CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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April 26, 2024

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: May 1, 2024 Budget and Finance Committee Meeting

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EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would establish Chapter 64.2 of the Administrative Code to prohibit the Fire Department from using personal protective equipment (PPE) containing intentionally added PFAs (perfluoroalkyl and polyfluoroalkyl substances) after June 2026.

Key Points

- PFAs (perfluoroalkyl and polyfluoroalkyl substances) are "forever" chemicals considered hazardous to human health, some of which may cause cancer. According to Mark Corso, Deputy Director of Finance and Administration at the Fire Department, all firefighting personal protective equipment (PPE) on the market has PFAs, though manufacturers are currently testing PFA-free prototypes. Firefighting PPE consists primarily of a coat and pants and PFAs are used to make them water repellent.

Fiscal Impact

- The total cost to replace all fire fighting PPE is likely $10.1 million. Cost would likely be mostly funded by the General Fund.
- The Fire Department budgets $850,000 for uniform replacement every year and has proposed to do so in the FY 2024-25 – FY 2025-26 budget. To meet the June 2026 deadline of phasing out PFAs, the Department would have to increase its uniform replacement budget by $4.2 million each year to $5 million.

Policy Consideration

- The National Institute of Standards and Technology released a report in May 2023 that tested twenty textiles of firefighting PPE. The report found that the concentration varied widely between the different textiles, which suggests that certain gear currently on the market is safer than others. As noted above, PFA-free firefighting PPE does not currently exist. In the meantime, the City could work with other governments to identify and jointly purchase PPE that has minimal PFAs.

Recommendation

- Approval of the proposed ordinance is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

City Charter Section 2.105 states that all legislative acts shall be by ordinance, approved by a majority of the members of the Board of Supervisors.

BACKGROUND

PFAs (perfluoroalkyl and polyfluoroalkyl substances) are “forever” chemicals considered hazardous to human health, some of which may cause cancer. According to Mark Corso, Deputy Director of Finance and Administration at the Fire Department, all firefighting personal protective equipment (PPE) on the market has PFAs, though manufacturers are currently testing PFA-free prototypes. Firefighting PPE consists primarily of a coat and pants and PFAs are used to make them water repellent.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would establish Chapter 64.2 of the Administrative Code to prohibit the Fire Department from using PPE containing intentionally added PFAs.

The prohibition would take effect on June 30, 2026.

The ordinance also requires the Fire Chief to meet with labor representatives at least every three months to assess the availability and funding for such PPE.

In addition, the Fire Department is required to submit progress reports to the Board of Supervisors and the Fire Commission every six months and may recommend an extension of the June 2026 deadline.

FISCAL IMPACT

The Fire Department has 1,482 positions that use PPE with PFAs. Assuming each position requires two sets of PPE and the cost of PFA-free gear is $3,400, the total cost to replace all firefighting is $10.1 million.

The Fire Department budgets $1.7 million for uniform replacement every year and has proposed to do so in the FY 2024-25 – FY 2025-26 budget. According to Deputy Director Corso, approximately half of this budget is spent on coats and pants for firefighters. To meet the June 2026 deadline of phasing out PFAs, the Department would have to increase its uniform replacement budget by $4.2 million each year to $5 million.

Exhibit 1: Estimated Cost

Uniform Replacement	FY 2024-25	FY 2025-26	Total
Budget	850,000	850,000	1,700,000
Required by Proposed Ordinance	5,038,800	5,038,800	10,077,600
Change	**4,188,800**	**4,188,800**	**8,377,600**

Source: BLA and FIR

Because no PFA-free gear is available for sale, we used the current cost of firefighting PPE ($3,400). Actual costs will be different and likely higher, given that the product will be new, possibly unique, and in high demand due to its lifesaving potential.

Funding Sources

Most Fire Department costs are funded by the General Fund. According to the proposed ordinance, the Department has received a $2.3 million grant from the Federal Emergency Management Agency (FEMA) to purchase new personal protective equipment.

Long-Term Liability for Worker's Compensation

The City is self-insured for workers compensation. For fire suppression workers, State law provides a presumption of workers' compensation eligibility for cancer (Labor Code Section 3212.1). Over the past ten years (Jan 2014 – April 2024), the City has had 80 cancer claims from firefighters totaling $9.9 million, or $123,000 per claim. There also have been nine death claims totaling $2.5 million, or $281,500 per claim, over the same period. Over the long term, reducing exposure to PFAs may reduce the incidence of these illnesses and related claims.

POLICY CONSIDERATION

The National Institute of Standards and Technology released a report in May 2023 that tested twenty textiles of firefighting PPE.[1] The report found that the concentration varied widely between the different textiles, which suggests that certain gear currently on the market is safer than others. As noted above, no PFA-free fire-fighting PPE currently exists. In the meantime, the City could work with other governments to identify and jointly purchase PPE that has minimal PFAs.

RECOMMENDATION

Approval of the proposed ordinance is a policy matter for the Board of Supervisors.

[1] NIST TN 2248

Item 2 **File 24-0343**	**Department:** San Francisco Public Utilities Commission (SFPUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve SFPUC's emergency declaration for slope restoration and repair, tree and debris removal, and geotechnical engineering services in Pine Lake due to a water main break on March 8, 2024.
- Any contracts entered into under the emergency authority are exempt from Administrative Code Chapters 6 (public works contracting policies and procedures), 12A (human rights commission), 12B (non-discrimination in contracts), 12C (non-discrimination in property contracts), and 14B (local business enterprise utilization).

Key Points

- A break occurred in a water transmission pipeline in Pine Lark Park near Wawona Street at 28th Avenue because an air valve on the pipeline had failed, causing a release of water that eroded a section of a slope and damaged several eucalyptus trees. Other damage includes soil in the meadow at Pine Lark Park, an exposed sewer pipeline and water transmission pipeline, and an exposed private retaining wall.
- The agency contacted three construction firms and determined that Anvil Builders was the most qualified contractor. SFPUC staff also selected AGS, Inc. to perform geotechnical design work based on the firm's status as a Local Business Enterprise (LBE) professional services contractor, availability, and previous geotechnical engineering work.

Fiscal Impact

- The total estimated cost for construction and professional design services is $5 million. SFPUC estimates that construction costs could total $4 million, based on a March 2024 engineering estimate from Anvil Builders, cost escalation, and a contingency budget for unforeseen work. The professional design services work to be performed by AGS, Inc. is estimated to be $1,000,000 based on the assumption that the level of effort will be similar to the emergency slope repair at Stern Grove Park. The $5,000,000 estimated cost will be sourced from the Local Water Conveyance and Distribution Program, funded by Water Revenue Bonds.

Policy Consideration

- SFPUC's asset management plan does not factor in air valves or other appurtenances specifically; these features are replaced when the water mains are replaced. Following this water main break at Pine Lake, the PUC replaced all air valves on that main in the neighborhood. SFPUC staff states that none of the replaced air valves showed any signs of potential failure.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

Administrative Code Section 6.60(d) states that emergency work that costs more than $250,000 is subject to Board of Supervisors approval. Prior to the commencement of emergency work above the $250,000 threshold, the Department must also secure approval in writing from the Mayor or the President of the appropriate Board or Commission. If the emergency does not permit approval of the emergency determination by the Board of Supervisors before work begins, the Department must submit a resolution approving the emergency determination to the Board of Supervisors within 60 days of the Department head's declaration of emergency.

BACKGROUND

On March 8, 2024, a break occurred in a 60-inch water transmission pipeline – the Sunset Supply Line – in Pine Lark Park near Wawona Street at 28th Avenue because an eight-inch air valve on the pipeline had failed. The break caused a release of water that eroded a section of the slope between Wawona Street and Pine Lake Park and damaged several eucalyptus trees. The impacts of slope erosion include soil in the meadow at Pine Lark Park, an exposed sewer pipeline and water transmission pipeline, and an exposed private retaining wall. As of this writing, the City is still investigating the cause of the infrastructure failure.

On March 22, 2024, the San Francisco Public Utilities Commission (SFPUC) General Manager requested, and the SFPUC President approved, a declaration of emergency, which allowed the SFPUC to immediately contract with a construction and a professional services firm to perform concrete sewer repair, slope restoration and repair, and tree removal, restore landscaping, and remove debris in Pine Lake Park. In addition, professional services activities include geotechnical design and investigation, pipeline investigation and design support. The SFPUC considered the declaration necessary because the repair work was beyond the capacity of City staff and needed to be completed as soon as possible.

According to the proposed resolution, the cost of the work is estimated to be $5 million, and the Controller has certified that funds are available.

The proposed resolution was introduced on April 2, 2024, within the sixty-day timeframe required by Administrative Code Section 6.60(d).

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve SFPUC's emergency declaration with an estimated total cost of $5 million. The emergency contracting authority would be used for slope restoration and repair, tree and debris removal, and geotechnical engineering services in Pine Lake due to a water main break on March 8, 2024. Any contracts entered into under the emergency authority are exempt from Administrative Code Chapters 6 (public works contracting policies and procedures), 12A (human rights commission), 12B (non-discrimination in contracts), 12C (non-discrimination in property contracts), and 14B (local business enterprise utilization).

Procurement

According to SFPUC staff, the agency contacted three construction firms on March 12, 2024, to request qualifications and experience statements for the proposed construction site. Staff then evaluated and ranked the qualifications and experience statements and determined that Anvil Builders was the most qualified construction contractor.

In addition, SFPUC staff selected AGS, Inc. to perform geotechnical design work based on the firm's status as a Local Business Enterprise (LBE) professional services contractor, availability, and the firm's previous geotechnical engineering work to address the slope stability construction at Stern Grove Park due to an emergency that occurred on August 23, 2021.

According to SFPUC, the urgent need for design services to begin did not allow for the time needed to conduct a competitive Request for Proposal process, which would take approximately nine months.

Scope of Work

The scope of work for the professional design and construction services includes the following:

- Performing geotechnical investigation and assessment of the slope failure;
- Securing the perimeter of the work area with fencing for public safety;
- Covering the slope scar with plastic sheeting to protect the slope from rain and further erosion;
- Developing analysis and modeling of the slope for design criteria;
- Evaluating slope restoration design alternatives;
- Providing design support for existing concrete sewer and water pipeline;
- Removing additional trees where needed to accommodate the final slope restoration design;
- Performing settlement and vibration monitoring of existing utilities and structures;
- Installing protection and support for existing sewer and water infrastructure;
- Removing and disposing of material that cannot be reused in the slope repair (e.g., roots, branches);
- Establishing access for SFPUC crews to repair and replace the failed air valve;
- Performing slope restoration work as designed; and
- Installing new landscaping.

Project Timeline

According to SFPUC staff, the project team is currently evaluating project needs and design alternatives. The goal is to complete the design and commence construction activities by this Fall 2024. The team aims for construction to be substantially completed by the end of December 2024, with final completion and contract closeout targeted for February 2025.

FISCAL IMPACT

The emergency declaration and resulting proposed resolution states that the total estimated cost for construction and professional design services at $5 million.

The SFPUC estimates that construction costs could total $4 million, based on a March 2024 engineering estimate from Anvil Builders, cost escalation, and a contingency budget for unforeseen work.

Finally, the professional design services work to be performed by AGS, Inc. is estimated to cost $1,000,000. According to SFPUC staff, the cost is based on the assumption that the level of effort will be similar to the emergency slope repair at Stern Grove Park and that additional design support will be needed for work near the impacted pipeline.

Exhibit 1 below provides the details of the approximately $5,000,000 cost estimate.

Exhibit 1 Estimated Cost of Emergency Work

Cost Items	Estimate
Construction	$3,981,284
Geotechnical	1,000,000
Total	**$4,981,284**

Source: SFPUC

Funding Source

The $5,000,000 estimated cost will be sourced from the Local Water Conveyance and Distribution Program, which is funded by 2021 Water Revenue Bonds. The bond proceeds are intended to fund the design and construction of water main replacement projects as part of SFPUC's long-term capital improvement program to replace up to 15 miles per year of water distribution piping. According to SFPUC, the proposed emergency work will not impact the Department's planned water pipeline replacement projects. $63 million is budgeted in FY 2024-25 for water distribution pipeline replacement, which is an increase of $5 million from FY 2023-24.

POLICY CONSIDERATION

The SFPUC has an asset management plan for its water distribution system that prioritizes water mains based on whether they have been identified for replacement in analysis conducted in 2012 and 2017, have had three or more breaks within 1,000 feet of each other, need to be replaced to improve system performance (see detailed discussion in File 23-1001). The asset management plan does not factor in air valves or other appurtenances specifically; these features are replaced when the water mains are replaced. According to SFPUC staff, air valves typically do not fail on their own. The 2021 Stern Grove water main break was due to an air valve failure from operator error.

Following this water main break at Pine Lake, the PUC replaced all air valves on that main in the neighborhood. According to SFPUC staff, none of the replaced air valves showed any signs of potential failure.

RECOMMENDATION

Approve the proposed resolution.

Item 5 **File 24-0338**	**Department:** Homelessness and Supportive Housing (HSH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the first amendment to the grant agreement between Compass and HSH for the Family Housing Ladder program, extending the term by 24 months, from June 2024 to June 2026, and increasing the not the exceed amount by $7,038,650 to $13,104,997.

Key Points

- Compass manages the Family Housing Ladder program, which provides ongoing housing and support services to families who live in permanent supportive housing (PSH) and are ready to transition to independent living. The population served are families, defined as a household with an adult or couple with custody of a child or children under age 18.
- Compass is responsible for enrolling and placing families into an independent unit. Families pay 30 percent of their household income towards rent while the program subsidizes the rest and provides light-touch case management support.
- As of April 2024, Compass has served 42 households and placed 26 families in independent housing. According to HSH staff, Compass is on track to serve 70 families by June 2024, the target number of families to serve under the contract.

Fiscal Impact

- The budget for the proposed two-year contract extension from June 2024 to June 2026 is approximately $9.2 million. The budget includes a decrease in 1 full-time equivalent (FTE) position.
- Compass has spent 27.8 percent of its FY 2023-24 budget to date. According to HSH staff, underspending is due to delays in program ramp-up and because the families enrolled in the program are already stable and tend to be more selective about their next unit to move into. As more families are enrolled in the program, paying for ongoing rental subsidies and support services for families will increase actual expenditures.
- 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

The Department of Homelessness and Supportive Housing's (HSH) Housing Ladder Program offers Permanent Supportive Housing (PSH) residents, who no longer require intensive case management services, the opportunity to transition into a more independent housing setting. The Family Housing Ladder program serves eligible family households with an adult and at least one natural, adoptive, and/or foster child below the age of 18. The program houses participants in private rental units, and families pay 30 percent of their household income towards rent while the City subsidizes the rest. Families sign their own leases and receive light-touch case management support.

In June 2022, HSH issued a Solicitation of Interest (SOI) to guide its selection process for choosing a service provider for a housing subsidy program. The SOI requested proposed programs and budgets from service providers for three housing subsidy programs: 1) Flexible Housing Subsidy Pool for Families; (2) Flexible Housing Subsidy Pool for Transitional-Age Youth; and (3) Family Housing Ladder. A review panel evaluated the responses to the SOI for proposed housing subsidy programs.[1] Compass Family Services (Compass) was the only respondent to the SOI for the Housing Ladder for Families program. HSH selected Compass to provide services for this program per Administrative Code Chapter 21B, which allows selection of homeless service providers without competitive solicitations.

In October 2022, HSH executed a contract with Compass for a Family Housing Ladder program, for a term of 21 months, from October 1, 2022 through June 30, 2024, for a not to exceed amount of $6,066,347.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the first amendment to the grant agreement between Compass and HSH for the Family Housing Ladder program, extending the term by 24 months, from June 30, 2024 through June 30, 2026, and increasing the not to exceed amount by $7,038,650 to $13,104,997. The proposed resolution would also authorize HSH to enter into immaterial amendments to the contract.

[1] The review panel for the SOI consisted of three managers and one program supervisor from HSH.

Services Provided

Under the contract, Compass is responsible for managing the Family Housing Ladder program. The goal of the program is to provide ongoing housing and support services to 70 families (50 in the first year and 20 in the second year of the program) who live in permanent supportive housing (PSH) and are ready to transition to independent living. While PSH includes intensive case management services, housing under the Family Housing Ladder program offers light-touch case management. The Family Housing Ladder program serves adults or couples with custody of minor children. Compass' responsibilities include housing location services, housing coordination, landlord liaison services, subsidy administration and light-touch housing-focused case management services.

<u>Housing Location Services:</u> Compass finds and establishes relationships with landlords and property owners who agree to house Family Housing Ladder participants. Compass staff and participants work together to identify a suitable unit.

<u>Housing Coordination:</u> Compass matches participants to housing, addresses barriers to housing placement (e.g., outstanding debt), and meets with the tenants to provide information on lease stipulations, maintenance issues, and other general tenancy-related topics.

<u>Landlord liaison Services:</u> Compass is the point of contact for any issues or conflict between landlords and tenants.

<u>Subsidy Administration:</u> Compass provides subsidies for rent to landlords and property management on behalf of Family Housing Ladder participants. Participants pay 30 percent of their monthly income, and Compass pays the rest.

<u>Light-Touch Housing-Focused Case Management Services:</u> Compass meets with participants to fill out their lease and any other paperwork as well as refer and connect participants to other City services.

Program Performance

HSH's FY 2022-23 Program Monitoring of the program identified areas of non-compliance, including program management and oversight, service provision, and performance and compliance, and required Compass to address areas of non-compliance. According to Manager of Legislative Affairs at HSH, Dylan Schneider, Compass has addressed the areas of non-compliance based on an April 2024 response letter from Compass.

Exhibit 1 shows the program objectives (goals and actuals) for FY 2022-23.

Exhibit 1: Compass Family Housing Ladder Objectives (Goals and Actuals) for FY 2022-23

Service / Program Objective	Goal	Actual	Achieved (Y/N)
Provide program services to households	50 households	18 households	N
At least 90% of tenants will successfully move into housing.	90%	83.3%[2]	N
The average length of time from enrollment to housing move-in shall be less than or equal to 75 days.	75 days	104.7 days	N
90% of households will maintain their housing for a minimum of 12 months, move to other permanent housing, or be provided with more appropriate placements.	90%	N/A[3]	N/A

Source: HSH

Compass experienced delays in program start up in FY 2022-23 and received its first referrals in April 2023, contributing to lower service levels (18 households) compared to contracted amounts (50 households). As of April 2024, Compass has served 42 households and placed 26 families in permanent housing. According to Manager of Legislative Affairs Schneider, Compass is on track to serve 70 families by June 2024, which is the target number of families to serve under the contract in FY 2023-24.

According to the Compass response letter, average time from enrollment to housing is exceeding the objective due in part to selectivity of participants in their housing search since they are already housed in PSH sites. Compass plans to encourage families to search outside of the city to identify units that meet their needs and are within subsidy limits and to request exceptions from HSH to the subsidy cap, as appropriate.

Financial Condition

The Office of Economic and Workforce Development (OEWD) reviewed Compass' core financial health and governance indicators as part of the FY 2022-23 Citywide Nonprofit Monitoring and Capacity Building Program. The review resulted in five initial findings that required corrective action.[4] According to the August 2023 OEWD Final Status Letter, Compass provided explanations for each finding and was determined to be in conformance with City standards.

FISCAL IMPACT

The proposed resolution would increase the not to exceed amount by $7,038,650 to $13,104,997. Exhibit 2 below summarizes the expenditures of the proposed amended grant.

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[2] According to the Compass response letter, 15 out of 18 households were housed in FY 2022-23, and one additional household transferred to another housing program. Two out of 18 households (11%) did not move into housing.

[3] The first households were placed in May 2023, and 12 months has not elapsed since then.

[4] The Corrective Actions were related to including more detail in the budget, cost allocation procedures, reporting year-end profit clearly, and board oversight.

Exhibit 2: Compass Expenditures for Family Housing Ladder Program

Expenditures	Oct 2022-June 2023	FY 2023-24	FY 2024-25	FY 2025-26	Total
Salaries & Benefits	$303,815	$651,957	$616,245	$653,220	$2,225,237
Operating Expense	108,380	97,306	175,812	223,365	604,863
Indirect Cost (15%)	61,829	112,389	118,809	131,488	424,515
Other Expenses (Not Subject to Indirect %)	(305,834)	2,842,100	2,953,800	3,156,004	8,646,070
Total Expenditures	**$168,190**	**$3,703,752**	**$3,864,666**	**$4,164,077**	**$11,900,685**
Contingency (15% on FY24-25 and FY 25-26)					$1,204,311
Total Not-To-Exceed Amount					**$13,104,997**

Source: Appendix B of the first amendment to the grant agreement

Note: Totals may not add due to rounding

Although the FY 2022-23 program budget was $1.4 million, actual spending was only $168,190 due to delays in program ramp up, according to HSH staff. Once Compass began placing more families into housing in FY 2023-2024 and paying the ongoing subsidies for rent and services, actual expenditures rose. As of February 2024, Compass has spent $1,028,879 in FY 2023-24, which is 27.8 percent of the program budget. According to HSH staff, the families enrolled in the Family Housing Ladder program are already stably housed and thus more selective about their next housing unit, which reduces the need for immediate placement and delays spending. Unspent funding will be applied towards new enrollments and placements.

The current contract is staffed by 7.33 full time equivalent (FTE) positions in FY 2023-24. The contract extension is budgeted to decrease Compass staff slightly to 6.30 FTE in FY 2024-25. The decrease is from minor adjustments to leadership positions and a 0.5 FTE reduction in Case Managers to better align with the program model. The FY 2024-25 budget also includes $2,550,000 in direct client pass through subsidies, or $3,036 per household per month.

Funding Source

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

RECOMMENDATION

Approve the proposed resolution.

Item 6 **File 24-0337**	**Department:** Homelessness and Supportive Housing (HSH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the second amendment to the grant agreement between Compass and HSH for the Flexible Housing Subsidy Pool for Families program, extending the term by 24 months, from June 2024 to June 2026, and increase the not to exceed amount by $20,183,620 to $29,151,597.

Key Points

- Compass manages the Flexible Housing Subsidy Pool for Families program, which provides ongoing permanent supportive housing (PSH) to families who are experiencing homelessness. The population served are families, defined as a household with an adult or couple with custody of a child or children under age 18, referred through Coordinated Entry, the City's homelessness response system.
- Compass is responsible for enrolling and placing households into a unit. Families pay 30 percent of the rent while the program subsidizes the rest of the rent as well as providing wraparound case management support.
- As of April 2024, Compass has enrolled 147 households and placed 87 families into PSH under the program. According to HSH staff, Compass is on track to enroll 165 families by May 2024, the target number of families to serve under the contract.

Fiscal Impact

- The budget for the proposed two-year contract extension from June 2024 to June 2026 is approximately $23.8 million and includes funds for an additional six full-time equivalent (FTE) positions.
- Compass has spent 44.8 percent of its FY 2023-24 budget to date. According to HSH staff, underspending is due to the delay in the agreement start and staffing challenges at Compass during program ramp up, which delayed referrals. As more families are enrolled, paying for ongoing subsidies for families will increase actual expenditures.
- 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

The Department of Homelessness and Supportive Housing's (HSH) Flexible Housing Subsidy Pool for Families program provides placement into permanent supportive housing (PSH) in private market apartments for people experiencing homelessness. The Flexible Housing Subsidy Pool for Families program serves eligible family households with an adult and at least one natural, adoptive, and/or foster child below the age of 18. The program finds housing in the private rental market and families pay 30 percent of their household income towards rent, while the City subsidizes the rest. Families sign their own leases and receive wraparound case management support. HSH refers participants to the Flexible Housing Subsidy Pool through Coordinated Entry, the City's homelessness response system, and Compass places the family into a suitable unit.

In June 2022, HSH issued a Solicitation of Interest (SOI) to guide its selection process for choosing a service provider for a housing subsidy program. The SOI requested proposed programs and budgets from service providers for three housing subsidy programs: 1) Flexible Housing Subsidy Pool for Families; (2) Flexible Housing Subsidy Pool for Transitional-Age Youth; and (3) Family Housing Ladder. A review panel evaluated the responses to the SOI for proposed housing subsidy programs.[1] Compass Family Services (Compass) was one of three respondents to the SOI for the Flexible Housing Subsidy Pool for Families program, and the only respondent to be awarded a contract for this program. HSH selected Compass to provide services for this program per Administrative Code Chapter 21B, which allows selection of homeless providers without competitive solicitations.

In October 2022, HSH executed a contract with Compass for a Flexible Housing Subsidy Pool for Families for a term of 17 months, from October 1, 2022 through March 31, 2024, for a not to exceed amount of $8,967,977.

In April 2024, HSH executed a first amendment to the grant agreement that extended the term by three months from March 31, 2024 to June 30, 2024, with no change to the not to exceed amount.

[1] The review panel for the SOI consisted of three managers and one program supervisor from HSH.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the second amendment to the grant agreement between Compass and HSH for the Flexible Housing Subsidy Pool for Families program, extending the term by 24 months, from June 30, 2024 through June 30, 2026, and increasing the not to exceed amount by $20,183,620 to $29,151,597. The proposed resolution would also authorize HSH to enter into immaterial amendments to the contract.

Services Provided

Under the contract, Compass is responsible for managing the Flexible Housing Subsidy Pool for Families program. The goal of the program is to provide ongoing permanent supportive housing (PSH) to 165 families who are experiencing homelessness. The Family Flexible Housing Subsidy Pool for Families program serves adults or couples with custody of minor children. Compass' responsibilities include housing location services, housing coordination, landlord liaison services, subsidy administration and wraparound housing-focused case management services.

<u>Housing Location Services:</u> Compass identifies and secures housing units that meet the needs of its participants.

<u>Housing Coordination:</u> Compass coordinates with the City's Coordinated Entry system, negotiates lease terms on behalf of participants, conducts unit inspections, and meets with the participants (the new tenants) to provide information on lease stipulations, maintenance issues, and other general tenancy-related topics.

<u>Landlord Liaison Services:</u> Compass is the point of contact for any issues or conflict between landlords and tenants (participants).

<u>Subsidy Administration:</u> Compass provides subsidies for rent to landlords and property management on behalf of participants and tracks the financial assistance it provides. Participants pay 30 percent of their monthly income, and Compass subsidizes the rest.

<u>Housing-Focused Case Management Services:</u> Compass provides wraparound case management to participants by meeting with them to fill out their lease and any other paperwork as well as refer and connect participants to other City services.

Program Performance

HSH's FY 2022-23 Program Monitoring of the program identified areas of non-compliance, including program management and oversight, service provision, and performance and compliance, and required Compass to address areas of non-compliance. According to Manager of Legislative Affairs at HSH, Dylan Schneider, Compass has addressed the areas of non-compliance based on an April 2024 response letter from Compass. Exhibit 1 shows the program objectives (goals and actuals) for FY 2022-23.

Exhibit 1: Compass Flexible Housing Subsidy Pool Objective (Goals and Actual) for FY 2022-23

Program Objective	Goal	Actual	Achieved (Y/N)
Provide program services to households	70 households	33 households	N
At least 90% of tenants will successfully move into housing.	90%	78.8%[2]	N
The average length of time from enrollment to housing move-in shall be less than or equal to 75 days.	75 days	87.5 days	N
90% of households will maintain their housing for a minimum of 12 months, move to other permanent housing, or be provided with more appropriate placements.	90%	N/A[3]	N

Source: HSH

Note: The goal to serve 70 households in FY 2022-23 was prorated for the portion of the fiscal year that the contract was active, October 2022 to June 2023. The households served goal is 165 starting in FY 2023-24.

Compass experienced delays in program start up in FY 2022-23, and received its first referrals in March 2023, contributing to lower service levels (33 households served) compared to contracted levels (70 households). Actual time to place clients in housing (87.5 days) exceeded the target (75 days) in FY 2022-23. According to the program monitoring results letter, Compass served households with more than five household members as well as households with mixed immigration status, which can result in a longer time to secure housing in the private rental market.

Recent Improvement in Performance

As of April 2024, Compass has enrolled 147 households and placed 87 families into PSH. According to Manager of Legislative Affairs Schneider, Compass is on track to enroll 165 families by the end of May 2024, the target number of families to serve under the contract in FY 2023-24, and the average time to move-in has decreased to 61.7 days, which is faster than the contract target of 75 days.

Financial Condition

The Office of Economic and Workforce Development (OEWD) reviewed Compass' core financial health and governance indicators as part of the FY 2022-23 Citywide Nonprofit Monitoring and Capacity Building Program. The review resulted in five initial findings that required corrective action.[4] According to the August 2023 OEWD Final Status Letter, Compass provided explanations for each finding and was determined to be in conformance with City standards.

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[2] According to the program monitoring results letter, 26 out of 33 households were housed in FY 2022-23, and two additional households were housed through a different housing program. The other five households (15%) did not move into housing.

[3] The first households were housed in April 2023, and 12 months has not elapsed since then.

[4] The Corrective Actions were related to including more detail in the budget, cost allocation procedures, reporting year-end profit clearly, and board oversight.

FISCAL IMPACT

The proposed resolution would increase the not to exceed amount by $20,183,620 to $29,151,597.

Exhibit 2 below summarizes the expenditures of the proposed amended grant.

Exhibit 2: Compass Expenditures for Flexible Housing Subsidy Pool for Families Program

Expenditures	Oct 2022-June 2023	FY 2023-24	FY 2024-25	FY 2025-26	Total
Salaries & Benefits	$480,721	$1,019,870	$2,136,976	$2,265,194	$5,902,761
Operating Expense	147,758	205,027	640,260	759,518	1,752,563
Indirect Cost (15%)	94,272	183,734	416,585	453,707	1,148,299
Other Expenses (Not Subject to Indirect %)	(370,746)	3,625,615	6,612,630	7,380,648	17,248,147
Total Expenditures	**$352,005**	**$5,034,247**	**$9,806,451**	**$10,859,067**	**$26,051,770**
Contingency (15% on FY 24-25 and FY 25-26)					$3,099,828
Total Not-To-Exceed Amount					**$29,151,597**

Source: Appendix B of the second amendment to the grant agreement

Note: Totals may not add due to rounding.

Although the FY 2022-23 program budget was $1.9 million in FY 2022-23, actual spending was only $352,005 due to delays in program ramp up, according to HSH staff. The delays in program ramp-up were due to a delay in the agreement start and Compass staffing challenges, which delayed referrals. Once Compass began to enroll more families into housing in FY 2023-24 and paying the ongoing subsidies for rent and services, actual expenditures increased. As of February 2024, Compass has spent $2,255,764 in FY 2023-24, which is 44.8 percent of its budget. According to HSH staff, any unspent funding will be applied towards new enrollments and placements in the future.

The FY 2023-24 budget funds salaries and benefits for 16.56 full-time equivalent (FTE) positions. The contract extension is budgeted to increase Compass staff by 6.18 FTE to 22.74 FTE in FY 2024-25. This increase in staffing is for an additional 2.5 FTE Case Managers, 1.0 FTE Housing Locator, 2.0 Assistant Program Directors, and minor adjustments of time in other positions. According to HSH staff, the increase in staffing reflects the increase in number of program enrollments and placements. The FY 2024-25 budget also includes $5.4 million in direct client pass through subsidies, or $2,764 per household per month.

Funding Source

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

RECOMMENDATION

Approve the proposed resolution.

Item 8 File 24-0374	Department: Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a loan agreement with an affiliate of Mercy Housing California, in an amount not to exceed $41,036,048 for a minimum term of 55 years to provide permanent financing for the 1633 Valencia Street project; and a grant agreement under the Local Operating Subsidy Program (LOSP) in an amount not to exceed $80,785,406 for a term of 19 years to subsidize operations and debt service for the project.

Key Points

- The proposed affordable housing project on 1633 Valencia Street will be a six-story building, providing 145 permanent supportive housing units for seniors aged 55 and older and one manager's unit for a total of 146 housing units.
- The Department of Homelessness and Supportive Housing (HSH) selected Mercy Housing, and the San Francisco Housing Accelerator Fund (HAF) to develop the project under Administrative Code Chapter 21B, which allows procurement of homeless service providers without a competitive solicitation. The HAF is financing the project through construction, which results in cost savings for the project.
- Under the proposed LOSP grant agreement, the LOSP subsidy will include an amount for operations and debt service of $1,158,969 per year to repay principal and interest on the senior HAF loan. This is a new use of LOSP funding.

Fiscal Impact

- Total development costs are $84.6 million ($579,490 per unit). The City's loan for development costs is $41.0 million ($281,069 per unit). Including the present value of the City's debt service payments on the private loan (approximately $13.3 million), the total City subsidy for development is $54.3 million (approximately $372,000 per unit).
- The source of funds for the City loan is 2020 Health and Recovery General Obligation Bond funds. The source of funds for the LOSP subsidy is the General Fund.

Policy Consideration

- Because approval of the proposed resolution commits the City to annual General Fund appropriations of $1,158,969 to fund debt service of the project for 18 years, and the City will not own the land of the project, approval of the proposed resolution is a policy matter for the Board of Supervisors.

Recommendation

- Approval of the proposed resolution is a policy matter for the Board of Supervisors.

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.

Administrative Code Chapter 120 delegates authority to the MOHCD Director to execute grant agreements under the Local Operating Subsidy Program, subject to annual appropriation of the Board of Supervisors.

BACKGROUND

1633 Valencia Street Project

The proposed affordable housing project on 1633 Valencia Street will be a six-story building, providing 145 permanent supportive housing units for seniors aged 55 and older and one manager's unit for a total of 146 housing units. The permanent supportive housing units will be subsidized by the Local Operating Subsidy Program. Construction is anticipated to begin in May 2024 and to be completed by December 2025. Potential tenants would be referred by the Department of Homelessness and Supportive Housing's Coordinating Entry process, which prioritizes individuals for housing based on vulnerability, length of homelessness and barriers to housing.

The project is closely modeled after the Tahanan (833 Bryant) project, using the same floorplate, design, and development team. The Tahanan project was financed by the Homes for the Homeless Fund, a collaboration between the Tipping Point Community and the San Francisco Housing Accelerator Fund (HAF) to build permanent supportive housing in under three years and for less than $400,000 per unit. The HAF is similarly financing predevelopment and construction for 1633 Valencia Street, though through a different funding source, and deferring City investment in the project until permanent financing conversion instead of at construction loan close. Unlike the Tahanan project, the 1633 Valencia project uses a design build approach rather than modular construction.

Site and Sponsor Selection

The HAF identified the site at 1633 Valencia Street as a development opportunity to replicate the Tahanan project model and selected Mercy Housing California, the developer of the Tahanan project, to develop the project. The Department of Homelessness and Supportive Housing (HSH) in turn selected the HAF and Mercy Housing California to develop the project under Chapter 21B of the Administrative Code, which allows procurement of homeless services without a competitive solicitation.

The site was created by subdividing a larger parcel of land (3435 Cesar Chavez Street), the other portion of which is being developed by Sequoia Living[1] into affordable senior housing. Under a January 2024 amended Purchase and Sale Agreement, Mercy Housing California 108, L.P., an affiliate of Mercy Housing California, will acquire the 1633 Valencia Street site from Sequoia Living at construction financing closing, which is anticipated to occur in May 2024.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve: (a) a loan agreement with Mercy Housing California 108, L.P., an affiliate of Mercy Housing California, in an amount not to exceed $41,036,048 for a minimum term of 55 years to provide permanent financing for the 1633 Valencia Street affordable housing project; and (b) a grant agreement under the Local Operating Subsidy Program in an amount not to exceed $80,785,406 for a term of 19 years to subsidize operations and debt service for the project. The resolution would also adopt findings that the project is consistent with the General Plan and eight priority policies of the Planning Code and authorize the MOHCD Director to make changes to the agreements.

Loan Agreement

Under the proposed loan agreement, the total loan amount would not exceed $41,036,048. Simple interest would accrue at a rate of one percent per year, which is lower than the standard three percent interest rates in MOHCD's Underwriting Guidelines otherwise the project would not be financially feasible for the tax credit investor.[2] The project sponsor would make annual payments in an amount equal to the Residual Receipts. However, the project is not expected to generate residual receipts as discussed below. The unpaid principal balance of the loan and accrued interest is repaid to the City 55 years after the permanent financing conversion date.

Bridge Loan

Under the proposed loan agreement, $2 million of the funding provided by the City is a bridge loan, pending receipt of expected loan funds from the Federal Home Loan Bank Affordable Housing Loan Program (AHP). The sponsors will apply for an AHP loan in Spring 2025 according to the MOHCD loan evaluation.

Loan Documents

The proposed resolution also approves the following associated loan documents:

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[1] Sequoia Living (formerly Northern California Presbyterian Homes and Services) is a non-profit provider of senior living.

[2] According to MOHCD, if the City's loan had the standard three percent interest rate, the tax credit investor's tax losses would exceed their equity contribution, which would trigger a capital gains tax when they exit the project.

- Declaration of Restrictions, which requires the Project Sponsor to maintain the housing affordability levels defined in the loan agreement for the life of the project, even after the loan is paid in full or otherwise satisfied;
- The promissory note for the loan; and
- The Deed of Trust between Mercy Housing California 108, L.P. and Old Republic Title Company, on behalf of the City as lender.
- City Option and Right of First Refusal to acquire the land and the improvements (which will be owned by the project sponsor) in the event of default or disposition of the property after the tax credit compliance period. The purchase price would be net of outstanding City loan.

Unit Mix and Income Levels

The Loan Agreement and the Declaration of Restrictions outlines the maximum unit levels by unit size and rent requirements for the Project. The unit mix by maximum income level is shown in Exhibit 1 below. Of the 146 units, 145 units must be rented to seniors who are 55 years old or older. In addition, 145 units must be rented to homeless households or those at risk of homelessness as long as the City provides rental subsidies to the project through the Local Operating Subsidy Program (LOSP). Rents may not exceed 30 percent of the maximum income level for the unit. Affordability restrictions are in place for the life of the project.

Exhibit 1: Unit Mix and Maximum Income Level for 1633 Valencia

Unit Size	Maximum Income Level	Number of Units
Studio	50% of AMI	145
Two-Bedroom	Unrestricted (Manager's Unit)	1
Total		**146**

Source: Draft Declaration of Restrictions

LOSP Grant Agreement

Under the proposed LOSP grant agreement, the LOSP subsidy will include an amount for operations, reflecting the projected annual shortfall for the project, and a "Senior Loan Repayment amount" of $1,158,969 per year to repay principal and interest on the senior HAF loan. Tenant rents will be equal to 50 percent of the tenant's household income and may not exceed 30 percent of 50 percent of area median income. Although most LOSP grant agreements have 15-year terms, the term of the proposed agreement is approximately 19 years to align with the term of the HAF loan.

Administrative Code Chapter 120 delegates authority to the MOHCD Director to execute grant agreements under the Local Operating Subsidy Program, subject to annual appropriation of the Board of Supervisors. The proposed grant agreement requires Board of Supervisors' approval to allow a portion of the LOSP subsidy to repay debt on the private loan, which does not comply with LOSP guidelines. In addition, the project's lenders and investors require that the City commit to pay debt service on the loan in order to ensure fiscal feasibility of the project and to close on the construction loan according to MOHCD staff.

LOSP funding is subject to annual appropriation approval by the Board of Supervisors, consistent with other LOSP grant agreements. Article 2.7 of the proposed grant agreement requires that the City fund the Senior Loan Repayment amount in each year of the grant agreement. While the City maintains the right to partially terminate the agreement and remove operations funding, the agreement prioritizes the obligation to fund Senior Loan Repayment for project feasibility.

Sponsor Performance

According to the MOHCD loan evaluation, there are no outstanding performance issues with Mercy Housing.

FISCAL IMPACT

Total Development Costs

The total development costs for the Project are $84.6 million as shown in Exhibit 2 below. Of the approximately $84.6 million in sources for the Project, $41.0 million (49%) are City funds and $43.6 million (51%) are private funds (which benefit from tax credits awarded to the project). If the Project receives an AHP loan, the City loan will be reduced to $39.0 million (46%).

Exhibit 2: Total Development Costs

Sources and Uses	Amount
Sources	
City Loan	$41,036,048
SFHAF Permanent Loan	16,000,000
Tax Credit Equity	27,569,430
Sponsor Contribution	100
Total Sources	**$84,605,578**
Uses	
Acquisition	5,630,433
Hard Costs (incl. 5.0% contingency)	56,841,842
Soft Costs (incl. 5.2% contingency)	17,025,471
Developer Fee	2,500,000
Reserves	2,607,832
Total Uses	**$84,605,578**

Source: MOHCD

LOSP Subsidy for Operations and Debt Service

The LOSP subsidy amounts under the proposed grant agreement are the difference between the rent paid by individual tenants, which is capped at a fixed percentage of a tenant's income, and the estimated cost to operate the facilities. The projected subsidy funding schedules are specified in Exhibit A of the proposed grant agreement. The LOSP subsidy is contingent on the annual General Fund appropriation to HSH, under work orders with MOHCD, by the Board of Supervisors. The proposed grant agreement will require that the City pay the LOSP subsidy for debt service in each year of the agreement, starting in 2027.

Over the 19-year term of the agreement, the LOSP subsidy for debt service will be $20,861,442, and the LOSP subsidy for operations is estimated to be $59,923,964, as shown in Exhibit 3 below. The total LOSP subsidy is estimated to be $80,785,406, which reflects the not to exceed amount of the proposed resolution for the grant agreement.

Exhibit 3: Annual LOSP Subsidy and Not to Exceed Amount

Calendar Year	LOSP A Operations	LOSP B Debt Service	Total LOSP
2026	2,235,309		2,235,309
2027	2,317,201	1,158,969	3,476,170
2028	2,403,841	1,158,969	3,562,810
2029	2,493,604	1,158,969	3,652,573
2030	2,586,604	1,158,969	3,745,573
2031	2,682,953	1,158,969	3,841,922
2032	2,781,925	1,158,969	3,940,894
2033	2,885,304	1,158,969	4,044,273
2034	2,992,399	1,158,969	4,151,368
2035	3,103,341	1,158,969	4,262,310
2036	3,218,264	1,158,969	4,377,233
2037	3,337,310	1,158,969	4,496,279
2038	3,459,644	1,158,969	4,618,613
2039	3,587,345	1,158,969	4,746,314
2040	3,719,618	1,158,969	4,878,587
2041	3,813,484	1,158,969	4,972,453
2042	3,954,322	1,158,969	5,113,291
2043	4,100,200	1,158,969	5,259,169
2044	4,251,296	1,158,969	5,410,265
Total	**59,923,964**	**20,861,442**	**80,785,406**

Source: Proposed LOSP Grant Agreement Exhibit A

City Subsidy per Housing Unit

Total development costs are $84.6 million, $579,490 per unit, or $1,469 per square foot. The City's total subsidy for the housing development costs is $41.0 million, or $281,069 per unit, as shown in Exhibit 3 below. If we include the present value of the City's payment of debt service on the private loan (approximately $13.3 million), the total City subsidy for development of the project is $54.3 million, or approximately $372,000 per unit.

Exhibit 3: City Subsidy for Affordable Housing Units

Number of Units	146
Total residential area (sq. ft.)	57,594
Development Cost	$84,605,578
Total City Subsidy	$41,036,048
Development cost per unit	$579,490
City Subsidy per unit	$281,069
City Subsidy per sq. ft.	$713

Source: MOHCD

According to the MOHCD loan evaluation the construction cost per unit for the proposed project ($403,026) is 30 percent lower than that of comparable projects ($572,000). However, the construction cost per square foot ($855) is 18 percent greater than that of comparable projects due to the small size of the units. However, the report notes that construction costs per square foot are 13 percent lower than a recently completed project (180 Jones at $979 per square foot) that also has small units. Cost savings compared to 180 Jones are attributed to the efficient design, shorter development timeline, and design-build process.

Operating Budget

According to the 20-year cash flow analysis for the project, the project will have sufficient revenues to cover operating expenses, reserves, management fees, and debt service on the HAF loan, which will be covered by City payments under the LOSP grant agreement. Project revenues consist of tenant rents and subsidies from LOSP for both operating costs and debt service. The project is not expected to generate any residual receipts (i.e. net income after operating expenses) to repay the City loan.

Funding Sources for City Loan and LOSP

The source of funds for the City loan is 2020 Health and Recovery General Obligation Bond funds, administered by the Department of Homelessness and Supportive Housing. According to the MOHCD loan evaluation, use of this funding source for the proposed loan is subject to approval by the City Attorney and outside bond counsel that the GO bonds may be used for loans. According to MOHCD staff, the City Attorney's Office believes the proposed loan is an appropriate use of 2020 Health and Recovery General Obligation Bond proceeds.

The source of funds for the LOSP subsidy is the General Fund.

POLICY CONSIDERATION

HAF-Funded Predevelopment and Construction to Reduce Requirements and Costs

It is MOHCD's general practice to provide funding for new affordable housing projects for predevelopment and to provide permanent financing at construction loan close to help finance construction. For the 1633 Valencia project, the City is providing funding for the project at permanent financing conversion, which allows the project to be developed at reduced cost. Because development of the project through construction is being funded privately (through the HAF and tax credits), the developer is subject to fewer regulations compared to what is required for other affordable housing projects that receive funding from the City prior to construction and is not subject to the same accessibility standards[3] or procurement requirements. While the project must comply with First source Hiring and prevailing wage requirements, the project is not subject to local business enterprise contracting requirements, public art requirements, and other requirements. While these requirements advance policy goals, they add cost to affordable housing development.

The Tahanan project, which used a similar model, cost approximately $377,000 per unit and was developed in three years and one month according to a December 2022 Evaluation of the Homes for the Homeless Fund by the Urban Institute. The estimated costs for the proposed 1633 Valencia project are $579,490 per unit. The MOHCD loan evaluation attributes the higher cost of the proposed project to construction cost escalation and the use of on-site construction rather than modular construction, which was used for the Tahanan project.

HAF Funding for the Project

The financing structure is possible due to significant funding from the HAF for predevelopment and construction. The HAF provided or will provide the following loans:

- A predevelopment loan for up to $4,926,022, with a three percent interest rate and origination fee of 0.45 percent through construction loan close
- A below-market rate construction loan of up to $18,815,937, with a 29-month term and a 4.9 percent interest rate
- A permanent loan for up to $16.0 million, with a 20-year term and a three percent interest rate (to be repaid by the proposed LOSP subsidy)

The HAF is able to provide significant funding to the project due to private and/or philanthropic funding received for projects that can be developed more quickly and at lower costs than typical affordable housing projects. According to the MOHCD loan evaluation, the HAF is securing $50 million in private funding for a new "innovation-focused fund", with the 1633 Valencia project as the first project to receive funding. For now, the HAF is providing funding for the 1633 Valencia

[3] According to the MOHCD loan evaluation, 22 units (15%) will meet San Francisco Building Code Chapter 11B accessibility standards, which apply to public buildings, and the remaining 124 units (85%) will meet Building chapter 11A adaptability standards, which apply to private construction of housing.

project itself while continuing to fundraise from philanthropic and corporate partners. None of the fundraising has closed and negotiations are subject to non-disclosure agreements.

If the City were to provide a larger permanent loan instead of the HAF providing a loan and the City paying debt service, there would be interest cost savings of approximately $4.9 million to the project. However, the City would need to provide additional funding at permanent conversion, and according to MOHCD staff, there is not sufficient funding from the proposed funding source (2020 Health and Recovery GO Bonds).

Developer to Own Land

The City subsidy per unit for 1633 Valencia ($372,000 per unit including the present value of debt service payments) is greater than comparable projects (approximately $250,00 per unit) because the City is funding a higher proportion of development costs compared to other projects. However, the City will not own the land for 1633 Valencia, which is MOHCD's practice for new development projects.[4] The project sponsor (Mercy) will own the land and the improvements, and the City will ensure long-term affordability of the project through a Declaration of Restrictions, the City Option to Purchase, and Right of First Refusal. According to MOHCD staff, this structure will enable the project to be developed at reduced cost as ground leasing the land to the project sponsor prior to permanent loan conversion would require that the project comply with City requirements described above, including local business enterprise and public art requirements.

Annual General Fund Appropriation for Debt Service

Because approval of the proposed resolution commits the City to annual General Fund appropriations of $1,158,969 to fund the project's debt service for 18 years, and the City will not own the project's land, approval of the proposed resolution is a policy matter for the Board of Supervisors.

RECOMMENDATION

Approval of the proposed resolution is a policy matter for the Board of Supervisors.

[4] It is MOHCD's general practice to own the land for new affordable housing projects and enter into a ground lease with the project sponsor for up to 99 years to ensure the affordability of the project over the term of the ground lease.

Item 13 **File 24-0152**	**Department:** Adult Probation

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the fifth amendment of the grant agreement between Adult Probation Department (ADP) and Tenderloin Housing Clinic to provide transitional housing to justice-involved adults in San Francisco, increasing the not-to-exceed amount by $1,214,651 to $11,143,960. The term of the grant is unchanged and ends on June 30, 2024.

Key Points

- Tenderloin Housing Clinic entered into an agreement with ADP in March 2020 to provide three housing programs for justice-involved individuals in San Francisco: (1) an 89-unit, two-site Clean & Sober transitional housing program; (2) a 15-unit single-site emergency stabilization program for adults referred from Collaborative Courts; and (3) a short-term rental subsidy program.
- Due to poor enrollment and performance, Tenderloin Housing Clinic and ADP modified the grant-funded programming to remove the rental subsidy program, change the emergency housing program to transitional housing for any justice-involved adult, and transfer one of the transitional housing sites to another APD provider.
- Property conditions at the current sites have not been inspected since 2022. At that time, monitoring found 39 percent vacancy at one site and did not inspect vital health and safety standards at another site.
- Program occupancy has improved in the most recent quarterly reports, though exits to reliable housing from one transitional housing program remain below performance standards (40 percent) at 12 percent.

Fiscal Impact

- The proposed not-to-exceed amount of $11,143,960 is based on historical budgeted grant spending plus actual and projected spending in FY 2023-24 and is 1 percent greater than the total projected spending of $10,989,266, providing a small contingency should actual spending needs be higher than budgeted.
- The grant is funded entirely by General Fund monies.

Policy Consideration

- The programming under this grant has changed significantly since its original implementation. While the target population has been expanded in order to maintain adequate enrollment, the overall number of units available has decreased by approximately 30 percent and the rental subsidy program no longer exists. Grant costs have remained consistent year-to-year through these reductions.
- The proposed amendment retroactively funds expenses incurred beyond the $10 million threshold for Board of Supervisors approval, from January 2024 through June 2024.

Recommendation

- Approval of the proposed resolution is a policy matter for the Board of Supervisors.

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

Solicitation and Procurement

In 2019, the Adult Probation Department (ADP) issued a Request for Qualifications (RFQ) for nonprofit organizations to provide housing and supportive services for justice-involved adults in San Francisco.[1] The total not-to-exceed amount between all grant agreements awarded under the RFQ was $15,000,000 annually. Any grant agreement awarded would have an original term of two years with the option to extend the contract for an additional three-year term, for a total of five years.

Eight organizations responded to the RFQ, and seven met the minimum qualification score of 70 points needed to enter contract negotiations. Three reviewers scored proposals based on project narrative and estimated budget (75 points) and agency/staff qualifications (25 points).[2] Scores from the qualifying providers are shown in Exhibit 1 below.

Exhibit 1: Qualified Proposals and Scores from 2019 RFQ

Service Provider	Score (Out of 100)
Center on Juvenile and Criminal Justice	95
Tenderloin Housing Clinic	94
Phatt Chance Community Services	94
Episcopal Community Services	92
Bayview Senior Services	91.33
Recovery Survival Network	82.67
Westside Community Services	64.33

Source: ADP

According to ADP Deputy Director of Administration and Finance Taras Madison, the Department generally has two years to issue awards for any grant agreement under an RFQ. Organizations

[1] RFQ #ADP2019-02.

[2] The evaluation panel consisted of an ADP Public Service Aide, a staff person from the San Francisco Housing Rights Committee, and a director of case management services at UCSF.

earning a minimum qualifying score are placed on a pre-qualification list and are selected for grants as new programs are needed.

Contract History

Based on their qualifying RFQ score and subsequent negotiations, ADP awarded a grant agreement to Tenderloin Housing Clinic (THC) for an amount not to exceed $5,745,022 and a term of 48 months beginning March 1, 2020, through February 28, 2022. According to ADP staff, THC provided this service under a prior grant as well.

The contract agreement between ADP and Tenderloin Housing Clinic has been amended four times since its original execution. The revision history is shown in Exhibit 2 below.

Exhibit 2: Executed Contract History

Version	Executed	Term	Total NTE	Change in NTE
Original	Mar 1, 2020	Mar 1 2020 - Feb 28 2022	$5,745,022	-
Amendment 1	July 1, 2021	Mar 1 2020 - Feb 28 2022	$5,515,571	-229,451
Amendment 2	Dec 1, 2021	Mar 1 2020 - Jun 30 2022	$6,336,425	820,854
Amendment 3	July 1, 2022	Mar 1 2020 - Jun 30 2024	$8,706,081	2,369,656
Amendment 4	July 1, 2023	Mar 1 2020 - Jun 30 2024	$9,929,309	1,223,228

Source: ADP

The amendments shown above did not require Board approval as the total not-to-exceed amount for each version of the agreement did not surpass $10 million. However, beginning with Amendment No. 3, the contract term was extended without allocating sufficient spending authority for the entire term. According to the agreements' budget appendices, the not-to-exceed amount established under Amendment No. 3 only budgeted funds from July 1, 2022, through June 30, 2023, while Amendment No. 4 only included an additional six-month budget through December 31, 2023. According to ADP staff, the Department's historical practice has been to fund and amend contracts on an annual basis. Only half of FY 2023-24 was funded because contract spending reached the $10 million threshold for Board of Supervisors' approval.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the fifth amendment to the grant agreement between Tenderloin Housing Clinic and the Department of Adult Probation, increasing the not-to-exceed amount by $1,214,651 for a total amount not to exceed $11,143,960. As established in the third amendment to the contract, the term of the grant agreement remains from March 1, 2020, through June 30, 2024.

Contract Terms

Per their original agreement with ADP, Tenderloin Housing Clinic was to operate three housing programs for justice-involved adults in San Francisco:

(1) Clean and Sober Transitional Housing: Tenderloin Housing Clinic's New Horizons and New Roads programs provided up to 89 units of transitional housing (up to 12 months) for ADP clients completing 180 days of residential drug treatment or those with Enhanced Outpatient Program status.[3] The units are located at the Drake Hotel (235 Eddy, up to 60 units) and previously at the Hart Hotel (93 Sixth Street, up to 29 units) under master leases. Under the agreement, THC is responsible for providing case management services and property management at each site. Clients enrolled in these programs will work with program staff to enroll in benefits, create a savings account and to secure permanent stable housing upon their exit, no more than 12 months after program entry. As discussed below, programming has been revised since the original agreement was executed.

(2) Stabilization Housing provides up to 15 units of emergency housing for ADP clients under the purview of the Collaborative Courts system. The program was initially at the Broadway Hotel (2048 Polk); however, it moved to the Sharon Hotel (226 Sixth Street) in 2022. Tenderloin Housing Clinic provides property management.

(3) The Rental Subsidy Program provided a monthly housing grant up to $350 per month over a maximum of six months for ADP clients trying to transition into market rate permanent housing. On a case-by-case basis, clients may instead receive a one-time grant to assist with eviction prevention, move-in costs, or other housing expenses. Clients must have a 90-day employment history and minimum monthly income of $2,200 to be eligible for the subsidy. As discussed below, this program was terminated in 2021.

The contract requires that Tenderloin Housing Clinic maintain the staff necessary for property management and to assist clients with exits to permanent housing. ADP provides case managers to clients under a separate agreement. Although the agreement provides a line-item budget, it does not specify how many FTE positions are funded by grant monies. ADP staff informed the BLA that specific FTE positions are determined and mutually agreed upon at the beginning of every budget period by Tenderloin Housing Clinic and ADP.

Monitoring and Compliance

Per the contract, Tenderloin Housing Clinic must submit quarterly and annual reports to ADP. They include information on enrollment, exit, and entry and are used to measure adherence to the performance measures established in the contract. ADP monitors data provided by THC and conducts periodic site visits. ADP provided the last eighteen months of quarterly reports to the BLA for evaluation and are included in Exhibit 3 below.

[3] Per the California Department of Corrections, Enhanced Outpatient Programming refers to a mental health outpatient program whose goal is to provide clinical intervention to return justice involved individuals to the least restrictive clinical and custodial environment.

Exhibit 3: Performance Outcomes July 2022 through December 2023

Metric	FY 2022-23	FY 2024 Q1/Q2
Transitional Housing (New Horizons at Drake Hotel)		
Occupancy at 80% (38/48 beds)	Achieved: 80%	Achieved: 85%
Reduce homelessness by 14,600 days annually (or 7,320 every six months)	Achieved: 14,576 days	Achieved: 8,649 days
40% exits to permanent housing placements	Not Achieved (8%): 96 clients, 17 completed program, 8 obtained housing	Not Achieved (12%): 7/57 clients obtained housing
Stabilization Housing (Leroy Looper at Sharon Hotel)		
Occupancy at 80% (12/15 beds)	Not Achieved: 73%	Achieved: 82%
Reduce homelessness by 4,380 days annually (or 2,190 every six months)	Not Achieved: 3,983 days	Achieved: 2,668 days
40% exits to permanent housing placements	Not Achieved (10%): 2/20 clients obtained housing	Achieved (40%): 2/5 clients obtained housing
Participant Satisfaction of 85%	Not reported	Not reported

Source: ADP
Notes: The Clean and Sober Transitional Housing program at the Drake Hotel was opened to all justice-involved individuals in need of housing in Q3 of FY 2023.
The Leroy Looper residence transitioned from emergency housing to housing for any justice-involved individual that had successfully completed residential drug treatment or another transitional housing program in Q3 of FY 2023.
Reducing homelessness is calculated by: program capacity bed count x 365 x 80% occupancy.

Program Operations

Adult Probation and Tenderloin Housing Clinic has had to modify programs due to low enrollment and outcomes, detailed below.

Rental Subsidy Program

According to ADP staff, the Tenderloin Housing Clinic and Adult Probation ended the rental subsidy program in 2021 due to its poor performance. The program was eliminated from the grant agreement after the second amendment of the contract.

Transitional Housing Programs

Hart Hotel: Due to low enrollment and performance, the Transitional Housing Program at the Hart Hotel was terminated in December 2021. THC maintained the lease through December 2023, after which it was transitioned to Westside Community Services, a non-profit service provider. Westside began providing services at the Hart Hotel in 2022, which is now used for the Billie Holiday Navigation Center, another ADP reentry program.[4]

Drake and Sharon Hotels: In the first half of FY 2022-2023, program staff responded to the continued low enrollment of the transitional living and stabilization housing programs by expanding the scope of their target populations. Clean and Sober transitional living at the Drake Hotel was expanded to include any justice-involved individual in San Francisco as opposed to ADP clients exclusively, and is no longer a clean and sober program.[5] Around the same time, the stabilization housing program at the Sharon Hotel—also known as the Leroy Looper program—evolved from being an emergency housing program for the Collaborative Courts to a de-facto transitional housing "graduate program" for any justice-involved adult in San Francisco that had completed at least six months of residential drug treatment or another transitional housing program.

Performance has improved since Q1/Q2 of FY 2023 due to the expansion of eligibility in Q3; occupancy rates have improved at both the Drake and Sharon hotels. However, even with the expansion, the transitional housing program at the Drake Hotel continues to underperform in placements to permanent housing with only 7 of the 57 programs exiting achieving stable permanent housing upon exiting, or 12.3 percent.

Tenderloin Housing Clinic has never conducted a participant satisfaction survey as required under the contract. ADP staff informed the BLA they intend to roll out surveys in the future and that the Department has not yet implemented this requirement.

Property Conditions

The grant agreement with Tenderloin Housing Clinic requires quarterly inspections of program properties. Inspections evaluate the building and its units through a series of health and safety criteria on a pass/fail basis. According to ADP staff, informal site visits occur regularly but the most recent formal visit took place in 2022. Short staffing prevented a 2023 site visit and official visits are expected to resume in 2024.

Hart Hotel: ADP has never completed a formal inspection of site conditions at the Hart Hotel.

Drake Hotel: The 2022 inspection at the Drake Hotel passed the building on all but one of the 31 evaluated health and safety criteria. Of the 41 units assessed in 2022, 16 were vacant, 12 failed, and 13 passed. According to ADP staff, as of April 9, 2024 the Drake Hotel had three vacancies.

The Stabilization Program moved from the Broadway Hotel to the Sharon Hotel in 2022 due to poor site conditions at the Broadway Hotel. The formal inspection of the Sharon Hotel in 2022

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[4] According to ADP's grant agreement with Westside, the Billie Holiday program provides transitional housing, case management, meals, and other programming. According to data provided by ADP, the program had a 79% occupancy rate for FY 2022-23, provided clients with service plans and referrals, and resulted in 48 percent of clients exiting to permanent housing (the exit target in the grant agreement is 40 percent).

[5] Deputy Director Madison informed the BLA that the occupancy at the Drake was not an issue until other transitional housing programs were opened, which provided clients with more housing choices.

evaluated the premises based on 24 criteria. Of these 24, the building failed on 2 and passed on 10. The inspection document gave a "did not inspect" comment for the remaining 12 metrics which includes but is not limited to inspection of the plumbing systems, locks and security devices, smoke alarms, and fire extinguishers. ADP staff informed the BLA these standards are not inspected in a block rental building. The inspection also evaluated the 12 units at the Sharon Hotel and passed only two of the twelve. The remaining units failed on the basis of needing repairs, paint, new furniture or bedding, odor abatement, and/or cleaning.

Corrective Actions

Tenderloin Housing Clinic is required under the grant agreement to review and update a Grantee Operations Matrix (GOM) on a quarterly basis that monitors contract compliance, reports on goal achievement, and solicits feedback from ADP as needed. According to ADP staff, the GOM document was changed to a "Notice of Contract Operations Requirement" system wherein ADP relays corrective requirements in line with contract compliance to Tenderloin Housing Clinic on an as-needed basis. One corrective action was issued in January 2023 because THC staff did not attend a weekly meeting with ADP staff.

Financial Monitoring

According to the FY 2022-23 Annual Report of the Citywide Nonprofit Monitoring and Capacity Building Program, THC was reviewed for compliance with financial health and governance best practices and had no findings.

FISCAL IMPACT

The proposed resolution would increase the not-to-exceed amount of the grant agreement between Tenderloin Housing Clinic and ADP by $1,214,651 for a total amount not to exceed $11,143,960. The proposed resolution would retroactively approve funds disbursed under the agreement beginning on January 1, 2024, and fund operations through June 30, 2024. According to ADP staff, the proposed amendment is late coming to the Board of Supervisors because ADP was busy procuring new housing providers in 2023. Awards are pending and the final grant amounts depend on the FY 2024-25 approved budget.

Exhibit X below shows actual spending through December 2023 and the proposed $1.2 million increase, which is included in the FY 2023-24 figures.

Exhibit X: Grant Spending

Budget	Actual FY 2019-20*	Actual FY 2020-21	Actual FY 2021-22	Actual FY 2022-23	Actual & Projected FY 2023-24**	Total
Salaries & Benefits	266,816	1,042,301	882,586	883,559	1,043,210	4,118,473
Operating Expense	65,932	231,233	340,791	283,718	342,598	1,264,273
Indirect Costs (11.5%)	38,266	146,571	132,757	134,237	165,098	616,929
Lease Expenses	311,122	1,137,646	1,222,710	1,214,055	1,363,673	5,249,205
Rental Subsidies	0	0	0	0	0	0
Total	**682,136**	**2,557,751**	**2,578,844**	**2,515,569**	**2,914,579**	**11,248,880**
Less: Tenant Income	**(24,134)**	**(72,527)**	**(59,066)**	**(62,758)**	**(41,129)**	**(259,614)**
Net Cost To City	**658,002**	**2,485,224**	**2,519,778**	**2,452,811**	**2,873,450**	**10,989,266**

Source: ADP and Proposed Fifth Amendment

Notes: FY 2019-20 values are 3/1/2020 – 6/30/2020. FY 2023-24 values include actual spending through December 2023 and proposed spending June 2024. Tenant income refers to tenants who live in buildings leased for the grant-funded programs but are not ADP clients.

The proposed not-to-exceed amount of $11,143,960 is based on historical budgeted grant spending plus actual and projected spending in FY 2023-24 and is 1 percent greater than the total projected spending of $10,989,266, providing a small contingency should actual spending needs be higher than budgeted.

Source of Funds

According to ADP, the grant program is fully funded by General Fund monies.

POLICY CONSIDERATION

THC has not consistently met its programmatic outcomes or property management goals defined in the agreement. The proposed grant was established to fund two clean and sober transitional sites with 89 residential units, 15 units of emergency housing, and 10-15 rental subsidies for justice-involved adults in San Francisco. However, only one of the two original transitional sites with 50 units of transitional housing is active, the emergency housing program has shifted to a transitional housing program, and the rental subsidy program was canceled early in the grant period. Occupancy of the existing programs between July 2022 to December 2023 is consistent with the grant's program performance standards. However, the transitional housing program at the Drake Hotel still does not achieve the housing placement rate required by the grant (40 percent of clients).

Providing housing to the reentry population is difficult work. ADP contracts with several providers to do so, including Tenderloin Housing Clinic and Westside Community Services, and has associated grants pending Board of Supervisors approval. The grant-funded residential programs provided by Westside Community Services (Files 24-0154 and 24-0153, Items 14 & 15 on this Budget & Finance meeting agenda) have generally performed well relative to contract standards, however THC did not. ADP should consider historical performance in its next procurement of residential program providers.

The City funds various residential programs in the Departments of Homelessness & Supportive Housing, Mayor's Office of Housing and Community Development, Public Health, and Adult Probation. Each department has different monitoring practices, reflecting institutional capacity, revenue requirements, and program goals. However, the City may benefit from establishing standardized and centralized monitoring standards and processes. The Controller's Office reached a similar conclusion in its August 2022 Performance Audit, "The City Should More Effectively Evaluate the Impact of Services Provided by Community-Based Organizations."

Finally, the proposed amendment retroactively funds expenses incurred beyond the $10 million threshold for Board of Supervisors approval, from January 2024 through June 2024. ADP submitted this request for Board approval in February 2024. The untimely submission of this request reduces the Board's discretion in approving new funding. According to APD staff, if the proposed funding is not approved, the housing programs could be terminated.

RECOMMENDATION

Approval of the proposed resolution is a policy matter for the Board of Supervisors.

Item 14 File 24-0153	Department: Adult Probation Department (APD)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the second amendment of the grant agreement between APD and Westside for the Minna Project, which provides transitional housing to justice-involved adults in San Francisco, extending the term from June 2024 through April 2027, and increasing the not-to-exceed amount by $11,128,662, for a total not to exceed $18,336,834.

Key Points

- Westside manages the Minna Project, which is a 72-bed supportive housing site with wraparound services at 509 Minna Street in San Francisco, where participants can stay for up to two years. The target population is justice-involved individuals, who are individuals either on parole or who have a criminal history, and who are homeless with a dual diagnosis (have a history of substance use and mental health challenges).
- The goal of the Minna Project is to house participants while providing wraparound case management support and exit participants into stable permanent housing.
- The program met or exceeded its occupancy and permanent housing exit targets in CY 2023. However, APD did not assess whether clients recidivated nor did APD assess the condition of the property, the lease for which is funded by the proposed agreement.

Fiscal Impact

- The budget for the proposed contract extension from June 2024 to April 2027 is $11,090,180, to be funded by Proposition C funds.
- The budget for the existing contract is $7.2 million, but only $4.8 million has been spent to date. According to APD staff, underspending is due to delays in program ramp up, which included staff hiring delays and no master lease costs for the first few months.

Recommendations

- The Budget & Legislative Analyst recommends the Board of Supervisors request APD conduct comprehensive performance monitoring and regular site visits, starting in 2024.
- 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) modification to any such contracts of more than $500,000 is subject to Board of Supervisors approval.

BACKGROUND

In November 2020, the Adult Probation Department (APD) issued a Request for Qualifications (RFQ) for housing and supportive services for justice-involved adults in San Francisco. APD received eight responses and an evaluation panel reviewed and scored them based on project concept (90 points) and budget (10 points), as shown in Exhibit 1 below.[1]

Exhibit 1: Qualified Proposals and Scores from 2020 RFQ (Housing and Supportive Services)

Proposer	Average Score (Out of 100 Possible Points)	Pre-Qualified (Minimum 70 Points) (Y/N)
Amity Foundation	77.50	Y
Bayview Senior Services	72.50	Y
Center on Juvenile and Criminal Justice	87.67	Y
Five Keys Schools & Programs	87.77	Y
Phatt Chance Community Services	90.67	Y
Recovery Survival Network	80.00	Y
Tenderloin Housing Clinic	93.67	Y
Westside Community Services	81.33	Y

Source: APD

Westside Community Services (also known as Westside Community Mental Health Center, or Westside) was selected under this RFQ and awarded a contract. Westside's contract was for a transitional supportive housing program now known as the Minna Project. In May 2022, APD executed a contract with Westside for a term of 14 months, from May 1, 2022 to June 30, 2023 with a not to exceed amount of $3,688,310 and an option to extend the agreement to January 2027. The agreement included an advance payment of up to $922,078 to provide seed funding for the new program and to be repaid over six months. According to APD staff, the actual amount advanced totaled $610,730 and has been repaid.

In July 2023, APD executed the first amendment to the contract, extending the term by one year through June 30, 2024, and increasing the not to exceed amount by $3,519,862, for a total not

[1] The evaluation panel for the RFQ consisted of a Behavioral Health Case Manager at UCSF, a Deputy Director for Programs at HSH, and an independent consultant with lived substance use disorder experience.

to exceed $7,208,172. The first amendment also updated the grant agreement to state the grantee is in good standing with the California Attorney General's Registry of Charitable Trusts.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the second amendment of the grant agreement between APD and Westside for the Minna Project, which provides supportive housing to justice-involved adults in San Francisco, extending the grant from June 2024 to April 30, 2027, and increasing the not-to-exceed amount by $11,128,662, from $7,208,172 to $18,336,834.

Services Provided

Under the contract, Westside operates the Minna Project, a supportive housing site with wraparound services at 509 Minna Street, San Francisco, CA 94103, a building for which Westside holds a master lease with the property owner. The Minna Project provides clinical case management and housing to justice-involved adults who are homeless with serious mental health illness and co-occurring substance use disorder. The program has a 72-bed capacity, and a participant can stay for up to 24 months.

The goal of the Minna Project is to help participants transition into stable housing. The Minna Project offers services including support groups, community service opportunities, and outpatient mental health and substance use disorder treatment. Westside is responsible for maintaining the building and grounds at 509 Minna Street to ensure all living spaces comply with health, safety, and fire codes, as well as conducting plumbing, electrical, and other repairs.

Fiscal and Performance Monitoring

ADP does not complete a formal performance monitoring report for this grant. However, the agreement requires Westside provide semi-annual reports, which we reviewed to assess the performance of the program. The reports contain evidence of APD's assessment of Westside's performance.

Program Performance

Although the program launched and accepted its first client in May 2022, the building was not fully occupied until October 2022. Westside reports show that from January through December 2023, the Minna Project met or nearly met four out of five objectives required by the grant agreement.

Exhibit 2 details the Minna Project objectives (goals and actuals).

Exhibit 2: Program Metric Goals and Actuals (Jan – Dec 2023)

Program Objective	Metric Goal	Reported Metric (Jan - June 2023)	Reported Metric (July - Dec 2023)
Maintain an 85% occupancy rate (61 out of 72 beds)	85%	86%	83%
Reduce homelessness by 22,338 days annually	11,169 days (per 6 months)	11,226 days	10,950 days
65% of participants exiting the program complete it successfully	65%	68%	58%
40% of the participants exit the program to permanent or stable housing	40%	83%	87%
Produce annual program recidivism report in partnership with APD	Yes	No	No

Source: Westside semi-annual reports to APD

From January to June 2023, the program met four of five of its objectives. From July through December 2023, The Minna Program met one of five of its objectives but was close in three others: occupancy rate, days of homelessness reduced, and successful program completion rate. According to program staff, the reason for lower performance in July through December 2023 is because the Minna Program Director left in Fall 2023 and intake was slowed for two months until a replacement Director was hired along with more case managers. Additionally, APD staff note that the participants who exited the program without successfully completing the program (42 percent) were transferred to a different level of service, which were mostly to detox, a residential drug treatment program, or Psychiatric Emergency Services (PES).

Although required by the agreement, Westside did not produce an annual program recidivism report with APD. According to APD staff, this was due to APD's limited staff capacity to pull the necessary criminal justice data to link to Westside clients.

Finally, APD reports that its probation officers visit clients at the Minna site. However, the Department has not conducted any site visits to evaluate the condition of the property. According to APD Deputy Director Taras Madison, staff visited the site during development of the program. Due to staff limitations, future site visits did not take place and site visits will resume in 2024.

In summary, the program met or exceeded its occupancy and permanent housing exit targets in CY 2023. However, APD has not assessed whether clients recidivated nor assessed the condition of the property. The Budget & Legislative Analyst recommends APD conduct comprehensive performance monitoring and regular site visits, starting in 2024.

Financial Condition

According to a July 2023 fiscal and compliance monitoring report by the Department of Public Health, for eight years from FY 2012-13 through FY 2019-20 Westside operated at a deficit and the Department of Public Health's (DPH) external auditors noted a "going concern" in their audited financial statements. The Controller's Office issued an "Elevated Concern" and developed a Technical Assistance workplan. In FY 2020-21 and FY 2021-22, Westside operated with a surplus. Westside received financial coaching in FY 2022-23 at no cost through the Controller's office. The Department of Public Health reviewed Westside for core financial health indicators and reported in their FY 2022-23 Annual Report of their Citywide Nonprofit Monitoring and Capacity Building Program that Westside had no findings, although it provided two recommendations: 1) that Westside hold 60 days of operating cash on hand (currently it holds 33 days of operating cash); and 2) that Westside aim to achieve positive change in cash over two consecutive years (its most recent change in cash was negative).

FISCAL IMPACT

The proposed second amendment would extend the grant term from June 2024 to April 30, 2027, and increase the not-to-exceed amount of the contract between APD and Westside by $11,128,662, for a total not to exceed $18,336,834. The estimated annual uses of funds for the proposed extension (July 2024 to April 2027) are shown in Exhibit 3 below. The contract includes 10 percent in contingency funding each year.

The cost breakdown is shown in Exhibit 3 below.

Exhibit 3: Five-Year Expenditure Plan

Expenditures	May - June 2022	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	July 2026 - April 2027[2]	Total
Salaries & Benefits	$207,968	$1,253,568	$1,518,097	$1,518,097	$1,518,097	$1,265,081	$7,280,908
Operating Expense	$104,386	$620,553	$569,119	$569,119	$569,119	$474,266	$2,906,562
Subtotal	$312,354	$1,874,121	$2,087,216	$2,087,216	$2,087,216	$1,739,347	$10,187,470
Indirect %	16%	16%	16%	16%	16%	16%	16%
Indirect Cost	$49,977	$299,859	$333,955	$333,955	$333,955	$278,296	$1,629,995
Master Lease Rent	$72,000	$1,080,000	$1,137,176	$1,137,176	$1,137,176	$947,646	$5,511,174
Budgeted Expenditures	**$434,331**	**$3,253,980**	**$3,558,347**	**$3,558,347**	**$3,558,347**	**$2,965,289**	**$17,328,639**
Contingency (10%)				$355,835	$355,835	$296,529	
Total Not-To-Exceed							**$18,336,837**

Source: Appendix B-2 of the proposed Second Amendment to the Grant Agreement.

Note: The above table total is $3 more than Appendix B-2 of the proposed Second Amendment to the Grant

[2] According to APD Deputy Director Madison, the contract ends just after the fiscal year end because April 2027 is five years from the beginning of the Minna Project. The RFQ provided for a grant term of five years.

Agreement, likely due to rounding error.

As shown above, the proposed amendment would add roughly $11.1 million to the existing contract for the next almost three years, for a total not to exceed amount of $18,336,834.

Underspending

The budget for the existing grant totals $7.2 million. However, actual spending to date totals $4.8 million. According to APD staff, underspending on the agreement to date is due to delays in program start up, which included delays in hiring staff and no master lease costs for the first few months.

Funding Source

This contract is funded with DPH Proposition C funds.

RECOMMENDATIONS

1. The Budget & Legislative Analyst recommends the Board of Supervisors request APD conduct comprehensive performance monitoring and regular site visits, starting in 2024.
2. Approve the proposed resolution.

Item 15 File 24-0154	Department: Adult Probation Department (APD)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the third amendment to the grant agreement between ADP and Westside for the Therapy, Prevention, and Recovery (TRP) Academy, extending the term by 25 months through July 2026, and increasing the not to exceed amount by $8,135,531 for a total of $17,308,923.

Key Points

- Westside manages the Positive Directions TRP Academy, a 65-bed sober transitional living facility at 630 Geary Street in San Francisco. The target population is justice-involved male adults, who are either on parole or who have a criminal history. Participants progress through five phases of the program and may stay up to two and a half years. The goal of the Positive Directions TRP Academy is to help participants live a drug-free life and transition into stable housing.
- The program met or exceeded its occupancy target and permanent housing exit targets in CY 2023. However, APD has not assessed the condition of the property since August 2022, the lease for which is funded by the proposed agreement. When APD assessed the condition of the property in prior years, the documentation was inconsistent and APD did not verify that Westside has addressed the findings of the site visits.

Fiscal Impact

- The budget for the proposed contract extension from June 2024 to July 2026 is $7,977,675, would be funded by the General Fund.
- The budget for the existing contract is $9.3 million but only $6.8 million has been spent to date. According to APD staff, underspending is due to the gradual roll-out of the program and hiring of staff.

Recommendations

- The Budget & Legislative Analyst recommends the Board of Supervisors request APD conduct comprehensive performance monitoring and regular site visits, starting in 2024.
- 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) modification to such contracts of more than $500,000 is subject to Board of Supervisors approval.

BACKGROUND

In November 2020, the Adult Probation Department (APD) issued a Request for Qualifications (RFQ) for housing and supportive services to justice-involved adults in San Francisco. APD received eight responses, which an evaluation panel reviewed and scored based on project concept (90 points) and budget (10 points), as shown in Exhibit 1 below.[1]

Exhibit 1: Qualified Proposals and Scores from 2020 RFQ (Housing and Supportive Services)

Proposer	Average Score (Out of 100 Possible Points)	Pre-Qualified (Minimum 70 Points) (Y/N)
Amity Foundation	77.50	Y
Bayview Senior Services	72.50	Y
Center on Juvenile and Criminal Justice	87.67	Y
Five Keys Schools & Programs	87.77	Y
Phatt Chance Community Services	90.67	Y
Recovery Survival Network	80.00	Y
Tenderloin Housing Clinic	93.67	Y
Westside Community Services	81.33	Y

Source: APD

Westside Community Services (also known as Westside Community Mental Health Center, or Westside) was selected under this RFQ and awarded a contract. Westside's contract was for a Treatment, Recovery, and Prevention (TRP) program. In August 2021, APD executed a contract with Westside for a term from August 1, 2021 to June 30, 2023 with a not to exceed amount of $6,221,748. The agreement included an advance payment of $756,564 to provide seed funding for the new program and to be repaid over six months. According to APD staff, the advance payment has been repaid.

In September 2022, APD executed the first amendment to the contract, decreasing the not to exceed amount by $371,666, for a total not to exceed $5,850,082 with no changes to the length

[1] The evaluation panel for the RFQ consisted of a Behavioral Health Case Manager at UCSF, a Deputy Director for Programs at HSH, and an independent consultant with lived substance use disorder experience.

of term. According to APD staff, APD decreased the not to exceed amount due to perceived budgetary constraints within the department.

In July 2023, APD executed the second amendment to the contract, extending the term by one year through June 30, 2024, increasing the not-to-exceed amount by $3,323,310 for a total not to exceed $9,173,392. The second amendment also updated the grant agreement to state the grantee is in good standing with the California Attorney General's Registry of Charitable Trusts.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the third amendment of the contract between APD and Westside for the TRP program, extending the grant by 25 months to July 31, 2026 and increasing the not to exceed amount by $8,135,531 for a total not to exceed $17,308,923.

Services Provided

Under the contract, Westside manages the Positive Directions TRP Academy, an abstinence-based transitional housing program located at 630 Geary Street, San Francisco, CA 94102. The TRP Academy is a clean and sober transitional housing program for justice involved male adults in San Francisco. The program has a 65-bed capacity, and a participant can stay for up to 30 months.

The goal of the TRP Academy is to help participants live a drug-free life and transition into stable housing. The TRP Academy offers a five-phase program for participants to develop a drug-free life. Phases 1-4 last six months and consists of group therapy for substance abuse, peer-to-peer mentoring, life skills classes, and career development sessions. Once a participant completes Phases 1-4, they can move to Phase 5 for up to 24 months, where participants focus on learning to live independently. Westside is responsible for maintaining the building and grounds at 630 Geary Street to ensure all living spaces comply with health, safety, and fire codes, as well as conducting plumbing, electrical, and other repairs.

Fiscal and Performance Monitoring

ADP does not complete a formal performance monitoring report for this grant. However, the agreement requires Westside provide semi-annual reports, which we reviewed to assess the performance of the program. The reports contain evidence of APD's assessment of Westside's performance.

Program Performance

Westside reports show the TRP Academy met nine of its ten performance goals from January through December 2023. The performance goal Westside did not meet was related to the participant satisfaction survey, which Westside has not conducted.

Exhibit 2 details the TRP Academy objectives (goals and actuals).

Exhibit 2: Program Metric Goals and Actuals (Jan – Dec 2023)

Program Objective	Metric Goal	Reported Metric (Jan - June 2023)	Reported Metric (July - Dec 2023)
Maintain 80% occupancy rate (52 out of 65 beds)	80%	92%	92%
Reduce homelessness by 18,980 days annually	9,490 days (per 6 months)	10,816 days	11,033 days
70% of enrolled participants successfully complete Phases 1-3	70%	76%	73%
60% of participants enrolled remain clean and sober in Phases 1-3	60%	72%	73%
75% of participants who enter Phase 4 successfully complete Phase 4	75%	85%	90%
70% of participants in Phase 4 remain clean and sober in Phase 4	70%	91%	93%
40% of participants who successfully complete Phase 4 remain clean and sober for 1 year	40%	100%	47%
80% of participants who successfully complete Phase 4 exit to permanent or stable housing	80%	80%	100%
80% of participants who successfully complete Phase 5 exit to permanent or stable housing	80%	81%	80%
85% of participants rate the program favorably on the participant satisfaction survey conducted twice a year	85%	n/a	n/a

Source: Westside semi-annual reports to APD

APD reports that its probation officers visit clients at the TRP site. APD has conducted three site inspections since the TRP Academy launched in Fall 2021. The first was September 30, 2021, the second was on March 8, 2022, and the third was on August 17, 2022. During the August 17, 2022 site visit, 12 out of 41 rooms inspected failed inspection.

Each site visit was documented differently by APD: one was an email, one was a letter, one was an excel spreadsheet. There was no response from Westside, nor follow-up by APD confirming whether the findings from the site visits were addressed. According to APD Deputy Director Taras Madison, APD has not had sufficient staffing for regular site visits after August 2022 and site visits will resume in 2024.

In summary, the program met or exceeded its occupancy and permanent housing exit targets in CY 2023. However, APD has not assessed the condition of the property in over 20 months. The Budget & Legislative Analyst recommends APD conduct comprehensive performance monitoring and regular site visits, starting in 2024.

Financial Condition

According to a July 2023 fiscal and compliance monitoring report by the Department of Public Health, for eight years from FY 2012-13 through FY 2019-20 Westside operated at a deficit and the Department of Public Health's (DPH) external auditors noted a "going concern" in their audited financial statements. The Controller's Office issued an "Elevated Concern" and developed a Technical Assistance workplan. In FY 2020-21 and FY 2021-22, Westside operated with a surplus. Westside received financial coaching in FY 2022-23 at no cost through the Controller's office. The Department of Public Health reviewed Westside for core financial health indicators and reported in their FY 2022-23 Annual Report of their Citywide Nonprofit Monitoring and Capacity Building Program that Westside had no findings, although it provided two recommendations: 1) that Westside hold 60 days of operating cash on hand (currently it holds 33 days of operating cash); and 2) that Westside aim to achieve positive change in cash over two consecutive years (its most recent change in cash was negative).

FISCAL IMPACT

The proposed third amendment would extend the grant term from June 2024 until July 31, 2026 and increase the not-to-exceed amount of the contract between APD and Westside by $8,135,531, for a total not to exceed $17,308,923. The estimated annual uses of funds for the proposed extension (July 2024 to July 2026) are shown in Exhibit 3 below. The contract includes 10 percent in contingency funding each year.

The cost breakdown is shown in Exhibit 3 below.

Exhibit 3: Five-Year Expenditure Plan

Expenditures	Aug 2021 - June 2022	FY 2022-23	FY 2023-24	FY 2024-25	July 2025 - July 2026[2]	Total
Salaries & Benefits	$1,277,781	$1,633,487	$1,810,007	$1,810,007	$1,960,841	$8,492,123
Operating Expense	$294,891	$515,562	$449,356	$418,655	$418,945	$2,097,409
Subtotal	$1,572,672	$2,149,049	$2,259,363	$2,228,662	$2,379,786	$10,589,532
Indirect %	15%	15%	15%	15%	15%	15%
Indirect Cost	$235,901	$322,357	$338,904	$334,299	$356,968	$1,588,430
Master Lease Rent	$718,200	$851,904	$882,900	$918,206	$1,034,511	$4,405,721
Budgeted Expenditures	**$2,526,773**	**$3,323,310**	**$3,481,167**	**$3,481,167**	**$3,771,265**	**$16,583,683**
Contingency (10%)				$348,117	$377,126	$725,243
Total Not-To-Exceed						**$17,308,926**

Source: Appendix B-2 of the proposed third amendment.

Note: The above table total is $3 more than Appendix B-2 of the proposed third amendment to the Grant Agreement, likely due to rounding error.

As shown above, the proposed amendment would add roughly $8.0 million to the existing contract for the next just over two years, for a total not to exceed amount of $17,308,926.

Underspending

The budget for the existing grant totals $9.3 million. However, actual spending to date totals $6.8 million. According to APD staff, underspending on the agreement to date is due to the gradual roll-out of the program and hiring of staff.

Funding Source

Funding for this contract is from the General Fund.

RECOMMENDATIONS

1. The Budget & Legislative Analyst recommends the Board of Supervisors request APD conduct comprehensive performance monitoring and regular site visits, starting in 2024.
2. Approve the proposed resolution.

[2] According to APD Deputy Director Madison, the contract ends just after the fiscal year end because July 2026 is five years from the beginning of the TRP Program. The RFQ provided for a grant term of five years.