession sector included the following in 2020: March: Waive MAG, while not waiving Percentage Rent; April & May: Waive all rent, fees, and utility charges; June-December: Waive storage fees, food court cleaning fees, tenant infrastructure fees, refuse fees, and marketing fees.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the third amendment to the lease between the Airport as landlord, and Elevate Gourmet Brands – SFO Group as tenant, for (1) the removal of the San Francisco Mac & Cheese Kitchen facility from the lease, (2) reimbursement of $279,627 from the Airport to the tenant for unamortized construction costs for the San Francisco Mac & Cheese Kitchen Facility, and (3) reduction of the Minimum Annual Guarantee from $375,000 to $185,000 and the Annual Promotion Charge from $1,991 to $405 to reflect the square footage reduction of the remaining premises of the lease. There are no changes to the lease term.

The proposed lease changes are summarized in Exhibit 1 below.

Exhibit 1: Proposed Lease Amendments

	Current Lease	**Under Proposed Third Amendment**
Location and Square Footage	Two facilities in Terminal 3, comprising approximately 1,991 square feet, as follows: • Coffee Space (Green Beans Coffee), 405 sq. ft. • Restaurant & Bar Space (San Francisco Mac & Cheese Kitchen), 1,586 sq. ft.	One facility in Terminal 3: • Coffee Space (Green Beans Coffee), 405 sq. ft.
Term	Eight years plus two (2), one-year options The COVID-19 lease extension will only be applied immediately following the end of the 10-year lease terms including the two (2), one-year options. Including the extensions, the Expiration Date for Green Beans Coffee in Terminal 3 is September 30, 2031.	No change
Rent Commencement Date	Rent commencement date for each facility is the earlier of the date when initial improvements are substantially complete or 150 days after the commencement date (Aprill 3, 2019)	Rent will change to proposed ~~p~~new structure after approval of the proposed lease amendment to terminate the restaurant & bar location.
Initial MAG rent	$375,000	$185,000
MAG Adjustment	Annually based on Consumer Price Index (CPI) on Jan. 1	No change.
Percentage Rent	Higher of MAG or the following percentage rent structure: • 6% of gross revenues achieved up to and including $1,500,000; plus • 8% of gross revenues achieved between $1,500,000.01 up to and including $2,000,000; plus • 10% of gross revenues achieved over $2,000,000.	No change.
Promotional Charge	$1 per sq. ft, or $1,991 per annum.	$1 per sq. ft, or $405 per annum
Minimum Investment Amount	$1,000 per sq. ft., or a total of $1,991,000.	$1,000 per sq. ft., or a total of $405,000.
Cleaning Fee	$80 per sq. ft., or $32,400 per annum for the Green Beans Coffee location square footage of 405 sq. ft.	$32,400 per annum.
Pest Control Fee	$75 per month	No change
Early Termination	Yes	Yes

Source: Original Lease and Proposed Amendment 3

As previously mentioned, the San Francisco Mac & Cheese facility construction is currently suspended. Under the proposed third amendment, the facility would be removed from the lease. According to the Airport, this facility is needed for use by United Airlines, which will be displaced from various offices and its main Terminal 3 lounge during the Terminal 3 West Modernization Project construction. Airport staff state that United Airlines plans to utilize the space primarily for management offices. In addition, the Airport states that if the proposed amendment is approved, a month-to-month permit agreement with United Airlines would be executed that allows for use of the premises. The Terminal 3 West Modernization Project construction is projected to be completed by October 1, 2028. Airport staff anticipate that United Airlines will continue to use the premises following completion of the project.

FISCAL IMPACT

Under the proposed third amendment, the Airport will reimburse $279,627 to the tenant for unamortized construction costs relating to San Francisco Mac & Cheese Kitchen's design and demolition work. To reflect the reduction of 1,586 square feet of the premises due to the removal of the San Francisco Mac & Cheese Kitchen Facility, the Annual Promotion Charge[4] will be reduced from $1,991 to $405. In addition, the MAG rent will be reduced from $375,000 to $185,000, which reflects a reduction of $1,330,000 in minimum guaranteed rent over the remaining seven years of the lease term (assuming the lease is extended through September 2031) compared to rent projected under the existing lease. However, the Airport anticipates receiving approximately $90,850 per year in increased rent from United Airlines for use of the premises.

Section 1.2 of the existing lease provides for a reduction in MAG if the premises are reduced by more than 10 percent. The premises for the lease were contracted by 79.7 percent which would have resulted in a reduction of MAG from $375,000 to $76,281 on a pro-rata basis. Airport staff negotiated with the tenant for a reduced MAG of $185,000 to occupy the remaining premises under the lease (Green Beans Coffee).

Rent paid by the tenant to the Airport will be MAG rent or percentage rent, whichever is greater. The Airport expects the percentage rent to exceed the MAG. According to the Airport, as of March 2024, total rent collected to date for the lease is $636,119.

RECOMMENDATION

Approve the proposed resolution.

[4] The Annual Promotion Charge is $1 per sq. ft. of the premises for marketing and promoting the Airport's concession program.

Item 6 File 24-0444	Department: Office of Economic Workforce Development (OEWD)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve Amendment No. 2 to the grant agreement between the Office of Economic and Workforce Development (OEWD) and SF New Deal for management of the Small Business Grant Payment Support Program, increasing the not-to-exceed amount by $2,455,000, for a total not to exceed $11,415,000, and authorizing the OEWD Executive Director to enter into further immaterial amendments to the grant.

Key Points

- In December 2021, OEWD issued a Request for Proposals (RFP) to select providers to administer 26 economic development programs, including the Small Business Grant Program Administrative Support category. OEWD awarded grants to three proposers within that category, including SF New Deal. OEWD executed a grant with SF New Deal in April 2023 and Amendment No. 1 to the grant agreement in December 2023.
- Under the grant agreement, SF New Deal administers seven grant programs that have served approximately 651 businesses. This includes two active grant programs (Citywide SF Shines and Fillmore Pitch), three proposed grant programs (Storefront Opportunity Grant Tenderloin Earmark, Entertainment and Nightlife Entertainment Grants, and APEC Grants), and two inactive grant programs (Storefront Opportunity Grant General and Small Business Training Grants). As of April 30, 2024, SF New Deal has distributed approximately $7,024,204 in grants to small businesses through these programs.

Fiscal Impact

- The proposed Amendment No. 2 would increase the not-to-exceed amount of the grant by $2,455,000, for a total not to exceed $11,415,000. Of the proposed $11,415,000 not-to-exceed amount, approximately $10,305,000 (90 percent of the budget) is a pass-through to grant recipients, and approximately $1,110,000 (10 percent of the budget) is for services provided by SF New Deal.
- Of the $2,455,000 in expenditure authority added by Amendment No. 2, approximately $1,875,000 would fund grants to businesses impacted by the APEC conference, $360,000 would fund Tenderloin grants, and $220,000 would fund SF New Deal administrative and program costs.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of $10 million or more, or (3) requires a modification of more than $500,000 is subject to Board of Supervisors approval.

BACKGROUND

In December 2021, the Office of Economic and Workforce Development (OEWD) issued a Request for Proposals (RFP) to select providers to administer 26 economic development programs, including the Small Business Grant Program Administrative Support category. Within that category, OEWD received six proposals. An evaluation panel scored them in two tiers, Tier 1 was based on qualifications (30 points), approach and outcomes (40 points), performance measurement and reporting (15 points), and financial management (15 points), for a total 100 possible points. The Tier 2 evaluation was based on how well each meets the district or neighborhood need, project feasibility, and fulfillment of key department priorities, and had 50 total possible points.

The combined results for both tiers results are shown in Exhibit 1 below.[1]

Exhibit 1: Proposers and Scores from RFP

Proposer	Score (Max 150 points)
Main Street Launch	122.63
Northeast Community Federal Credit Union	121.38
Young Community Developers	113.13
SF New Deal	112.13
San Francisco Study Center	107.63
Economic Development on Third	97.88

Source: OEWD

Initially, under RFP 219 Program Area K, Main Street Launch and Northeast Community Federal Credit Union were awarded grants. Due to the success of OEWD's grant programs, the organizational capacity of those funded was exceeded by early 2023, and OEWD decided to fund an additional organization. OEWD communicated with Youth Community Developers' Executive Director who noted that they did not have organizational capacity at the time. OEWD then awarded a grant to the next highest-ranking organization, SF New Deal. In April 2023, OEWD executed a grant agreement with SF New Deal for a term of two years and three months, from April 2023 through June 2025, and an amount not to exceed $6,360,000. In December 2023, OEWD executed Amendment No. 1 to the grant agreement, increasing the not-to-exceed amount

[1] The Tier 1 evaluation panel included an OEWD Director of Small Business Programs, an OEWD Program Manager, a Director of Community Engagement at the Assessor-Recorder's Office, and a Nonprofit Finance Consultant. The Tier 2 evaluation panel consisted of the Tier 1 panel plus an additional OEWD program manager.

by $2,600,000, for a total not to exceed $8,960,000.[2] Due to interest in the small business grant programs administered by SF New Deal, OEWD and SF New Deal have agreed to increase the not-to-exceed amount of the grant agreement to ensure that there is sufficient expenditure authority through June 2025.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Amendment No. 2 to the grant agreement between OEWD and SF New Deal for management of the Small Business Grant Payment Support Program, increasing the not-to-exceed amount by $2,455,000, for a total not to exceed $11,415,000, and authorize the OEWD Executive Director to make further immaterial amendments to the grant.

Under the grant agreement, SF New Deal administers seven grant programs that have served approximately 651 businesses. Tasks includes financial management and administrative support of small business grant programs, development and administration of mini-grant programs, developing grant materials, management of the application process, executing agreements with recipients, coordinating and supporting public events or information sessions, and producing reports. The grant programs are shown below:

Active Grant Programs:

- Citywide SF Shines: Provides grants up to $10,000 to reimburse small businesses for storefront design services, architectural services, or equipment/furniture (83 businesses served, currently active).
- Fillmore Pitch: District 5 addback that provides $4,500 grants to small businesses that pitch to a panel of judges (6 businesses served, currently active).

Proposed Grant Programs:

- Storefront Opportunity Grant Tenderloin Earmark: Provides grants up to $50,000 to help small businesses find a location, negotiate a commercial lease, or open a new storefront, with a focus on the Tenderloin (0 businesses served, will be funded in the proposed amendment).
- Entertainment and Nightlife Revitalization Grants: Provides grants up to $50,000 to fund new activities and events with a live performance component (0 businesses served, will be funded in proposed amendment).
- APEC Grants: Provides grants to businesses and organizations impacted by the Asia Pacific Economic Cooperation (APEC) conference. Program details have not been determined yet (0 businesses served, will be funded in the proposed amendment.[3]

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[2] Including a contingency, Amendment No. 1 allowed for grant expenditures of up to $9,999,999.
[3] In March 2024, the Board of Supervisors approved an ordinance appropriating $3,000,000 to OEWD to support a relief fund for businesses impacted by APEC and for a Small Business Transit Impact relief fund (File 24-0057).

No Longer Active Grant Programs:

- Storefront Opportunity Grant General: Provides grants up to $50,000 to help small businesses find a location, negotiate a commercial lease, or open a new storefront (27 businesses served, no longer active).
- Small Business Training Grants: Provides grants up to $50,000 for small businesses that completed trainings and submitted a business plan (535 businesses served, no longer active).

Exhibit 2 below shows the actual spending by grant program.

Exhibit 2: Actual Spending by Grant Program

Program	Businesses Served	Actual Grants Awarded	Average Grant Size
Citywide SF Shines	83	$402,204	$4,846
Fillmore Pitch	6	$27,000	$4,500
Storefront Opportunity Grant General	27	$850,000	$31,481
Small Business Training Grants	535	$5,745,000	$10,738
Total	**651**	**$7,024,204**	

Source: OEWD

Performance Management

As of April 30, 2024, SF New Deal has distributed approximately $7,024,204 in grants to small businesses, or 78 percent of grant funding about half-way through the contract. Under the agreement, SF New Deal is required to submit monthly invoices for grant payments issued.

The agreement does not have any performance metrics, such as timeliness of grant disbursals. This information could be useful to OEWD to evaluate performance of SF New Deal's grant management and OEWD should consider adding performance metric to this and related grant management contracts.

Fiscal Monitoring

The Human Services Agency reviewed SF New Deal's financial documents as part of the FY 2022-23 Citywide Fiscal and Compliance Monitoring program and had no findings.

FISCAL IMPACT

The proposed Amendment No. 2 would increase the not-to-exceed amount of the grant by $2,455,000, for a total not to exceed $11,415,000. Of the proposed $11,415,000 not-to-exceed amount, approximately $10,305,000 (90 percent of the budget) is a pass-through to grant recipients, and approximately $1,110,000 (10 percent of the budget) is for services provided by SF New Deal.

OEWD pays SF New Deal based on contract deliverables, such as every 100 checks written, providing quarterly reports, and plans for the grant programs. Approximately $1 million in expenditure authority from Amendment No. 1 remains available to fund the Citywide SF Shines, Fillmore Pitch, and Entertainment and Nightlife Revitalization Grant programs. The proposed Amendment No. 2 adds eight new contract deliverables pertaining to developing the three new grant programs that, if met, would provide $220,000 in payments to SF New Deal. Additionally, Amendment No. 2 would increase the amount of grants provided to small businesses by $2,235,000. The proposed expenditures are shown in Exhibit 3 below.

Exhibit 3: Proposed Expenditures Added in Amendment No. 2

Grants to Businesses/Orgs Impacted by APEC	$1,875,000
Tenderloin Grants	360,000
SF New Deal Administrative and Program Costs	220,000
Total	**$2,455,000**

Source: OEWD

The grant agreement funds approximately 3.15 full-time equivalent (FTE) employees.

The grant agreement is funded by the City's General Fund.

RECOMMENDATION

Approve the proposed resolution.

Item 7 **File 24-0413**	**Department:** Homelessness & Supportive Housing

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the second amendment to the grant agreement with Episcopal Community Services for the Flexible Housing Subsidy Pool program, increasing the not-to-exceed amount by $19,623,174 to $29,523,174 and extending the term of the agreement by three years to June 30, 2027.

Key Points

- HSH entered into a grant agreement with Episcopal Community Services on April 6, 2021 to administer the FHSP program. The original grant agreement had a term of February 15, 2021 to June 30, 2023 and a not-to-exceed amount of $9.9 million. In July 2023, HSH executed a no-cost amendment to the agreement to extend the term by one year to June 30, 2024.
- HSH did not use a competitive solicitation to procure this service as allowed by Chapter 21B of the Administrative Code.
- Under the proposed second amendment, Episcopal Community Services would continue to provide housing location services, housing placement, and housing focused case management to 130 clients annually. The target population for the program is adults aged 18-59 without custody of minor children, and adults over 60 without custody of minor children.
- The performance monitoring report for FY 2022-23 reveals that Episcopal Community Services served fewer than the contracted number of clients served (107 clients enrolled compared to a target of 130 clients) due to staff vacancies. HSH reports that Episcopal Community Services has hired new staff in FY 2023-24 and has increased the number of placements. As of March 2024, Episcopal Community Services has enrolled 124 households and placed 106 households in permanent supportive housing, out of a total goal of 130 clients for the year.

Fiscal Impact

- The proposed resolution would approve the amended grant agreement between HSH and Episcopal Community Services and increase the not-to-exceed amount by $19,623,174 for a total not-to-exceed amount of $29,523,174.
- The grant agreement is entirely funded through Homelessness Gross Receipts (Proposition C) funding.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of $10 million or more, or (3) requires a modification of more than $500,000 is subject to Board of Supervisors approval.

BACKGROUND

Flexible Housing Subsidy Pool Program

The Flexible Housing Subsidy Pool (FHSP) program provides scattered site permanent supportive housing in vacant private market apartments for people exiting homelessness. According to HSH, Episcopal Community Services initiated the FHSP program in April 2021 to assist with HSH's Shelter in Place rehousing initiative. The program increased permanent supportive housing placements for guests exiting Shelter in Place (SIP) hotels and now serves adults and families. As of March 2024, seven providers, including Episcopal Community Services, provide housing location services under the program for a total of 945 placements annually.[1]

Episcopal Community Services Agreement

HSH entered into a grant agreement with Episcopal Community Services on April 6, 2021 to administer the FHSP program. The original grant agreement had a term of February 15, 2021 to June 30, 2023 and a not-to-exceed amount of $9.9 million. Under the original scope of services, Episcopal Community Services agreed to place at least 60 households of seniors aged 60 or older as part of the SIP rehousing and demobilization. Once placed in private market units, households pay 30 percent of their income towards rent and the program pays the rest. Additional scope of services included housing focused case management for clients after they are housed.

In July 2023, HSH executed a no-cost amendment to the agreement to extend the term by one year to June 30, 2024.

Selection of Provider

As allowed by Chapter 21B of the Administrative Code, HSH did not use a competitive solicitation to procure this service. According to HSH staff, Episcopal Community Services was selected as the grantee due to the organization's experience with administering supportive housing, and due to the organization's ability to begin services in a timely manner.

[1] The seven providers are Abode Services, Providence, Brilliant Corners, Catholic Charities, Compass, Episcopal Community Services, and Unity Care.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the second amendment to the grant agreement with Episcopal Community Services, increasing the not-to-exceed amount by $19,623,174 to $29,523,174 and extending the term of the agreement by three years to June 30, 2027.

Under the proposed second amendment, Episcopal Community Services would continue to provide housing location services, housing placement, and housing focused case management to 130 clients annually. The target population for the program is adults aged 18-59 without custody of minor children, and adults over 60 without custody of minor children. Clients will be referred to Episcopal Community Services through HSH's Coordinated Entry System. The program is still structured so that clients pay 30 percent of their income towards their rent and the program pays the rest.

Performance Monitoring

The performance monitoring report for FY 2022-23, dated May 10, 2024, reveals that Episcopal Community Services met two of its three outcome objectives. It did not meet Outcome Objective A, which required that at least 90 percent of tenants enrolled in the program will successfully move into housing. Only 88 out of 107, or 82 percent, moved into housing in FY 2022-23. HSH reported that this was primarily due to clients transferring to other permanent supportive housing programs that were appropriate to meet their unique needs. If transfers and exits to other permanent housing programs were included in housing placement data, according to HSH, Episcopal Community Services would have exceeded this goal with 99 of 107, or 92.5 percent, moved into housing in FY 2022-23. HSH also cited challenges with staff vacancies and that Episcopal Community Services has hired new staff in FY 2023-24 to increase the number of placements they make. Episcopal Community Services also did not meet one of its nine service objectives. The program did not document evidence of home visits for participants during the first three months of move-in.

Additionally, the performance monitoring report found that Episcopal Community Services was out of compliance with six program requirements related to participant release forms, habitability inspections, and data entry into the HSH Homeless Management Information System. The report required that the program address these issues no later than June 10, 2024.

More recent data for FY 2023-24 suggests an improvement in performance. As of March 2024, Episcopal Community Services has enrolled 124 households and placed 106 households in permanent supportive housing (85 percent), out of a total goal of 130 clients for the year.

Fiscal and Compliance Monitoring

HSH conducted the FY 2022-23 Citywide Nonprofit Fiscal and Compliance Monitoring for Episcopal Community Services and reported in June 2023 that there were no findings.

FISCAL IMPACT

The proposed resolution would approve the amended grant agreement between HSH and Episcopal Community Services and increase the not-to-exceed amount by $19,623,174 for a total not-to-exceed amount of $29,523,174. Exhibit 1 below shows the total budget of the grant agreement.

Exhibit 1: Proposed Total Budget

Year	Episcopal Community Services FHSP Budget
FY 2020-21 Actual	$16,628
FY 2021-22 Actual	$1,700,170
FY 2022-23 Actual	$2,429,649
FY 2023-24 Budget*	$5,397,950
FY 2024-25 Budget	$5,603,731
FY 2025-26 Budget	$5,797,595
FY 2026-27 Budget	$5,971,524
Program Total	**$26,917,247**
Contingency (15%)	$2,605,927
Not to Exceed Amount	**$29,523,174**

Source: HSH

*Actual spending through March 2024 is $2,505,370, or 46 percent of the budgeted amount. HSH reports that ECS expects to spend down their budget as the fiscal year closes.

Program Budget

The FY 2023-24 annual budget is $5.4 million, which includes $3.3 million for direct client costs (61 percent). The FY 2023-24 budget also includes $1.6 million for salaries and benefits associated with 15.06 full time equivalent (FTE) positions. Exhibit 2 below shows the proposed program budget under the proposed extended grant agreement.

Exhibit 2: Proposed Amendment Budget

Expenditures	FY 2024-25	FY 2025-26	FY 2026-27	3-Year Total
Salaries & Benefits	$1,714,440	$1,714,440	$1,714,440	$5,143,320
Operating Expense	186,897	191,897	196,897	575,691
Indirect Cost (15%)	285,201	285,951	286,701	857,853
Direct Client Pass Through [a]	3,409,694	3,597,807	3,765,986	10,773,487
Capital Expenditure	7,500	7,500	7,500	22,500
Total Expenditures	**$5,603,732**	**$5,797,595**	**$5,971,524**	**$17,372,851**

Source: Proposed Amended Grant Agreement

[a] Direct Client Pass Through expenditures are funds that are paid directly by the grantee on behalf of clients of the program. This includes rental subsidy payments, security deposits, furniture costs, relocation costs, damage mitigation funds, vacant unit costs, and miscellaneous client costs. These funds are not included in the indirect calculation.

Exhibit 2 shows that the proposed budget for the proposed amendment is approximately $17.4 million over three years, including $5.1 million in salaries and benefits and $10.8 million in direct client assistance. The proposed budget of $5.6 million in FY 2024-25 is more than double actual spending in FY 2022-23 of $2.4 million primarily due to expansion of services to additional households. In FY 2022-23, Episcopal Community Services budgeted $3.1 million for the program, but actual spending was only $2.4 million, or 77 percent. HSH reports that Episcopal Community Services increased its staff for this program to improve its program outcomes and better serve its clients. According to HSH, Episcopal Community Services anticipates serving the full contract capacity of 130 clients by FY 2024-25. For this reason, the subsidy line is increasing from $1.4 million budgeted in FY 2022-23 to $3.4 million in FY 2024-25, or approximately $26,000 annually per client served, consistent with other Flexible Subsidy Pool agreements.

Funding Source

The grant agreement is entirely funded through Homelessness Gross Receipts (Proposition C) funding.

RECOMMENDATION

Approve the proposed resolution.

Item 8 File 24-0441	Department: Homelessness and Supportive Housing

EXECUTIVE SUMMARY

Legislative Objectives

- The Department of Homelessness and Supportive Housing (HSH) provides housing navigation services for adults prioritized for permanent supportive housing (PSH).
- The proposed resolution would extend the grant term between Episcopal Community Services (ECS) and HSH by two years, from June 30, 2024 through June 30, 2026, and would increase the not-to-exceed amount by $6,738,079 for a total amount not to exceed $16,694,903 for housing navigation services.

Key Points

- Under the contract, ECS would continue providing housing navigation services to at least 600 clients annually. Based on program monitoring assessments provided for FY 2022-23 and FY 2023-24, ECS met all objectives, except one related to a satisfaction survey. The Department expects a higher reported satisfaction response moving forward due to the shift to a digital survey.

Fiscal Impact

- In each of the last three fiscal years, the amount spent was less than the amount budgeted due to ECS staff vacancies. However, underspending has steadily decreased from 31 percent in FY 2021-22 to an estimated 12 percent in FY 2023-24. The Department reported improvements in staffing levels for ECS, including plans for two temporary hires.
- The contract extension will be funded exclusively by state Providing Access and Transforming Health (PATH) revenues, a component of the state-federal health program Medi-Cal.

Policy Consideration

- The Budget and Legislative Analyst's May 2024 performance audit on permanent supportive housing funds noted that the understaffing of housing navigation services may have contributed to high vacancy rates among the City's PSH portfolio.
- According to HSH data, the PSH vacancy rate declined from 10.1 percent in February 2023 to 7.1 percent in February 2024—in line with HSH's goal vacancy rate of 7.0 percent. Although PSH vacancy rates have declined, enhancements to performance monitoring for housing navigation could ensure these improvements are maintained, such as by including outcome measures reflecting timely placement of clients into housing.

Recommendations

- Request HSH add performance objectives to the proposed agreement that measure the timely placement of clients into housing.
- Approved the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of $10 million or more, or (3) requires a modification of more than $500,000 is subject to Board of Supervisors approval.

BACKGROUND

The Department of Homelessness and Supportive Housing (HSH) funds housing navigation services for the adult permanent supportive housing (PSH) system. Navigators engage clients who have been prioritized for housing placement by the coordinated entry system in order to ensure successful housing placement. Episcopal Community Services (ECS) is the sole provider of this service, a new program that launched in 2021 to support clients exiting Shelter-in-Place hotels during the COVID-19 pandemic.

The Department first entered into a grant agreement with ECS for housing navigation services beginning July 1, 2021 through June 30, 2023 for an amount not to exceed $6,186,227 to provide housing navigation and stabilization services. In July 2023, HSH entered into a first amendment to the grant agreement to extend the term by one year through June 30, 2024 and to increase the not-to-exceed amount by $3,770,597 for a total amount not to exceed $9,956,824. The grant agreement was procured pursuant to Administrative Code Chapter 21B, which allows selection of homeless service providers without competitive solicitations. The Department reports that no informal solicitation process was conducted.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would extend the grant term between ECS and HSH by two years, from June 30, 2024 through June 30, 2026, and would increase the not-to-exceed amount by $6,738,079 for a total amount not to exceed $16,694,903. The proposed resolution would also authorize HSH to enter into immaterial amendments to the contract.

Services Provided

Under the contract, ECS is expected to continue providing housing navigation and stabilization services to at least 600 clients annually, including the following services:

- Preparing a housing plan, including obtaining other support and service linkages to fulfill the housing plan;
- Completing the housing application, including unit viewings;
- Helping households to acquire all required intake documentation, including birth certificates, photo identification, social security cards, and income and homeless verifications (including scheduling and attending appointments to procure documents);
- Scheduling and attending housing interviews;

- Moving into housing; and
- Coordinating regularly, for two rent cycles, with service providers at the client's housing site (and working with a client through meetings, calls, and/or through notes in the City's Homeless Management Information System known as Online Navigation and Entry (ONE) System, and—if capacity allows—visiting the client at least once during that period.

Further, the Department describes three stages of housing navigation for the purpose of quantifying the number of clients served, as described below and shown in Exhibit 1. In each of the three fiscal years, ECS exceeded the 600 clients they were expected to serve (via completion of housing applications), per their grant agreement.

- Stage One "Outreached" refers to the number of housing-eligible clients who received outreach from a navigator, meaning the navigator made at least three attempts to contact the client. This outreach often takes the form of a visit from the navigator to the client's place of shelter, where the navigator engages the client and offers a housing unit.
- Stage Two "Housing Applications" involves the navigator accompanying the client on a site visit, and—if the client accepts—supporting the client in securing proof of income and identity and completing the housing application.
- Stage Three "Move-Ins" refers to a client successfully moving into housing.

Exhibit 1: Episcopal Community Services Exceeded Minimum Requirements for Housing Navigation Services

	Outreached	Housing Applications	Move-Ins	Move-Ins as a % of Housing Applications[2]
FY 2021-22	6,653	616	322	52%
FY 2022-23	8,284	932	854	92%
FY 2023-24[1]	5,235	858	521	61%

Source: HSH

[1]Note: As of April 30, 2024

[2]Note: According to the Department, the rate of move-ins was likely lower in FY 2021-22 because it was the first year of the program. In FY 2022-23, the Shelter-in-Place hotels closed, necessitating the transition of residents, and several large properties were leased up, such as 1064 and 1066 Mission, enabling successful housing placements. The Department believes that the FY 2023-24 rate, which reflects partial data through April 30, 2024, will increase by the end of the fiscal year.

Performance Monitoring

The contract specifies three service objectives and two outcome objectives for ECS, as shown in Exhibit 2. Based on program monitoring assessments provided for FY 2022-23 and FY 2023-24, ECS met all objectives, except for the outcome objective related to 75 percent of participants completing a survey indicating satisfaction with services delivery. In FY 2022-23, 58 percent of clients reported satisfaction with services; in that year, the program monitoring assessment noted that the survey collection rate was not high enough to meet the 75 percent goal. In FY 2023-24, only 10 percent of clients reported satisfaction with services, which the Department attributes to a low survey responses rate due to transitioning to a digital survey. The Department expects a higher reported satisfaction response moving forward.

Exhibit 2: Episcopal Community Services Objectives (Goals and Actuals) For FY 2023-24[1]

Service Objective	Goal	Actual	Achieved (Y/N)
Provides Housing Navigation services to 100 percent of the served population who are high acuity and referred for PSH	100%	100%	Y
Enters data within the ONE System for 100 percent of the served population	100%	100%	Y
Offers a survey to 100 percent of the housing referral status served population	100%	100%	Y
Outcome Objective			
75 percent of participants complete a survey indicating satisfaction with services delivery	75%	10%	N
At least 85 percent of survey completed by the served population resulted in a good to excellent rating for the quality of received services	85%	99%	Y

Source: HSH

[1]Note: As of April 2024

Fiscal and Compliance Monitoring

In June 2023, HSH conducted fiscal and compliance monitoring of ECS for FY 2022-23, and there were no findings.

FISCAL IMPACT

The proposed resolution would increase the not-to-exceed amount by $6,738,079 to $16,694,903. Exhibit 3 below summarizes the expenditures of the proposed amended grant agreement.

Exhibit 3: Episcopal Community Services Expenditures for Housing Navigation and Stabilization Services

Expenditure Category	FY 2021-22 Actual	FY 2022-23 Actual	FY 2023-24 Current[1]	FY 2024-25 Budgeted	FY 2025-26 Budgeted	Total
Salaries & Benefits	$1,783,646	$2,498,409	$2,597,351	$2,481,703	$2,481,703	$11,842,812
Operating Expense	557,460	626,610	527,668	490,982	490,982	2,693,702
Indirect Cost (15%)	345,334	468,753	468,753	445,903	445,903	2,174,646
Other Expenses (Not Subject to Indirect %)	-822,323[2]	-622,433[2]	-	175,184	175,184	-1,094,389
Total Expenditures	$1,864,117	$2,971,339	$3,593,772	$3,593,772	$3,593,772	$15,616,771
Contingency (15% on FY 2024-25 and FY 2025-26)						$1,078,132
Total Not-To-Exceed Amount						**$16,694,903**

Source: Appendix B of the amended agreement

[1]Note: FY 2023-24 amounts reflect the grant budget for FY 2023-24.

[2]Note: Negative amounts denote year-end adjustments to reflect the actual amount spent.

The actual amount spent in FY 2021-22 and FY 2022-23 was significantly less than the amount budgeted. In FY 2021-22, the total expenditure of $1,864,117 represented 69 percent of the total budget of $2,686,441. In FY 2022-23, the total expenditure of $2,971,339 was 83 percent of the total budget of $3,593,771. In the current fiscal year, actual expenditures from July 2023 through March 2024 total $2,362,793. Assuming a similar level of spending for the final quarter of the fiscal year, total annual actual expenditures would be about $3,150,000, or roughly 88 percent of the total budget of $3,593,772. The Department reports that the main driver of underspending in all three fiscal years has been ECS staff vacancies.

The current contract is funded for 25.53 full-time equivalent (FTE) positions in FY 2023-24, and the extension proposes to continue this staffing level. Of this total, 19.0 FTE are for Housing Navigation Specialists; three Housing Navigation Specialists are currently out on medical leave, according to HSH. One Housing Navigation Specialist is expected to return in the next few weeks, and the Department reports that ECS is exploring temporary hires to backfill the other two Housing Navigation Specialists on medical leave. All other positions are currently filled, except for the 0.5 FTE Director of Coordinated Entry which is in active recruitment with an interim hire in place.

Funding Source

This contract extension will be funded exclusively by state Providing Access and Transforming Health (PATH) revenues, a component of the state-federal Medicaid program known as Medi-Cal.

POLICY CONSIDERATION

The Budget and Legislative Analyst's Office May 2024 performance audit *Permanent Supportive Housing Funds Administered by the Department of Homelessness and Supportive Housing* noted that the understaffing of housing navigation services—critical to maintaining the occupancy of PSH units—likely contributed to sustained high vacancy rates among the City's PSH portfolio. HSH notes that high vacancy rates among PSH units pre-dates the use of housing navigation services, and this program was initiated to help reduce PSH vacancies. The performance audit recommends that HSH enhance contract and performance monitoring of the Housing Navigator agreements to reduce PSH vacancy rates and ensure timely placement of eligible clients. We note that although this contract has been in place since July 2021, no performance monitoring occurred until March 2024 (for both FY 2022-23 and FY 2023-24).

According to the HSH data, the PSH vacancy rate declined from 10.1 percent in February 2023 to 7.1 percent in February 2024, which is in line with HSH's goal vacancy rate of 7.0 percent. Although vacancy rates have declined and HSH reports improvements in staffing levels for ECS, enhancements to performance monitoring could ensure these improvements are maintained. In particular, we note that the outcome measures only reflect client satisfaction, and there are no outcome measures reflecting the timely placement of clients. The Board of Supervisors could request that HSH enhance performance measures for the contract to ensure program goals are achieved.

RECOMMENDATIONS

1. Request HSH add performance objectives to the proposed agreement that measure the timely placement of clients into housing.
2. Approved the proposed resolution.

Item 9 **File 24-0265**	**Department:** Homelessness and Supportive Housing (HSH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the second amendment to the grant agreement between HSH and Urban Alchemy for the Cabin Pilot Program located at 33 Gough Street. The proposed amendment would extend the term by nine months, from June 2024 to March 2025, and increase the not to exceed amount by $2,146,990 from $9,428,477 to $11,575,467.

Key Points

- Urban Alchemy operates the Cabin Pilot Program (CPP) located at 33 Gough Street. The CPP is the City's first non-congregate cabin program for adults experiencing homelessness in 70 private, stand-along shelter units. The target population is adults who are harder to serve in traditional congregate shelter settings.
- HSH first entered into a grant agreement with nonprofit Urban Alchemy in December 2021 to operate the CPP. The CPP opened in Spring 2022 and occupancy has since regularly been over 95%, according to HSH staff.
- HSH issued a corrective findings letter to Urban Alchemy for FY 2022-23 that stated the program was out of compliance with the grant's reporting and case management requirements. Urban Alchemy replaced a case manager supervisor and case managers and addressed the compliance issues by November 2023.
- HSH is extending the term by only nine months because that aligns with the current end of the City's property lease at 33 Gough Street. The lease for the site may be extended by one more year through March 2026, however continued operations beyond March 2025 are subject to the property owner's redevelopment timelines and funding availability.

Fiscal Impact

- The budget for the proposed nine-month contract extension from June 2024 to March 2025 is $2,530,417, of which approximately $1.9 million will go to salaries and benefits.
- The proposed contract extension will be funded by Proposition C funds.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of $10 million or more, or (3) requires a modification of more than $500,000 is subject to Board of Supervisors approval.

BACKGROUND

33 Gough Street

The property at 33 Gough Street consists of a 49,000 square foot building and two adjacent parking lots. The site currently houses the Cabin Pilot Program on the two parking lots, which consists of 70 individual cabins, clinic space, a computer lab, a dining hall, and mobile showers and toilets. The property is owned by City College, but 33 Gough, LLC has property control under a long-term lease agreement with City College. In March 2020, the Board of Supervisors approved a resolution authorizing HSH to enter a three-year lease with 33 Gough, LLC for the site to operate a low-barrier shelter program (File 20-0044). In March 2023, the Board of Supervisors approved an amendment to the lease, extending the term by two years through March 2025 with a one-year option to extend (File 23-0067).

Current Grant Agreement with Urban Alchemy

In December 2021, HSH executed a contract with nonprofit Urban Alchemy for a term of 16 months, from December 1, 2021 through March 31, 2023, for a not to exceed amount of $5,022,514. In April 2023, HSH executed the first amendment to the contract, extending the term by 15 months, through June 30, 2024 for a total not to exceed amount of $9,428,477. HSH utilized Administrative Code Chapter 21B, which allows selection of homeless providers without competitive solicitations, to execute a contract with Urban Alchemy as the service provider.

Before contracting with Urban Alchemy, the City intended to use the site at 33 Gough Street for a 200-bed low barrier shelter. However, in Spring 2020, following the Mayor's Office instructions to focus on funding the COVID-19 emergency response, HSH halted the 200-bed shelter plan and made the space available to the COVID Command Center (CCC) for emergency response. The CCC repurposed the site to create a Safe Sleep site on the site's two parking lots. The Safe Sleep site was intended as a temporary emergency intervention. HSH, HSA and DPH issued a joint RFQ for COVID-19 shelter services for emergency response purposes, and the CCC selected Urban Alchemy to operate the Safe Sleep site, which consisted of 44 tents on the parking lots. The CCC later turned the program over to HSH to administer. According to Dylan Schnieder, Manager of Legislative Affairs at HSH, HSH was interested in piloting a non-congregate shelter program to serve clients who are harder to serve in traditional congregate settings and identified private funding to pilot this model at 33 Gough. HSH developed a public private partnership for the cabin program, and it opened in Spring 2022.

Cabin Pilot Program (CPP)

The installation of the 70 cabin units cost $2.3 million, or $32,857 per cabin, and was privately funded by the two nonprofit organizations Tipping Point Community and DignityMoves. HSH paid DPW $67,385 to conduct services related to the cabins including permitting, design code compliance, and monitoring of procurement processes. The CPP is the City's first non-congregate cabin program and serves approximately 70 adults experiencing homelessness in 70 private, stand-alone shelter units in the parking lots. The first cabins opened in March 2022 and all 70 cabins were operational by May 2022.

Each of the parties involved in operating the CPP signed a Memorandum of Understanding (MOU) in September 2021 to delineate responsibilities of the CPP. According to Ms. Schneider, the MOU goes through March 2023, but HSH is working to update the MOU to extend through the end of the City's lease of the property in March 2025 and through the one-year lease extension if exercised. The responsibilities of each party are detailed below:

- Urban Alchemy: Urban Alchemy is a nonprofit organization responsible for day-to-day operations of the CPP. Urban Alchemy provides services, 24/7 staffing, client orientation, and data collection and entry for the CPP.
- HomeFirst Services of Santa Clara County: HomeFirst is a nonprofit organization responsible for the ownership, maintenance, and repair of the cabins. HomeFirst leases the cabins to Urban Alchemy for $1.00.
- Tipping Point Community: Tipping Point is a nonprofit organization responsible for funding and promoting the CPP. Tipping Point contributed $1 million (of the $2.3 million total) to purchase the cabins.
- DignityMoves: DignityMoves is a nonprofit organization responsible for providing project management for the CPP. DignityMoves provided the rest of the funding ($1.3 million of the total $2.3 million) to install the cabin units.
- HSH: HSH manages CPP placements and identifies clients through outreach, Coordinated Entry, hospital discharge, or other initiatives. HSH funds the operations and services of the CPP through its contract with Urban Alchemy.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the second amendment to the grant agreement between HSH and Urban Alchemy for the 33 Gough Cabin Program, extending the term by nine months, from June 2024 to March 31, 2025, and increasing the not to exceed amount by $2,146,990 to $11,575,467. The second amendment also affirms the Planning Department's findings that the program is consistent with the city's General Plan and exempt from CEQA review.

HSH is extending the term by only nine months because that aligns with the current end of the City's property lease at 33 Gough Street through March 2025. The lease for the site may be extended by one more year through March 2026, however continued operations beyond March 2025 are subject to the property owner's redevelopment timelines for the property and funding availability.

Services Provided

Under the contract, Urban Alchemy is responsible for managing and operating the cabin program at 33 Gough Street, San Francisco, CA 94103. The goal of the CPP is to provide a non-congregate shelter option to adults experiencing homelessness in San Francisco through 70 individual room cabin units. Urban Alchemy is responsible for the operations and maintenance of the site, including intake, program orientation, wellness checks, meals, and referrals. Urban Alchemy is responsible for staffing coverage 24 hours a day, seven days a week. Urban Alchemy also conducts data collection and entry and attends HSH trainings.

Program Performance

HSH's performance monitoring report shows that Urban Alchemy met or exceeded five out of seven of its service objectives in FY 2022-23. The two unmet objectives were related to satisfaction surveys Urban Alchemy was supposed to have the guests fill out. According to HSH staff, Urban Alchemy administered the satisfaction surveys after the FY 2022-23 monitoring period and 50% of the clients provided positive ratings for the services rendered, which is less than the 75% objective.

Exhibit 1 details the Cabin Pilot Program objectives.

Exhibit 1: Cabin Pilot Program Objectives (Goals and Actuals) for FY 2022-23

Program Objective	Goal	Actual	Achieved (Y/N)
Grantee provides intake and program orientation to 100% of all new guests in a new stay.	100%	100%	Y
Grantee conducts daily guest count and wellness checks for 100% of guests.	100%	100%	Y
A minimum of 50% of guests onsite during the quarterly satisfaction survey distribution period complete the survey instrument approved by HSH.	50%	unknown	N
90% of guests with referral needs are provided referrals related to benefits, employment, health, and related transportation support if needed.	90%	100%	Y
90% of guests are offered referral for problem-solving and/or assessment via Adult Coordinated Entry within one week of placement.	90%	100%	Y
Grantee routinely exceeds an 84% completion rate for all guest data required in ONE system, or other databases mandated by the City.	84%	100%	Y
A minimum of 75% of guests who complete the quarterly satisfaction survey rate the treatment by staff, connection to services and safety as good or excellent.	75%	50%	N

Source: HSH

The grant does not have a specific occupancy target given that the City controls referrals to the site, not Urban Alchemy. However, according to HSH staff, occupancy of the 70 cabins is regularly over 95% and as of March 2024, was 97%, with 68 of the 70 cabins occupied, serving a total of 71 adults. If occupancy drops below 90% in a given quarter, Urban Alchemy is required to inform HSH.

HSH conducts annual monitoring of Urban Alchemy's management of the 33 Gough Cabins project. In FY 2022-2023, HSH conducted a site visit as well as a review of program policies and procedures, staff development and training, outreach procedures and materials, staffing levels and job descriptions, and monthly and quarterly reports. HSH conducted a site visit on May 15, 2023 and subsequently issued a Corrective Program Monitoring Results Letter for FY 2022-23 to Urban Alchemy in September 2023 that stated the program was out of compliance with the grant's reporting and case management requirements. The letter required implementation of seven recommendations by November 2023. According to HSH staff, Urban Alchemy implemented the recommendations by the deadline. To do so, Urban Alchemy replaced the previous case manager supervisor and case managers. Urban Alchemy hired new case managers, who addressed outstanding compliance issues. The program is currently in compliance with grant requirements, and the FY 2023-24 monitoring is scheduled for Spring 2024.

Financial Condition

HSH reviewed Urban Alchemy's core financial health and governance indicators as part of the FY 2022-23 Citywide Nonprofit Monitoring and Capacity Building Program. The review resulted in eight findings that required corrective action and two recommendations. According to HSH staff, Urban Alchemy responded with a plan to conform with City standards for all eight findings.[1] The FY 2023-24 fiscal monitoring will take place in Spring 2024.

FISCAL IMPACT

The proposed resolution would extend the grant term by nine months, from June 2024 to March 31, 2025, and increase the not to exceed amount of the contract between HSH and Urban Alchemy by $2,146,990 to $11,575,467.

Exhibit 2 below summarizes the FY 2024-25 expenditures of the proposed contract spending and the agreement's not to exceed amount.

Exhibit 2: FY 2024-25 Contract Spending

Expenditures, FY 2024-25 (thru March 2025)	
Salaries & Benefits	1,868,228
Operating Expense	332,135
Indirect Cost (15%)	330,054
Subtotal, FY 2024-25	**2,530,417**
Actual Spending, FY 2021-22 (starting 12/2021)	1,335,074
Actual Spending, FY 2022-23	3,096,801
Budgeted Spending, FY 2023-24	3,847,790
Subtotal, Actual and Budgeted Spending	**10,810,082**
Contingency (12%) *	765,385
Not To Exceed Amount	**11,575,467**

Source: HSH

Note: Contingency is calculated on FY 2023-24 & FY 2024-25.

[1] The Corrective Actions were related to payroll tax submissions, employee timesheets, board oversight, and public access to board meetings. The two recommendations HSH provided UA were the following: 1) that Urban Alchemy hold 60 days of operating cash on hand (UA had 22 days of operating cash); and 2) that Urban Alchemy include annual cash flow projections in their agency-wide budget.

Funding Source

This contract extension will be funded with Homelessness Gross Receipts (Proposition C) Funds.

RECOMMENDATION

Approve the proposed resolution.

Item 10 **File 24-0201**	**Department:** Homelessness and Supportive Housing (HSH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the First Amendment to the grant agreement between the Department of Homelessness and Supportive Housing (HSH) and Urban Alchemy for shelter services and operations at 711 Post Street, extending the term by two years through June 2026 and increasing the not-to-exceed amount by $11,668,280, for a total not to exceed $30,405,100, and authorize HSH to enter into further immaterial amendments to the agreement.

Key Points

- In February 2022, the Board of Supervisors approved a grant agreement with Urban Alchemy to operate a semi-congregate shelter at 711 Post Street. Due to the ongoing need for shelter services and demand for the 711 Post Street location, HSH and Urban Alchemy have agreed to extend the grant for two years.
- Under the grant agreement, Urban Alchemy provides shelter operations and support services at 711 Post Street. The building has 123 units and serves up to 250 clients. Urban Alchemy leases the property, and HSH provides rent reimbursement through the grant. Operations services include facility maintenance, vendor services, reservations, accommodations, storage, entry and exit, and laundry. Support services include intake, orientation, assessment, referrals and coordination of services, document readiness, and support groups, social events, and organized activities. Services are provided 24 hours a day, seven days a week. Urban Alchemy has implemented recommendations from HSH performance and fiscal monitoring.

Fiscal Impact

- The proposed First Amendment would increase the not-to-exceed amount of the grant agreement by $11,668,280, for a total not to exceed $30,405,100. This amount includes a 12 percent contingency of projected expenditures in FY 2023-24, FY 2024-25, and FY 2025-26. The grant is funded by State Homeless Housing, Assistance and Prevention (HHAP) funding.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of $10 million or more, or (3) requires a modification of more than $500,000 is subject to Board of Supervisors approval.

BACKGROUND

In 2021, the Department of Homelessness and Supportive Housing (HSH) selected Urban Alchemy to operate a semi-congregate shelter[1] at the Ansonia Hotel at 711 Post Street. The selection was made under Chapter 21B of the Administrative Code, which allows HSH to enter into and amend contracts for homeless services without competitive bidding until March 2029 or until the homeless Point in Time (PIT) count is below certain thresholds (Files 19-0047, 23-1129). In February 2022, the Board of Supervisors approved a new grant agreement with Urban Alchemy for a term of two years and five months, from February 2022 through June 2024, and an amount not to exceed $18,736,820 (File 21-1306). Due to the ongoing need for shelter services and demand for the 711 Post Street location, HSH and Urban Alchemy have agreed to extend the grant for two years.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the First Amendment to HSH's grant agreement with Urban Alchemy for shelter services and operations at 711 Post Street, extending the grant term by two years through June 2026 and increasing the not-to-exceed amount by $11,668,280, for a total not to exceed $30,405,100. The proposed resolution would also authorize HSH to enter into further immaterial amendments to the grant agreement.

Services Provided

Under the grant agreement, Urban Alchemy provides shelter operations and support services at 711 Post Street. The building has 123 units and serves up to 250 clients.[2] Urban Alchemy leases the property, and HSH provides rent reimbursement through the grant. Operations services include facility maintenance, vendor services, reservations, accommodations, storage, entry and exit, and laundry. Support services include intake, orientation, assessment, referrals and coordination of services, document readiness, and support groups, social events, and organized activities. Services are provided 24 hours a day, seven days a week.

The grant funds approximately 56.18 full-time equivalent (FTE) positions.

[1] Semi-congregate shelters differ from congregate and non-congregate shelters in that they have a small number of beds in each unit, rather than large congregate dorms or individual units.

[2] In our 2022 report on this grant, we noted HSH was considering funding this site to accommodate 318 clients, however that is no longer the Department's plan.

Performance and Fiscal Monitoring

FY 2022-23 performance monitoring by HSH found that Urban Alchemy met its "contracted units of service," which refers to site capacity, and performance objectives, which pertain to unit turnover, service referrals, and reporting to HSH.

The performance monitoring report noted UA staff were highly engaged and identified service gaps for shelter clients, such as additional mobile case management, housing access, and drug treatment. The report also noted rodent infestation and required that Urban Alchemy add supervisor review to case files, increase pest control activities, and ensure perimeter monitoring. An HSH site visit in October 2023 found that those actions had been implemented and FY 2022-23 program monitoring was closed.

Unlike HSH's housing grants and other parts of the City's shelter system, a portion of HSH shelter grants do not have occupancy targets for sites where the City manages or administers the shelter referrals centrally, such as through Healthy Streets Operations Command placements. HSH reports that the shelter is typically at 95 percent capacity or higher each night. The agreement requires the grantee to inform HSH if capacity falls below 90 percent in a given quarter.

HSH reviewed Urban Alchemy's financial documents as part of the FY 2022-23 Citywide Fiscal and Compliance Monitoring program and had eight findings and two best practice recommendations. HSH determined that Urban Alchemy had planned or taken actions to address each finding and was in conformance with City standards.

FISCAL IMPACT

The proposed First Amendment would increase the not-to-exceed amount of the grant agreement by $11,668,280, for a total not to exceed $30,405,100. Actual and projected grant expenditures by year are shown in Exhibit 1 below.

Exhibit 1: Actual and Projected Expenditures by Year

Year	Expenditures
Year 1 (FY 2021-22, Actual, 3 Months)	$0
Year 2 (FY 2022-23, Actual)	5,928,777
Year 3 (FY 2023-24, Projected)	7,284,620
Year 4 (FY 2024-25, Projected)	7,284,620
Year 5 (FY 2025-26, Projected)	7,284,620
Subtotal	*$27,782,637*
Contingency (12% of Projected Expenditures)	2,622,463
Total Not-to-Exceed	**$30,405,100**

Source: Proposed Grant Amendment

There were no expenditures reported in grant Year 1 because the shelter at 711 Post Street did not open until July 2022. According to HSH, the site was expected to open in March 2022 but was delayed due to the installation of a chair lift, which was done to increase accessibility.

The breakdown of annual grant expenditures is shown in Exhibit 2 below.

Exhibit 2: Breakdown of Annual Grant Expenditures

Expenditures	Amount
Salaries & Benefits	$4,051,048
Operating Expenses[3]	446,475
Subtotal	*$4,497,523*
Indirect Cost (15%)[4]	674,546
Other Expenses (Rent and Laundry Costs)	2,112,551
Total Expenditures	**$7,284,620**

Source: Proposed Grant Amendment

The grant is currently funded by State Homeless Housing, Assistance and Prevention (HHAP) Round 3 funding and will be sustained with HHAP Round 4 funding in future years.[5] Approximately $68,758 of Proposition C funding was used for start-up costs in FY 2022-23.

RECOMMENDATION

Approve the proposed resolution.

[3] Operating Expenses include utilities, office supplies, building maintenance supplies and repair, printing and reproduction, insurance, training, client supplies, cable and internet, uniforms, and a portion of laundry services.
[4] Indirect costs include overhead costs such as human resources, payroll, executive salaries, information technology staff, and office supplies.
[5] HHAP Round 3 is a $1 billion State grant that provides local jurisdictions with flexible funding for homeless services.