

**CITY AND COUNTY OF SAN FRANCISCO**

**BOARD OF SUPERVISORS**

**BUDGET AND LEGISLATIVE ANALYST**

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June 10, 2022

**TO:** Board of Supervisors

**FROM:** Budget and Legislative Analyst



**SUBJECT:** June 14, 2022 Committee of the Whole Adjourn and Report

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<b>Items 64 &amp; 65</b> <b>Files 22-0704 &amp; 22-0705</b>	<b>Department:</b> Public Health
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>File 22-0705 would approve a \$1,210,000 sole source grant agreement for Baker Places and File 22-0704 would approve a \$2,010,000 sole source grant agreement for Positive Resource Center. Each agreement will have a one-year term.</li> </ul>	
<p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>The Positive Resource Center, a non-profit, provides emergency financial assistance, benefits advocacy, HIV outreach, and workforce development programs as well as administrative support to Baker Places. Baker Places, a non-profit, operates substance abuse treatment programs, mental health treatment programs, as well as shelter and housing programs. Baker Places provides 215 beds across its treatment and housing programs.</li> <li>Both Baker Places and the Positive Resource Center will exceed their FY 2021-22 DPH-funded budget for several programs by \$3.22 million, or 13 percent of the annual budget.</li> <li>Under the grant agreements, the City will retain an independent consultant to evaluate each organization's financial condition and develop a financial sustainability plan, subject to City approval, to ensure ongoing operation of City-funded programs. Each organization will also be required to provide audited financial statements back through FY 2017-18.</li> </ul>	
<p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>The total funding required for both grant agreements is \$3.22 million, which will be sourced from the current year savings in DPH's General Fund budget.</li> </ul>	
<p style="text-align: center;"><b>Policy Consideration</b></p> <ul style="list-style-type: none"> <li>The City contracts with 600 nonprofits at an annual cost of \$1.2 billion. If all these providers overspent their budget by 13 percent, as is the case with Baker Places and Positive Resource Center, the annual cost to the City would be \$155.9 million.</li> <li>DPH began providing Positive Resource Center technical assistance in July 2020. Despite the technical assistance and ongoing financial monitoring, Positive Resource Center informed DPH that it was at risk of insolvency in December 2021. DPH began preparing a plan of action, however the scale of the overspending now requires a bailout of both agencies while financial sustainability plans are developed over the next year.</li> </ul>	
<p style="text-align: center;"><b>Recommendations</b></p> <ol style="list-style-type: none"> <li>Request Public Health provide the Board of Supervisors the financial stability reports that are required for each grant agreement and include them in the legislative files for these items.</li> <li>Approval of the proposed ordinances is a policy matter for the Board of Supervisors.</li> </ol>	

**MANDATE STATEMENT**

City Charter Section 2.105 states that the Board of Supervisors shall only act by ordinance or by resolution.

**BACKGROUND****Positive Resource Center**

The Positive Resource Center, a non-profit, provides emergency financial assistance, benefits advocacy, HIV outreach, and workforce development programs. The City has 16 contracts that total \$41,993,891 for these programs with terms that vary but up to July 2026. The provider also has contracts with the California Department of Rehabilitation and U.S. Department of Health and Human Services.

Through an Affiliation Agreement, Positive Resource Center is the sole corporate member of Baker Places, Inc. Positive Resource Center and Baker Places are in the process of merging and currently operate under a Management Service Agreement, by which Positive Resource Center provides Baker Places administrative, finance, human resource, fundraising, and information technology services.

**Baker Places**

Baker Places, a non-profit, operates substance abuse treatment programs, mental health treatment programs, as well as shelter and housing programs, including:

- Detox Programs (Joe Healy)
- Residential Treatment (Baker Street House, Robertson Place, Jo Ruffin Place, San Jose Place, Ferguson Place, Acceptance Place and Grove Street)
- Psychiatric Respite (Hummingbird General Hospital)
- Navigation Center/Psychiatric Respite (Hummingbird Valencia Street)
- Permanent Supportive Housing (Odyssey House)
- Scattered Site Transitional Housing (Assisted Independent Living Program)

Exhibit 1 below summarizes the DPH contract amounts and terms for the programs above.

**Exhibit 1: Baker Places DPH Contracts**

<b>Program</b>	<b>Beds</b>	<b>Clients</b>	<b>FY 2021-22 Cost</b>	<b>Current Term</b>	<b>Total Contract</b>
Detox, Residential, Housing	144	821	\$13,768,462	6/2018 - 6/2022	\$55,475,141
Ferguson Place	12	6	\$1,605,434	7/2021 - 7/2023	\$3,658,739
Hummingbird General Hospital	29	505	\$3,324,177	1/2019 - 7/2026	\$27,233,566
Hummingbird Valencia (Navigation Center)	30	644	\$2,993,013	3/2020 - 1/2023	\$9,540,278
<b>Subtotal, Baker Places</b>	<b>215</b>	<b>1,976</b>	<b>\$21,691,086</b>		<b>\$95,907,724</b>

Source: DPH and BLA analysis of existing contracts.

Note: Baker Places also has two contracts with the Mayor's Office and two with the Human Services Agency with a combined total of approximately \$650,000. The costs above do not include City funded leases such as, for example, the City-funded lease at 1156 Valencia Street for the Hummingbird Navigation Center, which will cost the City \$1.5 million over three years through February 2023 (20-0115).

As shown above, Baker Places provides 215 beds across its treatment and housing programs and holds City contracts with DPH totaling \$21.7 million per year with a combined total not to exceed amount of \$95.9 million.

In May 2022, the Board of Supervisors approved an amendment that extended the Baker Places detox, residential, and housing contract from June 2022 to June 2027 and increased the not to exceed amount to \$120,789,738 (File 22-0414). According to Drew Murrell, DPH Deputy Finance Officer, the Department proposed the continuation of this contract because the contract was expiring June 30, 2022 and these are critical ongoing services, mostly at full capacity, serving individuals in active treatment.

**Overspending**

Both Baker Places and the Positive Resource Center will exceed the DPH allocated budget for several of the programs supported in their City contracts prior to the end of the FY 2021-22. DPH attempted to address the pending cash flow crisis starting in December 2021 by converting contracts from fee for service to cost reimbursement thereby allowing the agency to access all available budgeted funding to cover their programmatic costs, regardless of service delivery levels, and added \$800,000 to offset the additional expenses that PRC identified that it was incurring beyond the DPH contracted budgets for these programs. Additionally, DPH delayed repayment prior year audit obligations stemming from billing errors at Baker Places during FY 2015-16; however, the scale of both agencies' overspending across multiple contracts and programs requires \$3.22 million to avoid insolvency. Exhibit 2 below shows the estimated overspending.

**Exhibit 2: Estimated Overspending**

	<b>FY 2021-22 Budget</b>	<b>Estimated Overspending</b>	<b>Percent of Annual Budget</b>
<b>Baker Places</b>			
Detox, Residential, & Housing	\$13,768,462	\$861,147	6.3%
Hummingbird General Hospital	\$3,324,177	\$24,660	0.7%
Ferguson Place	\$1,605,434	\$327,350	20.4%
Subtotal, Baker Places	\$18,698,073	\$1,213,158	6.5%
Positive Resource Center	\$6,117,575	\$2,011,534	32.9%
<b>Total</b>	<b>\$24,815,648</b>	<b>\$3,224,692</b>	<b>13.0%</b>

Source: Controller

Note: The Baker Places Hummingbird Navigation Center is not expected to overspend its budget and so is not included in the table above.

As shown above, Baker Places is projected to overspend its contracts by combined total of \$1.2 million and Positive Resource Center is projected to overspend its contracts by \$2.0 million. Overspending is approximately 13 percent of the annual budget of combined annual budget for these contracts. A June 10, 2022 memo from Community Vision, a consultant hired by the Controller's Office, notes that the overspending is due to spending that exceeds budgeted costs for units of service, higher than budgeted staffing costs, as well as turnover and low staffing levels in the financial divisions of each organization.

### DETAILS OF PROPOSED LEGISLATION

File 22-0705 would approve a \$1,210,000 sole source grant agreement for Baker Places and File 22-0704 would approve a \$2,010,000 sole source grant agreement for Positive Resource Center. Each agreement will have a one-year term.

**Milestone Payments**

The grant agreements are structured to provide payments based on certain milestones, as summarized in Exhibit 3 below.

**Exhibit 3: Milestone Payments**

<b>Deliverable</b>	<b>Baker Places</b>	<b>Positive Resource Center</b>	<b>Total</b>
Effective Date (40%)	\$484,000	\$804,000	\$1,288,000
First Draft of Financial Sustainability Plan (30%)	\$363,000	\$603,000	\$966,000
Final Financial Sustainability Plan (20%)	\$242,000	\$402,000	\$644,000
Final Acceptance by the City of all Deliverables (10%)	\$121,000	\$201,000	\$322,000
<b>Total</b>	<b>\$1,210,000</b>	<b>\$2,010,000</b>	<b>\$3,220,000</b>

Source: Proposed Grant Agreements

According to the proposed grant agreements, the City will retain an independent consultant to evaluate each organization's financial condition and develop a financial sustainability plan, subject to City approval, to ensure ongoing operation of City-funded programs at a cost of approximately \$10,000 per organization. Each organization will also be required to provide audited financial statements back through FY 2017-18.

### **FISCAL IMPACT**

The total funding required for both grant agreements is \$3.22 million, which will be sourced from the current year savings in DPH's General Fund budget.

### **POLICY CONSIDERATION**

#### **Policy Precedent**

According to the Controller's Office May 2022 Findings and Recommendations for Addressing Nonprofit Wage Pressures, the City contracts with 600 nonprofits at an annual cost of \$1.2 billion. If all these providers overspent their budget by 13 percent, as is the case with Baker Places and Positive Resource Center, the annual cost to the City would be \$155.9 million.

According to DPH, funding the overspending at Positive Resource Center and Baker Places will ensure mental health and substance abuse treatment programs, supported housing, and other programs remain available while the organization attempts to achieve financial stability. Additionally, the continuation of these contracts while a long-term solution is developed with these organizations preserves the existing licenses and State certifications necessary to operate from each unique facility location, which is required for State and Federal reimbursement.

#### **Contract Monitoring**

DPH is responsible for completing performance monitoring of its contracts, which evaluates services, and financial monitoring, which evaluates financial activities of contractors. In FY 2019-20, staff from the DPH Business Office of Contract Compliance completed a desk audit on program performance, performance objectives, program compliance, and client satisfaction. The reviews found that contracted performance objectives were generally met. Consistent with the Controller's guidance regarding non-profit suppliers, there was no performance monitoring in FY 2020-21 or FY 2021-22. A review of FY 2021-22 performance is expected in FY 2022-23.

The FY 2018-19 audited financial statement for Positive Resource Center showed the agency was at risk of not meeting all its financial obligations. The City offered and Positive Resource Center accepted technical assistance beginning in July 2020 including a program feasibility review, cost of service model templates, and analytical support. Technical assistance continued through September 2021, when the Controller's Office began evaluating the financial condition of both agencies. DPH continued to review financial statements for both organizations but did not complete monitoring reports in FY 2019-20 and FY 2020-21.

Despite the technical assistance and ongoing monitoring, Positive Resource Center informed DPH that it was at risk of insolvency in December 2021. DPH began preparing a plan of action, however the scale of the overspending now requires a bailout of both agencies while financial sustainability plans are developed over the next year.

### **RECOMMENDATIONS**

1. Request that Public Health provide the Board of Supervisors the financial stability reports that are required for each grant agreement and include them in the legislative files for these items.
2. Approval of the proposed ordinances is a policy matter for the Board of Supervisors.