

<p><b>Item 3</b> <b>File 23-0871</b></p>	<p><b>Department:</b> Homelessness and Supportive Housing</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>The proposed resolution authorizes the second amendment to the grant agreement between the Tenderloin Housing Clinic, Inc. and the Department of Homelessness and Supportive Housing (HSH) to continue providing permanent supportive housing at 16 master-leased hotels. The proposed amendment extends the current grant agreement term by 24 months through June 30, 2026 and increases the not-to-exceed amount by \$108,753,662 for a total not-to-exceed amount of \$241,657,513.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>Tenderloin Housing Clinic provides property management, support services, and lease services for 16 supportive housing properties, totaling 1,529 units. Tenderloin Housing Clinic enters into private leases with the landlord. Building operations and services are funded by this grant agreement and by tenant rents, which are capped at 30 percent of tenant income.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>The annual budget in FY 2023-24 is increasing by 29 percent from \$35.8 million to \$46.3 million due to: (a) increases in wages for case managers, support services positions, and property management staff, (b) increases in staffing to reduce case management ratios and improve tenant outcomes, and (c) \$1.0 million in one-time capital improvements.</li> <li>Funding sources for contract expenditures include: the General Fund, the HSH Fund (formerly the Care Not Cash Program), and Proposition C Homelessness Gross Receipts Tax. Total program expenditures also account for tenant rental income.</li> <li>The current contract’s not to exceed amount of \$132,903,851 has been fully spent with ten months remaining under the existing term.</li> </ul> <p style="text-align: center;"><b>Policy Consideration</b></p> <ul style="list-style-type: none"> <li>By the time the current agreement expires in 2024, 10 years will have passed since a competitive solicitation, and the proposed amendment extends the agreement by an additional two years. The Department was planning to re-procure its entire housing portfolio by June 2024, however that process has been delayed by two years due to contract staff vacancies at HSH and because the Department has prioritized expansion of its housing portfolio. HSH reports it is planning to re-procure its entire housing portfolio before this proposed extension ends in 2026, though the process for selecting new master lease providers is complicated by the fact the buildings are privately owned and leased to Tenderloin Housing Clinic.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>Approve the proposed resolution.</li> </ul>	

**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**

**Procurement**

In 2015, Tenderloin Housing Clinic, a nonprofit organization, was selected by the Human Services Agency to provide permanent supportive housing services at master leased hotels through a Notice of Funding Availability process. In July 2020, the Department of Homelessness and Supportive Housing (HSH) entered into a new grant agreement with Tenderloin Housing Clinic to provide property management and supportive services to 16 master-leased hotels that provide permanent supportive housing for formerly homeless adults. Tenderloin Housing Clinic was selected for this agreement under Administrative Code Chapter 21B, which allows HSH to enter into service contracts without a competitive process to more quickly respond to the homelessness crisis. This code section sunsets in March 2024 or if the Point-in-Time Count falls below 5,250.

**Current Term**

The initial grant agreement was for a term of three years and eight months from July 1, 2020 through February 29, 2024 for a total not to exceed amount of \$89,400,486 (File 20-0705). In June 2022, the agreement was amended to extend the grant term by four months through June 30, 2024 and increase the grant agreement to \$132,903,851 (File 22-0453). The increase in costs was primarily driven by increasing property rental costs, salary and benefit costs, and reductions in tenants rents due to implementation of City policy to limit tenant rent to 30 percent of tenant income (File 20-1185).

**DETAILS OF PROPOSED LEGISLATION**

According to the proposed legislation, the resolution authorizes the second amendment to the grant agreement between the Tenderloin Housing Clinic, Inc. and the Department of Homelessness and Supportive Housing (HSH) to continue providing permanent supportive housing, including supportive services and property management services at 16 master-leased hotels. The proposed second amendment extends the current grant agreement term by 24 months, from June 30, 2024 through June 30, 2026, for a total term of July 1, 2020 through June 30, 2026 and increases the not-to-exceed amount by \$108,753,662 for a total not-to-exceed amount of \$241,657,513. The additional funding for the agreement will be used for (1) a \$9.5 million increase to the FY 2023-24 operating budget; (2) one-time \$1 million for capital improvements in FY 2023-24; and (3) funding the two additional years of services in FY 2024-25 and FY 2025-26.

**Services**

The second amendment maintains the current services provided by Tenderloin Housing Clinic. These include:

- **supportive services** that include but are not limited to outreach to tenants about services, intake and assessment, case management, housing stability support to help tenants maintain secure housing, and wellness and emergency safety checks; and
- **property management and lease services**, which includes selecting program applicants in accordance with applicable laws and HSH policies, executing leases, re-certifying income on an annual basis, collecting rent, enforcing leases, paying for building services (e.g., utilities), and building maintenance.

Tenderloin Housing Clinic is responsible for managing the master lease with the property's owner, which includes coordination with the property owners on regular maintenance, capital needs, changes to the sublease, and other changes to the master lease.

Tenderloin Housing Clinic provides property management and supportive services across 16 sites and 1,529 units which are listed in Exhibit 1 below. These units serve formerly homeless and income eligible adults who are 18 or older without dependents under the age of 18.

**Exhibit 1: Tenderloin Housing Clinic Master Leased Hotel Sites**

<b>Housing Site</b>	<b>Funding Category</b>	<b>Street Address</b>	<b>Zip code</b>	<b>Number of Units<sup>1</sup></b>
All Star <sup>+</sup>	HSH Fund	2791 16th St.	94103	83
Boyd <sup>*,+</sup>	HSH Fund	41 Jones St.	94102	79
Caldrake	HSH Fund	1541 California St.	94109	48
Edgeworth	General Fund	770 O'Farrell St.	94109	42
Elk <sup>*</sup>	HSH Fund	670 Eddy St.	94109	86
Graystone <sup>+</sup>	HSH Fund	66 Geary St.	94108	71
Hartland <sup>*</sup>	General Fund	909 Geary St.	94109	134
Jefferson <sup>*,+</sup>	General Fund	440 Eddy St.	94109	107
Mayfair	General Fund	626 Polk St.	94102	53
Mission <sup>*,+</sup>	General Fund	520 S. Van Ness Ave.	94110	238
Pierre <sup>+</sup>	HSH Fund	540 Jones St.	94102	84
Raman <sup>*</sup>	General Fund	1011 Howard St.	94103	82
Royan	HSH Fund	405 Valencia St.	94103	67
Seneca <sup>*</sup>	General Fund	34 6th St.	94103	198
Union <sup>+</sup>	HSH Fund	811 Geary Blvd.	94109	59
Vincent <sup>*,+</sup>	General Fund	459 Turk St.	94102	98
<b>Total Units</b>				<b>1,529</b>

Source: Proposed Amendment Appendix A

\*Indicates that the site had an on-site program monitoring visit from HSH in 2022 as part of their FY 2020-21 and FY 2021-22 program monitoring visits.

<sup>+</sup>Indicates that the site had an on-site program monitoring visit from HSH in 2023 as part of their FY2022-23 program monitoring visits.

Of the 1,529 units funded through this agreement, 577 units (38 percent) are funded through the "HSH Fund," which was previously referred to as the Care Not Cash program<sup>2</sup> and funds housing for low-income individuals who receive support through the County Adult Assistance Program (CAAP). The remaining 952 units (62 percent) are funded through the General fund and provide housing for CAAP recipients as well as tenants who are not eligible for CAAP. Tenants in all units pay 30 percent of their income as rent, which is used to partially fund the cost of building operations and supportive services. The 1,529 units funded under the proposed second amendment is a decrease of 37 units from 1,566 units funded in the original agreement. According to HSH staff, 37 units were excluded from the latest count because they are not used as dwelling units, including a portion that were converted to offices between 2022 and 2023 to accommodate additional case managers. These additional case management positions were

<sup>1</sup> This is the number of units as of July 1, 2023.

<sup>2</sup> The Care Not Cash program was approved by San Francisco voters in 2002 and transfers some of the City's General Fund cash assistance to unhoused individuals into supportive housing. Care Not Cash specifically funds housing for individuals receiving support through the County Adult Assistance Program (CAAP), for which only low-income adults are eligible.

added to the agreement in FY 2022-23 to bring the case management ratio down to one case manager per 25 tenants to meet HSH service requirements.

### **System of Care**

According to HSH's Housing Inventory Dashboard, the Department has 13,237 units of permanent supportive housing.<sup>3</sup> Of these units, 9,109 units are site-based permanent supportive housing, which includes the 1,529 units in these 16 buildings. During the 2022 Point-in-Time count, San Francisco counted 4,397 residents who were unsheltered, a 15 percent decrease from 5,180 residents in 2019.

### **Program Monitoring**

HSH's FY 2022-23 Program Monitoring for Tenderloin Clinic's Master Lease Hotels is in process, and Tenderloin Housing Clinic had until the end of August 2023 to respond to FY 2022-23 findings. The Department conducted onsite monitoring at eight of the 16 master leased hotel sites between July 6 and July 28, 2023, and visited the Graystone Hotel, Mission Hotel, All Star Hotel, Jefferson Hotel, Boyd Hotel, Vincent Hotel, Pierre Hotel, and Union Hotel.<sup>4</sup> The Program Monitoring report indicates that each site had either a client file and/or property management related findings. Common findings included not having proper documentation or demonstrated review of client files; and personal items and/or trash in hallways or common areas and bathrooms that are cleaned infrequently due to lack of janitorial staff on-site. According to the report, "THC has expressed difficulty with retaining janitorial and maintenance staff on a consistent basis for the Master Lease sites. Janitorial and maintenance staff retention rates directly impacts some of the recommendations and findings." As noted in the Fiscal Impact section below, the proposed second amendment provides increases to property management staff wages to support hiring and retaining janitorial and maintenance staff.

The report found that Tenderloin Housing Clinic was also meeting all but one service and outcome objectives that HSH staff reviewed.<sup>5</sup> The annual tenant survey found that 89 percent of tenants who completed the survey rated their satisfaction as 3 (satisfied) or 4 (very satisfied) with program services. However, the percentage of tenants who completed the survey was not included in the program monitoring report; HSH staff reported to our office that 70 percent of tenants completed the satisfaction survey in FY 2022-23. The contract requires that 75 percent

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<sup>3</sup> HSH Housing Inventory Dashboard: <https://hsh.sfgov.org/services/the-homelessness-response-system/housing/>

<sup>4</sup> According to HSH staff, the Department's program monitoring procedure for contracts that fund multiple housing sites is to visit 50% of them per year. Of the eight sites visited for the FY 2020-21- FY 2021-22 monitoring, the four with the most significant findings were re-visited during the FY 2022-23 monitoring process along with four new sites.

<sup>5</sup> Under the proposed 2<sup>nd</sup> amendment to this grant agreement, Outcome Objective #4 has modified and reduces the target occupancy rate from 97 to 93 percent to align with the standard HSH now applies to all supportive housing providers.

of tenants complete the annual tenant survey, and the proposed amendment would lower the objective to 65 percent.

### *Occupancy*

The agreement in effect during the FY 2020-21 – FY 2021-22 program monitoring cycle contained outcome objectives related to unit occupancy. These objectives were not included in the FY 2020-21 – FY 2021-22 program monitoring report, due to an administrative error, but were provided to HSH in monthly reporting for 2021 and 2022. Exhibit 2 summarizes the occupancy requirements and available data:

### **Exhibit 2: Occupancy Performance**

<b>Occupancy Objective</b>	<b>FY 2020-21</b>	<b>FY 2021-22</b>	<b>FY 2022-23</b>
90% of tenants remain housed for at least 12 months	1,365/1,401 (97%)	1,290/1,340 (96%)	1,578/1,640 (96%)
At least 75% of households with lease violations remain housed	440/495 (89%)	553/617 (90%)	430/464 (93%)
Turnover units within 7 days	HSH reviews monthly data	HSH reviews monthly data	Increased to 21 days in Modification 1.  HSH reviews monthly data
Report vacancies to HSH "in a timely fashion" [timeframe not specified]	HSH reports THC met this objective	HSH reports THC met this objective	HSH reports THC met this objective
Maintain 97% occupancy rate*	Average Occupancy Rate (June 2021) 90%	Average Occupancy Rate (June 2022) 89%	Average Occupancy Rate (June 2023) 94%  Objective lowered to 93% in proposed Modification 2 to align with standard set by HSH.

Source: HSH

\*THC provides monthly occupancy reports to HSH. The averages above for 2021 and 2022 are taken from June Monthly Reports.

THC submits monthly occupancy reports in CARBON; these reports reflect some of the buildings covered in this agreement exceeding the occupancy goal, and others below the goal for periods of time. These reports, which are reviewed regularly by HSH and THC also include information on time for the turnover of units. According to HSH, occupancy rate and unit turnover is dynamic as tenants enter/exit the program, and as such is monitored on an ongoing basis and reviewed regularly by both HSH and THC. The proposed second modification to HSH's grant agreement

with THC reduces the target occupancy rate from 97 percent to 93 percent, which is the standard HSH now applies to all supportive housing providers.<sup>6</sup> As of August 29, 2023, the vacancy rate was 5.7%.

HSH staff reported that THC reported vacancies in a “timely fashion” – a period not specified in the grant agreement – and that certain units were not turned over within the required timeframes but did not provide data on the frequency and duration of unit turnovers that exceed the contract standard. According to HSH, data on occupancy, vacancies, and the turnover of units is reviewed during biweekly meetings and regular operations meetings between HSH and THC. In FY2022-23, THC exceeded the contract objectives of keeping at least 90% of tenants housed for at least 12 months, 85 percent of tenant lease violations were resolved without loss of housing, and at least 75% of all households that showed housing instability remained in housing.

### **Fiscal and Compliance Monitoring**

HSH conducted the FY 2022-23 Citywide Nonprofit Fiscal and Compliance Monitoring for Tenderloin Housing Clinic in April 2023. The monitoring letter indicates that there were no findings identified during the fiscal and compliance monitoring.

### **FISCAL IMPACT**

As shown below in Exhibit 3 below, the total annual cost of the services in the extension period is approximately \$45.2 million (FY 2024-25 and FY 2025-26), and in the current year of the agreement (FY 2023-24), there is an additional \$1.1 million for capital expenditures and other expenses. Of the total proposed FY 2023-24 HSH Revenues, the General Fund supports \$26.8 million of those costs, the HSH Fund (formerly the Care Not Cash Program) supports \$9.8 million in costs, and Proposition C Homelessness Gross Receipts Tax revenues support \$4.4 million in costs. Total program expenditures also account for an estimated \$5.2 million in tenant rental income.

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<sup>6</sup> According to HSH staff, in June 2023, the Department rolled out the new unit-level inventory data structure in HSH’s main database, the Online Navigation and Entry (ONE System), that will support review of real-time vacancy data.

**Exhibit 3: Annual Program Budget**

<b>Sources</b>	<b>Year 4 (FY 2023-24) Current</b>	<b>Year 4 (FY 2023-24) Proposed</b>	<b>Difference Current vs. Proposed Yr. 4</b>	<b>Years 5 &amp; 6 (FY 2024-26) Extension</b>	<b>Difference Yrs. 5 &amp; 6 vs. Yr. 4 Proposed</b>
<i>HSH Funding</i>					
General Fund	\$17,631,679	\$26,801,799	\$9,170,120	\$25,353,412	(\$1,448,387)
HSH Fund	8,696,558	9,836,613	1,140,055	10,224,960	388,347
Prop C	4,226,566	4,353,363	126,797	4,353,363	0
Housing & Homelessness Incentive Program (State)	0	68,100	68,100	0	(68,100)
<b>Subtotal HSH Funding</b>	<b>\$30,554,803</b>	<b>\$41,059,875</b>	<b>\$10,505,072</b>	<b>\$39,931,735</b>	<b>(\$1,128,140)</b>
<i>Other Funding</i>					
Tenant Rental Income	\$5,207,252	\$5,235,584	\$28,332	\$5,235,584	\$0
<b>Total Funding</b>	<b>\$35,762,055</b>	<b>\$46,295,459</b>	<b>\$10,533,404</b>	<b>\$45,167,319</b>	<b>(\$1,128,140)</b>
<b>Expenditures</b>					
Salaries & Benefits	\$14,282,661	20,958,071	6,675,410	20,958,071	\$0
Operating Expenses	6,741,600	8,516,780	1,775,180	8,516,780	0
Indirect Cost (11.5%)	2,417,790	3,389,608	971,818	3,389,608	0
Other Expenses	12,320,003	12,384,883	64,880	12,288,610	(96,273)
Capital Expenditures		1,046,117	1,046,117	14,250	(1,031,867)
<b>Total Expenditures</b>	<b>\$35,762,054</b>	<b>\$46,295,459</b>	<b>\$10,533,405</b>	<b>\$45,167,319</b>	<b>(\$1,128,140)</b>

Source: Proposed Amendment Appendix B and Executed First Amendment Appendix B

Note: Operating Expenses include utilities, office supplies, building maintenance. Other Expenses include rental of property, client subsidies, one-time transfers and adjustments, as well as funding for bonus pay (supported by Proposition C) and funding to the operating reserves.

**Changes to Program Budget**

Compared to the program budget under the first amendment, the annual budget in FY 2023-24 is increasing from approximately \$35.8 million to \$46.3 million, a 29 percent increase, with the largest increase in salaries and benefits (\$6.7 million, 47 percent). The \$10.5 million of additional spending in FY 2023-24 is almost entirely funded by the General Fund.

The increase in salaries and benefits is partially driven by a 12 percent increase in staffing (from 216.31 FTE to 242.35 FTE) due to an increase in support services staff (39.17 FTE to 68.86 FTE—a 76 percent increase). These are primarily case manager, clinical case manager, and support services manager positions. In addition, salaries have also increased between the first amendment budget and the proposed second amendment. The increase was part of a budget modification to increase wages for case managers, support services positions, property management staff, and address associated wage compaction. The increase in salaries and benefit costs are sustained in the extension years (FY 2024-25 and FY 2025-26). These investments and policy decisions—to increase wage equity across HSH housing providers and lower case management ratios for improved tenant outcomes—were adopted by the Board of Supervisors starting in the FY 2022-24 budget cycle. HSH does not yet have enough data to evaluate the



impact of these increases across its portfolio, but providers report improved retention and recruitment of permanent supportive housing property management staff according to HSH staff.

Operating expenses are also increasing by \$1.8 million (26 percent) in FY 2023-24 driven by increases in costs related to utilities, building maintenance supplies and repair, and temporary staff for desk clerks and janitors who cover vacancies on an as-needed basis.

The FY 2023-24 budget has increased capital expenditure costs (\$1.0 million), which will fund one-time bathroom and kitchen upgrades, elevator repairs, improving accessibility, and security system upgrades. This additional funding is not budgeted in the two extension years of the contract.

### **Not to Exceed Amount**

Exhibit 4 shows the proposed resolution's not to exceed amount, which includes actual spending on the contract for Years 1 and 2 and projected spending for Years 3 through 6; this also includes a 20 percent contingency on funding for FY 2023-24 and the extension period. According to HSH staff, the contingency will allow the contract to cover future service or wage enhancements as well as unexpected capital needs and building repairs. The not to exceed amount is based on the annual program budget and the portion of funds that are covered by HSH (HSH Funding in Exhibit 2), tenant income is not included in the not to exceed amount.

### **Exhibit 4: Grant Not to Exceed Amount**

<b>Year</b>	<b>Spending (Actual and Projected)</b>
Year 1 (FY 2020-21)	\$26,746,533
Year 2 (FY 2021-22)	29,871,231
Year 3 (FY 2022-23)	39,931,735
Year 4 (FY 2023-24)	41,059,875
Year 5 (FY 2024-25)	39,931,735
Year 6 (FY 2025-26)	39,931,735
Subtotal, Projected	\$217,472,844
Contingency (20%)	\$24,184,669
<b>Not to Exceed Amount</b>	<b>\$241,657,513</b>

Source: Appendix B of the Proposed Amendment

### **Actual Spending**

HSH reports that the current contract's not to exceed amount of \$132,903,851 has been fully spent with ten months remaining under the existing term. The contract's existing 15 percent contingency was spent on increasing wages and maintenance.

**POLICY CONSIDERATION****Contract Extension Beyond Sole Source Authority Expiration**

As we noted in our May 2022 report on the current agreement (File 22-0453), Tenderloin Housing Clinic was initially chosen to provide these services under a 2015 solicitation issued by the Human Services Agency. THC was selected by HSH to continue providing these services under Chapter 21B of the Administrative Code, which allowed HSH to award service contracts without a competitive process due to the homelessness crisis. This agreement terminates on June 30, 2024 and the proposed amendment would extend the agreement through June 2026, however Chapter 21B of the Administrative Code sunsets in March 2024. Chapter 21B of the Administrative Code does not prohibit agreements entered into under its authority to extend beyond the end of the emergency authorities. HSH staff reported in May 2022 that the Department was planning to re-procure its entire housing portfolio by June 2024, however that process has been delayed by two years due to contract staff vacancies at HSH and because the Department has prioritized expansion of its housing portfolio. HSH currently reports that it intends to re-procure their permanent supportive housing portfolio before this proposed extension ends in 2026. They anticipate a new agreement will be in place by FY 2025-26.

We note that the competitive process for selecting new master lease providers is complicated by the fact the buildings are privately owned and leased (in this case to Tenderloin Housing Clinic), which is then funded by the City. If THC is not selected to provide housing services in a new procurement cycle, the City would likely have to arrange for current residents to be moved to other City funded housing or for the lease to be transferred to a new provider.

**RECOMMENDATION**

Approve the proposed resolution.