

Item 4
File 23-0992

Department:
Homelessness & Supportive Housing

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the first amendment to the grant agreement between Episcopal Community Services (ECS) and the Department of Homelessness & Supportive Housing (HSH) for property management and supportive housing services at five master lease sites, extending the term by 16 months through June 2025 and increasing the amount by \$20,829,789 for a not to exceed amount of \$47,159,399.

Key Points

- In December 2020, the Board of Supervisors approved an original grant agreement between HSH and ECS for a three-year and two-month term expiring February 29, 2024 and a total not to exceed amount of \$26,329,310. Caritas Management Corporation, a sub-contractor, provides property management services under the agreement.
- The proposed amendment would continue property management and supportive housing services at five supportive housing sites with a total of 464 units. Potential tenants would be referred to units by HSH's Coordinated Entry process and are typically enrolled in the County Adult Assistance Program, which provides cash and other benefits to low-income residents. HSH staff report an average occupancy rate of 94.4 percent in FY 2022-23.

Fiscal Impact

- Annual expenditures are projected to be \$11.7 million in FY 2023-24 and FY 2024-25, or \$2,102 per unit per month, plus an additional \$277,410 in one-time capital expenditures in FY 2023-24 for smoke detectors, bathroom exhaust fans, vanity sinks, basement ventilation, and other improvements across the five sites. Annual expenditures include \$8.7 million (75 percent) for property management services and \$3.0 million (25 percent) for supportive services.
- The agreement is funded by the HSH Fund (82 percent), the General Fund (10 percent), and Proposition C Gross Receipts Tax Revenues (8 percent).

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

Episcopal Community Services (ECS) is a non-profit that provides services to individuals who have experienced homelessness in San Francisco. The City provides grant funding to ECS to provide supportive housing services at five master lease sites, shown below in Exhibit 1.

Existing Agreement with ECS

In December 2020, the Board of Supervisors approved a grant agreement between the Department of Homelessness & Supportive Housing (HSH) and ECS for a three-year and two-month term expiring February 29, 2024 and a total not to exceed amount of \$26,329,310 (File 20-1291). Caritas Management Corporation, a sub-contractor, provides Property Management services under the agreement.

Vendor Selection

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

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the first amendment to the grant agreement between ECS and HSH for property management and supportive housing services at five master lease sites, extending the term by 16 months through June 2025 and increasing the amount by \$20,829,789 for a not to exceed amount of \$47,159,399.

Services Provided

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

- **Property Management Services**, including applicant selection and intake, annual tenant income re-certification, lease enforcement, building maintenance, wellness checks, front desk coverage, and exit planning; and

- **Supportive Housing Services**, including outreach, intake and assessment for vacant units, case management, benefits advocacy and referrals to services, coordination with property management, wellness checks, support groups and other organized activities, and exit planning to prospective and existing tenants at the five supportive housing sites.

The five master lease supportive housing sites are shown in Exhibit 1 below.

Exhibit 1: Master Lease Supportive Housing Sites in Proposed Agreement

Name	Address	Units
Alder Hotel	175 6th Street	113
Crosby Hotel	516 O'Farrell Street	127
Elm Hotel	364 Eddy Street	79
Hillsdale Hotel	51 6th Street	75
Mentone Hotel	387 Ellis Street	70
Total		464

Source: Proposed Amendment

As shown above, the proposed amendment would continue property management and supportive housing services at five supportive housing sites with a total of 464 units. Potential tenants would be referred to units by HSH's Coordinated Entry process and are typically enrolled in the County Adult Assistance Program, which provides cash and other benefits to low-income residents.

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 permanent supportive housing, which includes the 464 units in these five buildings. During the 2022 Point-in-Time count, San Francisco counted 4,397 residents who were unsheltered, a 15 percent decrease from 5,180 residents in 2019.

Performance Monitoring

According to the FY 2020-21 and FY 2021-22 monitoring report for the existing agreement and supplemental data provided by HSH, ECS met six out of eight program objectives in FY 2021-22, including achieving housing stability for 90 percent of tenants, retaining at least 85 percent of tenants who do not pay rent or have other lease violations, at least 80 percent of tenants indicating satisfaction with program services, and other measures as shown in Exhibit 2 below.

However, ECS did not meet two objectives. The average occupancy rate was 85 percent over the 12-month period compared to an objective of 90 percent under the current agreement.² The proposed amendment increases the objective occupancy rate from 90 percent to 93 percent to

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

² As with the Henry Hotel (File 23-0991), unit occupancy rate was not included in FY 2020-21 or FY 2021-22 program monitoring report, due to an administrative error, but was provided to HSH in monthly reporting.

align with the HSH vacancy target for the entire permanent supporting housing portfolio. HSH staff report an average occupancy rate of 94.4 percent in FY 2022-23.

In addition, ECS did not meet its objective of 85 percent of tenants indicating satisfaction with property management services, which are provided by sub-contractor Caritas Management Corporation. According to the FY 2021-22 tenant survey, 68 percent of respondents had favorable responses for property management, up from 45 percent in FY 2019-20. According to HSH staff, the City increased case management staffing and set wage floors for janitors, desk clerks, maintenance workers, and case managers during the FY 2021-22 budget process to address understaffing at supportive housing sites and improve services. In addition, HSH monitors tenant satisfaction surveys and resident concerns, as well as unit turnover, occupancy rate, and housing retention during monthly meetings with the HSH program manager, and ECS supportive services staff, and Caritas Property Management staff.

Exhibit 2: Program Performance, FY 2021-22

Description	Objective	FY 2021-22 Actual
Average number of days vacated units are cleaned and/or repaired, upon turnover	35 days	14 to 21 days for most units; 30+ days for some units with extensive damage
Occupancy Rate	90%	85% (12-month average) Lowest rate: Elm 76% Highest rate: Crosby 91%
Percent of tenants that maintain their housing for a minimum of 12 months	90%	96% Lowest rate: Crosby 90% Highest rate: Mentone 100%
Percent of tenants who exit housing and move to other permanent housing, or are provided with more appropriate placements	75%	75% Lowest rate: Crosby 62% Highest rate: Hillsdale 85%
Percent of tenant lease violations that are resolved without loss of housing to tenants	85%	91% Lowest rate: Crosby 87% Highest rate: Hillsdale, Alder 95%
Percent of tenants completing an annual anonymous Tenant Satisfaction Survey	65%	75% Lowest rate: Hillsdale 69% Highest rate: Mentone 86%
Percent of tenants completing an annual Tenant Satisfaction Survey that report being satisfied or very satisfied with Property Management services	85%	68% Lowest rate: Crosby 56% Highest rate: Mentone 89%
Percent of tenants completing an annual Tenant Satisfaction Survey that report being satisfied or very satisfied with Support Services	80%	81% Lowest rate: Hillsdale 65% Highest rate: Mentone 95%

Source: HSH

Although ECS met most service and outcome objectives on average across the five hotels, the Crosby Hotel did not meet three out of seven objectives with disaggregated results by hotel in FY 2021-22, including at least 75 percent of tenants who exit move to other permanent housing or a more appropriate placement (62 percent for Crosby Hotel), at least 80 percent of tenants

indicating satisfaction with program services (71 percent for Crosby Hotel), and at least 85 percent of tenants indicating satisfaction with property management services (56 percent for Crosby Hotel). According to HSH staff, the Crosby Hotel was understaffed during the reporting timeframe, which resulted in lower performance. ECS has since hired new staff, and HSH anticipates improved performance in future years.

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 permanent supportive housing 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 the buildings are privately owned and leased (in this case 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 \$47,159,399, includes \$43,987,627 in City funding for actual and projected expenditures and \$3,171,772 in contingency funds. The total cost of program services is \$50.2 million over the four- and one-half-year term, which is funded by \$6.2 million in operating revenues consisting of tenant rents and private fundraising by ECS and \$44.0 million in City funds. City funds are from the HSH Fund (82 percent), the General Fund (10 percent), and Proposition C Gross Receipts Tax Revenues (8 percent). Exhibit 3 below summarizes the revenues and expenditures under the proposed amended agreement.

Exhibit 3: Revenues and Expenditures under Proposed Amendment

	FY 2020-21 (six months)	FY 2021-22	FY 2022-23	Extension Term		Total
				FY 2023-24	FY 2024-25	
Revenues						
HSH Revenues						
HSH Fund	\$3,461,880	\$7,665,557	\$7,097,052	\$8,882,705	\$8,882,705	\$35,989,899
General Fund	472,712	302,538	2,209,121	851,439	574,029	4,409,839
Proposition C	85,965	753,512	849,926	977,134	977,134	3,643,672
Subtotal, HSH	\$4,020,553*	\$8,665,829*	\$10,156,099	\$10,711,278	\$10,433,868	\$43,987,627*
Other Revenues						
Rental Income	1,068,022	1,215,000	1,325,854	1,265,854	1,265,854	6,140,584
Private Match	2,597	5,193	5,193	5,193	5,193	23,369
Subtotal, Other	1,070,618	1,220,193	1,331,047	1,271,047	1,271,047	6,163,952
Total Revenues	\$5,091,171	\$9,886,022	\$11,487,146	\$11,982,325	\$11,704,915	\$50,151,579
Expenditures						
Salaries & Benefits	770,105	1,635,184	1,782,611	2,468,261	2,468,261	9,124,422
Operating Expenses	1,138,759	2,428,317	3,123,043	2,664,253	2,664,253	12,018,625
Indirect Cost (12%)	229,063	487,619	588,678	615,901	615,901	2,537,164
Other Expenses	2,953,244	5,273,382	5,992,813	5,956,500	5,956,500	26,132,440
Capital Expenditure		61,520		277,410		338,930
Total Expenditures	\$5,091,172	\$9,886,023	\$11,487,146	\$11,982,325	\$11,704,915	\$50,151,580

Source: Appendix B of Proposed Agreement and HSH

Notes: Private Revenue refers to ECS fundraising efforts

HSH Fund refers to the funding source formerly known as Care Not Cash (CNC)

Other Expenses refer to Operations line items that are not subject to the indirect percentage, such as the master lease payment.

*HSH revenues do not add to subtotal due to adjustments of -\$4 in FY 2020-21 and -\$55,778 in FY 2021-22

City funding for FY 2022-23 increased from \$7.4 million assumed in the original agreement to \$10.2 million due to \$810,200 decrease in tenant revenues and \$1.9 million increase in non-personnel and other expenses, driven by higher than expected utility, maintenance costs, and staffing costs.

Projected Annual Expenditures in the Extension Term

Annual expenditures are projected to be \$11.7 million in FY 2023-24 and FY 2024-25, plus an additional \$277,410 in one-time capital expenditures in FY 2023-24 for smoke detectors, bathroom exhaust fans, vanity sinks, basement ventilation, and other improvements across the five sites. Annual expenditures include \$2.5 million (21 percent) in salaries and benefits to fund 19.9 full time equivalent positions for supportive services, \$2.7 million (23 percent) in operating expenses, \$615,901 in indirect costs (five percent), and \$6.0 million (51 percent) in other expenses, which includes master lease rental payments and most of the costs of the Caritas Property Management subcontract.

Annual expenditures include \$8.7 million (75 percent) for property management services and \$3.0 million (25 percent) for supportive services for a total of \$11.7 million, or \$2,102 per unit per month. Exhibit 4 shows property management and supportive services costs by hotel as well as one-time capital costs of \$277,410 in FY 2023-24.

Exhibit 4: Annual Program Expenditures by Hotel

Hotel	Units	Property Management	Supportive Services	Total	Total per Unit per month	FY 2023-24 Capital Costs
Alder Hotel	113	\$2,203,732	\$658,245	\$2,861,977	\$2,111	\$63,400
Crosby Hotel	127	2,101,320	816,104	2,917,424	1,914	87,000
Elm Hotel	79	1,544,962	535,784	2,080,747	2,195	29,540
Hillsdale Hotel	75	1,435,535	496,981	1,932,516	2,147	56,750
Mentone Hotel	70	1,436,794	475,457	1,912,251	2,276	40,720
Total	464	\$8,722,344	\$2,982,571	\$11,704,915	\$2,102	\$277,410

Source: Appendix B of Proposed Agreement

Actual Expenditures

Actual expenditures through FY 2022-23 totaled \$22.8 million, with \$3.5 million remaining of the existing agreement's not to exceed amount. Although the term of the existing contract expires at the end of February 2024, the \$3.5 million in remaining funds is only sufficient to fund expenditures through October 2023.

RECOMMENDATION

Approve the proposed resolution.