



BAKER PLACES

BOARD OF DIRECTORS

Brian Schneider
President

Chuan Teng
Chief Executive Officer

March 15, 2024

San Francisco Board of Supervisors
1 Dr. Carlton B. Goodlett Place
City Hall, Room 244
San Francisco, CA 94102-4689

Re: Baker Places, Inc. - Debt Repayment Agreement and Purchase and Sale Agreement

EXECUTIVE SUMMARY

Baker Places, Inc. ("Baker") is stronger and more effective than ever before. The organization remains accountable and seeks to fully repay its debt to the City.

Baker requests Board of Supervisor approval of 1) a Repayment Agreement; and 2) a Purchase and Sale Agreement between Baker and the City that would allow the City to fully recover \$7.67 million in debt ("Debt") from Baker.

The Repayment Agreement will allow the City to fully recover the Debt through 1) a \$3 million credit for the sale of 333 7th Street from Baker to the City and 2) repayment of the remaining \$4.67 million at 1.12% interest over 23 years.

Baker's new leadership team including a new Chief Executive Officer, Chief Operations Officer, and Chief Financial Officer with the Department of Public Health ("DPH") has stabilized Baker's financial condition and set the organization on a path toward long-term sustainability through the following steps:

- Adjusted City contracts where expenses exceeded contract values
- Completed program restructuring and cut costs
- Filled staffing vacancies in critical finance roles
- Established an operating reserve to avoid need for contract advances
- Worked with Controller's Office and DPH to develop a financial sustainability plan including a sustainable Debt repayment proposal

EIN: 94-1694551

Approval of the proposed agreements will allow Baker to fully repay its Debt and the City to maintain over 200 beds for essential behavioral health and substance use disorder treatment without disruption.

ORGANIZATION & SERVICES

Baker is a non-profit corporation providing mental health and substance use disorder treatment and housing for San Franciscans. Using a social rehabilitation model, Baker helps people learn and regain skills to live fully and productively in the community.

Since its incorporation in 1969, Baker has provided residential mental health and substance use disorder treatment programs through a partnership with the City. Services include Hummingbird psychiatric respites, 60-day crisis stabilization, 90-day residential treatment, and long-term co-op housing programs with case management. Baker currently operates over 200 residential treatment beds across more than 30 facilities in San Francisco.

In 2017, Baker was acquired by PRC, a San Francisco non-profit providing legal advocacy, emergency financial assistance, and workforce development services to people with HIV, mental illness, and substance use disorder. Baker maintains its separate legal entity, but it is managed by PRC.

Together, Baker and PRC employ 230 staff and serve over 5,000 San Franciscans annually. Clients served are 55% HIV+, 56% LGBTQ+, 51% age 50+, 24% Black/African American, 57% unsheltered or marginally housed, and 100% low-income.

FINANCIAL BACKGROUND

Baker's primary funder is the City, with over 90% of its \$18 million budget funded by DPH and the Mayor's Office of Housing and Community Development. The remainder of Baker's revenues are from federal contracts, program fees, and rent. Contract revenues are generated through monthly invoicing on a fee-for-service or cost reimbursement basis.

DPH currently holds four (4) active contracts with Baker for residential treatment and outpatient services:

Program	Contract Funding		
	FY 2021-222	FY 2022-23	FY 2023-24
Hummingbird Potrero	3,261,247	3,698,436	3,848,281
Hummingbird Valencia	2,515,316	2,855,017	2,990,630
Ferguson Place	1,600,674	2,212,046	2,010,013
Baker Regular (Residential & Housing)	12,839,463	12,971,463	9,173,338
Total	\$ 20,216,700	\$ 21,736,962	\$ 18,022,262

Historical Deficits and Sale of Assets

From 2005 through 2022, Baker posted losses in 14 out of 18 years with average year losses of (\$482,000). Review of the last five years shows losses of: (\$690,853) in 2022, a loss of (\$760,545) in 2021, and loss of (\$1,869,605) in 2017. In 2005, 2008, and 2015, Baker sold a combined \$4 million in assets to mitigate losses in those years, supplementing the cost of providing services to the community.

City Debt

Baker's accumulated City Debt as of April 1, 2024 is \$7.67 million. The Debt resulted from advances that Baker received on FY 2021-22 and 2022-23 contracts as well as disallowances from a compliance audit in FY 2015-16.

FY2021-22 Unrecovered Initial Payment	\$ 1,904,987
FY2022-23 Unrecovered Initial Payment	\$ 4,641,376
FY15-16 Baker Places Compliance Audit	\$ 1,304,352
Baker Debt Before Sale + Existing Repayments	\$ 7,850,715
Proposed Sale of 333 7th St.	\$ (3,000,000)
Repayments July 2023 through March 2024	\$ (180,900)
Baker Debt as of April 1, 2024	\$ 4,669,814

Repayment Agreement

The Debt Repayment Agreement presented before the Board of Supervisors will allow the City to recover the Debt through 1) a \$3 million credit for the sale of 333 7th Street from Baker to the City and 2) repayment of the remaining \$4.67 million at 1.12% interest over 23 years. Starting July 2023, Baker began making regular monthly debt payments to the City.

The property at 333 7th Street was previously operated by Baker as a 16-bed residential mental health and substance use disorder treatment program (Jo Ruffin Place). Services were suspended in January 2021 due to a critical staffing shortage resulting from COVID 19.

Fiscal Monitoring, Audits, and Improvement

Fiscal audits for Baker and PRC from 2020 found material weakness with regard to timely and accurate close of accounting period and maintaining proper payroll documentation and segregation of duties. Significant deficiencies were found with regard to allocating payroll expenses to contracts, maintaining proper payroll documentation and time studies, and cash management.

Fiscal audits from 2021 showed improvement with no material weaknesses. Significant deficiencies were identified with regard to maintaining payroll documentation, segregation of duties, conducting time studies, and cash management. Prior findings with regard to timely and accurate close of accounting period and allocating payroll expenses to contract were resolved.

Fiscal audits from 2022 again identified improvement from the two prior years. Significant deficiencies continued to be found with respect to maintaining payroll documentation, segregation of duties, and conducting time studies, however, they had been partially resolved from the prior year.

In December 2022, Baker and PRC were placed on Red Flag status by the City's Controller's Office. The Red Flag status was removed in December 2023, due to improved financial condition. The organizations are currently designated as elevated concern.

In December 2022, Baker and PRC were placed on a DPH Corrective Action Plan (“CAP”). The CAP was closed on March 14, 2024 as a result of progress towards addressing identified deficiency areas.

Critical Cash Shortfalls

In October 2021, Baker alerted the City that it faced critical cash shortfalls, exhausted all of its resources, and needed a significant and immediate inflow of cash or be forced to reduce, suspend, or ultimately close programs. Baker further communicated that its business model was unsustainable, as actual costs exceeded contract values.

In response, the City prioritized a number of actions to preserve continuity of care for existing Baker clients and maintain mental health treatment and housing. These actions included:

- Granted additional funding for Joe Healy Detox program to address immediate shortfall
- Approved temporary conversion from fee-for-service to cost reimbursement invoicing
- Expedited payments for invoiced services
- Delayed recovery of initial payments
- Actively worked with Baker to develop a financially sustainable service model with support from the Controller’s Office.

Financial Analysis

In October 2021, the City acting through the Controller’s Office, paid for financial consultant Community Vision to conduct a financial analysis of Baker, including a program-by-program analysis of contract values compared to the actual cost. The analysis, completed in May 2022, identified an ongoing operating shortfall of \$3.2 million for Baker and parent, PRC.

Emergency Grant and Subsequent Shortfall

As a result of the analysis’ findings, DPH made a request to the City’s Board of Supervisors to approve an emergency grant to Baker and PRC for \$3.2 million to allow the organizations to complete a financial review and develop a long-term sustainability plan. In June 2022, the Board of Supervisors approved an emergency grant of \$1.25 million.

The \$1.25 million emergency grant addressed a portion of the \$3.2 million operating shortfall, but not all of it. By September 2022, the organizations once again faced a critical cash shortfall before completing financial sustainability planning.

On October 3, 2022, Baker informed DPH that it had no other choice but to return some programs to the City due to years of financial hardship with program-related expenses exceeding DPH contract revenues, and its ultimate goal was an orderly transfer with minimal disruption to clients and staff. The organization further conveyed that it was developing a long-term sustainability plan for its remaining programs.

PROGRAMS TRANSFER AND CITY INTERVENTIONS

Starting in October 2022, DPH and Baker worked in close collaboration to develop and implement a six-month transition plan for programs identified for transfer. During this transition period, DPH provided Baker with multiple supports to create financial pathways to sustain operations:

1. Authorized a one-time increase in the allowable indirect cost rate from 15% to actual rate of 22% during FY 2022-23.
2. Maintained payments of invoicing levels and added budget to 12-month funding amounts in the event that costs exceed their 12-month award amounts
3. Deferred debt servicing until completion of a long-term financial sustainability plan.

In the winter of 2022, Baker completed the successful transfers of Joe Healy Detox and Acceptance Place (substance use treatment programs) to HealthRight360 with no disruption of service to clients and continuity of employment for almost all staff employed at both programs.

ORGANIZATIONAL PROGRESS TOWARD FINANCIAL STABILITY

From October 2022 through June 2023, DPH and Baker met on a weekly basis to analyze Baker's financials, identify root causes of structural deficits, correct contracts, re-design programs, and address invoicing and contract concerns.

New Leadership

In the fall of 2022, Baker and PRC brought on a new leadership team, including a new Chief Executive Officer, Chief Operations Officer, and Chief Financial Officer with over 20 years of experience working for the City. The new leadership team along with DPH and Baker's and PRC's Board of Directors worked quickly and collaboratively to stabilize Baker's financial condition and set the organization on a path toward long-term sustainability through the following steps:

- Adjusted contracts where expenses exceeded contract values
- Completed program restructuring and cut costs
- Filled staffing vacancies in critical finance roles
- Established an operating reserve to avoid need for contract advances
- Worked with Controller's Office and DPH to develop a financial sustainability plan including a sustainable Debt repayment proposal
- Grew PRC's Board of Directors by 50% with new membership and a strong finance committee

Sustainability Plan

In June 2023, Baker with technical support from Community Visions, finalized a Financial Sustainability Plan ("Plan") incorporating feedback and input from DPH. The Plan prioritizes:

- Establishing an operating reserve
- Restructuring programs to reduce costs and streamline operations
- Correcting City contracts where expenses exceeded value of contracts
- Diversifying revenue streams through new non-City fee-for-service contracts
- Building organizational capacity for facilities management and contract compliance
- Establishing a negotiated federal indirect rate
- Resolving previously identified financial audit findings
- Repaying City debt

WHAT CAUSED BAKER'S FINANCIAL CONDITION?

Review of Baker's financials, organizational structure, program design, and historical context, shows Baker's financial condition was caused by these primary factors:

- Full cost of services exceeded City contract values
- Gap between the recovery of administrative expenses and actual expenses
- Insufficient financial staff and capacity to promptly invoice and revise budgets to maximize recovery of program expenses, which in the past resulted in under-recovery
- Rapid organization growth and reliance on outdated systems and practices resulting in audit findings and disallowances
- Operations and staffing disruptions caused by COVID-19

HOW WILL THIS SITUATION BE AVOIDED IN THE FUTURE?

Baker and PRC have implemented a financial sustainability plan and achieved several key milestones. Baker has established an operating reserve, completed program restructuring, and corrected city contracts. Investments have been made to enhance quality assurance and compliance. New non-City revenues are being actively pursued to diversify funding streams. A key milestone that remains is the resolution of Baker's Debt, a repayment proposal for which is being presented to the Board of Supervisors for approval.

Moving forward, Baker will continue to communicate with DPH and work together to address concerns. Baker is willing to report back to the Health Commission and the Board of Supervisors on progress toward long-term sustainability.

Financially and operationally, Baker is stronger and more effective than ever before. Baker is accountable for its financial condition and seeks to fully repay its Debt. Approval of the Repayment Agreement and Purchase and Sale Agreement would allow Baker to repay its Debt in a sustainable way and allow the City to maintain 200+ residential treatment beds without disruption to clients and services.

Sincerely,



Chuan Teng, CEO