

Item 3 File 23-0991	Department: Homelessness and Supportive Housing (HSH)
EXECUTIVE SUMMARY	
<p>Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would approve the third amendment to the grant agreement between Episcopal Community Services (ECS) and the Department of Homelessness and Supportive Housing (HSH) for support services, property management, and master lease stewardship at the Henry Hotel, located at 106 Sixth Street and consisting of 121 units of permanent supportive housing for adults without children. • The amendment would extend the term by 20 months from November 1, 2023 through June 30, 2025. The grant amount would increase by \$4,853,433 for a total not to exceed amount of \$14,591,945. <p>Key Points</p> <ul style="list-style-type: none"> • According to the FY 2020-21 and FY 2021-22 program monitoring data provided by HSH, ECS met seven out of 11 program objectives in FY 2021-22, including a unit occupancy rate of 76 percent, which was below the 97 percent target. In addition, the FY 2020-21 & FY 2021-22 program monitoring report from December 2022 found significant pest control (insect) issues throughout the building. The Department recommended that ECS develop a pest control plan and support services plan to address the habitability concerns of residents, and HSH reports that no pest issues were found during a FY 2022-23 site visit. • The Department reports that monthly meetings are occurring among HSH, ECS, and subcontracted property management firm, Caritas, to monitor unit turnover, occupancy rates, housing retention, and tenant engagement, concerns, and satisfaction surveys. <p>Fiscal Impact</p> <ul style="list-style-type: none"> • The total cost of program services is \$19.2 million over the six-year term, which is funded by \$5.4 million in operating revenues consisting of tenant rents and Continuum of Care rental assistance revenue and \$13.8 million in City funds, which is almost entirely from the General Fund. Annual costs in the extension term are approximately \$3.7 million. • Total expenditures increased by 19 percent from FY 2021-22 to FY 2022-23 driven by an increase in higher subcontracted property management services provided by Caritas due to wage enhancements and utility costs. Costs increase by another 9 percent in FY 2023-24 primarily due to an additional 1.70 full-time equivalent positions, which funds two case manager positions—one of which is bilingual. <p>Recommendation</p> <p>Approve the proposed resolution.</p>	

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

Episcopal Community Services (ECS) is a non-profit that provides services to individuals who have experienced homelessness in San Francisco. The City entered into a grant agreement with ECS on June 1, 2019 to provide support services, property management, and master lease stewardship at the Henry Hotel for formerly homeless and income-eligible adults 18 and older, without the custody of minor children, pursuant to the grant agreement.

Existing Agreement with Episcopal Community Services

In June 2019, HSH approved a grant agreement with ECS for a three-year term starting on July 1, 2019, and expiring on June 30, 2022, with a total not to exceed amount of \$8,877,679. The Department then amended the agreement in March 2022 for an additional 12 months through June 30, 2023 and increased the not to exceed amount by \$860,833 for a total of \$9,738,512. A second no-cost amendment was approved to continue providing services for four months through October 31, 2023. The agreement has not previously required Board of Supervisors approval because it has had a term of less than ten years and has had anticipated expenditures of less than \$10 million.

Vendor Selection

ECS was selected for this service by HSH under Administrative Code Chapter 21B, which allows the Department to enter into service contracts without a competitive process to more quickly respond to the homelessness crisis. This code section sunsets in March 2024 or if the Point-in-Time Count falls below 5,250. According to the Department, ECS was selected because it has been providing supportive housing services at the Henry Hotel since 2014. ECS was previously selected to provide these services by the Human Services Agency under a competitive solicitation process in 2014.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the third amendment to the grant agreement between ECS and HSH for support services, property management, and master lease stewardship, extending the term by 20 months from November 1, 2023 through June 30, 2025. The grant amount would increase by \$4,853,433 for a total not to exceed amount of \$14,591,945.

Services Provided

According to Appendix A of the proposed agreement, ECS will provide:

- **Support Services**, including but not limited to tenant outreach; intake and assessment; case management; housing stability support; coordination with property management; wellness and emergency safety checks; planning support groups, social events and organized activities; and exit planning; and
- **Property Management**, including program applicant selection and intake; tenant lease set-up; annual tenant re-certification; collection of rents, security deposits, and other receipts; lease enforcement, written notices and eviction prevention; building service payments; building maintenance; coordination with support services; wellness checks and emergency safety checks; front desk coverage; and exit planning; and
- **Stewardship of the Master Lease**, including furnishing a copy of the master lease agreement and any amendments to HSH; maintenance of all Lessee responsibilities; and prompt notification to HSH of any situation that could impact the term of the master lease agreement.

The Henry Hotel, located at 106 Sixth Street, includes 121 units, and is owned by a private entity. Potential tenants are referred to units via HSH's Coordinated Entry System, which uses an assessment, centralized data system, and prioritization method that considers levels of vulnerability, length and history of homelessness, and severity of housing barriers. Further, eligibility for permanent supportive housing (PSH) varies based on the funding source, an individual's enrollment in specific benefits programs, income criteria, and/or the ability to live independently within the structure of the housing program, according to the grant agreement.

System of Care

According to HSH's Housing Inventory Dashboard, the Department has 11,194 units of permanent supportive housing.¹ Of these units, 9,137 units are site-based PSH, which includes the 121 units at Henry Hotel. During the 2022 Point-in-Time count, San Francisco counted 4,397 residents who were unsheltered, a 15 percent decrease from 5,180 residents in 2019.

Performance Monitoring

According to FY 2020-21 and FY 2021-22 program monitoring data provided by HSH, ECS met seven out of 11 program objectives in FY 2021-22, as shown in Exhibit 1 below. One objective—maintaining a minimum occupancy rate of 97 percent²—was not included in the FY 2020-21 or FY 2021-22 program monitoring report due to an administrative error, but occupancy rates were provided to HSH in monthly reporting. HSH staff reported to our office an average occupancy rate of 76 percent in FY 2021-22. In addition, the FY 2020-21 & FY 2021-22 program monitoring report from December 2022 found significant pest control (insect) issues throughout the building. The Department recommended that ECS develop a pest control plan and support services plan to address the habitability concerns of residents, and HSH reports that no pest issues were found during a site visit in FY 2022-23. Further, HSH reports that monthly meetings are occurring among

¹ HSH Housing Inventory Dashboard: <https://hsh.sfgov.org/services/the-homelessness-response-system/housing/>

² HSH reports that the 97 percent occupancy rate will be lowered to 93 percent (upon renewal of the grant agreement) to align with the Department's systemwide goal for its PSH portfolio.

HSH, ECS, and subcontracted property management firm, Caritas, to monitor unit turnover, occupancy rates, housing retention, and tenant engagement, concerns, and satisfaction surveys.

Exhibit 1: Henry Hotel Met Seven out of 11 Program Monitoring Metrics in FY 2021-22

Objectives	Achieved?	FY 2021-22 Actual
Support Services		
Engage at least 95% of tenants once every 30 days	Yes	126/131 tenants (96%) received outreach once every 30 days
Support services to 100% of households showing signs of housing instability	Yes	
Assessment to 100% of tenants within 90 days of move-in and annually thereafter for primary medical care, mental health, substance use treatment needs, maximizing income, and assisting in applying for benefits	Yes	
Review existing service plans with tenants at least once every 6 months	Yes	174 new or updated service plans for 115 residents
Administer an annual survey to all tenants	Yes	
Property Management		
Upon turnover, each unit is clean and/or repaired within 21 days, on average	No	45% of units were turned over within 21 days
Report vacancies in a timely fashion according to established procedures; process all tenant referrals in the pre-established timeframe of 2 weeks	Yes	All 19 vacated units were typically reported to HSH within four days; most vacant units took approximately 14-21 days to turnover
Minimum occupancy rate of 97 percent	No	76% in FY 2021-22
Outcome Objectives		
90% of tenants will maintain housing for a minimum of 12 months, move to other housing, or be provided with more appropriate placements	No	118/138 (86%) maintained their housing for at least 12 months
85% of tenant lease violations will be resolved without loss of housing to tenants	Yes	99% of tenant lease violations were resolved without loss of housing
At least 50% of tenants shall complete an annual Tenant Satisfaction Survey and of those, 80% will be satisfied or very satisfied with program services	Partially	66 (54%) of residents completed the survey; of those, 78% reported agreeing or strongly agreeing that the support services at the site were helpful

Source: HSH

The proposed grant extension funds increased wage floors for frontline workers (janitors, maintenance, desk clerks and case managers) as well as implementing a standard ratio of one case manager for 25 clients in adult PSH.

The proposed third amendment originally did not include a unit occupancy objective. We recommended HSH include an occupancy objective of 93 percent in the final version of the agreement, consistent with other permanent supportive housing agreements. HSH implemented this recommendation and submitted a revised version of the agreement to the legislative file.

Fiscal and Compliance Monitoring

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

HSH Future Procurement Plans

HSH currently reports that it intends to re-procure their PSH portfolio before this proposed extension ends in 2025. They anticipate a new agreement will be in place by FY 2025-26. We note that the competitive process for selecting new master lease providers is complicated by the fact that the Henry Hotel is privately owned and leased to ECS, which is then funded by the City. If ECS is not selected to provide housing services in a new procurement cycle, the City would likely have to arrange for current residents to be moved to other City-funded housing or for the lease to be transferred to a new provider.

FISCAL IMPACT

The proposed not to exceed amount of \$14,591,945, includes \$13,800,876 in City funding for actual and projected expenditures and \$791,069 in contingency spending authority. The total cost of program services is \$19.2 million over the six-year term, which is funded by \$5.4 million in operating revenues consisting of tenant rents and Continuum of Care rental assistance revenue³ and \$13.8 million in City funds. City funds are provided almost entirely from the General Fund, with Proposition C Gross Receipts Tax Revenues contributing \$30,988 for one-time COVID-19 bonus pay in FY 2020-21. Exhibit 2 below summarizes the revenues and expenditures under the proposed amended agreement.

³ Federal funding that supports non-profit providers (and others) to rehouse homeless individuals; Henry Hotel serves 54 individuals through COC rental assistance revenue.

Exhibit 2: Revenues and Expenditures under Proposed Amendment

	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Extension Term		Total
					FY 2023-24	FY 2024-25	
Revenues							
HSH Revenues							
General Fund	\$1,919,573	\$2,195,802	\$1,997,192	\$2,380,527	\$2,686,022	\$2,587,772	\$13,766,888
Proposition C		30,988					30,988
COVID-19	3,000						3,000
Subtotal, HSH	\$1,922,573	\$2,226,790	\$1,997,192	\$2,380,527	\$2,686,022	\$2,587,772	\$13,800,876
Other Revenues							
Rental Income	772,296	772,296	295,740	225,740	295,740	295,740	2,657,552
CoC Rent Assist	-	-	553,636	791,304	710,304	710,304	2,765,548
Subtotal, Other	772,296	772,296	849,376	1,017,044	1,006,044	1,006,044	5,423,100
Total Revenues	\$2,694,869	\$2,999,086	\$2,846,568	\$3,397,571	\$3,692,066	\$3,593,816	\$19,223,976
Expenditures							
Salary/Benefits	468,827	468,827	472,168	476,808	665,957	665,957	3,218,544
Op. Expenses	1,252,864	1,249,864	1,331,682	763,778	646,852	646,852	5,891,892
Indirect (12%)	206,243	206,244	216,461	186,088	196,922	196,921	1,208,879
Other Expenses	835,688	956,576	723,036	1,970,897	2,084,085	2,084,085	8,654,367
Capital Expenditure	(68,753)	117,575	103,221	-	98,250	-	250,292
Total Expenditures	\$2,694,869	\$2,999,086	\$2,846,568	\$3,397,571	\$3,692,066	\$3,593,816	\$19,223,976

Source: Appendix B of Proposed Agreement

Other Expenses refer to operational expenses that are not subject to the indirect cost recovery, including the master lease payment.

Total expenditures increased by 19 percent from FY 2021-22 to FY 2022-23 driven by an increase in Other Expenses from higher subcontracted property management services provided by Caritas due to wage enhancements and utility costs. Costs increase by another 9 percent in FY 2023-24 primarily due to an additional 1.70 full-time equivalent (FTE) position, which funds two case manager positions—one of which is bilingual.

Projected Annual Expenditures in the Extension Term

Annual expenditures are projected to be \$3,692,066 in FY 2023-24 and \$3,593,816 in FY 2024-25, with FY 2023-24 higher by \$98,250 due to one-time capital expenditures for pest management, bathroom and faucet replacement, and unit furnishings. Annual expenditures include \$665,957 (18 percent) in salaries and benefits to fund 6.81 FTE positions, \$646,852 (18 percent) in operating expenses, \$196,922 in indirect costs (five percent), and \$2.1 million (56 percent) in other expenses, which includes master lease rental payments.

Within annual expenditures, \$2,789,785 in FY 2023-24 (76 percent) funds property management, and a total of \$902,281 (24 percent) funds support services for a total of \$3.7 million, or \$2,543 per unit per month. Costs in FY 2023-24 and FY 2024-25 are funded by the General Fund (72 percent), federal Continuum of Care Assistance (20 percent), and tenant rents (8 percent).

Actual Expenditures

Actual expenditures through FY 2022-23 totaled \$11.9 million (with a total of \$8,527,082 funded by local revenue), with \$1.2 million remaining of the existing agreement's not to exceed spending authority of \$9,738,512. The term of the existing contract expires at the end of October 2023, and ECS is projected to spend \$760,000 of the remaining \$1.2 million in spending authority by then.

RECOMMENDATION

Approve the proposed resolution.