CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Sub-Committee

FROM: Budget and Legislative Analyst

SUBJECT: May 22, 2019 Budget and Finance Sub-Committee Meeting

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Item 1 File 19-0484	Department: Human Services Agency (HSA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a new contract between HSA and the San Francisco IHSS Public Authority to replace the current contract, which is scheduled to end in June 2020. The proposed new contract is for the period of July 1, 2019 through June 30, 2022, in an amount not to exceed $255,912,584. Contract services include program administration, health and dental benefits, and other services to IHSS providers.

Key Points

- In-Home Supportive Services (IHSS) is a federally-, state-, and locally-funded program administered by each county. IHSS provides funding for eligible low-income seniors (over the age of 65) and disabled persons to receive non-medical personal care and other household assistance in their home.
- In May 1995, the Board of Supervisors established the San Francisco IHSS Public Authority per Administrative Code Chapter 70 as an independent public agency, pursuant to California Welfare and Institutions Code Section 12301.6, to be the designated public authority for the County of San Francisco to (a) provide administrative and operations support services for IHSS Independent Providers and (b) administer health and dental benefits to IHSS Independent Providers.
- In July 2016, the Board of Supervisors approved a contract between HSA and the San Francisco IHSS Public Authority for the provision of administration, health, and dental benefits to IHSS Independent Providers from July 1, 2016 to June 30, 2020 in the amount of $267,094,964 (File 16-0533). Subsequently, HSA entered into a contract with the IHSS Public Authority for the period of July 1, 2016 to June 30, 2019 with a total not to exceed amount of $195,486,362. In July 2018, HSA modified the contract to a new total not to exceed amount of $215,674,407 for the period of July 1, 2016 to June 30, 2019.

Fiscal Impact

- The proposed contract amount, including a 10 percent contingency, totals $255,912,584 over a three-year term from July 1, 2019 through June 30, 2022.
- Health and dental benefits constitute $220,994,361 or approximately 95 percent of the proposed contract amount (not including the 10 percent contingency).

Policy Consideration

- According to HSA, the IHSS Public Authority has met the requirements for the monitoring report objectives for the current contract, which include service measures on IHSS provider benefits administration and enrollment, the worker registry, Independent Provider enrollment services and IHSS consumer mentoring services.
- Performance measures and monitoring report activities for the proposed contract will include similar requirements.

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

In-Home Supportive Services (IHSS) is a federally-, state-, and locally-funded program administered by each county. IHSS provides funding for eligible low-income seniors (over the age of 65) and disabled persons to receive non-medical personal care and other household assistance in their home. IHSS care allows older adults and people with disabilities to remain in their own homes and thereby avoid unnecessary and expensive hospitalization or institutionalization.

Each eligible IHSS client is allocated a specified number of monthly IHSS service hours based on an annual needs assessment conducted by the Human Services Agency (HSA). In San Francisco, IHSS service hours are provided to clients via two modes of service delivery: (a) the Independent Provider mode or (b) the contract mode for clients who are unable to find and/or supervise their own Independent Providers. According to HSA, there are currently approximately 22,500 IHSS clients, 95 percent who utilize the Independent Provider mode of service[1].

In May 1995, the Board of Supervisors established the San Francisco IHSS Public Authority per Administrative Code Chapter 70[2] as an independent public agency, pursuant to California Welfare and Institutions Code Section 12301.6[3], to be the designated public authority for the

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[1] The five percent of clients who do not utilize the Independent Provider mode receives services through Homebridge, which is currently San Francisco's contract mode provider. According to HSA, the Homebridge contract serves a higher need client while also providing both wages and benefits to IHSS providers. The Homebridge contract serves IHSS recipients who are unable to hire and supervise their own home care providers, as well as IHSS recipients who have behavioral issues that create barriers to service delivery. The home care providers employed by Homebridge do not receive benefits from the IHSS Public Authority. Homebridge is responsible for providing health benefits to their employees in compliance with the Affordable Care Act and all other relevant laws.

[2] Administrative Code Chapter 70 states the following: "The Board of Supervisors for the City and County of San Francisco (hereinafter, City) by this Chapter establishes a public authority whose powers are derived from and consistent with the provisions of Welfare and Institutions Code Section 12301.6. The name of this public authority shall be the In-Home Supportive Services Public Authority, and shall be referred to in this Chapter as the "Authority." Its purpose is to assure the availability of Independent Providers for the In-Home Supportive Services Program (IHSS) through the establishment of a central registry, and related functions, and to perform any other functions, as may be necessary for the operation of the Authority, or related to the delivery of IHSS in San Francisco, subject to all applicable Federal and State laws and regulations, and to the limitations set forth in this Chapter."

[3] Section 12301.6(e) of the Welfare and Institutions Code identifies the following responsibilities as those that can be transferred to a public authority or nonprofit consortium: (1) the provision of assistance to recipients in finding

County of San Francisco to (a) provide administrative and operations support services for IHSS Independent Providers and (b) administer health and dental benefits to IHSS Independent Providers.

In July 2016, the Board of Supervisors approved a contract between HSA and the San Francisco IHSS Public Authority for the provision of administration, health, and dental benefits to IHSS Independent Providers from July 1, 2016 to June 30, 2020 in the amount of $267,094,964 (File 16-0533). Subsequently, HSA entered into a contract with the IHSS Public Authority for the period of July 1, 2016 to June 30, 2019 with a total not to exceed amount of $195,486,362. In July 2018, HSA modified the contract to a new total not to exceed amount of $215,674,407 for the period of July 1, 2016 to June 30, 2019.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new contract between HSA and the San Francisco IHSS Public Authority to replace the current contract, which is scheduled to end in June 2019. The proposed new contract is for the period of July 1, 2019 through June 30, 2022, in an amount not to exceed $255,912,584. Contract services include program administration, health and dental benefits, and other services to IHSS providers.

According to HSA, to reflect recent changes to health and dental insurance costs and to align with the new Independent Provider Collective Bargaining Agreement (discussed below), HSA decided to begin a new contract cycle for the period of July 1, 2019 to June 30, 2022.

The IHSS Public Authority is the employer of record for Independent Providers in San Francisco for the purposes of union negotiations and is responsible for the administration of health and dental benefits for all eligible Independent Providers. In 2018, the IHSS Public Authority concluded the collective bargaining process with SEIU Local 2015. According to HSA, there are approximately 20,000 active Independent Providers in the City. Currently, 11,352 or 59 percent of eligible Independent Providers are enrolled in health benefits, and 9,608 or 53 percent of eligible Independent Providers are enrolled in dental benefits[4].

The major service areas provided through the proposed contract with the IHSS Public Authority include the following:

IHSS personnel through the establishment of a registry, (2) investigation of the qualifications and background of potential personnel, (3) establishment of a referral system under which IHSS personnel shall be referred to recipients, (4) providing training for providers and recipients, (5) performing any other functions related to the delivery of IHSS, and (6) ensuring that the requirements of the personal care option pursuant to Subchapter 19 (commencing with Section 1396) of Chapter 7 of Title 42 of the United States Code are met.

[4] According to HSA, for health insurance, an Independent Provider has to have worked three consecutive months with at least 25 hours per month to be qualified to enroll. For dental insurance, an Independent Provider has to have worked six consecutive months with at least 25 hours per month to be qualified to enroll. To maintain health and dental coverage, an Independent Provider has to work a minimum of 25 hours per month. As of April 1, 2019, there were 19,216 Independent Providers who are eligible for health insurance, and 18,032 Independent Providers who are eligible for dental insurance.

- Maintaining a home care worker registry;
- Providing and administering health and dental benefits for Independent Providers;
- Participating in Independent Provider group orientation, conducting LiveScans and processing of criminal background checks of potential Independent Providers;
- Providing a Mentorship Program for IHSS consumers;
- Providing a One Stop Resource Center for IHSS recipients and Independent Providers, which includes trainings for IHSS recipients and distribution of limited safety and protective supplies to Independent Providers; and
- Providing stipends to Union Stewards for performance of Union related activities in accordance with the current Collective Bargaining Agreement with SEIU Local 2015.

According to HSA, the proposed contract's scope of work for the provision of benefits to Independent Providers has not changed from the existing contract with the IHSS Public Authority. The insurance carrier for health benefits is the San Francisco Health Plan, which in turn buys a large percentage of services from the Department of Public Health (DPH). The HSA negotiates rates with the San Francisco Health Plan for health insurance. For dental benefits, the HSA conducted a full analysis of the dental insurance industry and advised the Public Authority to use Liberty Dental, which renews on an annual basis in January. According to HSA, the current health and dental providers will remain the same for the proposed contract.

According to HSA, Independent Provider wages are set by the City, but are paid directly to Independent Providers by the State. In San Francisco, the recently adopted Minimum Compensation Ordnance[5] (MCO) approved in November 2018 that sets wages for IHSS workers at above the City's minimum wage (File 17-0538) resulted in a staggered wage increase for Independent Providers and was subsequently codified in the Collective Bargaining Agreement between SEIU Local 2015 and the IHSS Public Authority. While the IHSS Public Authority acts as the employer of record for purposes of bargaining, which includes setting wages in partnership with the City, the wages do not get paid through the Public Authority contract.

FISCAL IMPACT

The amount of the existing contract between HSA and the IHSS Public Authority during the three-year term between July 1, 2016 and June 30, 2019 was $215,674,407, which includes a 10 percent contingency. According to HSA, estimated actual contract expenditures through June

[5] The Minimum Compensation Ordinance amended Administrative Code Section 12P to increase the minimum compensation for employees of (a) nonprofit organizations having contracts with the City to $16 per hour as of July 1, 2019, plus an amount corresponding to the prior year's increase in the Consumer Price Index (CPI); and (b) public entities, including In Home Supportive Services (IHSS), to $17 per hour on the 60th day after enactment of the ordinance. The minimum compensation amount for employees of nonprofit organizations and public entities would increase each year on July 1 by the CPI.

30, 2019 will be approximately $182,556,627, or $13,526,715 less than the total contract not-to-exceed amount.

The proposed contract amount, including a 10 percent contingency, totals $255,912,584 over a three-year term from July 1, 2019 through June 30, 2022, as shown in Table 1 below.

Table 1. IHSS Public Authority Contract Budget

Fiscal Year	**FY 2019-20**	**FY 2020-21**	**FY 2021-22**	**Total**
Administration of Health and Dental Benefits[6]	$74,948,865	$77,322,732	$79,169,955	$231,441,552
Finger Printing Project[7]	266,696	275,199	284,934	826,829
Advisory Council[8]	72,865	76,461	81,097	230,423
Mentorship Program[9]	41,000	50,000	58,000	149,000
Subtotal	$75,329,426	$77,724,392	$79,593,986	$**232,647,804**
10% Contingency[10]	7,532,943	7,772,439	7,959,399	23,264,780
Total	$82,862,369	$85,496,831	$87,553,385	**$255,912,584**

According to HSA, both the HSA and DPH worked with the IHSS Public Authority to determine the proposed contract's budget, which is based on projections accounting for the anticipated number of enrollments (based on averages of past actuals) multiplied by average monthly premiums and also incorporates updates to comply with changes to City ordinances. Health and dental benefits constitute $220,994,361 or approximately 95 percent of the proposed contract amount (not including the 10 percent contingency). As previously mentioned, the IHSS Public Authority buys health and dental insurance from the San Francisco Health Plan and Liberty Dental.

The contract is funded by a combination of federal, state and county sources, as shown in Table 2 below.

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[6] This includes salaries and operating expenses for the administration of health and dental benefits, as well as health and dental insurance, for all eligible Independent Providers.

[7] This includes background investigations of new Independent Providers including providing LiveScan fingerprinting.

[8] This is the governing arm of the IHSS-Public Authority agency. They provide direction to ensure that the agency's mission and vision are fulfilled. The advisory board is mandated by statute with certain governing responsibilities and member requirements.

[9] The Mentorship Program assists and educates referred consumers on how to successfully hire and maintain an Independent Provider in order to successfully transition to and/or maintain independent community living. The mentors facilitate consumers in discharges from Laguna Honda Hospital over a 60-day transition period, half of which is spent on instructing consumers on how to successfully live in their homes and communities. The Mentorship program is partially supported through a work order from the Department of Public Health.

[10] According to HSA, in 2014, the agency adopted a policy allowing for a 10 percent contingency to be added to the initial budgeted amounts of contracts. This policy was adopted to allow for adjustments such as annual cost of doing business increases and other one-time only modifications.

Table 2. IHSS Public Authority Funding Sources

Source	Amount	Percentage
City General Fund	$46,529,561	20%
State Grants	69,794,341	30%
Federal Grants	116,323,902	50%
Subtotal	**$232,647,804**	
10% Contingency (General Fund)	23,264,780	
TOTAL	**$255,912,584**	

POLICY CONSIDERATION

According to HSA, the IHSS Public Authority has met the requirements for the monitoring report objectives for the current contract, which include service measures on IHSS provider benefits administration and enrollment, the worker registry, Independent Provider enrollment services and IHSS consumer mentoring services. The IHSS Public Authority also submits an annual report summarizing the contract activities and data points on service and outcome objectives, as well as accomplishments and challenges encountered by the agency. Performance measures and monitoring report activities for the proposed contract will include similar requirements.

RECOMMENDATION

Approve the proposed resolution.

Item 2 **File 19-0485**	**Department:** Human Services Agency (HSA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a first amendment to the contract between the City and Homebridge, a non-profit organization, for the provision of Contract Mode IHSS and provider skill development training and supports, to (1) increase the contract amount by $29,136,749 from $66,972,930 to an amount not to exceed $96,109,679; and (2) to extend the term from the current end date of June 30, 2019 to a new end date of June 30, 2020.

Key Points

- In-Home Supportive Services (IHSS) is a federally-, state-, and locally-funded program administered by each county. IHSS provides funding for eligible low-income seniors (over the age of 65) and disabled persons to receive non-medical personal care and other household assistance in their home. In San Francisco, IHSS service hours are provided to clients via two modes of service delivery: (a) the Independent Provider mode or (b) the Contract Mode for clients who are unable to find and/or supervise their own Independent Providers. There are currently approximately 22,500 IHSS clients, 95 percent who utilize the Independent Provider mode of service. The five percent of clients who do not utilize the Independent Provider mode receives services through Homebridge, which is currently the Contract Mode provider. According to HSA, the Homebridge contract serves a higher need client through the employment of a trained and supervised home care workforce.

Fiscal Impact

- HSA projects total contract expenditures between April 2017 through June 2019 of $60,275,637, which includes actual expenditures through March 2019 of $51,065,864 and projected expenditures between April 2019 and June 2019 of $9,209,773. Total actual and budgeted expenditures under the contract, including the 10 percent contingency, are $90,722,855, which is $5,386,824 less than the proposed contract not-to-exceed amount of $96,109,679. Therefore, the proposed resolution should be amended to reduce the contract amount by $5,386,824 from $96,109,679 to $90,722,855.

Policy Consideration

- In 2012, the State implemented the IHSS Coordinated Care Initiative, which established a Maintenance of Effort (MOE), which set each county's expenditures for IHSS based on FY 2011-12 IHSS expenditures, adjusted for inflation. The Governor's proposed budget for FY 2019-20 in January included significant changes to the structure of the IHSS MOE. Overall, if the Governor's budget proposal for FY 2019-20 is enacted, HSA projects an increase in costs to its IHSS MOE of: $26 million in FY 2019-20 and an additional $13 million in FY 2020-21, for a cumulative increase of more than $39 million in FY 2020-21.

Recommendations

- Amend the proposed resolution to reduce the contract not-to-exceed amount by $5,386,824 from $96,109,679 to $90,722,855.
- 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

In-Home Supportive Services (IHSS) is a federally-, state-, and locally-funded program administered by each county. IHSS provides funding for eligible low-income seniors (over the age of 65) and disabled persons to receive non-medical personal care and other household assistance in their home. IHSS care allows seniors and disabled persons to remain in their own homes and thereby avoid unnecessary and expensive hospitalization or institutionalization.

Each eligible IHSS client is allocated a specified number of monthly IHSS service hours based on an annual needs assessment conducted by the Human Services Agency (HSA). In San Francisco, IHSS service hours are provided to clients via two modes of service delivery: (a) the Independent Provider mode or (b) the Contract Mode for clients who are unable to find and/or supervise their own Independent Providers. According to HSA, there are currently approximately 22,500 IHSS clients, 95 percent who utilize the Independent Provider mode of service. The five percent of clients who do not utilize the Independent Provider mode receives services through Homebridge, which is currently San Francisco's Contract Mode provider. According to HSA, the Homebridge contract serves a higher need client through the employment of a trained and supervised home care workforce. The Homebridge contract serves IHSS recipients who are unable to hire and supervise their own home care providers, due to behavioral issues that create barriers to service delivery.

In April 2017, the Board of Supervisors retroactively approved a contract between the City and Homebridge[1] for the provision of Contract Mode IHSS and provider skill development training and supports for the period of April 1, 2017 to June 30, 2019 in the amount of $66,972,930 (File 17-0231). The contract provides for one additional year through June 30, 2020 at the sole discretion of HSA.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a first amendment to the contract between the City and Homebridge, a non-profit organization, for the provision of Contract Mode IHSS and provider skill development training and supports to (1) increase the contract amount by $29,136,749 from $66,972,930 to an amount not to exceed $96,109,679; and (2) to extend the term from the current end date of June 30, 2019 to a new end date of June 30, 2020.

[1] HSA issued a competitive Request for Proposals (RFP) in March 2016 to select a new provider for IHSS for a three-year period from July 1, 2016 through June 30, 2019. Only one agency submitted a proposal, which was the incumbent provider Homebridge.

As previously mentioned, the existing contract with Homebridge provides for one additional year through June 30, 2020 at the sole discretion of HSA. According to HSA, because Homebridge has met the necessary performance requirements, the agency intends to exercise the one-year extension, with an associated increase in the contract amount to pay for services. The agency will develop and complete a competitive solicitation process during the next fiscal year with a goal for a new contract to begin July 1, 2020.

During the existing term of the contract, Homebridge was budgeted to provide 1,183,218 hours[2] of supervised In-Home Supportive Services. For the proposed extension, Homebridge is budgeted to provide 514,863 hours of supervised services for FY 2019-20. The types of services provided through the IHSS program include housecleaning, meal preparation, laundry, grocery shopping, personal care services (e.g., bathing, bowel and bladder care), accompaniment to medical appointments, and protective supervision. The IHSS caseload increased by seven percent between FY 2012-13 and FY 2013-14 and has then decreased by approximately three percent between FY 2013-14 and FY 2018-19, as shown in Table 1 below.

Table 1: IHSS Active Caseload

Fiscal Year	Active Caseload	Year-over-Year % Change
FY 2011-12	21,591	--
FY 2012-13	21,608	0%
FY 2013-14	23,190	7%
FY 2014-15	22,600	(3%)
FY 2015-16	22,298	(1%)
FY 2016-17	22,414	1%
FY 2017-18	22,489	0%
FY 2018-19 (to date)	22,554	0%

Source: Human Services Agency

HSA projects that the IHSS caseload will be approximately 22,500 in FY 2019-20.

FISCAL IMPACT

HSA projects total contract expenditures between April 2017 through June 2019 of $60,275,637, as shown in Table 2 below, which includes actual expenditures through March 2019 of $51,065,864 and projected expenditures between April 2019 and June 2019 of $9,209,773. Total actual and budgeted expenditures under the contract, including the 10 percent contingency, are $90,722,855, which is $5,386,824 less than the proposed contract not-

[2] 166,319 hours for fiscal year 2016-17; 476,899 hours for fiscal year 2017-18; and 540,000 hours for fiscal year 2018-19

to-exceed amount of $96,109,679. Therefore, the proposed resolution should be amended to reduce the contract amount by $5,386,824 from $96,109,679 to $90,722,855.

Table 2: Total Contract Expenditures April 2017 through June 2020

Contract April 2017 through June 2019	
Actual expenditures	$51,065,864
Projected expenditures	9,209,773
Total	$60,275,637
Contract July 2019 through June 2020	
Budgeted expenditures	
Contract Mode	$26,643,921
Provider Skills & Development	1,035,368
Subtotal budgeted expenditures	$27,679,289
10% contingency	2,767,929
	$30,447,218
Total	$90,722,855
Proposed not-to-exceed amount	96,109,679
Recommended Reduction	**($5,386,824)**

Contract Mode services are direct services to IHSS clients (including home care delivery and administration), consisting of approximately 337 FTE (full-time equivalent) IHSS providers, the program director, client service coordinators, service schedulers, and support staff (such as nurses and bilingual support). Provider Skills and Development consists of training staff to provide ongoing basic and advanced skill development training to IHSS providers.

According to HSA, the proposed budget is based on projections derived from anticipated service hours based on historical needs and the costs associated with the administration of the program's care providers, and the training and supports component.

The proposed contract is funded by a combination of Federal, State, and City sources, as shown in Table 3 below.

Table 3: Funding Sources

Source	Amount	Percentage
City General Fund	$18,470,534	21%
State Grants	20,229,633	23%
Federal Grants	49,254,759	56%
Subtotal	**$87,954,926**	
10% Contingency (General Fund)	2,767,929	
TOTAL	**$90,722,855**	

Source: Proposed Contract

POLICY CONSIDERATION

IHSS Maintenance of Effort

The State implemented the IHSS Coordinated Care Initiative in 2012, which established a Maintenance of Effort (MOE). Under the IHSS MOE, the City does not pay a proportional share of the contract costs for IHSS. Instead, it makes a single, local payment known at the MOE as the share-of-cost of all services in the IHSS program. The MOE is adjusted for several factors. Under the original MOE formula, each county's MOE was set based on its FY 2011-12 IHSS expenditures, increasing annually by an inflation factor of 3.5 percent.

The Governor's budget for FY 2017-18 ended the Coordinated Care Initiative and significantly revised the Maintenance of Effort formula. Changes to the IHSS MOE that took effect in FY 2017-18 continue to impact the cost of the IHSS program for the City and to increase costs relative to the prior version of the MOE. The revised MOE was rebased at a higher level, and the annual inflation factor was increased from 3.5 percent a year to five percent in FY 2018-19 and seven percent a year beginning on July 1, 2019 and annually thereafter[3].

These increases were to be partially offset by State General Fund support for the program, which started at $400 million statewide in FY 2017-18 and stepped down until it reaches $150 million starting in FY 2021-22. In addition to increases from inflation and reduced State General Fund offsets, the City's MOE can increase for the non-federal share of (1) wage increases for IHSS providers, (2) increased hourly costs for services provided through the IHSS contract with Homebridge, and (3) increases in administrative expenditures. According to the January 4, 2019 Five Year Financial Plan, the City projected increases of $56 million in FY 2019-20 and $69 million in FY 2020-21 as compared to the MOE that existed prior to FY 2017-18.

The Governor's proposed budget for FY 2019-20 in January again included significant changes to the structure of the IHSS MOE. These changes include a reduction in the mandated inflation rate from seven percent to four percent beginning in FY 2020-21 as well as an overall reduction of the base amount effective FY 2019-20. According to HSA, if enacted, the changes reduce cost growth by $9 million in FY 2019-20, $14 million in FY 2020-21, and with further reductions in the years thereafter.

Overall, if the Governor's budget proposal for FY 2019-20 is enacted, HSA projects an increase in costs to its IHSS MOE of: $26 million in FY 2019-20 and an additional $13 million in FY 2020-21, for a cumulative increase of more than $39 million in FY 2020-21[4]. The projected FY 2019-20 IHSS MOE reflects that the City will contribute approximately 20 percent of the total estimated costs of the program.

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[3] Per Section 12306.16 of Senate Bill 90

[4] The projections reflect the increase in IHSS provider wages to $16.50 an hour, in line with the City's MCO and the decrease in the base IHSS MOE proposed in the Governor's January budget. The costs in FY 2020-21 reflect the application of the proposed 4 percent annual inflation factor (down from 7 percent), a wage increase under the MCO to $17.50 an hour, and an increase in the hourly costs of the Homebridge contract in line with inflation.

RECOMMENDATIONS

1) Amend the proposed resolution to reduce the contract not-to-exceed amount by $5,386,824 from $96,109,679 to $90,722,855.
2) Approve the proposed resolution.

Item 3 **File 19-0502**	**Department:** Homelessness and Supportive Housing (HSH), Real Estate Division (RED)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a lease at 1601 Quesada Avenue between JELANI INC. as landlord and the Department of Homelessness and Supportive Housing as tenant, for a term of ten years, with two ten-year options to extend, and initial annual rent of $217,200, for transitional housing for homeless pregnant women and mothers with young babies. The proposed resolution would also find the lease to conform with the General Plan and Planning Code, and adopt California Environmental Quality Act findings.

Key Points

- The Jelani House, located at 1601 Quesada Avenue, comprises 10,225 square feet over two stories and a basement, consisting of 17 bedrooms and communal restrooms, kitchen, and living spaces, as well as offices. The building, which was originally purchased in 1990 and renovated in 1991 using City and Redevelopment Agency grants, was assigned to JELANI, Inc., a nonprofit organization. It has been vacant for approximately 18 months.
- The Real Estate Division and Department of Homelessness and Supportive Housing identified Jelani House as a potential site for shelter and transitional housing. The Real Estate Division negotiated a lease with the landlord for initial annual rent of $217,200, which was determined to be at or below fair market rent.
- The Department of Homelessness and Supportive Housubg would use the site for to provide transitional housing for homeless pregnant women and mothers with young infants. It would house 17 women and approximately 7 infants, on average. HSH would provide case management, house activities, wellness services, external referral, and infant needs and services.

Fiscal Impact

- Over the initial ten-year term of the lease, the Department of Homelessness and Supportive Housing would pay $2,272,391 in rent, approximately $178,050 in property taxes, and approximately $900,262 in operating expenses, for total projected expenditures of $3,350,703.
- The tenant improvement project budget is approximately $1,091,828. The landlord would pay $325,037 and HSH would pay $656,269. A construction contingency of $110,522 may be paid by either the landlord or HSH, depending on scope of work.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Administrative Code 23.27 states that any lease with a term of one year or longer and where the City is the tenant is subject to Board of Supervisors approval by resolution.

BACKGROUND

The Jelani House, located at 1601 Quesada Avenue in the Bayview District, comprises approximately 10,225 square feet over two stories and a basement, including 17 private bedrooms with in-unit sinks, common restrooms, a shower room with three showers, a nursery room, a communal washing machine and dryer, a kitchen, a dining area, seven offices, a community area, storage space, machine and boiler rooms, and a community room.

In 1990, the Mayor's Office of Housing and Community Development (MOHCD) provided a $400,000 Community Development Block Grant to Catholic Charities for the acquisition of the property. In 1991, the San Francisco Redevelopment Agency (Redevelopment Agency) provided a $300,000 grant to Catholic Charities to renovate the property. The regulatory agreements mandated that the property be occupied by low-income households (not to exceed 80 percent of Annual Median Income) for a term of 50 years. In 1995, the grant and regulatory agreements were assigned to and assumed by JELANI INC., a new non-profit borrower. After dissolution of the Redevelopment Agency, the grant and regulatory agreements were assumed by MOHCD. According to Ms. Kerry Abbott, Department of Homelessness and Supportive Housing Deputy Director of Programs, the Jelani House has been vacant for approximately 18 months. It had been used as transitional housing with substance abuse treatment for pregnant and parenting women.

In October 2018, Mayor London Breed announced plans to open 1,000 additional homeless shelter beds by 2020. The Real Estate Division and Department of Homelessness and Supportive Housing have been investigating potential sites to accommodate shelter and transitional housing and identified the Jelani House as a potential site. RED negotiated a lease with the landlord, which has been determined to be at or below fair market rent.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a lease between the Department of Homelessness and Supportive Housing and JELANI, INC. for an initial term of ten years, commencing no later than September 30, 2019, with two ten-year options to extend, and initial annual rent of $217,200. Rent would increase one percent annually. Under the lease, the Department would also pay property taxes and operating expenses, which are estimated to have initial annual costs of $16,261 and $71,575, respectively. According to Mr. Joshua Keene, Real Estate Division Special Projects and Transactions Manager, property taxes are projected to increase two percent annually, as capped by Proposition 13, and operating expenses are projected to increase five percent annually, as an estimate.

An appraisal was not required because the initial annual base rent is $21.24 per square foot, less than the $45 per square foot threshold requiring an appraisal in the Administrative Code. According to Mr. Keene, the Real Estate Division determined fair market rent by conducting internal analysis of comparable transactions and adjusting for the condition of the building. Base rent was reduced due to the City performing certain landlord responsibilities, such as building improvements and property tax payments.

According to Ms. Gigi Whitley, Homelessness and Supportive Housing Deputy Director of Finance, Jelani House would be used as transitional housing for homeless pregnant women and mothers with young babies. The program would provide comprehensive case management and supportive services. The estimated average occupancy is 24, with 17 women and 7 infants. The program would connect participants to coordinated entry and help families exit to permanent housing. According to Ms. Whitley, programs would include case management, counseling, skill-building, community support, wellness classes, health education, prenatal care, parent-child education, mental health services, prenatal yoga, family planning, breastfeeding support, infant care, and provision of in-kind items, such as baby clothes, toiletries, diapers, and strollers. Length of stay would depend on need, unit availability, and entry date, but would generally last from early to mid-pregnancy through approximately one year after giving birth, to allow for concentrated maternal recovery and parent-infant bonding. According to Ms. Whitley, the annual program operating cost is approximately $820,000, including administrative and program staffing, operations, subcontracts, and start-up costs for furniture and equipment (in the first year).

The proposed resolution would also find that the lease is in conformance with the General Plan and Planning Code, as well as adopt California Environmental Quality Act (CEQA) findings.

FISCAL IMPACT

Over the initial ten-year term of the lease, the Department of Homelessness and Supportive Housing would pay $2,272,391 in rent, approximately $178,050 in property taxes, and approximately $900,262 in operating expenses, for total projected expenditures of $3,350,703. The initial annual rent would be $217,200, with one percent annual increases, the initial annual property taxes would be $16,261, with two percent projected annual increases, and the initial annual operating expenses would be $71,575, with five percent projected annual increases. Projected annual expenditures are shown in Table 1 below.

Table 1: Projected Annual Expenditures

Year	Rent	Property Taxes	Operating Expenses	Total
Year 1	$217,200	$16,261	$71,575	$305,036
Year 2	219,372	16,586	75,154	311,112
Year 3	221,566	16,918	78,911	317,395
Year 4	223,781	17,256	82,857	323,894
Year 5	226,019	17,601	87,000	330,620
Year 6	228,279	17,953	91,350	337,582
Year 7	230,562	18,312	95,917	344,791
Year 8	232,868	18,678	100,713	352,259
Year 9	235,196	19,052	105,749	359,997
Year 10	237,548	19,433	111,036	368,017
Total	**$2,272,391**	**$178,050**	**$900,262**	**$3,350,703**

Tenant Improvements

According to Mr. Youcef Bouhamama, Public Works Project Manager, the total budget for tenant improvements is approximately $1,091,828. Of this total, the landlord's responsibility is approximately $325,037, while the Department of Homelessness and Supportive Housing's responsibility is approximately $656,269. There is also a construction contingency of $110,522, which may be paid by either the landlord or HSH, depending on the scope of work. The project budget is shown Table 2 below.

Table 2: Tenant Improvements Project Budget

Sources	Amount
Landlord	$325,037
HSH	656,269
Contingency (Source dependent on scope of work)	110,522
Total Sources	**$1,091,828**

Uses	Amount
Construction Contract Award	$736,814
Construction Contingency	110,522
Construction Subtotal	*$847,336*
DPW Project Management	115,667
Contract Preparation, Legal Fees	7,000
ADA Review	6,000
Construction Management Services	54,363
Hazardous Materials (Oversight and monitoring)	24,621
Project Control Contingency (5% of Construction Contract Award)	36,841
Project Control Subtotal	*$244,492*
Total Uses	**$1,091,828**

RECOMMENDATION

Approve the proposed resolution.

Item 5 File 19-0455	Department: Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a lease extension for the property at 651 Bryant Street, with the San Francisco Public Utilities Commission (SFPUC) as tenant and William H. Banker, Jr. (and others) as landlord, for a term of ten years, from November 2019 through October 2029, and initial annual rent of $577,920.

Key Points

- In July 2009, the Board of Supervisors approved a lease for SFPUC, as tenant, at 651 Bryant Street, for a term of ten years, with a ten-year option to extend, and initial annual rent of $235,200. Under the lease, SFPUC occupies approximately 14,000 square feet of office and warehouse space on an approximately 19,000 square foot lot for the Power Enterprise's Utility Field Services (UFS) division. The site is located adjacent to 645 Bryant Street, which is owned by SFPUC and also occupied by UFS. SFPUC currently pays $293,724 in annual rent.
- The lease expires October 31, 2019, and SFPUC has negotiated with the landlord for initial annual rent of $577,920, with three percent annual adjustments in the extension term. An appraisal conducted by Colliers International found the proposed rent to be at or below 95 percent of fair market rent, consistent with the provisions of the original lease. While other properties were considered for relocation, the 651 Bryant Street site was determined to be the best site, due to the adjacent SFPUC property, as well as the negotiated rental rate.

Fiscal Impact

- The proposed lease extension would have initial annual rent of $577,920 with three percent annual adjustments. Over the ten-year term of the lease extension, SFPUC would pay $6,625,205 in total rent.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Administrative Code 23.27 states that any lease with a term of one year or longer and where the City is the tenant is subject to Board of Supervisors approval by resolution.

BACKGROUND

In July 2009, the Board of Supervisors approved a lease at 651 Bryant Street, with San Francisco Public Utilities Commission (SFPUC) as tenant, for a term of ten years, with a ten-year option to extend, and initial annual rent of $235,200.[1] Under the lease, SFPUC occupies approximately 14,000 square feet of office and warehouse space on an approximately 19,000 square foot lot.

The space is occupied by SFPUC's Power Enterprise's Utility Field Services (UFS) division, which provides engineering, technical, and field services in the management, operation, maintenance, replacement, and new installations for the City-owned electric distribution systems and 25,000 City streetlights. UFS also operates and maintains facilities for the San Francisco International Airport, Port of San Francisco, and on Treasure Island and Yerba Buena Island, as well as in various redevelopment projects. The site is located next to 645 Bryant Street, an SFPUC-owned site that is also occupied by the UFS division. SFPUC currently pays $293,724 in annual rent.

The lease expires October 31, 2019 and includes an option to extend for an additional 10 years, through October 2029, with rent set at 95 percent of fair market rent. Real Estate Division staff negotiated the lease terms on behalf of SFPUC for 95 percent of fair market rent to be $577,920 annually. In April 2019, the SFPUC Commission approved the lease extension.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the SFPUC General Manager to exercise the option to extend the lease at 651 Bryant Street by 10 years through October 2029, with initial annual rent of $577,920 and three percent annual adjustments. The proposed resolution would not make any other substantive changes to the lease.

According to Mr. Charlie Dunn, SFPUC Real Estate Services Division, an appraisal conducted by Colliers International found the proposed annual rent to be at or below 95 percent of fair market rent, as stated in the option to extend the lease. The proposed annual rent of $41.28 per square foot is below the $45 per square foot Administrative Code threshold requiring an appraisal. According to Mr. Dunn, other properties were considered for relocation, but the 651 Bryant location was determined to be the best site, due to its proximity to the other SFPUC property next door, as well as the negotiated rental rate.

Under the proposed lease extension, SFPUC retains the first right to purchase the property. According to Mr. Dunn, SFPUC would be interested in purchasing the property at some point, although no discussions have occurred with the landlord.

[1] The collective landlords are: William H. Banker, Jr., Successor Trustee of the Banker Trust dated April 20, 1992; Fillmore C. Marks, Trustee of the Fillmore and Barbara Marks 1992 Trust; and Fillmore Douglas Marks, William C. Marks, and Bradford F. Marks, tenants in common.

FISCAL IMPACT

Over the ten-year term of the lease extension, SFPUC would pay $6,625,205 in total rent. The initial annual rent would be $577,920, with three percent annual adjustments. The annual rent payments are shown in Table 1 below.

Table 1: Annual Rent Paid by SFPUC

Year	Annual Rent
Year 1 (November 2019 – October 2020)	$577,920
Year 2 (November 2020 – October 2021)	595,258
Year 3 (November 2021 – October 2022)	613,115
Year 4 (November 2022 – October 2023)	631,509
Year 5 (November 2023 – October 2024)	650,454
Year 6 (November 2024 – October 2025)	669,968
Year 7 (November 2025 – October 2026)	690,067
Year 8 (November 2026 – October 2027)	710,769
Year 9 (November 2027 – October 2028)	732,092
Year 10 (November 2028 – October 2029)	754,055
Total	**$6,625,205**

Under the proposed lease extension, SFPUC would pay increases to property expenses (property tax and insurance) above the 2019 base year. According to Mr. Dunn, this amount would be insignificant compared to the base rent.

RECOMMENDATION

Approve the proposed resolution.

Item 6 **File 19-0456**	**Department:** Human Services Agency (HSA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the First Amendment to the grant agreement between Human Services Agency (HSA) and Wu Yee Children's Services, increasing the not-to-exceed amount to $42,036,965.

Key Points

- In June 2017, the Board of Supervisors approved a grant agreement between HSA and Wu Yee for Early Care and Education Integration Services, for a term of three years and an amount not to exceed $31,322,180. The agreement was executed for an amount not to exceed $32,118,731, exceeding the approved amount because the budget was being finalized simultaneously. Under the grant agreement, Wu Yee provides childcare subsidies to low income families in San Francisco, as well as related administrative functions.
- HSA is now requesting additional funding to the grant agreement due to budget overruns of approximately 20 percent in FY 2017-18 and approximately 35 percent in FY 2018-19. The overruns are due to rate increases, cost of doing business adjustments, Board of Supervisors' discretionary funding allocations, and additional staffing requirements.

Fiscal Impact

- The First Amendment would increase the not-to-exceed amount of the grant agreement by $9,918,234, from $32,118,731 to $42,036,965. The amount of City funding is $37,624,355, with funding provided by the Public Education Enrichment Fund (PEEF) and Department of Children, Youth, and Their Families (DCYF).
- The revised budget includes a 10 percent contingency each year. However, a contingency is also provided for FY 2017-18 and FY 2018-19, even though the pre-contingency amounts reflect actual expenditures. As the contingencies for these years are no longer needed, the Budget and Legislative Analyst recommends reducing the total not-to-exceed amount of the grant agreement by $2,477,931.

Recommendations

- Amend the proposed resolution to (a) delete the reference to retroactive approval, and (b) reduce the total not-to-exceed amount of the grant agreement by $2,477,931, from $42,036,965 to $39,559,827.
- Approve the resolution as amended.

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

In 2012, the City combined early care and education programs, previously administered separately by First 5 SF, Department of Children, Youth and Families, and the Human Services Agency (HSA) into a new San Francisco Office of Early Care and Education within the Human Services Agency. The Office of Early Care and Education's strategic plan set out recommendations for the following categories: (1) birth-to-five approach; (2) racial equity and diversity; (3) quality improvement; (4) family engagement; (5) professional development and workforce; and (6) financing models

The Board of Supervisors approved two grant agreements in June 2017 for Early Care and Education Integration Services with Children's Council of San Francisco and Wu Yee Children's Services, following a competitive Request for Proposals (RFP) (Files 17-0589 and 17-0590).

The grant agreement with Wu Yee was for a term of three years, from July 2017 through June 2020, and an amount not to exceed $31,322,180 (File 17-0590, Resolution 265-17).

The final grant agreement signed by HSA and Wu Yee has a total not-to-exceed amount of $32,118,731, which exceeds the not-to-exceed amount of $31,322,180 that had been authorized by the Board of Supervisors. According to Ms. Elizabeth Leone, HSA Senior Contracts Manager, the certification process of the grant agreement occurred at the same time as the approval process. The exact budget for the contract had not been finalized before seeking Human Service Commission or Board of Supervisors approval. HSA has since standardized its Board of Supervisors approval process to only use the total not-to-exceed amount.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the First Amendment to the grant agreement between HSA and Wu Yee, increasing the not-to-exceed amount by $9,918,234, from $32,118,731 to $42,036,965. The end date of the agreement of June 30, 2020 does not change.

The First Amendment would be retroactive to May 1, 2019. However, because actual expenditures under the agreement through FY 2018-19 are less than the agreement not-to-exceed amount of $32,118,731, the agreement does not require retroactive approval.

Grant Agreement Services

Under the grant agreement Wu Yee provides child care subsidies to low income families in San Francisco for children up to five years old. In addition to the direct subsidies, Wu Yee provides several administrative services, including case management, fiscal leveraging, continuity of care for families losing benefits, and streamlining subsidy system administration and service delivery. According to Ms. Leone, the scope of services would not change under the First Amendment.

Grant Agreement Expenditures

The grant agreement budget consists of Wu Yee's administrative costs and the subsidies provided to families to pay for childcare. According to Ms. Leone, HSA is requesting additional funding for the Wu Yee grant agreement because expenditures have exceeded the budgeted amount each year by approximately 20 percent in FY 2017-18 and approximately 35 percent in FY 2018-19. The original funding model had been based on pre-implementation assumptions and projections that were then modified over time. According to Ms. Leone, contributing factors to the budget overruns include rate increases, cost of doing business adjustments, Board of Supervisors' discretionary funding allocations, and additional staffing requirements.

FISCAL IMPACT

The original annual budget for the grant agreement between the City and Wu Yee was approximately $10.4 million per year; actual/projected expenditures were $12.8 million in FY 2017-18, $14.4 million in FY 2018-19, and $14.8 million in FY 2019-20, as shown in Table 1 below, totaling $42,036,965. According to Ms. Leone, the amount of City funding is $37,624,355, provided by the Public Education Enrichment Fund (PEEF) and the Department of Children, Youth and Their Families (DCYF). The sources and uses of the grant agreement are shown in Table 1 below.

Table 1: Sources and Uses of Wu Yee Grant Agreement

Sources	FY 2017-18 (Actual)	FY 2018-19 (Actual)	FY 2019-20 (Projected)	Total
Federal Sources	$274,808	$158,129	$158,129	$591,066
PEEF/DCYF	11,380,447	12,958,002	13,285,906	37,624,355
Subtotal	*$11,655,255*	*$13,116,132*	*$13,444,036*	*$38,215,423*
Contingency (10%)	1,165,525	1,311,613	1,344,404	3,821,542
Total Sources	**$12,820,780**	**$14,427,746**	**$14,788,440**	**$42,036,966**

Uses	FY 2017-18 (Actual)	FY 2018-19 (Actual)	FY 2019-20 (Projected)	Total
Salaries & Benefits	$1,132,958	$1,345,569	$1,379,208	$3,857,735
Operating Expenses	289,717	271,121	277,899	838,738
Indirect Costs	213,401	242,503	248,566	704,471
Capital Expenditure	12,410	-	-	12,410
Direct Client Pass-Through	10,006,768	11,256,939	11,538,362	32,802,069
Subtotal	*$11,655,255*	*$13,116,132*	*$13,444,036*	*$38,215,423*
Contingency (10%)	1,165,525	1,311,613	1,344,404	3,821,542
Total Uses	**$12,820,780**	**$14,427,746**	**$14,788,440**	**$42,036,966**

**Totals may not add due to rounding.*

The revised budget includes a 10 percent contingency each year. However, the contingency is also included in FY 2017-18 and FY 2018-19, despite the fact that total pre-contingency amounts reflect actual expenditures. As the contingencies are no longer needed for these two years, the Budget and Legislative Analyst recommends reducing the total not-to-exceed amount of the grant agreement by $2,477,931.

RECOMMENDATIONS

1. Amend the proposed resolution to (a) delete the reference to retroactive approval, and (b) reduce the total not-to-exceed amount by $2,477,931, from $42,036,965 to $39,559,827.

2. Approve the resolution as amended.