

<b>Item 6</b> <b>File 23-0772</b>	<b>Department:</b> Homelessness Supportive Housing (HSH)
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution would approve the third amendment to HSH’s grant agreement with Providence Foundation. The third amendment extends the term from July 2023 through June 2032 and increases the not to exceed amount from \$9.9 million to \$58.3 million.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The Oasis Inn is a 59-unit building at 900 Franklin Street that has been used as a non-congregate family shelter since March 2020. Originally funded by private donations organized by Supervisor Preston, operations have been funded by the City since September 2020.</li> <li>• Under the proposed extension of the grant agreement, Providence would continue to operate the Oasis Inn as an emergency shelter for families referred to the site by HSH’s Coordinated Entry system and from some self-referrals for emergency stays. According to HSH staff, the site has 54 rooms for family shelter – one for each family.</li> <li>• HSH program monitoring in FY 2022-23, which included a site visit, generally found that Providence was meeting the service and outcome objectives of the grant agreement. HSH and the Controller will provide technical assistance to Providence to improve its financial management and governance due to findings in the most recent City Nonprofit Monitoring and Capacity Building Program review.</li> <li>• The site is currently owned by real estate trust and leased to Providence. According to HSH staff, Saint Anthony’s, a non-profit, and the Housing Accelerator Fund have concluded negotiations to purchase the site to ensure that it remains a family shelter for at least nine years.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The FY 2023-24 grant budget is \$4.5 million, which is funded by the General Fund (\$1.8 million), Proposition C funds (\$1.8 million), and an HSA work order (\$0.8 million).</li> </ul> <p style="text-align: center;"><b>Policy Consideration</b></p> <ul style="list-style-type: none"> <li>• On a per room basis, the rental cost of this site (\$1,020,000 per year) appears reasonable at \$1,441 per month (relative to market rate apartments). In addition, the grant agreement is consistent with a 2022 Board resolution urging continued use of the site as a family shelter. However, as of this writing, the rental cost is not backed by a third-party appraisal and the City’s rental payment in the extension period also includes \$4.32 million to fund property tax payments and capital work.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	

## MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of \$10 million or more, or (3) requires a modification of more than \$500,000 is subject to Board of Supervisors approval.

## BACKGROUND

The Oasis Inn is a 59-unit building at 900 Franklin Street that has been used as a non-congregate family shelter since March 2020. Prior to that time, it was operated as a tourist hotel. Originally funded by private donations organized by Supervisor Preston, operations have been funded by the City since September 2020.

In January 2021, the Department of Homelessness and Supportive Housing (HSH) retroactively entered into a grant agreement with the Providence Foundation of San Francisco to operate the Oasis Inn as a shelter. The agreement had a term July 2020 to December 2021 and a not to exceed amount of \$3.9 million.<sup>1</sup> In January 2022, HSH executed the first amendment to that agreement, extending the term through June 2023 and increased the not to exceed amount to \$9.5 million. In June 2023, HSH executed the second amendment to the grant, extending the term through July 2023 and increasing the not to exceed amount to \$9.9 million concurrent with HSH introducing the grant extension for Board approval. The grant was procured under Chapter 21B of the Administrative Code, which allows HSH to enter into agreements for homeless services without using a competitive solicitation.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the third amendment to HSH's grant agreement with Providence Foundation. The third amendment extends the term from July 2023 through June 2032 and increases the not to exceed amount from \$9.9 million to \$58.3 million.

### Services

Under the proposed extension of the grant agreement, Providence would continue to operate the Oasis Inn as an emergency shelter for families referred to the site by HSH's Coordinated Entry system and from some self-referrals for emergency stays. According to HSH staff, the site has 54 rooms for family shelter – one for each family.<sup>2</sup> Services include: (1) lease stewardship, (2) shelter support services, including case management and housing placement, (3) guest referral and intake, (4) managing all program staff and reporting requirements, and (5) building operations,

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<sup>1</sup> The City's agreement had an effective date of July 2020, but the City began funding the site in September 2020.

<sup>2</sup> The site has 59 units but five will be used as offices or storage.

which includes access logs, laundry, janitorial services, room furnishings, meals, and COVID-19 cleaning procedures.

### **Site Control and Condition**

The site is currently owned by real estate trust and leased to Providence. According to HSH staff, Saint Anthony's, a non-profit, and the Housing Accelerator Fund have concluded negotiations to purchase the site to ensure that it remains a family shelter for at least nine years.

A physical needs assessment, commissioned by the Housing Accelerator Fund, identified \$8.5 million in immediate capital needs. Through the grant agreement, the City will continue to fund the cost of the lease as well as \$3.5 million in capital work. The City-funded rehabilitation will address life safety needs, including: adding exterior guardrails, boiler room equipment replacement, elevator upgrades, structural steel repairs, re-roofing, exterior sealing and painting, electrical repairs, and common area upgrades.

### **Program Performance**

The grant agreement includes two service objectives: (a) maintain an average unit utilization rate of 90 percent and (b) offer case management services to all guests. The grant agreement also has the following outcome objectives: (1) that 80 percent of clients who stay 30 days or longer move into permanent housing, (2) all guests receive housing placement support, and (3) 80 percent of guests rate services as "excellent" or "good."

HSH staff completed the FY 2022-23 program monitoring in June 2023. The evaluation, which included a site visit, found that Providence generally met its service and outcome objectives, except the housing outcome objective. In particular, in the third quarter of FY 2022-23, 12 out of 25 guests (or 48%) were referred to permanent housing. HSH staff report that Providence has increased case management staffing from one to four positions to improve housing placement outcomes. Providence will also digitalize client records to more easily track services and outcomes.

### **Fiscal Monitoring**

HSH also reviewed the Providence Foundation's financial condition and governance as part of the FY 2021-22 City Nonprofit Monitoring and Capacity Building Program. That review found that Providence did not meet certain standards, including: agency-wide budget reporting, having negative net income over two years, a late tax filing for 2022, and documentation of board meetings. HSH and the Controller are scheduled to provide technical assistance to Providence starting July 2023 to improve the organization's financial management and governance.

## **FISCAL IMPACT**

Exhibit 1 below shows the FY 2023-24 budget for the grant agreement.

**Exhibit 1: FY 2023-24 Budget for Oasis Family Shelter**

	<b>FY 2023-24</b>
<u>Sources</u>	
General Fund	\$1,828,095
Proposition C Revenues	\$1,854,000
Human Service Agency Work Order	\$833,880
<b>Total Funding</b>	<b>\$4,515,975</b>
<u>Uses</u>	
Salaries & Benefits	\$2,239,456
Operating Expenses	\$383,130
Indirect Cost Recovery	\$393,389
Rent	\$1,500,000
<b>Total Expenditures</b>	<b>\$4,515,974</b>

Source: Appendix B of the Proposed Third Amendment

The proposed grant agreement funds 27.06 FTEs, non-personnel operational expenses, as well as Providence's rent for the space. The rent budget is increasing from \$1,020,000 per year in FY 2022-23 to \$1,500,000 per year in the extension period. This \$480,000 per year increase totals \$4.32 million during the proposed nine-year extension. According to Gigi Whitley, HSH Deputy Director for Administration and Finance, this additional monthly rent cost will be used by the landlord to fund the \$3.5 million in rehabilitation work) described above, and \$820,000 in transfer tax costs resulting from St. Anthony's acquisition of the site.

**Not To Exceed Amount**

Exhibit 2 below shows the basis of the proposed resolution's not to exceed amount. Annual budgeted costs after FY 2023-24 escalate by 1.7% – 1.8% per year and the not to exceed amount includes a contingency of 12 percent of budgeted spending FY 2022-23 through FY 2031-32.

**Exhibit 2: Not to Exceed Amount**

Budgeted Spending Thru June 2023	\$8,570,666
Proposed Spending (Nine Years)	\$44,048,362
Contingency	\$5,726,411
<b>Not to Exceed</b>	<b>\$58,345,439</b>

Source: Appendix B of the Proposed Third Amendment

**POLICY CONSIDERATION****Cost of Property**

Although the proposed grant agreement funds the Providence Foundation's rental costs, the lease is not subject to the appraisal requirement in Administrative Code Chapter 23 because the City is not the building owner or party to the lease. It not uncommon for HSH and other social

service departments to fund property costs. For example, HSH’s legacy master lease agreements with permanent supportive housing providers fund rental costs for privately owned property and DPH sometimes funds rental costs for behavioral health providers. On a per room basis, the rental cost of this site (\$1,020,000 per year) appears reasonable at \$1,441 per month (relative to market rate apartments). In addition, the grant agreement is consistent with the Board’s 2022 resolution urging the Mayor and HSH to “support efforts to acquire the Oasis Inn to safely house families experiencing homelessness” (File 22-1249). However, as of this writing, the rental cost is not backed by a third-party appraisal and the City’s rental payment includes funding for property tax payments and capital work.

### **RECOMMENDATION**

Approve the proposed resolution.