Performance Audit of Permanent Supportive Housing Funds Administered by the Department of Homelessness and Supportive Housing

Prepared for the

Board of Supervisors
of the City and County of San Francisco

by the

San Francisco Budget and Legislative Analyst
May 3, 2024

CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST

1390 Market Street, Suite 1150, San Francisco, CA 94102 | (415) 552-9292

May 3, 2024
Supervisor Preston, Chair, Government Audit and Oversight Committee
and Members of the San Francisco Board of Supervisors
Room 244, City Hall
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4689

Dear President Preston and Members of the Board of Supervisors:

The Budget and Legislative Analyst is pleased to submit this *Performance Audit of Permanent Supportive Housing Funds Administered by the Department of Homeless and Supportive Housing*. In response to a motion adopted by the Board of Supervisors in July 2022 (Motion 22-132), the Budget and Legislative Analyst conducted this performance audit, pursuant to the Board of Supervisors powers of inquiry as defined in Charter Section 16.114 and in accordance with U.S. Government Accountability Office (GAO) standards, as detailed in the Introduction to the report.

The performance audit contains 5 findings and 17 recommendations, all of which are directed to the Director of the Department of Homelessness and Supportive Housing. The Executive Summary, which follows this transmittal letter, summarizes the Budget and Legislative Analyst's findings and recommendations. The recommendations are intended to improve the effectiveness and efficiency of the Department's management of these funds.

The Director of the Department of Homelessness and Supportive Housing has provided a written response to our performance audit, attached to this report on page 76. The Department agrees or partially agrees with 15 of our 17 recommendations. The Department disagrees with two of the recommendations.

The first recommendation that the Director disagrees with is Recommendation 2.1, relating to the vacancy rate of permanent supportive housing (PSH) units. Specifically, we recommend that the Department enhance contract and performance monitoring of the contractors charged with placements in order to reduce the PSH vacancy rates from the 10.2 percent average that occurred between January 2022 and May 2023 to the Department's target rate of seven percent. In her written response to the audit, the Director states that the Department re-started regular program monitoring, including a focus on reducing vacancies, in 2023, and that as of January 31, 2024, the overall vacancy rate was 7.1 percent. While this is a welcome development, we have not changed our recommendations to memorialize the need for contractor performance monitoring by HSH to ensure that the vacancy rate remains at or below the target 7 percent.

The second recommendation that the Director disagrees with is Recommendation 3.3, in which we recommend that the Department reconsider the need for the vacant Manager III position who would oversee the new Real Estate Unit, and instead consider utilizing the asset management team at MOHCD for these City-owned sites. At the time of our fieldwork and reporting, this position had not yet been filled. According to the Department, a finalist for the position has been selected, but the offer letter had not been issued or accepted as of the finalization of this report. While we would not recommend laying off an existing employee, we recommend that the Board of Supervisors request an update on the hiring of this position which has been vacant since July 1, 2022

We would like to thank the staff at the Department of Homelessness and Supportive Housing for the assistance they provided during the audit.

Respectfully submitted,

Fred Brousseau
Principal

cc: President Peskin
Supervisor Chan
Supervisor Dorsey
Supervisor Engardio
Supervisor Mandelman
Supervisor Melgar
Supervisor Ronen
Supervisor Safai
Supervisor Stefani
Supervisor Walton

Mayor Breed
Shireen McSpadden, HSH Executive Director
Clerk of the Board
City Attorney's Office
Mayor's Budget Director
Controller

TABLE OF CONTENTS

Executive Summary

The Board of Supervisors directed the Budget and Legislative Analyst's Office to conduct a performance audit of the permanent supportive housing funds administered by the Department of Homelessness and Supportive Housing through a motion (M22-123) passed in July 2022. The scope of this performance audit includes all sources and allowable uses of permanent supportive housing funds administered by the Department of Homelessness and Supportive Housing, and the planning, decision-making, and reporting on fund allocations and populations served. Broadly, we looked for opportunities to improve the effectiveness and efficiency of the Department's management of these funds.

Permanent supportive housing (PSH) offers eligible tenants long-term affordable housing (for which tenants pay up to 30 percent of their income in rent) with a range of supportive services, including case management and housing retention assistance. The Department primarily relies on contractors for the provision of PSH services, and in FY 2023 had 130 contracts in place for such services with a value of nearly $280 million. As discussed throughout this report, there is significant underspending on these contracts each year; in FY 2022, the Department spent only $73 million out of $180 million budgeted on contract services.

Section 1: Strategic Planning

Shortly after its creation in July 2016, the Department released a five-year strategic framework in October 2017 that specified eight goals (with a ninth added later) related to homelessness reduction and system improvement for FY 2017-18 through FY 2021-22. To achieve these goals, the Framework identified a multi-pronged approach for the five-year period to provide permanent supportive housing units, shelter beds, and other interventions.

The Framework did not adequately address: (1) administrative and operational requirements (such as department staffing needs and the capacity of community-based organizations), and (2) costs for the planned homeless system inventory—permanent housing, shelter beds, and units of prevention services—necessary to achieve its goals related to homelessness reduction. Ultimately, the results of the 2022 homelessness point-in-time count show the Department did not accomplish its Framework goals of reducing chronic adult and youth homelessness by 50 percent each by December 2022.

In April 2023, the Department released a new strategic plan, *Home by the Bay: An Equity-Driven Plan to Prevent and End Homelessness in San Francisco,* covering 2023 to 2028. The new plan is a marked improvement over the 2017 framework in that it focuses on stemming inflows into homelessness and facilitating homelessness outflows—and uses quantitative system modeling to derive targets for units of permanent supportive housing, shelter beds, and the number of households to be supported by prevention services. However, operational and cost details are still lacking as is a specific plan to address City and non-profit provider capacity limitations likely to affect program implementation pace and scale. The document simply notes that enhancing system performance and capacity will require "building and supporting nonprofit provider capacity." This is an area where a detailed implementation plan will need to specify how the Department intends to expand its ability to deliver the additional inventory contemplated in the new plan.

Recommendations

The Director of the Department should:

1.1 Ensure that the annual implementation updates to the 2023 strategic plan provide greater detail on the Department's progress in adding to the homeless system inventory, tracks cost-effectiveness of these efforts, reflects adjusted goals based on evolving needs and funding availability, and discusses coordination with other relevant City departments on related matters, such as implementation of the Housing Element Update. These reports should be presented directly to the Board of Supervisors.

1.2 Develop a cost-effectiveness metric (including an updated standard for cost-per-unit) which should be included in the annual implementation updates.

Section 2: Vacant Units

The Department has established a vacancy rate goal for its permanent supportive housing of seven percent but has not met that goal since at least August 2022. Between August 2022 and May 2023, actual permanent supportive housing vacancies averaged 10.2 percent of inventory, resulting in 273 more vacant units per month on average than if the Department had achieved its seven percent vacancy rate goal.

Several factors contribute to vacancies, including process inefficiencies for referrals, data management weaknesses from a system not yet fully operational, and an older inventory of units that frequently fail to meet habitability standards.

Since January 2022, two-thirds of the vacant units were ready for occupancy: half with a client referral in progress, and half awaiting client referrals for placement. The remaining one-third of the units were considered “offline” for various reasons, including the need for repairs. The Department’s primary contract provider responsible for expediting referrals and placements into vacant online units—through “Housing Navigators”—has not maintained adequate staffing levels to ensure that eligible clients are placed in available units as quickly as possible. Further, the Department has not established adequate contract and performance monitoring to hold providers such as housing navigators accountable for meeting service goals. Finally, though the Department has recently made investments in building repairs to help make more units available, particularly master lease units (SROs), the needs far exceed the current allocations, and the Department does not have a mechanism in place to inspect and ensure housing quality for these units.

Recommendations

The Director of the Department should:

2.1 Urgently adopt the recommendations in Sections 4 and 5 of this report to enhance contract and performance monitoring of the Housing Navigator agreements in order to ensure timely placement of eligible clients in available PSH units and reduce permanent supportive housing vacancy rates to the Department’s target seven percent instead of the actual 10.2 percent average rate between January 2022 and May 2023

2.2 Incorporate the analysis of unit vacancy into regular program monitoring and management reporting to hold providers accountable and to establish performance targets for reasonable timeframes to bring offline units online and to place tenants in online units. We recommend that the Department make this unit status information available to the public on the Vacancy Dashboard no later than December 31, 2023.

2.3 Evaluate and report to the Board of Supervisors on the total investment needed to maintain the SRO units to a habitable level to reduce chronic SRO vacancy rates and increase occupancy for PSH clients.

Section 3: Contract Development

The Department of Homelessness and Supportive Housing provides most of its services through contractors and has a structured approach to procuring such services based on City and Department protocols. However, the Department does not accurately project and control: contractor spending for services based on unit costs established in contractor solicitations and the Department budget, start-up timelines, or rehabilitation costs for new property acquisitions. This results in some contractors not adhering to their contract budgets and both under- and over-spending of annual allocated funds. We found variances between permanent supportive housing service unit costs in the Department's contractor solicitations and budgets, compared to actual spending by contractors, much of this resulting in contractor underspending in FY 2021-22. More accurate and consistent cost-per-unit and service start-up timeline estimates would enable the Department to budget its funds more effectively, ensure adequate cost containment across contracted providers, and provide the highest level of services possible with resources available.

Recommendations

The Director of the Department should:

3.1 Analyze actual spending across service types (specific to populations served, as applicable) in order to develop unit cost standards to incorporate in future solicitations and to include in contracts to control contractor expenditures. The Department's unit cost standards should be reflective of their equity goals, meaning the Department should develop tiered cost standards adequate for the specialized needs of specific populations. These standards should be developed by April 2024.

3.2 Institute a process to monitor contract spending at least quarterly in order to identify any changes in spending that would warrant adjustments to unit cost estimates and associated budget allocations.

3.3 Reconsider the need for the vacant Manager III position who would oversee a new Real Estate unit, and instead consider utilizing the asset management team at MOHCD for these City-owned sites, focusing internally on managing the support services and leasing processes for the units. This position should be deleted if MOHCD's team can be utilized.

3.4 Continue to work closely with MOHCD and other City departments to ensure more accurate estimates for rehabilitation costs on future PSH acquisitions.

Section 4: Performance Metrics

The Department of Homelessness and Supportive Housing cannot ensure consistent and quality service delivery across its 130 permanent supportive housing contractors as it has not implemented standardized performance monitoring and corrective action practices. Such practices should include: (1) establishing standard performance metrics for all PSH contracts by service type, (2) creating and following Department policies and procedures for performance monitoring such as standard record retention practices, and (3) conducting adequate oversight through a corrective action process to ensure contractor deficiencies are corrected in a timely manner.

The Department reports that it implemented performance metrics for property management and support services such as maximum move-in times for new permanent supportive housing tenants, minimum occupancy rates for housing, and others for all contracts starting in July 2021. However, we did not find these performance metrics consistently used in all contracts executed after July 2021 that we reviewed.

Without consistent metrics that are specific, measurable, achievable, relevant, and time-bound, the Department may not be able to identify higher-performing versus lower-performing contractors that need technical assistance and ensure that all contractors provide at least a baseline level of quality service or, if not, are placed on a corrective action plan monitored by the Department. The Department has not established standardized program monitoring and corrective action procedures. While this audit was underway, the Department reported it was in the process of establishing standardized program monitoring procedures. Similar standardized procedures are needed for the Department's corrective action procedures when contractor performance issues are identified.

Recommendations

The Director of the Department should:

4.1 Proceed with its plan to standardize performance metrics by type of contract, ensuring that they are developed in coordination with community-based providers to be specific, measurable, achievable, relevant, and time-bound for all PSH providers, including development of a timeline for doing so that tracks with the earliest contract term end date among all the contracts of a particular type.

4.2 Ensure the timely completion of the Programs Agreement Management Handbook, which should include standard policies and procedures for program monitoring, including the retention of files.

4.3 Develop a corrective action procedure, similar to the San Francisco Human Services Agency (HSA) Department of Disability and Aging Services (and/or the San Francisco Department of Public Health), including standard improvement plans for assisting contractors that are failing to meet minimum standards related to service and outcome objectives, or other contract terms and include an enforcement mechanism if a contractor fails to show progress.

Section 5: Contract Management & Fiscal Monitoring

HSH provides tenants with long-term affordable housing and an array of supportive services, including case management and housing rental assistance. Most of the PSH services provided by the Department are administered through 130 contract grant agreements with nonprofit community-based providers as of FY 2021-22. The Department does not provide sufficient fiscal monitoring of these PSH provider contracts to ensure they are spent down proportionately to the budget or project period. In FY 2021-22, over $73 million in PSH grant budgets were unspent, or 40 percent, of the $180.6 million revised budget for the year.

Areas in which the Department could improve its contract monitoring to ensure optimal contractor performance include: ensuring sufficient provider staffing is in place to provide required services, ensuring contractor invoices are submitted timely to enable the Department to accurately forecast contractor under- and over-spending, and following best practices on fiscal and compliance nonprofit monitoring set forth by the City's Controller to ensure their contractors' financial health and ability to provide required services.

Recommendations

The Director of the Department should:

5.1 Enhance and enforce an internal policy to monitor and avoid contract underspending.

5.2 Evaluate the impact of the wage enhancements on contractor staffing as part of the monthly invoice review process to determine whether it has achieved its intended goal and report the results to the Board of Supervisors in March 2024 to help inform the budget process for FY 2025.

5.3 Review the "overdue invoice" policies to ensure that they better communicate the message to contractors regarding the importance of timely invoicing, and that the Department improve its monitoring of contractor invoicing.

5.4 Develop an internal policy to ensure the Citywide Nonprofit Monitoring Program is being followed by HSH and results of this monitoring are reviewed by HSH management and retained in HSH's contractor files. Furthermore, the policy should ensure the files are utilized in the renewal and/or contract award processes and discussions.

5.5 Develop an internal policy to apply the Citywide Nonprofit Monitoring Program guidelines consistently across all contractors, including contractors not included in the Citywide monitoring pool.

Introduction

The Board of Supervisors directed the Budget and Legislative Analyst's Office to conduct a performance audit of the permanent supportive housing funds administered by the Department of Homelessness and Supportive Housing through a motion (M22-123) passed in July 2022.

Scope

The scope of this performance audit includes all sources and allowable uses of permanent supportive housing funds administered by the Department of Homelessness and Supportive Housing, and the planning, decision-making, and reporting on fund allocations and populations served. Broadly, we looked for opportunities to improve the effectiveness and efficiency of the Department's management of these funds.

Methodology

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS), 2018 Revision, issued by the Comptroller General of the United States, U.S. Government Accountability Office. In accordance with these requirements and standard performance audit practices, we performed the following performance audit procedures:

- Conducted an entrance conference on September 14, 2022, with representatives of the Department's executive team and management staff to introduce the audit team and discuss the audit process.
- Submitted an initial Request for Information to obtain core documents.
- Conducted interviews with Department management and other staff to gain an overview of Department functions and processes, specifically as they relate to permanent supportive housing programs and funds, and with representatives from homeless advocacy organizations.
- Reviewed assessments and reports by external entities, including reports by the San Francisco Controller, the Our City Our Home Committee, Focus Strategies, Local Homeless Coordinating Board, and other reports.

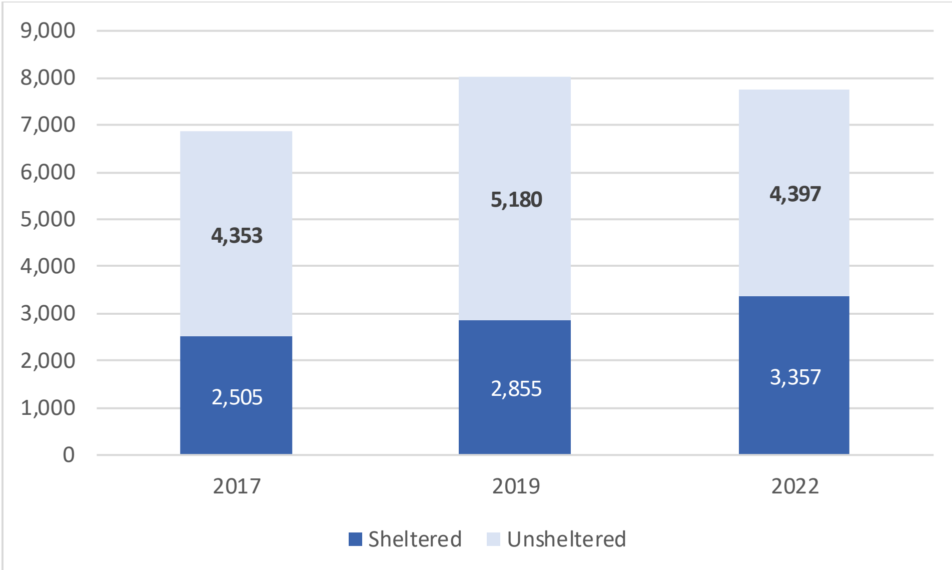
- Reviewed the Department's budget, organizational chart, strategic framework, implementation plan, policies and procedures, and other Department documents.
- Conducted an in-depth review of selected contracts, including invoices and monitoring reports.
- Analyzed the Departments organizational structure and oversight, budget, staffing and vacancies, program monitoring, information systems, and other Department administrative processes.
- Conducted a literature review to identify best practices related to permanent supportive housing programs and management.
- Submitted a draft report, with findings and recommendations, to the Director of the Department of Homelessness and Supportive Housing on August 23, 2023; and conducted an exit conference with the Department staff on September 12, 2023.
- Submitted the final draft report, incorporating comments and information provided in the exit conference, to the Director of the Department of Homelessness and Supportive Housing on January 8, 2024.

Homelessness in San Francisco

As required by the U.S. Housing and Urban Development Department (HUD), the City conducts Point-in-Time counts of all persons experiencing homelessness. These counts should be conducted at least every other year, and include counts of sheltered and unsheltered individuals and families. Under advisement of the San Francisco Department of Public Health, the City requested a waiver on the Point-in-Time count in 2021, due to the ongoing health and safety risks presented by the COVID-19 pandemic. The most recent count was conducted in 2022.

The homeless population in San Francisco has grown at a faster rate than the City's population overall in recent years. While the size of the total homeless population and the number of unsheltered homeless both declined from 2019 to 2022, the total number of homeless people living in the City increased from 6,858 in 2017 to 7,754 in 2022, a 13 percent increase, as shown in Exhibit I below.

Exhibit I: Homeless Population in San Francisco 2017-2022



Source: Annual Point in Time Count

The total population of San Francisco decreased by 8 percent from 2017 to 2022, compared to the 13 percent increase in the homeless population. The homeless population makes up nearly 1 percent of the City's total population, as shown in Exhibit II below.

Exhibit II: San Francisco's Homeless and Total Population, 2017 to 2022

	2017	2019	2022	Percent Change
Homeless Population				
Sheltered	2,505	2,855	3,357	34%
Unsheltered	4,353	5,180	4,397	1%
Total Homeless Population	**6,858**	**8,035**	**7,754**	**13%**
% Unsheltered	63.5%	64.5%	56.7%	-11%
San Francisco Population	879,166	881,549	808,437	-8%
Homeless Population as % of Total Population	0.78%	0.91%	0.96%	
% Unsheltered				

Source: Point in Time Count and U.S. Census

From 2019 to 2022, the total homeless population declined from 8,035 to 7,754, as did the percentage of unsheltered homeless, which declined from 64.5 percent to 56.7 percent.

Creation of the Department of Homelessness and Supportive Housing

Prior to 2016, homeless services in San Francisco were administered by multiple City agencies, with most programmatic responsibility provided the Human Services Agency (HSA) and the Department of Public Health (DPH). HSA programs included the shelter system resource centers and drop-ins, rental subsidies, and master leases for supportive housing and services. DPH provided permanent supportive housing through the Direct Access to Housing program, the Homeless Outreach Team, and other health and behavioral health services.

In late 2015, Mayor Ed Lee announced plans to consolidate homeless programs and services into a new City department. The Department of Homelessness and Supportive Housing was created in 2016, with a first-year budget of $202 million. Programs and staff were reallocated from HSA and DPH into the new Department, with some new positions added to meet the operational requirements of the new Department.

In addition to programs and staff, the new department inherited policies and approaches to addressing homelessness that had been in place for more than ten years, including a "Housing First" policy, discussed in more detail below.

Department of Homelessness and Supportive Housing

The City's Homelessness Response System

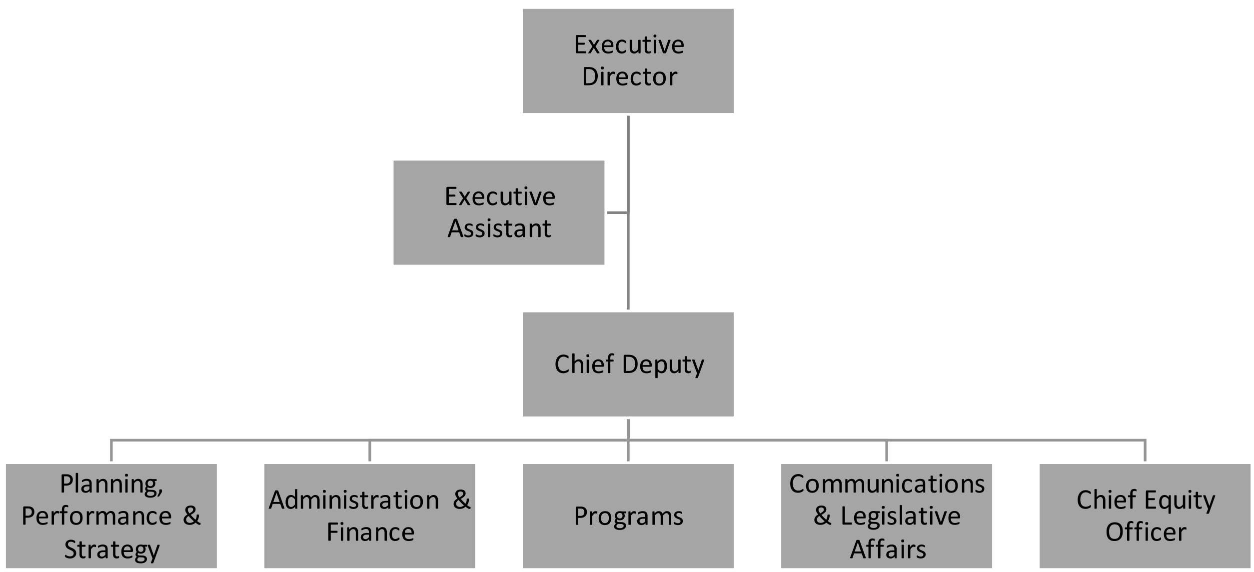
The Department of Homelessness and Supportive Housing refers to its suite of programs and services as the "Homeless Response System", through which the Department defines six primary areas of focus:

- Outreach, which is intended to connect with individuals living outside the Homeless Response System;
- Coordinated Entry, which organizes the Homeless Response System;
- Problem Solving and Prevention, which is intended to intervene before or immediately after a person enters the Homeless Response System;
- Temporary Shelter, including emergency shelters, navigation centers, and stabilization beds;
- Housing, including rapid rehousing, rent subsidies, and permanent supportive housing; and

- Housing Ladder, which is intended to help residents of permanent supportive housing to relocate into housing with decreased social services.

Under the leadership of the Executive Director, the department has six primary functional divisions: Planning, Performance and Strategy; Administration and Finance; Programs; Communications and Legislative Affairs; and a Chief Equity Officer.

Exhibit III: Department of Homelessness and Supportive Housing Organization



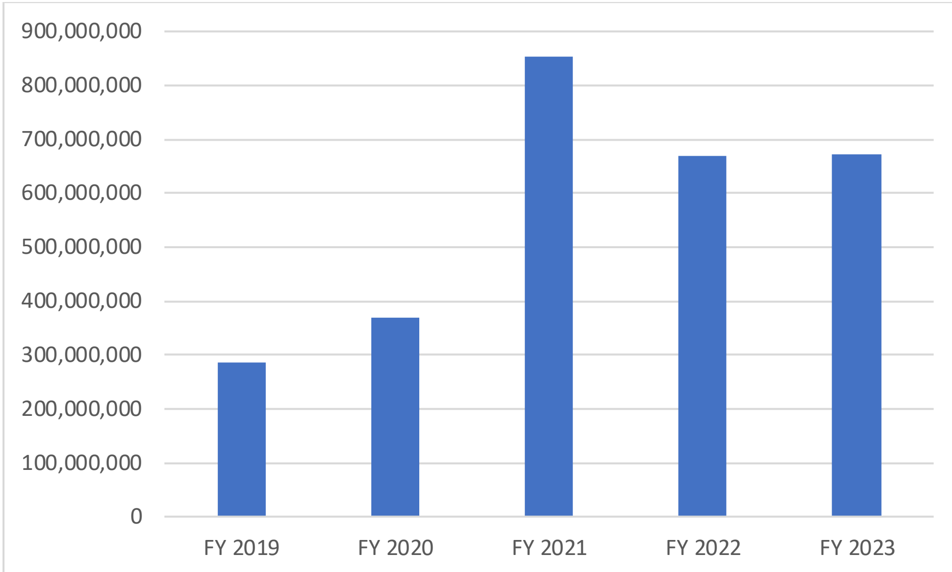
Source: Department of Homelessness and Supportive Housing

This audit focuses on permanent supportive housing funding, which primarily falls under the Programs division. However, PSH programs and services also rely on the support of staff in the Administration and Finance, Planning, Performance and Strategy and Community and Legislative Affairs divisions.

Department Budget and Spending

Since FY 2018-19, the Department's budget has increased from $284.5 million in FY 2018-19 to $672.0 million in FY 2022-23, with a peak annual appropriation in FY 2020-21 of $852.1 million.

Exhibit IV: HSH Annual Budget Appropriations, FY 2018-19 to FY 2022-23



Source: City of San Francisco Annual Appropriation Ordinance

The bulk of this increase can be attributed to the influx of additional State and Federal resources to support the City's response to the COVID-19 pandemic, as well as local revenues from Proposition C (discussed in more detail below). The exhibit below summarizes the primary funding sources for the Department since FY 2018-19.

Exhibit V: Department Funding by Source, FY 2018-19 to FY 2022-23

	FY 2018-19	**FY 2019-20**	**FY 2020-21**	**FY 2021-22**	**FY 2022-23**
General Fund	$176,499,181	$201,347,451	$236,571,546	$268,394,081	$289,038,136
Proposition C	0	14,300,000	295,165,125	249,800,000	233,381,407
Federal Grants	45,039,572	51,981,078	203,340,441	61,903,149	66,460,426
State Grants	40,061,236	52,900,456	89,564,069	10,713,576	55,724,887
Other	22,928,400	47,161,833	27,478,556	77,019,504	31,414,800
Total	**$284,528,389**	**$367,690,818**	**$852,119,737**	**$667,830,310**	**$676,019,656**

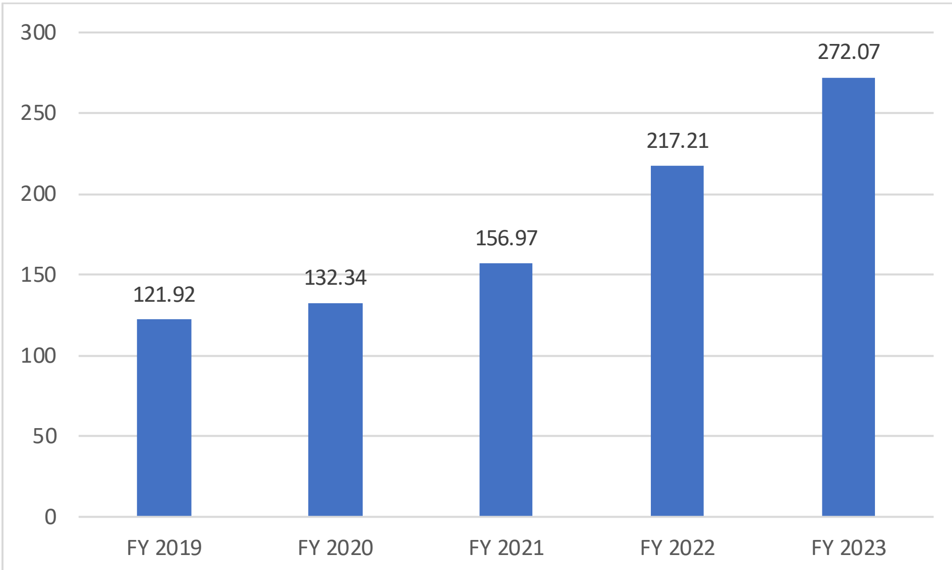
Source: Mayor's Budget Books FY 2019-2023

While Proposition C revenues have significantly contributed to the Department's growth over the past five years, the City's commitment of General Fund revenues to the Department increased from $176.5 million to $289.0 million, or by 64 percent.

Department Staffing and Organization

As the Department's budget has grown, so has its authorization for staffing resources. Since FY 2018-19, the Department's budgeted full-time equivalent (FTE) positions increased from 121.92 to 272.07—more than double.

Exhibit VI: Authorized FTEs at HSH, FY 2018-19 to FY 2022-23



Source: Annual Salary Ordinance

To enhance the Department's ability to administer and monitor programs, additional staff resources have been focused on Human Resources, Contracting and Procurement, Planning and Programs. In the FY 2022-23 budget appropriation, the Department requested and the Board of Supervisors approved significant increased staffing in key functional areas, as shown below.

Exhibit VII: Administrative Staffing Increases, FY 2021-22 to FY 2022-23

Administrative Division	FY 2021-22	FY 2022-23	% increase
Human Resources	9	12	33%
Contracting & Procurement	12	20	67%
Planning	9	15	67%

Source: FY 22-23 Budget documents

The Board of Supervisors approved expanding staff capacity in these administrative areas to address ongoing challenges in hiring new staff, procuring new contracts, and providing effective monitoring of the contracts and programs. Despite the authorization of the new positions, the Department continues to experience high vacancy rates, as shown below.

Exhibit VIII: Administrative Vacancies, as of February 2023

Administrative Division	FY 2021-22	FY 2022-23	Filled as of Feb 2023	Vacant as of Feb 2023	% Vac
Human Resources	9	12	8	4	33%
Contracting & Procurement	12	20	13	7	35%
Planning	9	15	10	5	33%

Source: HSH organizational charts

While hiring challenges have recently been experienced across most City departments, we note that the current staffing levels in these units which were recently enhanced are effectively unchanged from previous staffing levels, indicating that the Department has not been able to make the improvements planned through the enhancements.

As detailed above, the scope of this audit looks specifically at the management of funds for permanent supportive housing. We acknowledge that the administrative divisions discussed here support the entire department. However, as described below and throughout this report, these administrative functions are critical to the management of permanent supportive housing, which represents a significant portion of the Department's budget and programs.

Permanent Supportive Housing

Permanent Supportive Housing (PSH) offers eligible tenants long-term affordable housing (for which tenants pay up to 30 percent of their income in rent) with a range of supportive services, including case management and housing retention assistance. The primary types of PSH housing provided by the Department include:

- **Site-Based Permanent Supportive Housing (PSH)**: Tenants live in units in a building that the City or a non-profit partner owns or master leases. Support services are located on site.
- **Scattered-Site Permanent Supportive Housing (PSH):** Tenants use subsidies to live in private rental market units and receive support from mobile service providers.
- **Federal Voucher Programs:** Tenants receive ongoing subsidies to lease units of their choice on the private market. The U.S. Department of Housing and Urban Development covers a portion of the voucher

holder's rent based on their income. Tenants pay up to 30 percent of their income in rent. These housing choice voucher programs include:

- Emergency Housing Vouchers (EHVs)
- Traditional HUD Section 8 vouchers
- Veterans Affairs Supportive Housing (HUD-VASH) vouchers

Exhibit IX: PSH Units by Type and Population, as of May 2023

Type of PSH Unit	Population Served	# of Units
Site-based Units	Adults	7,578
Site-based Units	Families	499
Site-based Units	Mixed Population	674
Site-based Units	TAY	301
Scattered Site	Adults	954
Scattered Site	Mixed Population	649
Total		**10,655**

Source: HSH data

As shown above, the vast majority of PSH units serve adults.

Types of Site-Based Permanent Supportive Housing

In 2004, the City presented a 10-year Plan to Abolish Homelessness, in which a central (though not singular) philosophy was adopted: "Housing First". Housing First is an approach that prioritizes placing people experiencing homelessness in permanent housing. At that time and still today, permanent supportive housing has been recognized as the most effective and efficient way to bring the chronically homeless successfully into housing. Supportive housing combines housing units with on-site support services, such as case management and mental health interventions. As it was defined by California lawmakers in Senate Bill 1380[1], and signed into law in 2016:

> "Housing First" means the evidence-based model that uses housing as a tool, rather than a reward, for recovery and that centers on providing or connecting homeless people to permanent housing as quickly as possible. Housing First providers offer services as needed and requested on a voluntary basis and that do not make housing contingent on participation in services.

[1] https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201520160SB1380

When it was created in 2016, the Department inherited a housing portfolio from the Human Services Agency (HSA) and the Department of Public Health (DPH) which included units that had been acquired through the following programs:

- Master Lease Program, in which HSA contracted with nonprofit organizations to enter into master leases with private owners of Single Room Occupancy (SRO) hotels, and to provide property management and supportive services.
- Local Operating Subsidy Program (LOSP), in which the Mayor's Office of Housing and Community Development (MOHCD), on behalf of DPH and HSA, entered into 15-year agreements with nonprofit affordable housing providers to subsidize operating costs at supportive housing sites. Support services were funded through agreements that HSA or DPH entered into with a nonprofit service provider.
- Direct Access to Housing (DAH), where the City directly leased SRO hotels, and DPH provided service-rich permanent supportive housing in partnership with a nonprofit property manager, targeting homeless adults with special needs or disabilities.

As our office has reported previously, most of the SROs were built in the early 20th century to provide temporary accommodations to a transient workforce. Most of the buildings have not been significantly renovated, and their overall quality is generally regarded as low. However, the units in these buildings provide a considerable supply of housing not otherwise available. In contrast, the sites more recently developed provide units (and building amenities) of a higher quality, though at a much higher cost to the City.

We note here, and discuss further in this report, that while the City's retention of units at variable levels of quality is understandable given the need for housing, the lack of meaningful investment in the maintenance and rehabilitation of the SRO master-leased units over the past decades has resulted in the ongoing inhabitability and vacancy of a percentage of units in excess of a level considered acceptable by the Department itself. Ongoing commitments to these buildings and contractors should require an enhanced investment in rehabilitation, accompanied by an enhanced level of reporting and accountability regarding performance from the contractors.

Currently, the Department categorizes site-based PSH units by ownership structures that include: city-owned, nonprofit ground lease, city master lease, nonprofit master lease, nonprofit owned, and privately owned.

As of May 1, 2023, the Department managed over 9,000 PSH site-based units across these different ownership structures, as shown below.

Exhibit X: PSH Units by Ownership Structure, as of May 2023

Ownership Structure	Capacity
Nonprofit Owned	4,497
Master Lease - Nonprofit	3,133
Master Lease - City	637
City Owned	521
Privately Owned	126
Ground Lease - Nonprofit	93
Total Site-Based PSH units	**9,007**

Source: HSH data

Nearly 85 percent of the current inventory of PSH units are either nonprofit owned or nonprofit master leased.

Funding for Permanent Supportive Housing

To fund permanent supportive housing programs, the City utilizes local, State and Federal funding sources. Local sources include the City's General Fund, as well as the Our City, Our Home (OCOH) fund, which collects revenues from the business tax imposed by Proposition C.

Exhibit XI: PSH Funding by Source, FY 2018-19 to FY 2022-23

Fund Descriptions	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
General Fund	$117,086,121	$136,957,720	$161,830,831	$117,758,213	$156,753,980
Special Revenue Funds (Federal)	42,968,423	49,595,065	47,708,981	47,483,981	51,417,088
Special Revenue Funds (State)	12,651,196	594,109	19,978,465	852,144	0
OCOH Proposition C Funds	0	13,000,000	195,414,991	215,340,251	147,784,208
Total	**$172,705,740**	**$200,146,894**	**$424,933,268**	**$381,434,589**	**$355,955,276**
GF as % of Total Original Budget	67.8%	68.4%	38.1%	30.9%	44.0%
Prop C as % of Total Original Budget		6.5%	46.0%	56.5%	41.5%

Source: HSH data

Our City, Our Home Fund

Proposition C was passed by San Francisco voters in November 2018, imposing a gross receipts tax to fund programs and services to prevent and end homelessness in San Francisco. Called the "Our City, Our Home Fund", the revenues generated through this tax must be spent in accordance with guidelines established in the tax code, which create minimum and maximum percentages of distribution of the Our City, Our Home Fund proceeds. Generally, the fund must be used for the following purposes:

1. Administration of the tax, fund, and oversight committee
2. Permanent housing expenditures
3. Homeless shelter expenditures
4. Homelessness prevention expenditures
5. Mental health expenditures for homeless individuals

Relevant to the scope of this audit, at least 50 percent of annual OCOH proceeds must provide:

> Permanent Housing Expenditures to Homeless persons with mental illness or addiction, to permanently exit homelessness and secure permanent housing, including providing short-term rental subsidies, construction, acquisition, rehabilitation, lease, preservation, and operation of permanent supportive housing units, and acquisition, rehabilitation, master lease, and operation of SRO Buildings.

Federal Grants

Primarily through the U.S. Department of Housing and Urban Development (HUD), the City receives grants and vouchers which provide resources for permanent supportive housing. HUD awards the majority of these funds through the McKinney-Vento Homeless Assistance Grant Program, through which jurisdictions submit a single application for grants to multiple non-profit providers within their Continuum of Care. Eligible uses include emergency shelters, rapid rehousing, transitional housing, prevention strategies, and permanent supportive housing operations.

In addition, HUD provides housing vouchers and subsidies to eligible San Francisco residents through its traditional Housing Choice Voucher program, Emergency Housing Vouchers, and the HUD-Veterans Affairs Supportive Housing Vouchers, all of which are administered by the San Francisco Housing Authority.

State Grants

The Department receives funding from multiple State agencies, including the California Interagency Council on Homelessness (for the Homeless, Housing and Prevention Program), the California Department of Social Services (for the

Housing and Disability Advocacy Program), and the California Department of Housing and Community Development (for the Homekey Program).

Additional details on all funding sources, eligible uses and restrictions can be found in Appendix A to this report.

PSH Allocations

Collectively, the department allocates these resources on an annual basis through "accounts" in the budget, such as the City Grant Program, Programmatic Projects, and Services of Other Departments.

Exhibit XII: PSH Funding by Account, FY 2018-19 to FY 2022-23

Expenditure Description	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
City Grant Program	$123,407,546	$141,190,711	$178,333,535	$131,207,497	$279,966,771
Services Of Other Depts	12,775,245	16,922,239	15,123,582	19,257,123	29,434,013
Programmatic Projects	20,607,802	23,930,372	215,885,422	210,665,074	29,263,273
Non-Personnel Services	13,102,681	15,141,244	12,621,035	15,546,439	14,740,769
Aid Assistance	2,812,467	2,962,329	2,879,786	2,453,118	2,453,118
Materials & Supplies	0	0	89,908	97,332	97,332
Overhead and Allocations	0	0	0	2,208,005	0
Total Original Budget	**$172,705,740**	**$200,146,894**	**$424,933,268**	**$381,434,589**	**$355,955,276**

Source: HSH Data

As shown above, the City Grant Program received the greatest allocation in FY 2022-23, and in FYs 2018-19 and 2019-20. As its name suggests, the "City Grant Program" includes the agreements with non-profit providers for support services, property management and leasing. The types of expenditures that may be provided through these grant agreements are:

- Property Management: utilities, security, and other building management costs, such as tenant rental agreements, communications, rent collection and record keeping, janitorial work, maintenance, compliance, trash pickup, and front desk staffing;
- Leasing: City funds paid to building owners by housing providers or directly by the department for use of housing units; and
- Support Services: outreach, intake and assessment, case management, benefits advocacy and assistance, eviction prevention, and behavioral health interventions. These support services are voluntary.

- Rental Assistance: payments of rental assistance directly to property owners, and confirmation of execution of leases.

We note that the Department allocated the greatest percentage of total PSH funds in FYs 2020-21 and 2021-22 to the "Programmatic Projects" account. These are budgets set aside for projects that typically include expenditures for personnel costs, materials and supplies and non-personnel costs. For HSH, these project budgets typically include grants to community-based organizations.

We also note that some PSH agreements are categorized by the Department as combinations of the four service areas identified above.

Exhibit XIII: Budgeted and Actual Expenditures for PSH Agreements by Service Type, Fiscal Year 2021-22

Service	Contract Amount	FY 2021-22 Budget	FY 2021-22 Actual
Master Lease, Property Management & Support Services	$216,638,160	$56,091,982	$52,073,801
Support Services	166,857,212	31,272,307	24,964,432
Rental Assistance	101,922,784	21,746,128	18,868,359
Property Management	49,944,921	12,825,422	11,049,496
Property Management & Support Services	43,781,162	12,213,886	11,345,349
Leasing & Operations	23,159,179	4,220,729	2,625,567
Master Lease & Support Services	9,996,278	3,271,909	2,727,410
Money Management	7,151,807	2,327,165	2,193,026
Rental Assistance & Support Services	7,104,630	1,477,674	1,150,312
Property Management and Master Leasing	7,054,903	2,247,811	1,689,796
Leasing & Support Services	2,242,482	792,307	716,825
Total PSH Agreements by Service Type	**$635,853,518**	**$148,487,320**	**$129,404,372**

Source: HSH Data

Note: PSH agreements typically cover term periods that span multiple years; annual budgets represent a fraction of the total awarded agreement amount.

As shown above, the agreements for "Master Lease, Property Management and Support Services" represent both the largest total contract award amount, as well as the largest annual budgets and annual expenditures.

The Department's PSH agreements are discussed in more detail throughout this report.

PSH Staffing at HSH

As of April 2023, the Department had 33 authorized full-time equivalent positions dedicated to managing PSH, in addition to the Director of Housing Services and a Senior Clerk.

Within the Housing Division of the Department, the Supportive Housing Programs (SHP) team provides oversight and program management of site-based permanent supportive housing (PSH) to advance HSH's mission of making homelessness rare, brief, and one-time. This includes partnering across HSH divisions, City departments and with community-based organizations on the development of new PSH, quality assurance and housing stability in existing PSH, and program management of PSH agreements. Additional PSH program oversight comes from the Federal Subsidy and the Scattered Sites teams.

Progress and Implementation Status since 2020 BLA Audit

Our office completed an audit of the Department's administration and operations in August 2020. That audit included four findings on contract monitoring, staffing and vacancies, data management, and governance. Specifically, we found:

Contract Monitoring

As a department that primarily contracts out for services, HSH must ensure proper and efficient oversight of those programs. Since its creation, contracts have consistently underspent their annual budgets. Reasons for underspending, including delays in program start-up and contractors' short staffing, need to be formally documented and addressed to ensure that contractors are able to provide the level of contracted service. Given the critical nature of the services provided, and the high acuity of its clients' needs, the Department must ensure that all programs are monitored, according to consistent and documented internal policies, and that accurate records are maintained of this process. All program staff must be trained on these policies.

Our 2020 recommendations related to contract monitoring included:

Recommendation 1.1: *Direct the Director of Programs to produce policies and procedures for program monitoring, including standardized forms with scoring tools and documentation of supervisory review, to be completed no* *later than December 31, 2020. Policies should include a corrective action process.*

Recommendation 1.2: *Ensure that all contracts include specific performance metrics and that those metrics are monitored at least annually through the program monitoring process.*

Staffing

Because of the severity and acuity of the homeless crisis in San Francisco, City officials have recognized a need for additional staffing at the Department to ensure effective service delivery and administration. The number of positions authorized to the Department has grown nearly 30 percent in four years. However, the Department has continuously struggled to hire new positions and fill vacancies, and as a result, has carried over $1 million in salary savings every year. The Department must urgently address its staffing needs by prioritizing the hiring process.

Our 2020 recommendations related to staffing included:

Recommendation 2.1: *Work with the Mayor's Budget Director and Director of the City's Department of Human Resources to expedite the hiring of key vacant positions, with an initial focus on the vacancies within the Human Resources unit.*

There have been substantial changes to address our 2020 audit findings related to data systems and governance, at both the departmental and City levels. Since 2020, significant enhancements to the ONE data system have been adopted, enabling the department to more precisely track housing units and vacancies; additional developments are under way to further improve the information maintained in that system to enable the department to report on exits from housing, as well. In addition, in 2022 San Francisco voters passed Proposition C, creating Homelessness Oversight Commission for the Department, which met for the first time in May 2023.

As shown in Exhibits V and VI of this Introduction, since our 2020 audit, the Department has grown exponentially, both in annual budget allocation (from $367.7 million in FY 2021-20 to $676.0 million in FY 2022-23) and authorized FTEs (from 132.3 in FY 2019-20 to 272.0 in FY 2022-23). We commend the Department for having made progress towards the successful implementation of our August 2020 audit recommendations, while managing this growth and significantly expanding its programs and services. However, the findings in this audit reflect ongoing challenges in addressing the core organizational issues of maintaining full and adequate staffing and providing consistent monitoring of agreements (including sufficient levels of provider staffing), which continues to be reflected in contract underspending and vacant units.

Acknowledgments

We thank the leadership and staff at HSH for their assistance throughout this audit process.

1. Department's Strategic Plans Lack Details on Cost and Operational Requirements for Success

Shortly after its creation in July 2016, the Department released a five-year strategic framework in October 2017 that specified eight goals (with a ninth added later) related to homelessness reduction and system improvement for FY 2017-18 through FY 2021-22. To achieve these goals, the Framework identified a multi-pronged approach for the five-year period to provide permanent supportive housing units, shelter beds, and other interventions.

However, the Framework did not adequately address (1) administrative and operational requirements (such as department staffing needs and the capacity of community-based organizations) and (2) costs for the planned homeless system inventory—permanent housing, shelter beds, and units of prevention services—necessary to achieve its goals related to homelessness reduction. Ultimately, the results of the 2022 homelessness point-in-time count show the Department did not accomplish the homelessness reduction goals set in 2017.

In April 2023, the Department released a new strategic plan, *Home By the Bay: An Equity-Driven Plan to Prevent and End Homelessness in San Francisco*, covering 2023 to 2028. The new plan is a marked improvement over the 2017 framework in that it focuses on stemming inflows into homelessness and facilitating outflows out of homelessness—and uses quantitative system modeling to derive targets for units of permanent supportive housing, shelter beds, and the number of households to be supported by prevention services. According to the plan, the Department will produce annual implementation plans, and will report out during the first quarter of each year on interim progress made. We recommend that the Department present these reports directly to the Board of Supervisors, and that the Department develop a cost-effectiveness metric (including an updated standard for cost per unit) which should be included in these annual progress reports.

2017 Five-Year Strategic Framework Goals Were Vague, Lacking Details on Cost and Operational Requirements for Success

The 2017 Strategic Framework was developed shortly after the Department of Homelessness and Supportive Housing (HSH) was established in July 2016. The Framework stated that it was a "living document" with specific implementation plans to be developed and regular adjustments made as needed. During the pandemic, the Mayor introduced a separate Homelessness Recovery Plan in July 2020 with new goals related to the creation of permanent supportive housing.

The 2017 Strategic Framework did not incorporate a realistic consideration of costs and operational and administrative barriers such as Department staffing needs and the capacity of community-based organizations when specifying its goals for homelessness reduction. The Framework was also vague about the inventory of permanent supportive housing units and other interventions needed to achieve its homelessness reduction goals. The original nine goals, detailed in Exhibit 1.1, included two goals specifically related to homelessness reduction, with a third added in 2018:

1. Reduce chronic adult homelessness by 50 percent by December 2022
2. End family homelessness by December 2021
3. Reduce youth homelessness by 50 percent by December 2022 (added in 2018)

The Department produced annual updates to the Framework and reported in the September 2020[1] update that these three goals had not been achieved. Exhibit 1.1 presents all nine strategic framework goals—including the three goals related to homelessness reduction—and their status as of September 2020. As shown, only four of the nine goals had been accomplished and five were still in process. Three of the goals not achieved had specific targets to reduce the level of homelessness by certain percentages or entirely (in the case of family homelessness) at specific points during the five-year plan timeframes. The results of the 2022 point-in-time homeless count also show that the homelessness reduction goals in the 2017 Strategic Framework had not been achieved.

[1] The Department also produced an update to the Framework in March 2021, but that update did not report on progress in achieving the goals.

Exhibit 1.1: Only Four Out of Nine Strategic Framework Goals Set in 2017 Achieved by 2020

Category	Goal	Status (reported by HSH as of Sept. 2020)
System Improvement	Design and implement coordinated systems for adults, families with children, and youth by Dec. 2018	Achieved
System Improvement	Implement performance accountability across all programs and systems by Dec. 2022	Not achieved: In Process
System Improvement	Complete a detailed plan to reduce youth homelessness by July 2018	Achieved
System Improvement	Improve the City's response to street homelessness by Oct. 2018	Achieved
Homelessness Reduction	Reduce chronic adult homelessness 50% by Dec. 2022	Not achieved: In Process
Homelessness Reduction	End family homelessness by Dec. 2022	Not achieved: In Process
Homelessness Reduction	Reduce youth homelessness by 50% by Dec. 2022 (added in 2018)	Not achieved: In Process
Unsheltered Homelessness Reduction	End large, long-term encampments by July 2019	Initially Achieved / In Process
Shelter Expansion	Ensure no families with children are unsheltered by Dec. 2018	Achieved

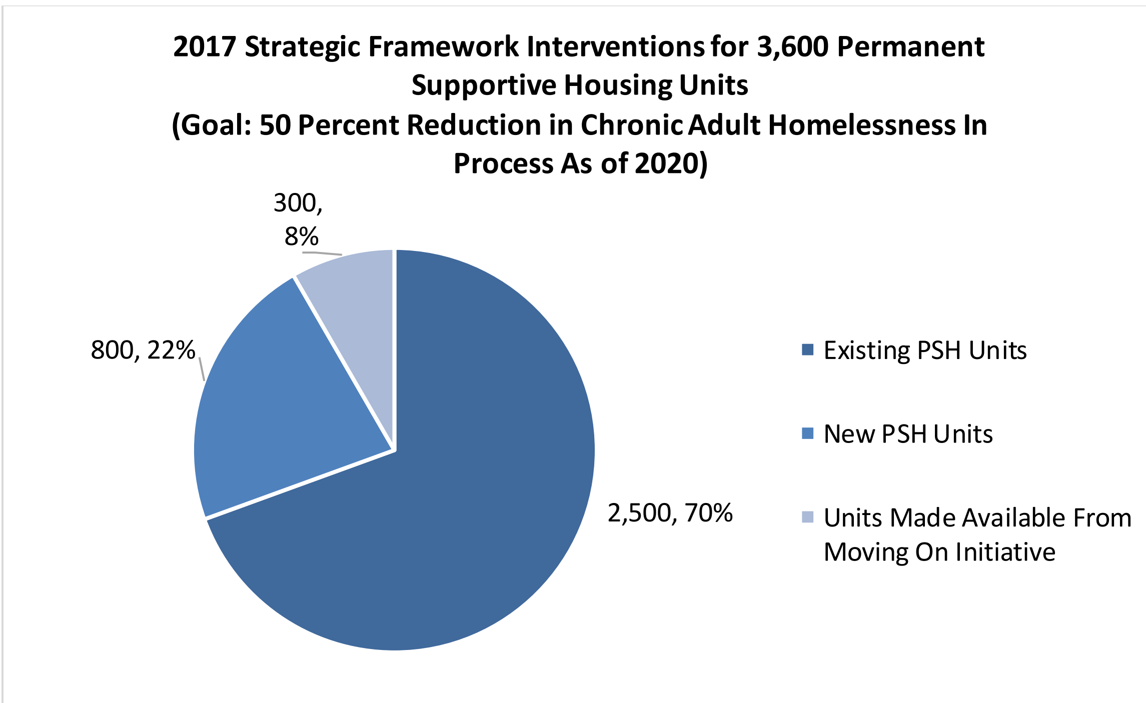
Sources: Five-Year Strategic Framework, City and County of San Francisco Department of Homelessness and Supportive Housing, Oct. 2017; Five-Year Strategic Framework Update and 2020 Implementation Plan During COVID-19 Crisis, City and County of San Francisco, Sept. 2020

The 2017 Framework goal of reducing chronic adult homelessness by 50 percent by December 2022 was not supported by clearly defined approaches in the Strategic Framework. The Framework cited the 2017 point-in-time count of 2,155 chronically homeless adults as the baseline, meaning a 50 percent reduction would result in at least 1,078 individuals permanently housed.[2] The Framework did not present any estimates on how the unsheltered homeless population might change over the course of the covered period (FY 2017-18 through FY 2021-22). Also, the Framework did not specify the number of individuals it would need to permanently house in order to achieve its goal of reducing chronic adult homelessness by 50 percent or the level of resources that would be required to achieve the goal, including provision of the needed supportive services.

[2] The 1,078 number was not cited in the Framework and is derived by the BLA. However, it is most likely an underestimate due to expected increases in the number of people becoming homeless over the time period covered by the Strategic Framework.

The Framework did include a specific goal of making 3,600 units of permanent supportive housing available by December 2022 for homeless adults. These 3,600 units were to include a combination of: (1) 2,500 housing units from the existing housing portfolio of 6,571 units, (2) a Moving On Initiative[3] serving 300 people, and (3) 800 new permanent supportive housing units in the pipeline. However, the Framework did not provide information about the operational requirements (such as additional departmental staffing or community-based organizational capacity) to make the 2,500 existing units available for new tenants. Further, the plan did not identify any new sources of funding for the creation of new units beyond the 800 already in the pipeline, nor did it specify whether an adequate number of housing vouchers and ongoing philanthropic funding for services was available to permanently fund 300 people to move on from permanent supportive housing through the Moving On Initiative.[4]

Exhibit 1.2: Sources of Planned Permanent Supportive Housing Inventory for Adults



Source: Five-Year Strategic Framework, City and County of San Francisco Department of Homelessness and Supportive Housing, Oct. 2017

As noted throughout this report, the Department has significantly invested in the expansion of services and PSH units (which increased from 7,766 in 2018 to 10,602 in 2022, or by 36.5 percent)

[3] The Moving On Initiative refers to opportunities for residents of permanent supportive housing or rapid rehousing to move outside of the homelessness response system.

[4] A total of $100 million in philanthropic funding from Tipping Point Community was cited, but a specific amount for the Moving On Initiative was not specified.

since the publication of the 2017 Framework. Despite those investments, the 2022 point-in-time count shows that the Framework's goal of reducing chronic homelessness by 50 percent by December 2022 was not achieved, with chronic adult homelessness increasing to 2,638 in 2022 (or, by 22 percent over the 2017 level of 2,155). The 2017 Framework identified six primary service areas that the Department would focus on to reduce the homeless population, including PSH, Problem Solving, Heading Home Campaign, Rapid Rehousing, Housing Ladder, and Rent Subsidies, as shown in the exhibit below.

Exhibit 1.3: 2017 Framework Service Areas

Intervention	Definition from 2017 Strategic Framework
Permanent Supportive Housing (PSH)	Affordable housing designed for adults and families with chronic illnesses, disabilities, mental health issues, and/or substance use disorders who have experienced long-term or repeated homelessness
Problem Solving	Provision of light support to those who can avoid homelessness or leave quickly through the use of their own resources and skills
Heading Home Campaign	A philanthropic partnership to rehouse families with children
Rapid Rehousing	Time-limited rental assistance and services for people leaving homelessness, including housing identification, temporary rent and assistance, and case management
Housing Ladder	A rent subsidy that offers opportunities for residents who no longer need services to move on to other types of housing, making their unit available for people experiencing homelessness
Rent Subsidies	Financial support to low-income households, which varies by household income and the rental unit selected; subsidy stays with the household, regardless of whether they move to a different rental property

Source: 2017 Strategic Framework

The Department acknowledged in the 2017 Strategic Framework the need to expand homelessness prevention in order to achieve a 50 percent reduction in chronic homelessness, with strategies such as eviction prevention and rent subsidies, but did not describe how it would allocate resources between these different interventions, or how it would incorporate a needs assessment into this planning. While the focus of our audit is on permanent supportive housing, we acknowledge homelessness prevention in this section because it is a key intervention found in the Department's strategic plans, as well as plans reviewed from other jurisdictions. Best practices research shows that evidence-based prevention services tailored to the needs of residents at risk of homelessness can be effective; these services are more cost effective than permanent supportive housing and can ultimately help to reduce the amount of permanent housing that may be needed to achieve the same level of reduction in homelessness. The 2017

Framework did not offer any insight as to how the Department weighs investing in prevention, housing and shelter, and it is unclear whether the Department used any particular metric to assess the cost-effectiveness of these investments.

We found that strategic plans reviewed from other jurisdictions across the country specified how to stem inflows into homelessness and facilitate outflows out of homelessness, including:

- The number and types of units of evidence-based homelessness prevention services to be provided;
- The number of permanent supportive housing units and shelter beds to be provided, with costs and funding sources specified as well as some administrative and operational details specified; and
- The number of individuals who would exit the homelessness response system, again with costs and operational requirements articulated.

An example of a plan with more specifics on its activities is found in the *City of Denver Department of Housing Stability Five-Year Strategic Plan: A Guide for Action 2022-2026.* This plan provided the following administrative and operational details for the goal of addressing unsheltered homelessness: data systems to be used; the role of other agencies, departments, and community-based organizations; and phasing of tasks to be completed in the near-term (Year 1 and 2 of the plan) versus medium-term (Years 3-5). Overall, the San Francisco 2017 Strategic Framework was inadequate because it did not provide sufficient detail about costs, funding sources, and operational requirements for increasing the number of permanent supportive housing units and shelter beds or for transitioning people out of the homelessness response system to make units available to new people. We note that the 2017 Strategic Framework was developed just after the new department was established.

The Mayor's Homelessness Recovery Plan during the Pandemic Increased Numeric Targets for Permanent Supportive Housing Units (and Shelter Beds and Prevention Services) Without Revising Broader Homelessness Reduction Goals

The Mayor's Homelessness Recovery Plan guided San Francisco's homelessness strategy during a key period of the COVID-19 pandemic (July 2020 through December 2022) and resulted in a substantial increase in the number of new permanent supportive housing units, as shown in Exhibit 1.4—largely due to the influx of funds from the state Homekey program and Proposition C revenues. Through this Plan, the Mayor set specific goals to expand the number of housing units, to increase the number of shelter beds, and to place eligible clients in available housing and shelter units.

Exhibit 1.4: Results of Mayor's Homelessness Recovery Plan (July 1, 2020 through Dec. 31, 2022)

Category	Goal	Status
Targeted Plan Goals		
Housing Expansion	City to purchase or lease 1,500 new housing units	Exceeded Plan Goal. City more than doubled this goal, with 3,081 available or contracted units as of Dec. 31, 2022
Shelter Expansion	2,100 adult and youth beds added to shelter system inventory	Exceeded Plan Goal. By the end of 2022, reached 114% of this goal with 2,402 youth and adult shelter beds
Placements	Provide 6,000 housing and shelter placements, including 3,000 placements to Permanent Supportive Housing	Exceeded Plan Goal. City made 7,047 placements, including 3,505 placements to Permanent Supportive Housing, exceeding both placement goals by 117%
Other Plan Goals		
Expanding Rapid Rehousing, Problem Solving, and Prevention	Help approximately 1,500 additional households exit or avoid homelessness	Met Plan Goal
Maintaining Safe Sleep, trailer, and Vehicle Triage Center	Maintain these shelter models through the duration of the Homelessness Recovery Plan	Met Plan Goal

Source: Homelessness Recovery Plan, https://sf.gov/data/homelessness-recovery-plan

As with the Framework, it is unclear how these specific goals were established and what informed the allocation of funds across different programs and services. However, even a substantial increase in funding—more than $500 million from federal, state and local resources over two years— was not sufficient to achieve the goals of the Framework, as unsheltered homelessness increased by 22 percent from 2017 to 2022.

While Improved, the Department's 2023 Strategic Plan Still Lacks Operational and Cost Details

The Department's updated strategic plan for 2023 to 2028, *Home by the Bay: An Equity-Driven Plan to Prevent and End Homelessness in San Francisco*, improves significantly upon the prior plan. Four of the five goals are focused on homelessness reduction:

(1) Preventing homelessness;
(2) Decreasing the number of people experiencing homelessness;
(3) Increasing the number of people exiting homelessness; and
(4) Supporting people to succeed in housing.

Each of these four goals is accompanied by a specific numeric target—either a percentage reduction or a number of people to receive assistance. The plan uses quantitative system modeling to arrive at an estimate of the additional inventory of prevention slots, permanent housing units, and shelter beds that will be needed to achieve the plan's homelessness reduction goals, enumerated in Exhibit 1.5.

Exhibit 1.5: 2023 Strategic Plan Goals through 2028

Category	Goal
Homelessness Reduction	**Decreasing Homelessness**: Reduce the number of people who are *unsheltered* by 50% and reduce the *total* number of people experiencing homelessness by 15%.
System Improvement	**Reducing Racial Inequities and Other Disparities**: Demonstrate measurable reductions in racial inequities and other disparities in the experience of homelessness and the outcomes of City programs for preventing and ending homelessness.
Homelessness Reduction	**Increasing Number of People Exiting Homelessness**: Actively support at least 30,000 people to move from homelessness into permanent housing.
Homelessness Reduction	**Supporting People to Succeed in Housing**: Ensure that at least 85% of people who exit homelessness do not experience it again.
Homelessness Reduction	**Preventing Homelessness**: Provide prevention services to at least 18,000 people at risk of losing their housing and becoming homeless.

Source: Home By the Bay, An Equity-Driven Plan to Prevent and End Homelessness in San Francisco, 2023-2028

Important cost information is missing from the Department's new plan, such as how the initial outlay of $607 million would be allocated among prevention slots, permanent housing units, and shelter beds. The 2023 plan does specify the annual ongoing cost of $217 million to maintain the anticipated additional inventory by category, enabling us to calculate the ongoing cost per unit, finding that a unit of prevention was by far the most cost-effective (assuming the prevention unit successfully keeps an individual or household in housing). We note that the costs per unit shown in Exhibit 1.6 are an underestimate because we were unable to account for the total of $607 million in unallocated one-time costs for start-up and five years of operations and services. A performance standard for the total cost to deliver a service unit (whether a prevention slot, permanent housing unit, or shelter bed) would enable the Department to measure whether it is meeting its strategic plan goals in a cost-effective manner. In the event that the City is not successful in marshalling the new resources that are required to fully implement its strategic plan numeric targets, establishing an updated cost per unit metric can help to assess whether the Department is successful in delivering on a portion of its stated goal in a cost-effective manner.

Exhibit 1.6: System Inventory and Additions Needed to Reach Strategic Plan Goals from 2023 to 2028, Including Costs

Resource Type	Starting Inventory 7/1/2023	Additions Already in Pipeline to Come Online after 7/1/23	Target for Total Inventory Additions 7/1/23 – 6/30/28	Total (after Inventory Additions)	Annual Ongoing Cost for New Investments	Annual Ongoing Cost Per New Unit
Prevention Slots[1]	**1,180**	**0**	**4,300**	**5,480**	**$7,021,000**	**$1,633**
Total Permanent Housing Units	**15,800**	**700**	**3,250**	**19,750**	**$123,283,000**	**$37,933**
Permanent supportive housing	13,500[4]	700	1,525	15,725	$43,346,000	$28,424
Rapid re-housing	2,300	0	1,325	3,625	$70,928,000	$53,531
Shallow subsidy[2]	0	0	400	400	$9,009,000	$22,523
Shelter Beds	**3,500**	**0**	**1,075**	**4,575**	**$86,910,000**	**$80,847**
TOTAL ONGOING COST TO SUSTAIN NEW INVESTMENTS	**$217,214,000[5]**					
TOTAL ONE-TIME ADDITIONAL FUNDING[3]	**$607,000,000**					

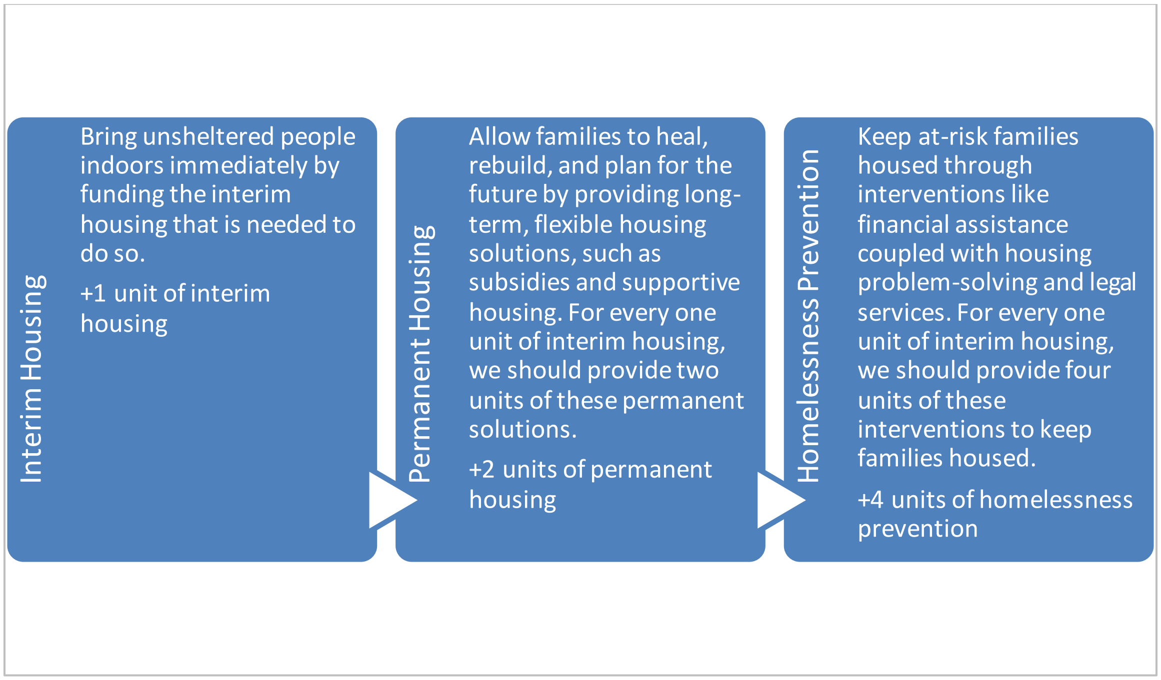
Source: Home By the Bay, An Equity-Driven Plan to Prevent and End Homelessness in San Francisco, 2023-2028
[1]Prevention slots refer to financial assistance, legal services and eviction prevention services, and other services and supports (such as housing location assistance or conflict resolution services) that help people to remain in their current housing.
[2]Shallow subsidy refers to rental assistance designed to lower a household's rent burden.
[3]Note: Includes start-up costs, and five years of operations and services.
[4]The number of PSH units shown here includes units that were in the development pipeline and were expected to be online by 7/1/23.

The Department's 2023 Plan relies on a "1:2:4" ratio recommended by the All Home Regional Action Plan[6] to project the various service units needed in order to achieve its goals for reducing

[5] Note this total represents the sum of the three primary "Resource Type" categories, including "Prevention Slots", "Total Permanent Housing Units", and "Shelter Beds".
[6] The All Home Regional Action Plan, released in April 2021, was prepared by All Home—a non-profit organization that advances a regional approach to reducing unsheltered homelessness among the nine-county Bay Area region. Their Regional Action Plan was developed by a Regional Impact Council comprised of policymakers, affordable

the homeless population. This model recommends the following homeless services ratio to allow for flow through the system: one unit of interim housing (i.e., shelter) for every two units of permanent housing for every four units of homelessness prevention, as displayed below in Exhibit 1.7.

Exhibit 1.7: All Home Regional Action Plan Recommended Homeless Services Ratio



Source: All Home Regional Action Plan

The Department's 2023 strategic plan follows this ratio for the service units added to its inventory. However, we note that the total inventory contemplated by the 2023 strategic plan may not enable adequate flow through the system because it is heavily weighted towards permanent housing, resulting in:

- 4,575 units of interim housing (i.e., shelter beds);
- 19,050 units of permanent housing; and
- 5,480 units of prevention

Implementation of the Department's Plan will establish a system inventory with more than four times the number of permanent housing units as compared to shelter beds, rather than two times as many as recommended in the All Home Regional Action Plan model. Planned prevention

housing, social equity and economic mobility stakeholders, housing and homelessness services providers, and business and philanthropic partners, according to the organization's website.

units amount to 29 percent of the number of permanent housing units rather than four times as many, as recommended in the At Home Regional Action Plan model. According to the 2023 Plan:

> During the first quarter of each fiscal year, HSH will report out on interim progress made towards the Plan's Goals and other supporting performance metrics in the prior year. At the 3-year mark, the department will initiate a more comprehensive review of the Plan, analyzing and reporting out on progress toward goals as well as the implementation status of strategies reflected in the Plan, and proposing new strategies as needed.

The Department should consider tracking progress in expanding its inventory via its annual implementation update in order to ensure that there is an adequate supply of prevention units, shelter beds, and permanent housing units to enable flow through the system.

2023 Strategic Plan Does Not Address Operational Barriers to Effective Implementation

The 2023 strategic plan notes that the capacity of City departments and non-profit partners to implement programming at pace and scale is a "significant challenge that may impede progress." However, little detail is provided about how this challenge will be addressed, with the plan simply noting that enhancing system performance and capacity will require "building and supporting nonprofit provider capacity." This is an area where a detailed implementation plan will need to specify how the Department intends to expand its ability to deliver the additional inventory contemplated in the new plan.

As discussed in sections 4 and 5 of this report, the Department has faced ongoing challenges in monitoring the performance of contractors and holding contractors accountable for service delivery goals. Regular reporting on progress will enable policymakers, including the Board of Supervisors, to understand where bottlenecks exist and what additional actions need to be taken to ensure the Department's success in achieving the goals of the 2023 Plan.

2023 Strategic Plan Does Not Explain How Related City Efforts to Implement the *Housing Element Update* Supports Homelessness Reduction Goals

The City's Housing Element 2022 Update is a housing planning document that specifies policies and programs to enable the City to meet its so-called "Regional Housing Needs Allocation" set by the Association of Bay Area Governments—a total of more than 82,000 new housing units broken down into targets by income group, as shown in Exhibit 1.8. The Housing Element is mandated by the State and specifies the creation of 13,981 units for extremely low-income people, with an annual target of 1,748 units, through 2030. These units are likely to benefit formerly homeless individuals. The City's Housing Element also includes a plan to "strengthen, streamline, and expand the Homelessness Response System" in four key areas: Coordinated Entry and Referrals, Problem Solving and Targeted Homelessness Prevention, Temporary Shelter, and Supportive Housing. However, the Housing Element is not referenced in HSH's 2023 strategic plan.

Exhibit 1.8: San Francisco Regional Housing Needs Allocation by Income Group (2023-2030)

Area Median Income	Units	Annual Target	Percent of Total
Extremely Low Income	13,981	1,748	17%
Very Low Income	6,886	861	8%
Low Income	12,014	1,502	15%
Moderate Income	13,717	1,715	17%
Above Moderate Income	35,471	4,434	43%
Total RHNA	**82,069**	**10,258**	**100%**

Source: Housing Element 2022 Update, https://generalplan.sfplanning.org/I1_Housing.htm

A body of research, notably explained in *Homelessness is a Housing Problem: How Structural Factors Explain U.S. Patterns*[7], uses statistical analysis to show that housing-related factors (specifically, rent levels and vacancy rates) predict regional rates of homelessness. These rates, in turn, are driven by the way in which a city's housing supply responds to increases in population growth. We found other strategic plans, such as the Department of Housing Stability Five-Year Strategic Plan for the city of Denver, that consider the role of land-use policy in facilitating the creation of affordable housing. While land-use policy is not the purview of the Homelessness and Supportive Housing Department, it greatly impacts the ability of the Department to achieve its goals. The 2023 HSH Plan notes that:

> HSH staff will lead efforts, including with other City departments and offices, informed by community liaisons with lived experience of homelessness, to develop the first, more detailed annual implementation plan for this Plan's strategies and activities, with clearly defined roles and timeframes […].

Collaboration with other City departments (particularly the Mayor's Office of Housing and Community Development, and the Human Services Agency) will be essential to the successful

[7] Colburn, Gregg and Aldern, Clayton Page, Homelessness is a Housing Problem: How Structural Factors Explain U.S. Patterns, Oakland, University of California Press, 2022

achievement of the 2023 Plan goals, and we recommend that the Department's progress report include details of this coordination.

Conclusion

Developed shortly after the Homelessness and Supportive Housing Department's creation, the 2017 Strategic Framework lacked specifics about the operational needs and budget required to achieve the specified homelessness reduction goals. The 2023 Strategic Plan represents a major improvement in its use of quantitative system modeling to arrive at a detailed understanding of the numeric targets that will need to be achieved to reach specific homelessness reduction goals. However, implementation details related to building system capacity and specific needed budget allocations should be further developed.

Recommendations

The Director of the Department should:

1.1 Ensure that the annual implementation updates to the 2023 strategic plan provide greater detail on the Department's progress in adding to the homeless system inventory, tracks cost-effectiveness of these efforts, reflects adjusted goals based on evolving needs and funding availability, and discusses coordination with other relevant City departments on related matters, such as implementation of the Housing Element Update. These reports should be presented directly to the Board of Supervisors.

1.2 Develop a cost-effectiveness metric (including an updated standard for cost-per-unit) which should be included in the annual implementation updates.

Benefits and Costs

Implementation of the proposed recommendations would help to ensure that the department is best positioned to deliver on the promise of the new strategic plan.

2. Vacant Units

The Department has established a vacancy rate goal for its permanent supportive housing of seven percent but has not met that goal since at least August 2022. Between August 2022 and May 2023, actual permanent supportive housing vacancies averaged 10.2 percent of inventory, resulting in 273 more vacant units per month on average than if the Department had achieved its seven percent vacancy rate goal.

Several factors contribute to vacancies, including process inefficiencies for referrals, data management weaknesses from a system not yet fully operational, and an older inventory of units that frequently fail to meet habitability standards.

Since January 2022, two-thirds of the vacant units were ready for occupancy: half with a client referral in progress, and half awaiting client referrals for placement. The remaining one-third of the units were considered "offline" for various reasons, including the need for repairs. The Department's primary provider responsible for expediting referrals and placements into vacant online units—through "Housing Navigators"—has not maintained adequate staffing levels to ensure that eligible clients are placed in available units as quickly as possible. In addition, the Department has recently made investments in building repairs, but the needs far exceed the current allocations.

In conjunction with recommendations made in Sections 4 and 5 of this report, we recommend that the Department take urgent steps to enhance contract and performance monitoring of the Housing Navigator contracts, and work with PSH property managers and owners to determine and address maintenance needs to maximize occupancy. The Department should report to the Board of Supervisors on the repair cost assessment, as well as the expenditures of the allocations made in FY 2022-23 and FY 2023-24, to determine the funding needs for FY 2024-25.

Vacancy Rate Goals Have Not Been Achieved Across All Ownership Types of PSH Units

In 2022, the Department of Homelessness and Supportive Housing established a seven percent vacancy rate goal for PSH units to ensure the maximization of housing availability for eligible San Francisco residents. However, from August 2022 to May 2023, the overall vacancy rate for units ranged from 9.3 to 11.6 percent, as shown below. Over this 10-month period, the average number of PSH units vacant each month was 873, and the average vacancy rate was 10.2 percent.

Exhibit 2.1: Total Actual Monthly Permanent Supportive Housing Vacancies Compared to Seven Percent Goal, August 2022 to May 2023

Month	Total Capacity	Total Vacancies	Monthly Vacancy Rate	Vacancies if 7%	Actual vs. 7% Goal
August 2022	8,157	755	9.3%	571	184
September 2022	8,157	799	9.8%	571	228
October 2022	8,169	838	10.3%	572	266
November 2022	8,169	852	10.4%	572	280
December 2022	8,883	1,024	11.5%	622	402
January 2023	8,999	1,040	11.6%	630	410
February 2023	8,999	912	10.1%	630	282
March 2023	8,765	876	10.0%	614	262
April 2023	8,778	825	9.4%	614	211
May 2023	8,688	811	9.3%	608	203
Average	8,576	873	10.2%	600	273

Source: HSH Data

We note that, consistent with current Department practice, these counts do not include newly acquired buildings that were in the process of initial tenant leasing, which the Department refers to as “lease-up”. According to the Department, HSH excludes these units from its Vacant Unit Percentage that it uses to monitor towards the seven percent goal.

If the Department had achieved its seven percent goal, the number of vacancies as of May 1, 2023 would have been608 rather than 811, or 203 units more than were actually available. If the seven percent goal had been achieved for the period between August 2022 through May 2023, there would have been 273 more permanent supportive housing units available for tenants on average per month.

To determine whether certain types of units experienced higher vacancy rates, we analyzed the vacancy data by ownership type. As discussed in the Introduction to this report, the Department contracts for housing units in buildings with different ownership structures. The six main categories of ownership for PSH units include:

1. City-owned,
2. Ground lease managed by a nonprofit,
3. Master lease managed by the City,
4. Master lease managed by a nonprofit,
5. Nonprofit owned, and
6. Privately owned.

As shown below, the majority of PSH units in San Francisco are in buildings that are either master leased to a nonprofit or nonprofit owned.

Exhibit 2.2: PSH Units by Ownership Type, May 2023

Ownership Structure	Capacity	% of Total Capacity
Nonprofit Owned	4,497	49.9%
Master Lease - Nonprofit	3,133	34.8%
Master Lease - City	637	7.1%
City Owned	521	5.8%
Privately Owned	126	1.4%
Ground Lease - Nonprofit	93	1.0%
Total	**9,007**	

Source: HSH Data

From just the three months between March 2023 and May 2023, the average vacancy rate for all PSH units was roughly 10 percent, as shown in Exhibit 2.3. However, across certain ownership structures, monthly vacancy rates varied. Exhibit 2.3 shows vacancy rates by ownership structure for the three months between March and May 2023.

Exhibit 2.3: PSH Vacancy Rates by Ownership Structure, March to May 2023

Ownership Structure	March 2023	April 2023	May 2023
City Owned	15.1%	5.1%	11.1%
Ground Lease - Nonprofit	0.0%	0.0%	0.0%
Master Lease - City	12.9%	10.0%	11.9%
Master Lease - Nonprofit	9.9%	9.4%	10.9%
Nonprofit Owned	9.8%	10.6%	9.3%
Privately Owned	18.3%	18.3%	25.4%
Total PSH Units	**10.3%**	**9.9%**	**10.3%**

Source: HSH Data

In May 2023, the vacancy rate for five of the six categories of ownership for PSH units exceeded the Department's seven percent vacancy rate goal—ranging from 9.3 percent to 25.4 percent. The single category of ownership that met the Department's vacancy rate in May 2023 was "Ground Lease – Nonprofit" though this entailed only 93 units out of total PSH capacity of 9,007 units in May 2023.

Exhibit 2.4 Monthly Vacancy Rate, PSH Units by Ownership Structure, May 2023

Ownership Structure	Capacity	# Vacant Units	Vacancy Rate
Nonprofit Owned	4,497	418	9.3%
Master Lease – Nonprofit	3,133	342	10.9%
Master Lease - City	637	76	11.9%
City Owned	521	58	11.1%
Privately Owned	126	32	25.4%
Ground Lease – Nonprofit	93	0	0.0%
Total PSH Units	**9,007**	**926**	**10.3%**

Source: HSH Data

As discussed below, the ownership structure determines who bears responsibility for the maintenance and physical condition of units, which impacts the ability to keep units occupied.

Most Vacant PSH Units are Ready for Occupancy but One Third are Offline

According to the Department's website, "vacancies happen when a tenant leaves a PSH unit. Tenants may move to other housing options, pass away, or, in rare cases, abandon their unit. HSH works with providers to minimize the number of vacancies and length of time that units are vacant." Once a unit is vacant, the property manager determines when it is available for re-occupancy. The status of the unit is maintained and tracked in the Department's ONE System; providers are responsible for keeping this information updated. The Department tracks and reports on PSH unit vacancies (as managed within the ONE System) on a dashboard that is maintained on its website. During the course of our audit fieldwork, the dashboard broke down vacant units into two primary categories: online and offline. Since January 2022, according to the Department's vacancy dashboard, roughly two-thirds of the vacant PSH units were online, meaning that they were "ready to receive a tenant referral and ready for move-in" but nearly one-third of the units were offline on average between January 2022 and May 2023. The exhibit below shows the online and offline status of vacant units, as reported on the Department's dashboard. Note that unlike the counts shown in Exhibit 2.1, these numbers include the units in lease-up, reflecting the tables and data presented by the Department on its dashboard.

Exhibit 2.5 Online and Offline Status of Vacant PSH Units, January 2022 to May 2023

Month	Online	Offline	Total Vacant	% Vacancies Online	% Vacancies Offline
Jan-22	634	259	893	71.0%	29.0%
Feb-22	520	305	825	63.0%	37.0%
Mar-22	502	298	800	62.8%	37.3%
Apr-22	565	279	844	66.9%	33.1%
May-22	592	264	856	69.2%	30.8%
Jun-22	567	312	879	64.5%	35.5%
Jul-22	576	312	888	64.9%	35.1%
Aug-22	832	298	1,130	73.6%	26.4%
Sep-22	851	311	1,162	73.2%	26.8%
Oct-22	1,013	337	1,350	75.0%	25.0%
Nov-22	890	353	1,243	71.6%	28.4%
Dec-22	700	359	1,059	66.1%	33.9%
Jan-23	633	407	1,040	60.9%	39.1%
Feb-23	541	371	912	59.3%	40.7%
Mar-23	533	343	876	60.8%	39.2%
Apr-23	519	306	825	62.9%	37.1%
May-23	614	305	919	66.8%	33.2%
Average	652	319	971	67.2%	32.8%

Source: HSH Data

The Department further categorizes units in online status as either “online referral pending” or "online no referral”.

Exhibit 2.6: Online and Offline Status of Vacant Units, as of May 2023

Vacant Unit Status	# of Units	% of Vacant Units
Online: Referral Pending	227	24.7%
Online: No Referral	387	42.1%
Offline	305	33.2%
Total Vacancies	**919**	**100.0%**

Source: HSH Data

As shown, over 66 percent of the vacant PSH units in May 2023 were online and available for referral and 33.2 percent, or 305 units, were offline.

We note that in September 2023, the Department revised the format of the first page of vacancy data reflected on the dashboard, showing the vacancy categories presented in Exhibit 2.6:

"available for referral", "referral pending", and "offline". Page 2 of the dashboard continues to reflect the historical data in the two primary categories of "online" and "offline".

Units in offline status were "not ready to receive a tenant due to one of the various offline unit statuses". The Department defines 13 categories of offline status, as shown below.

Exhibit 2.7: Offline PSH Unit Status Definitions

Offline Status	Definition
Delayed	Unit is vacant for a reason not otherwise described; a note explaining the delay is required.
Excessive Property	Unit has a substantial number of items that need to be removed (hoarding, etc.).
Hold for RA	Unit is being held for a reasonable accommodation (RA) transfer.
Hold for Transfer	Unit is being held for an internal transfer at the site.
HSH Hold for Transfer	Unit is being held for an external transfer from another site.
Janitorial	Unit requires minor repairs and cleaning.
Maintenance	Unit requires major / substantial repairs.
Medical Examiner Hold	Unit is being held by the City's Medical Examiner's Office.
Occupied by Legacy Tenant	Unit was occupied at the time Department acquired/leased building.
Pest Control	Unit needs to be professionally treated for pests.
Property Hold	Unit is on hold by the property; details tracked in text notes.
Ready for Inspection	Unit needs to be inspected by the San Francisco Housing Authority (SFHA) or the Department of Building Inspection (DBI).
Ready for Referral	Unit is available and ready for occupancy; these units need to be posted to the ONE system to receive a client referral.
Temporarily Occupied	Unit is temporarily occupied by a resident while repairs are underway.

Source: HSH Vacancy Dashboard

As of May 1, 2023, nearly half of the units offline needed janitorial or maintenance services, as shown below.

Exhibit 2.8 Offline Unit Status, as of May 2023

Vacancy Status	# of Units
Janitorial/Maintenance	123
Hold for Transfer	66
Occupied by Legacy Tenant	29
Internal Transfer	19
Ready for Inspection	16
Medical Examiner Hold	14
Ready for Referral	9
Property Hold	5
Delayed	2
Excessive Property	2
Occupied Temporarily by Client from Other Program	2
Reserved for External Transfer	2
Reserved for Provider Level Referral	2
Temporarily Occupied	2
Total Offline Units	**293**[1]

Source: HSH Vacancy Dashboard

To ensure as many units are available and occupied as possible at any time, the Department needs to both minimize the number and duration of units offline and ensure that online units are occupied as expeditiously as possible. As part of its efforts to augment the functionality of the ONE System, the Department completed the Housing Unit Inventory Project in June 2023, which creates Unit Level Inventory functionality within the system. This enables the Department to capture the length of time a unit is vacant, which historically was not possible. We recommend that the Department incorporate the analysis of unit vacancy duration into regular program monitoring and management reporting. This will enable the Department to hold providers accountable and to establish performance targets for reasonable timeframes to bring offline units online and to place tenants in online units. Allowing for provider training, we recommend that the Department make unit status information available to the public on the Vacancy Dashboard no later than December 31, 2023.

[1] This offline unit total is less than the total reflected in Exhibit 2.6 because it does not include units in lease-up.

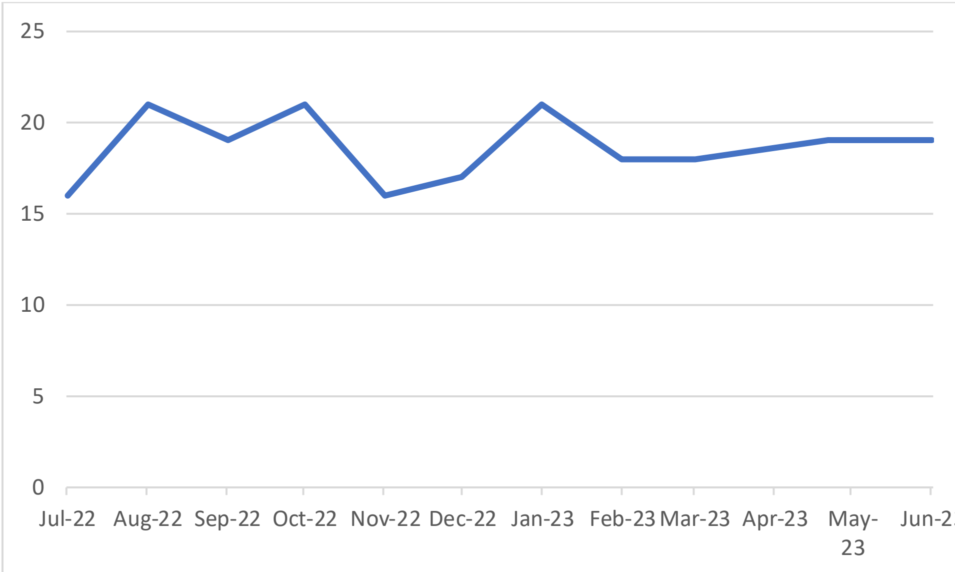
Understaffing Has Contributed to Vacancies

Since the Department adopted the Coordinated Entry system in 2017, clients have been connected to available units through Housing Navigators and through a new internal Housing Placement team that was created in FY 2022-23. Employed by community-based organizations, the Housing Navigators work with homeless individuals who have been determined (by the Coordinated Entry system) to be eligible for housing placement. The role of the Housing Navigator is to connect eligible clients to available housing units and assist those clients in completing and submitting applications. According to the job description, specific responsibilities include:

- Outreach to pre-identified homeless persons and provide professional and culturally relevant support, advocacy, information and referrals in order to assess eligibility, and engage and guide them through the housing application process.
- Maintain relationship with clients eligible for housing placement through the placement process.
- Assist clients in completing housing applications, including obtaining all documents necessary for a successful application, in interviews and in grievance processes should applications be denied.
- Support clients in moving into new housing should applications be accepted.
- Develop and maintain relationships with the relevant Property Managers, Leasing Agents, and/or support services staff at the sites where we are referring our clients for housing.

In addition to a few limited agreements for housing navigation services, the Department contracts with one primary provider to place eligible adult clients in available units. In FY 2022-23, this provider underspent its total annual salary and benefits budget by 21.4 percent. Spending for the housing navigation specialists was similarly under budget by 20.2 percent for the year. The number of housing navigation specialists as reflected on provider invoices ranged from a low of 16 to a high of 21, for an average of 18.7 housing navigation specialists on staff every month.

Exhibit 2.9: Number of Housing Navigation Specialists at Primary Provider Agency, FY 2022-23



Source: Provider Invoices in CARBON

Assuming that the provider has been funded to employ 21 housing navigation specialists, and only had that number of specialists on staff for one month of the year, it is likely that the understaffing of this function, which is critical to maintaining the occupancy of PSH units, contributed to the high vacancy rates.

The Department expanded internal capacity to support housing placement, beginning in FY 2022-23. HSH's Housing Placement Team matches clients with permanent supportive housing opportunities and oversees housing navigation services and agreements. This team includes 18 FTE, with 16 of the 18 positions filled as of August 2023. The team works to ensure low barrier documentation for housing participants, helps navigate clients to housing in cohorts, and manages the housing referral process at the housing provider (rather than property) level.

Current Investments in Maintenance and Repairs of PSH Units are Insufficient to Meet Need

As noted in the Introduction to this report, the City engaged in long-term "master leases" with single-room occupancy (SRO) hotels, beginning as far back as 1999, in order to provide additional inventory for housing placement to address the critical need. Even then, the unfavorable condition of these units was openly recognized, but due to the high costs of development and zoning restrictions, City leaders supported the expansion of housing options through the leasing of these buildings. As shown in Exhibit X in the Introduction to this report, as of May 2023, SRO master-leased units made up nearly 42 percent of the City's PSH unit inventory, of which 11 percent were vacant. The existing vacancy data does not break down offline status, or reason, by building so it is not possible to identify how many of the SRO units specifically were offline due to janitorial/maintenance needs. As noted above, in May 2023, 123 of 293 PSH units were offline for janitorial/maintenance services. The percentage of offline units requiring janitorial/maintenance services was higher—closer to 60 percent—in March 2023 and July 2023, as shown below.

Exhibit 2.11: Offline Vacant Unit Status, March through July 2023

Vacancy Status	March 2023	May 2023	July 2023
Janitorial/Maintenance	191	123	162
Hold for Transfer	88	66	49
Occupied by Legacy Tenant		29	
Internal Transfer		19	
Ready for Inspection	1	16	
Medical Examiner Hold	5	14	17
Ready for Referral	21	9	
Property Hold	27	5	43
Delayed	2	2	
Excessive Property		2	
Occupied Temporarily by Client from Other Program		2	
Reserved for External Transfer		2	
Reserved for Provider Level Referral		2	
Temporarily Occupied	8	2	
Total Offline Units	**343**	**293**	**271**
% Offline for Janitorial/Maintenance	55.7%	42.0%	59.8%

Source: HSH Vacancy Dashboard

While it is not possible to identify exactly *which* units were offline for janitorial/maintenance services, it is reasonable to assume that at least half were located in SROs in master leased buildings.

According to Department officials, the City has not made a meaningful investment in the maintenance and rehabilitation of these units since the leases were put in place. The Department allocated $5 million in FY 2022-23 for master lease unit repairs, for which it solicited requests from providers. From the solicitation, providers identified more than $20 million in needed repairs. The Department categorized the requests across five main types, plus "all of the above", as shown below.

Exhibit 2.12: Master Lease Repair Requests in FY 2022-23

Repair Category	Request Amount
Accessibility	444,600
Accessibility, safety and security	379,500
Necessary upgrade/repair	6,022,748
Safety and Security	3,274,710
Tenant Quality of Life	6,946,483
All of the Above	4,651,700
Total Amount Requested	**21,719,741**

Source: HSH Data

In FY 2023-24, the Board of Supervisors approved an additional $20 million allocation for master lease unit repairs. Department officials note that even with resources to support maintenance and repairs, the Department's ability to ensure proper use of the funds—meaning, ensuring that property owners and managers invest the funds in contractors who deliver quality services—is limited because the Department does not conduct housing quality inspections. These are conducted by the Department of Building Inspection, and only required on units funded with HUD funds.

In its recently published strategic plan (discussed in more detail in Section 1 of this report), the Department identified "Increasing Successful and Stable Entries into Permanent Housing" as Action Area #4, for which the Department laid out 23 "prioritized strategies and activities" to achieve this goal. These strategies include:

> Improve physical conditions in permanent supportive housing sites through strategies that include an annual capital investment fund, accessibility improvements, implementation of elevator modernization funds and implementation of housing quality inspections across the portfolio.

As part of that strategy, we recommend that the Department evaluate and report to the Board of Supervisors on the total investment needed, including for housing quality inspections, to maintain the SRO units to a habitable level to reduce chronic SRO vacancy rates and increase occupancy for PSH clients.

Conclusion

The Department's ability to meet its seven percent vacancy rate target is impaired by the referral process which relies on contracted providers to refer clients to available units. As previously reported by our office and as discussed in Sections 4 and 5 of this report, the Department has not established adequate contract and performance monitoring to hold providers accountable for meeting service goals. In the case of the contracts for Housing Navigators, this lack of accountability results in ongoing unit vacancies. In addition, the Department's investments in the maintenance and repair of the PSH units (particularly the older master-leased sites) in order to maximize housing placement options, have not been adequate, further impacting the vacancy rates and keeping a constant number of units offline.

Recommendations

The Director of the Department should:

2.1 Urgently adopt the recommendations in Sections 4 and 5 of this report to enhance contract and performance monitoring of the Housing Navigator agreements in order to ensure timely placement of eligible clients in available PSH units and reduce permanent supportive housing vacancy rates to the Department's target seven percent instead of the actual 10.2 percent average rate between January 2022 and May 2023

2.2 Incorporate the analysis of unit vacancy into regular program monitoring and management reporting to hold providers accountable and to establish performance targets for reasonable timeframes to bring offline units online and to place tenants in online units. We recommend that the Department make this unit status information available to the public on the Vacancy Dashboard no later than December 31, 2023.

2.3 Evaluate and report to the Board of Supervisors on the total investment needed to maintain the SRO units to a habitable level to reduce chronic SRO vacancy rates and increase occupancy for PSH clients.

3. Contract Development

The Department of Homelessness and Supportive Housing provides most of its services through contractors and has a structured approach to procuring such services. However, the Department does not accurately project: contract budgets based on established unit costs, start-up timelines, or rehabilitation costs for new property acquisitions. This results in some contractors not adhering to their contract budgets and both under- and over-spending of annual allocated funds.

In order to maximize service delivery on PSH contracts, the Department should create realistic unit cost standards across its various service types to ensure the most efficient investment of public funds; these standards should be re-evaluated at least every two years to reflect any necessary adjustments. In addition, for PSH construction and acquisition projects, the Department should rely on the expertise of other City departments to more accurately estimate rehabilitation costs earlier in the contracting process so policymakers understand the true costs for increasing the City's PSH housing inventory.

Contract Procurement

The HSH contract procurement process is led by the Contracts Division with assistance from the Programs, Fiscal, and Data & Performance Divisions. The Department executes the procurement process in six stages: 1) Planning & Design, 2) Issuance, 3) Evaluation, 4) Award & Notices, 5) Agreement, and 6) Protest. Each of these stages is intended to precisely define the nature, extent, and cost of services to be provided and to ensure that qualified contractors are selected at the lowest cost to the City. While these steps appear to be regularly followed by the Department, rigorous processes for estimating contractor costs and ensuring adherence to those costs once contracts are executed are not in place.

Planning and Design

At the start of the Planning and Design stage of the process, the Contracts Division determines the appropriate procurement method (Requests for Proposals (RFPs), Requests for Qualifications (RFQs), etc.) and the award type (grant or contract). The Fiscal, Contracts, and Programs divisions work collaboratively to finalize the funding amount for the procurement, and the Programs Division develops the scope of work and evaluation criteria. The Data & Performance Division works with the Programs and Contracts divisions to develop outcomes, measurements, and data collection methods.

Issuance
After the various required approvals of the procurement documents, the procurement is issued. The Contracts Division facilitates a Pre-Proposal Conference for prospective proposers. The Programs Division attends the Conference and answers prospective bidders' questions.

Evaluation
In accordance with OCA procurement guidelines, the Contracts Division assembles evaluation panels composed of at least three neutral Subject Matter Experts (SMEs) who did not participate in developing the solicitation, with no more than 50% of panel members from any single City department. The Contracts Division then facilitates a Minimum Qualifications Review to identify and disqualify any proposals deemed "non-responsive". The Contracts Manager reviews the panel's scoring spreadsheets for accuracy.

Awards & Notices
Typically, the Department awards contracts to the highest scoring proposer. After receiving approval[1] from the HSH Director and Deputy Directors, the Contract Manager drafts the applicable Notice of Intent to Award letter.

Agreement
The provider and the Department enter the negotiations phase of the agreement. Once negotiations are complete, the Programs Division drafts and approves the budget of the agreement, and the Fiscal Division approves the total budgeted amount for the contract.

Estimating Contract Costs & Timelines

Cost Per Unit Estimates
Between FY 2018-19 and FY 2021-22, HSH issued five solicitations for support services, property management, and real estate development management[2] for PSH sites, as shown below.

[1] According to Department officials, HSH leadership technically can reject the panel's recommendation, although this has never occurred since the creation of the Department.
[2] Real estate management services are time-limited services to coordinate the conversion of the property to PSH, including the required rehabilitation to the site.

Exhibit 3.1 PSH Solicitations Issued by HSH, FY 2018-19 through FY 2021-22

Solicitation Name	Date of Issuance	Solicited Services	Site
RFP 115	11/08/2018	Property Management	Six Continuing Sites
RFQ 123	12/21/2018	Support Services and Property Management	New Sites & Nine Continuing Sites
SOI 134.1	10/20/2021	Support Services, Property Management, and Real Estate Development*	Three Newly Acquired Sites
SOI 134.2 Street	01/04/2022	Support Services, Property Management, and Real Estate Development	One Newly Acquired Site
RFP 138	06/14/2022	Support Services and Property Management	One Newly Acquired Site

Source: HSH Website, "Closed Procurement Opportunities"

*Note: Real estate development services were solicited for two of the three sites included in SOI 134.1.

These solicitations included two Requests for Proposals (RFP), two Solicitations of Interest (SOI), and one Request for Qualifications (RFQ). Through a review of the Department's internal policies, interviews with Department staff, and a review of documentation for the five solicitations listed above, we found that the Department does not consistently use a cost-per-unit analysis to inform contract budgets. While four of the five solicitations included a cost-per-unit estimate for at least some of the requested services (RFQ 123, SOI 134.1, SOI 134.2, and RFP 138), we found inconsistencies in those unit cost estimates. Specifically, the Department did not:

- Include cost-per-unit estimates for both continuing contracts *and* new contracts, when applicable.
- Include cost-per-unit estimates for all solicited services, including operating and real estate development costs.
- Include cost-per-unit estimates specific to the population served.

For example, the Department issued RFQ 123 in December 2018 inviting qualified respondents to provide support services and operations services for new and continuing PSH sites for adults, families, older adults, and veterans. The solicitation provided a cost-per-unit estimate for bidders for supportive *services* at *new* sites only. Of the 11 contracts that the Department procured through this RFQ, only two were for supportive services at new sites. According to the Department, budgets for continuing sites are based on the existing budget of the program; it is unclear how those unit costs compare to HSH's proposed unit costs in the solicitation. Also, RFQ 123 provided a cost-per-unit estimate for bidders to use for only two of the four populations covered; the Department estimated in the solicitation that the annual cost for supportive services for both adults and families would be $5,383 and $6,165, respectively. However, there is no estimate included for the other two populations listed in the documents: older adults and veterans. The Department does not have information on how those unit costs might differ, and how the cost proposals for programs serving those populations would be evaluated.

The Department also presented cost-per-unit estimates in SOI 134.1 (issued October 2021) and SOI 134.2 (issued January 2022), both of which sought applicants to operate, provide support services, and provide real estate development services in newly acquired PSH sites. The SOI 134.1 solicitation was for the Eula Hotel, Mission Inn, and 1321 Mission Street. The SOI 134.2 solicitation was for 835 Turk Street. Both SOIs list the available per unit budget for operating and support services as $1,650 per unit/per month— $1,100 per unit/per month for operating services and $550 per unit/per month for support services. According to the document, applicants must stay within 2 percent of that budget amount to be considered responsive. Neither solicitation provided maximum costs allowed for real estate development services.

Exhibit 3.2 below shows the differences in the estimated monthly cost per unit listed in the procurement document, the budgeted monthly per unit amount, and the average actual monthly amount spent in FY 2021-22 for contracts solicited through SOIs 134.1 and 134.2.

Exhibit 3.2 Monthly Unit Cost Comparison of Procurement Estimate, Contract Budget and Actual Spending, Contracts Solicited through SOIs 134.1 and 134.2, FY 2021-22*

Procurement	PSH Site	Service Type	Number of Units	Department SOI Monthly Unit Cost Estimate	Department Budgeted Monthly Unit Cost	Average Actual Monthly Unit Cost	Budget vs. SOI Variance	Actual vs. SOI Variance	Budget vs. Actuals Variance
SOI 134.1	1321 Mission	Property Management	160	$1,100	$1,110	$274	$0	($826)	($826)
SOI 134.1	1321 Mission Street	Support Services	160	550	564	140	14	(410)	(424)
SOI 134.1	Mission Inn	Property Management	52	1,100	2,226	572	1,126	(528)	(1,654)
SOI 134.1	Eula Hotel	Property Management	25	1,100	2,629	1,633	1,529	533	(996)
SOI 134.2	835 Turk Street	Property Management	114	1,100	1,404	755	304	(345)	(649)
SOI 134.2	835 Turk Street	Support Services	114	550	1060	128	510	(422)	(932)

Source: HSH Data

Note: Exhibit 3.2 data only includes estimated, budgeted, or spending amounts towards salaries, operating costs, and indirect costs, and *does not* include start-up or real estate development services costs.

As shown in Exhibit 3.2 above, per unit cost estimates provided in the solicitations for property management services and support services varied significantly from amounts in the approved budget. Further, the per unit actual spending was lower than both the solicitation estimate and the budgeted amount across all contracts, with the exception of one property management contract with actual monthly spending $533 higher than the estimated $1,100.

For one of the supportive services contracts procured in those solicitations, the monthly per unit budget ($564) was reflective of the solicitation estimate ($550), although the average actual monthly spending was $140. However, according to Department data, the project under this contract was delayed by a couple of months, so the actual monthly spending for this contract can be estimated at approximately $455 after adjusting for the delays. Despite the Department's use of a cost-per-unit estimate to inform the budget of this support services contract, the Department inaccurately estimated the contracts' actual spending.

For the other supportive services contract analyzed, the monthly per unit budget was $1,060, or $510 higher than the solicitation estimate of $550. The average actual monthly spending of this contract was $128. However, this contract term only included one month of spending in FY 21-22, so the low level of actual spending can be attributed to delays in starting services.

For three of the four property management contracts procured through these two selected solicitations, the variances between per unit estimates and budgeted amounts were significant, with contract budgets much higher than the $1,100 amount in the solicitation at $1,404, $2,226, and $2,629 per month. Actual spending on these contracts also varied significantly, as shown in Exhibit 3.2 above.

All the contracts listed in Exhibit 3.2 were new contracts in FY 2021-22 and were operational that year for four months or less. Because annual spending will almost always be lower in the start-up year of a new building, as tenants get selected and the units get prepared for occupancy, it is important for the Department to account for those first-year delays—and operational savings—in the budgeting process with providers. Additionally, it does not appear the Department analyzes actual spending data to inform either future annual budgets for existing contracts or cost estimates for future procurements.

Cost-per-unit estimates are identified by national agencies as a best practice in both procurement of government contracts and subsequent cost-effectiveness analyses of PSH programs. According to the State & Local Government Procurement Guide, published by the National Association of State Procurement Officials, recurring types of procurement should be informed by expenditure data. The guide further explains "a single set of dollar figures, broken down by commodity and service type" allows an agency to determine pricing on larger quantities of services, which may lower costs. Furthermore, the National Academies of Sciences, Engineering, and Medicine's Committee on an Evaluation of PSH Programs for Homeless Individuals developed a framework for what should be included in a cost-effectiveness analysis of PSH. Within the framework, the committee includes the average cost per person per year, specifically, the financing capital cost for the project, rent subsidies, support services, and operating costs.

According to HSH staff, the Department updated its cost-per-unit estimate for support services in July 2022 to inform the Department's budget proposal for that fiscal year, and for use in establishing future contract budgets. This services cost-per-unit rate revised the previous services tier cost-per-unit estimates that the department established in approximately 2018 and includes a cost-per-unit for designated target populations – transition age youth (TAY), families with children, and adults (including older adults). However, Department staff acknowledged limitations in that cost-per-unit estimate, which did not account for certain program delivery complexities, such as the specialized needs of some target populations and the numbers of units per site.

HSH staff report that they consider cost per unit when evaluating proposals. However, following the selection of the vendor and during the negotiation and finalization phases of the contracting process, the Department and City frequently add additional contracting requirements that influence the final agreed upon budget. This could explain some of the differences between SOI and budgeted costs per unit shown in Exhibit 3.2 above.

Because cost-per-unit analysis and estimates would allow the Department to budget its limited funds more effectively and ensure adequate cost containment across contracted providers, the Department should analyze actual spending across service types (specific to populations served, as applicable) to develop and utilize more realistic unit cost standards. The Department should institute a process to monitor contract spending at least quarterly to identify any changes in spending that would warrant adjustments to unit cost estimates.

Underestimating Rehabilitation Costs for New Acquisitions

In addition to reviewing support services and property management contracts, we reviewed the rehabilitation costs of the four sites acquired by the City through SOIs 134.1 and 134.2. As discussed in Section 1 of this report, in July 2020, Mayor Breed announced the Homelessness Recovery Plan which established the goal of acquiring or leasing 1,500 new PSH units. At the time, the City faced the urgent need to demobilize the Shelter-in-Place hotels that had housed the homeless during the COVID-19 pandemic, and had access to new funding opportunities both from the State's Homekey Program and the City's Proposition C tax revenues. Because property acquisition had not traditionally been a function of the Department, these projects required the collaboration of several City departments, including the Mayor's Office of Housing and Community Development, the Real Estate Department, and the Planning Department.

HSH's primary role on these acquisition projects focused on determining the client population and the associated eligibility criteria for potential clients in the units. Because of the urgency, the City utilized an expedited process for identifying prospective sites, through which on-site due diligence reviews were conducted by a team that included the Mayor's Senior Advisor on Housing Initiatives, HSH staff, and a consultant team.[3] These initial inspections sought to determine two basic criteria: immediate repair needs and building accessibility. These inspections did not include assessments of building systems, hazardous materials, or geotechnical reports.

Since FY 2020-21, the Board of Supervisors approved the acquisition of eight new PSH sites, whose acquisition costs totaled $395.7 million, ranging from $5.6 to $145.0 million and providing PSH units ranging from 25 to 232 units per site. In addition to acquisition costs, total cost estimates for six of the eight sites included HSH's initial estimated rehabilitation costs, which added another $121.9 million to total costs, ranging from $1.5 million to $67.5 million, as shown in Exhibit 3.3 below.

Exhibit 3.3 HSH Acquisition and Estimated Rehabilitation Costs for PSH Sites, FY 2020-21 through FY 2022-23

Building	Units	Acquisition Cost	Estimated Rehabilitation Cost	Total Est. Cost
440 Geary Street	130	$50,000,000	$23,386,610	$73,386,610
1000 Sutter Street	232	$46,000,000	$67,459,595	$113,459,595
1321 Mission Street	160	$86,500,000	$0	$86,673,000
3061 16th Street	25	$5,600,000	$1,500,000	$7,215,000
5630-5638 Mission Street	52	$17,000,000	$5,525,000	$22,865,000
835 Turk Street	114	$25,650,000	$9,062,150	$34,763,450
681-687 Ellis Street	74	$19,900,000	$6,200,000	$26,140,000
333 12th Street	200	$145,000,000	$0	$147,540,000
TOTAL	987	$395,650,000	$121,921,205	$517,571,205

Source: BLA Budget & Finance Committee Reports

According to the Department, they work with MOHCD to evaluate, inform, and advise the rehabilitation scope and cost estimate of acquisitions, and some rehabilitation projects are managed solely by MOHCD.

[3] HSH contracted with the Housing Accelerator Fund for due diligence on affordable housing development projects.

We identified two projects whose revised rehabilitation costs estimates totaled approximately $69.7 million more than initial estimates, an increase of 447 percent, as documented in BLA Reports to the Budget and Finance Committee[4] and to the Homelessness and Behavioral Health Select Committee[5]. As shown below, in one instance the revised costs were nearly double, and in the other instance the revised costs were nearly ten times original estimates. While unforeseen circumstances on rehabilitation projects are always a possibility, HSH should endeavor to develop realistic estimates that further take into account unforeseen circumstances.

Exhibit 3.4: Initial versus Revised Rehabilitation Costs for Selected PSH Acquisitions

Building	# of Units	Initial Rehabilitation Estimate	Revised Rehabilitation Cost	Change in Rehab Costs	% Increase in Rehab Costs
835 Turk	114	$9,062,150	$17,850,000	$8,787,850	97%
1000 Sutter[6]	232	6,540,000	67,459,595	$60,919,595	931%
Total	346	$15,602,150	$85,309,595	$69,707,445	447%

Source: BLA Reports to BOS Budget and Finance Committee (Files #22-0015, #22-158, #20-1063, and #20-1268) and BOS Homelessness Committee (File # 23-0927)

As noted above, the Department worked under the leadership of the Mayor's Senior Advisor on Housing Initiatives for the PSH acquisitions. Because future acquisitions remain uncertain, the Department should continue to rely on the expertise of other City departments, particularly about site development and construction, rather than add positions to establish internal expertise. The Department requested a Manager III position in the FY 2022 budget to lead a new internal real estate function within the Facilities division which was approved but remains vacant. We recommend that the Department reconsider this reorganization, and instead consider utilizing the asset management team at MOHCD for these City-owned sites, focusing internally on managing the support services and leasing processes for the units.

As noted above, none of the solicitations for acquisition of the eight sites included cost estimates for associated real estate development services. In the SOI, the Department defined those "time-limited" services as:

1. Entitlements: Grantee shall manage the process of property conversion from current use to PSH, including, working with the Planning Department to identify use conversion requirements and most feasible path to conversion.

[4] See Files #22-0015, #22-158, #20-1063, and #20-1268.

[5] See File #23-0927.

[6] According to the Department, the rehabilitation for 1000 Sutter is managed by MOHCD, not HSH staff.

2. Budgeting: Grantee, in collaboration with HSH, shall confirm initial rehabilitation scope assumptions and develop an initial budget.
3. Procurement: Grantee will procure required professional services, such as architect, engineer, general contractor, and related services.
4. Design/Permitting: Grantee shall oversee consultants in the development of permit sets, submission of permit documents to the Department of Building Inspection (DBI) and other permitting entities.
5. Construction Oversight and Contract Administration: Grantee shall supervise General Contractor's performance during design, subcontractor bidding of construction documents, and execution of permitted scope of work.
6. Financing: Where applicable, Grantee shall coordinate funding applications to state and federal funding sources (e.g., Project Homekey) and/or assist with any reporting and compliance obligations related to applicable state or federal funding related to the project.
7. Temporary Relocation: If there are existing occupants that will be affected by the rehabilitation scope, Grantee will manage the temporary relocation process in compliance with all applicable laws.

The costs for these real estate development services can be substantial, and without cost estimates, the Department's ability to contain costs and effectively monitor expenditures is impaired.

Conclusion

Because HSH delivers almost all of its PSH services through grant agreements, it is critical that there are clear standards for soliciting and developing these agreements. The Department has not established unit cost standards across all of its contracted services, and as a result, those costs range among providers, populations served, and buildings size and type. Unit cost standards would enable the Department to maximize service delivery and to ensure the containment of costs.

Recommendations

The Director of the Department should:

3.1 Analyze actual spending across service types (specific to populations served, as applicable) in order to develop unit cost standards to incorporate in future solicitations and to include in contracts to control contractor expenditures. The Department's unit cost standards should be reflective of their equity goals, meaning the Department should develop tiered cost standards adequate for the specialized needs of specific populations. These standards should be developed by April 2024.

3.2 Institute a process to monitor contract spending at least quarterly in order to identify any changes in spending that would warrant adjustments to unit cost estimates and associated budget allocations.

3.3 Reconsider the need for the vacant Manager III position who would oversee a new Real Estate unit, and instead consider utilizing the asset management team at MOHCD for these City-owned sites, focusing internally on managing the support services and leasing processes for the units. This position should be deleted if MOHCD's team can be utilized.

3.4 Continue to work closely with MOHCD and other City departments to ensure more accurate estimates for rehabilitation costs on future PSH acquisitions.

Benefits and Costs

Implementation of the proposed recommendations would result in more consistent unit costs of providers which would enable the Department to effectively manage its resources and ensure the maximization of service delivery.

4. HSH Has Not Fully Established and Enforced Consistent Performance Metrics for Permanent Supportive Housing Contractors

The Department of Homelessness and Supportive Housing cannot ensure consistent and quality service delivery across its 130 permanent supportive housing contractors as it has not implemented standardized performance monitoring and corrective action practices. Such practices should include: (1) establishing standard performance metrics for all PSH contracts by service type, (2) creating and following Department policies and procedures for performance monitoring such as standard record retention practices, and (3) conducting adequate oversight through a corrective action process to ensure contractor deficiencies are corrected in a timely manner.

Without consistent metrics that are specific, measurable, achievable, relevant, and time-bound, the Department may not be able to identify higher-performing versus lower-performing contractors that need technical assistance and ensure that all contractors provide at least a baseline level of quality service or, if not, are placed on a corrective action plan monitored by the Department.

The Department should standardize its performance metrics by service type for all PSH providers and develop a corrective action procedure for verifying that all contracted providers are meeting these standardized service and outcome objectives or that they have corrective action plans in place to do so, as other City departments have done. This will ensure that the Department is exercising its oversight function to ensure the delivery of high-quality programs and services.

Department Has Not Made Substantial Progress in Standardizing Performance Metrics

The Department has not made substantial progress in standardizing performance metrics for all permanent supportive housing contracts since our prior August 2020 audit recommended improvements in this area. In response to the August 2020 audit, the Department agreed to standardize contract terms and provisions for all contractors beginning in 2021 with a goal of completion by 2024. According to the Department, standard metrics have been developed for use (beginning in FY 2021-22) for property management and support services contracts. For these contracts, the Department reports that the following standard metrics have been developed:

- Grantee shall ensure that new tenant move-ins occur within 30 days of referral. (Property Management[1])
- Grantee shall maintain an occupancy rate of 93 percent. (Property Management)
- 90 percent of tenants will maintain their housing for a minimum of 12 months, move to other permanent housing, or be provided with more appropriate placements. (Property Management and Support Services[2])
- 85 percent of tenant lease violations will be resolved without loss of housing to tenants. (Property Management)

The Department reports that these standard metrics are included as property management and support services contracts are renewed over a multiyear period. However, we did not find that these four metrics were all included in three contracts that began on July 2021 for Property Management and Support Services; the Department reports including these metrics in 2022. Lack of standardized performance metrics for all PSH providers by type means that contractors delivering the same type of service are not held to the same service and outcome objectives. It is also administratively burdensome for the Department to track unique metrics for each contract. Finally, the lack of consistent metrics that are specific, measurable, achievable, relevant, and time-bound means that the Department may not be able to identify under-performing contractors that need technical assistance and/or a corrective action plan.

We reviewed a representative sample of 13 contracts, as shown in Exhibit 4.1, or 10 percent of the 130 total PSH contracts provided to us by the Department for FY 2021-22 to gain a better understanding of the Department's performance monitoring practices.

[1] Property Management agreements provide for utilities, security, and other building management costs, such as tenant rental agreements, communications, rent collection and record keeping, janitorial work, maintenance, compliance, trash pickup, and front desk staffing.

[2] Support Services agreements provide eligible clients with outreach, intake and assessment, case management, benefits advocacy and assistance, and behavioral health interventions.

Exhibit 4.1: Sample of Permanent Supportive Housing Contracts Reviewed

Service	Number of Contracts Reviewed
Support Services	7
Leasing & Operations	2
Master Lease, Property Management & Support Services	2
Property Management	1
Property Management and Master Leasing	1
Total	**13**

Of the seven providers of Support Services that we sampled, we did not find service or outcome objectives that appeared consistently across all seven contracts, although the subject matter of certain objectives does appear in more than one contract, as summarized in Exhibit 4.2 below. The contract agreement terms for these seven sample contracts vary, with three of the seven beginning in 2021—well after the conclusion of our August 2020 audit. Among the three contracts with a term beginning in 2021, we did not find standard metrics, although the Department had an opportunity to incorporate standardized performance metrics into these contracts based on the timeline established by the Department's response to our August 2020 audit. Our observations from this sample contract review aligns with the Department's acknowledgment that it had not yet standardized performance metrics for all PSH contracts, and it is reasonable to assume we would find similar differences among all PSH contracts of a specific type.

Exhibit 4.2: Service and Outcome Objective Metrics Are Not Consistent for 7 Sample Permanent Supportive Housing Support Services Contracts

Service Objective Subject Matter for 7 Sample PSH Support Services Contracts	Number of Contracts including Metric	Number of Contracts without Metric
Tenant survey conducted	6	1
Support services for program participants provided	6	1
Support services for housing instability provided	5	2
Benefits assessment conducted for clients	4	3
Individualized service plans prepared	4	3
Provision of primary medical care or mental health and substance use treatment/assessment	3	4
Outreach to participants conducted once every 30 days	3	4
Comprehensive discharge planning conducted	3	4
Outcome Objective Subject Matter for 7 Sample PSH Support Services Contracts		
Retain housing	7	0
Tenant lease violations	4	3
Satisfaction survey	4	3
Maximize income and benefits	2	5

Source: Seven contracts for Permanent Supportive Housing Support Services provided by HSH

In its August 2022 report, "The City Should More Effectively Evaluate the Impact of Services Provided by Community-Based Organizations," the San Francisco Controller's Office recommended creating common performance measures to be tracked for community-based organization contractors, focusing on important outcome measures and the indicators that must be tracked to understand the outcomes. Consistent metrics make it easier for providers with multiple contracts to follow a standard procedure. It also facilitates departmental monitoring and comparison of contractors providing the same service so that the practices of high-performing contractors can be identified and replicated by lower-performing contractors.

The San Francisco Department of Public Health develops annual performance objectives following a "SMART" approach (Specific, Measurable, Achievable, Relevant, and Time-bound). Each objective includes the following key pieces of information:

- Detailed text description of the objective, which spells out the terms of the objective
- Client/Program inclusion criteria, which details clients or programs to which the objective applies

- Data source identifies the source of the data and the party responsible for collecting and organizing the data for scoring
- Source of requirement identifies the regulatory, policy, or compliance requirement mandating the objective

Department Has Not Developed Standard Policies and Procedures for Program Monitoring

The Department has not met the deadline it had committed to in response to our August 2020 audit for developing standard policies and procedures for program monitoring, such as a standard procedure for the retention of files in the department's CARBON (or other file storage) system.[3] In that audit, our office recommended that the Department develop policies and procedures for program monitoring to be completed no later than December 31, 2020. In July 2021, at a hearing before the Government Audit and Oversight Committee of the Board of Supervisors, the Department Director said that this process would be completed within the summer of 2021; however, to date the work remains incomplete.

Because the Department has not established record retention policies, we were unable to verify whether program monitoring occurred or not for cases in which files were not available in CARBON.[4] Of the 130 PSH contracts, four were not available in CARBON for review at all. Of the remaining 126 contracts, 61 (or 48 percent) did not have any program monitoring materials saved in CARBON, and 65 contracts (or 52 percent) had some kind of program monitoring documentation in the CARBON system. For the 61 contracts for which we could not identify program monitoring materials, the Department reported the following:

- 32 contracts were for the federal Continuum of Care program[5];
- 11 contracts were new (and therefore were not subject to a monitoring visit);
- Eight contracts had program monitoring materials stored elsewhere[6];
- Five contracts ended;
- Three contracts did not have program monitoring materials.[7]

---

[3] CARBON is the system used by the Department to store some contract-related files. However, we found that CARBON is not consistently used by all staff teams for file storage.

[4] We note that CARBON is not the Department's only file-sharing system, and we did not have full access to files that were stored elsewhere.

[5] The Department reported that all federal CoC programs undergo an annual assessment resulting from the federal funding process, but local program monitoring was not completed for these 32 contracts.

[6] The audit team did not review these monitoring materials.

[7] An additional two contracts for the Housing Ladder program were incorrectly categorized as PSH contracts.

The Department says it is in the process of drafting a Programs Agreement Management Handbook to establish consistent procedures and standardize HSH's agreement management policies for its program teams by fall 2023. We reviewed draft materials related to this handbook and found that it covers many important aspects of contract monitoring (including record retention procedures). Details related to corrective action procedures should be further developed and finalized.

Department Does Not Have Standard Corrective Action Procedures

Among contractors for whom an HSH program monitoring site visit took place, the Department does not adequately verify and document that deficiencies in service and outcome objectives have been corrected. While it intends to establish procedures for program managers to address contractor deficiencies, the Department does not currently have a formalized standard approach to establishing a robust corrective action plan when contractors are not achieving minimum service and/or outcome objectives; the Department has also not specified in its contracts what constitutes a minimum threshold for achieving service and outcome objectives. Of the 13 contracts in our sample, we found documentation of HSH program monitoring activities in CARBON for only nine contracts that we reviewed and no program monitoring documentation for four of the contracts.

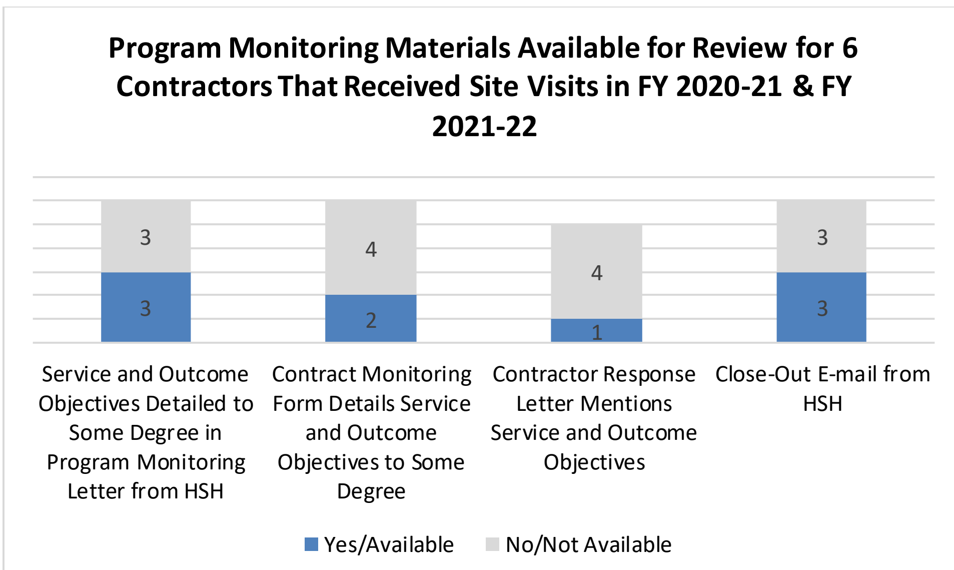
Monitoring materials available for review varied by contractor and can include a program monitoring letter to the contractor from HSH, a contract monitoring form, a response letter from the contractor, and a close-out e-mail from the HSH program manager. We note that two of the nine contractors received a waiver from program monitoring for FY 2021-22 and one contractor did receive a program monitoring visit from the Department, though it was informal and did not result in standard program monitoring documentation, so we limited our review to the six other contractors.

In our review of six program monitoring letters from HSH, we found that three of the six letters mentioned specific service and outcome objectives to varying degrees. None of these letters addressed all of the service and outcome objectives that appeared in the contract agreement. Two of the remaining three letters noted general deficiencies related to the reporting of service and outcome objectives, such as submitted CARBON reports that did not include the correct service and outcome objectives; these letters did not enumerate performance related to specific metrics. The last of the remaining three letters did not mention service and outcome objectives. Of the objectives mentioned, there was no corrective action process documented or specified when a contractor did not meet the standard for the service and/or outcome objective. The five contractor response letters that were available to review also did not refer to service and outcome objectives, except in one case to ensure the correct service and outcome objectives are reported.

Of all 13 contracts in our sample, the Department's contract monitoring form was found for only three of the contractors, and two of those included some information related to service and outcome objectives. Similarly, the Department's close-out e-mails were only found for three of the 13 contractors to document that all issues had been adequately addressed.

We summarize our findings for our review of the Department's program monitoring for six of the 13 contracts in our sample for which documentation was found in Exhibit 4.3. For all contractors, the inconsistent materials available could be due to the lack of standard procedures for records retention, discussed earlier.

Exhibit 4.3: Inconsistent Tracking of Service and Outcome Objectives During Program Monitoring Visits



Source: CARBON, BLA review

The absence of any further documentation in the contract monitoring files reviewed suggests that HSH is leaving it up to the contractor to come into compliance with any deficiencies identified by HSH. The current program monitoring practices followed by HSH, as we understood them through our review of available program monitoring materials among our sample, do not follow contract terms specifying monitoring activities, including that the contractor must have "back up documentation for reporting progress towards meeting Service and Outcome Objectives." We did not find back-up documentation for reporting progress towards meeting service and outcome objectives in the annual program monitoring materials; however, the

Department reports that this back-up documentation is reviewed by HSH staff during program monitoring site visits, but not copied and retained at HSH.

We also reviewed monthly program reports for our sample of 13 contracts and found that these reports were submitted for only seven of the 13 contracts, as shown in Exhibit 4.4. This generally reflects the same contracts for which an annual program monitoring letter was available. When monthly program reports were submitted, there was no documentation that they had been reviewed by the program manager.

Exhibit 4.4: Inconsistent Materials Available for Program Monitoring Visits

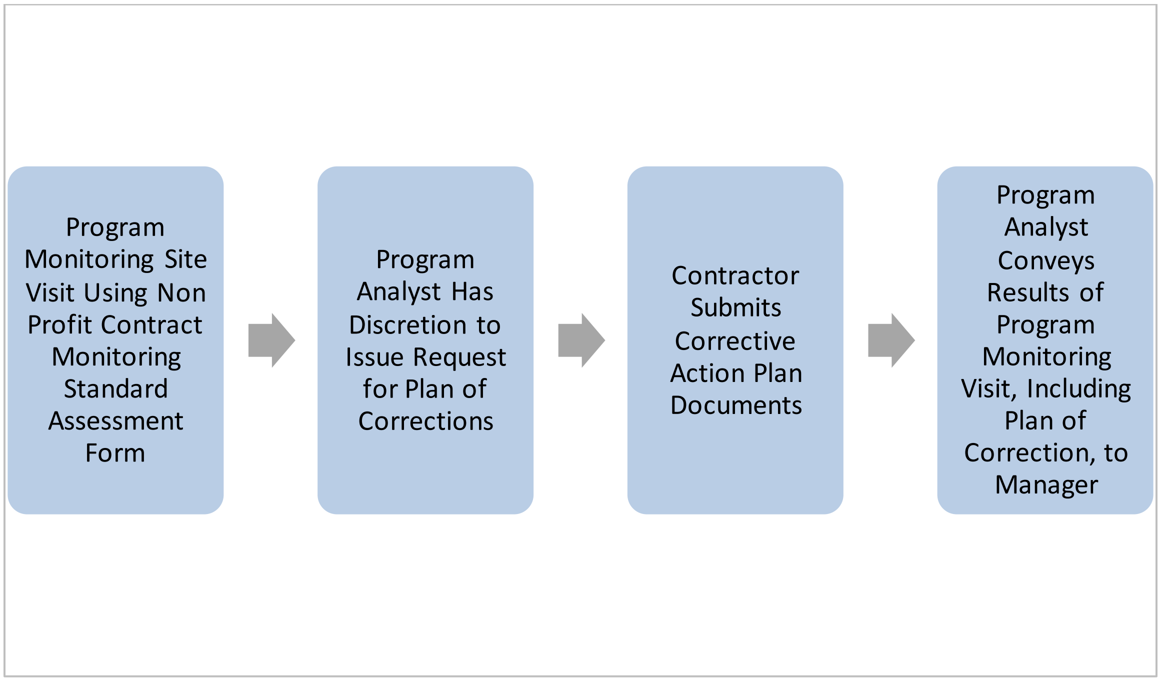
Service	Number of Contracts Reviewed	Monthly Program Reports Available for FY 2021-22
Support Services	7	4/7
Leasing & Operations	2	0/2
Master Lease, Property Management & Support Services	2	1/2
Property Management	1	1/1
Property Management and Master Leasing	1	1/1
Total	13	7/13

Source: Monthly Program Reports, FY 2021-22, for selected PSH contracts

In our review, there was no documentation for corrective action when a contractor has clearly fallen short of a service or outcome objective. For example, we found instances in which a contractor consistently failed to meet the occupancy standard of 90 percent or consistently failed to actively engage with 95 percent of tenants once every 30 days.

The San Francisco Human Services Agency (HSA) Department of Disability and Aging Services (DAS) and the Department of Public Health (DPH) both follow the citywide compliance monitoring process developed by the Controller that calls for a corrective action plan when contractors do not meet performance metrics. In some ways, the HSA DAS procedure is similar to HSH's practice. Like HSH, the HSA DAS relies on a program analyst to conduct an annual contract monitoring site visit using a standard non-profit contract monitoring form. However, at HSA DAS when program analysts identify performance deficiencies, they initiate a plan of correction process that requires the contractor to document corrections to ensure compliance with contract terms; this process is shown in Exhibit 4.5 below.

Exhibit 4.5: Program Monitoring Annual Process followed by the Human Services Agency Department of Disability and Aging Services



Source: HSA DAS

At SFDPH, a Business Office of Contract Compliance comprised of 11 full-time equivalent employees has been established to conduct contract monitoring. Their specified process includes a site visit or desk audit, with the possibility of a: (1) Plan of Action, or (2) Corrective Action or Agency Technical Assistance Process, depending on the nature of the contractor's deficiencies, as shown in Exhibit 4.6. In all cases, written documents are prepared under an established process to ensure contractors meet established annual performance objectives. Agencies are notified of the final status of findings.

Exhibit 4.6: Department of Public Health Technical Assistance Process

Corrective Action Plan or Agency Technical Assistance Process determined based on severity of deficiencies

Corrective Action Plan

The team:

a. Determines type of technical assistance needed and who should provide it
b. Identifies staff/consultants who will follow up on items within the Correction Action Plan
c. Review (regular and scheduled) on progress of resolving Corrective Action Plan items
d. Report to Contractor Oversight Committee, and as applicable to the Health Commission

Agency Technical Assistance Process

The team:

a. Determines type of technical assistance needed and who should provide it
b. Identifies staff/consultants who will follow up on items within the Agency Technical Assistance Process
c. Reviews periodically the progress of resolving the Agency Technical Assistance Process items
d. Determines if the issues have been resolved, or if further action is needed, such as a Corrective Action Plan or defunding the program
e. Determines who should communicate the findings to the agency

Possible Plan of Action

Technical Assistance is provided to the Agency/Program (i.e., Contractor). If one was issued, the Plan of Action is reviewed and may be folded into the Agency Technical Assistance Process and/or Corrective Action Plan.

Source: DPH Business Office of Contract Compliance

As the Department develops its program monitoring procedures, it should consider establishing and following similar corrective action protocols as those used by HSA DAS and SFDPH.

Conclusion

The Department has not standardized performance metrics and has not developed or implemented a corrective action process to ensure that contractors sufficiently address program deficiencies. The Department is not exercising its oversight function to ensure that contractors deliver high-quality services.

Recommendations

The Director of the Department should:

4.1 Proceed with its plan to standardize performance metrics by type of contract, ensuring that they are developed in coordination with community-based providers to be specific, measurable, achievable, relevant, and time-bound for all PSH providers, including development of a timeline for doing so that tracks with the earliest contract term end date among all the contracts of a particular type.

4.2 Ensure the timely completion of the Programs Agreement Management Handbook, which should include standard policies and procedures for program monitoring, including the retention of files.

4.3 Develop a corrective action procedure, similar to the San Francisco Human Services Agency (HSA) Department of Disability and Aging Services (and/or the San Francisco Department of Public Health), including standard improvement plans for assisting contractors that are failing to meet minimum standards related to service and outcome objectives, or other contract terms and include an enforcement mechanism if a contractor fails to show progress.

Benefits and Costs

Implementation of the proposed recommendation related to standardizing performance metrics is already planned by the Department and, if implemented, would enable the Department to better track that contractors are meeting service and outcome objectives to ensure delivery of high-quality programs and services. Our recommended enforcement of minimum standardized service and outcome objectives for all PSH contracts by service type will better ensure that the Department is meeting critical performance metrics.

5. Contract Management and Fiscal Monitoring

HSH provides tenants with long-term affordable housing and an array of supportive services, including case management and housing rental assistance. Most of the PSH services provided by the Department are administered through contract grant agreements with nonprofit community-based providers. The Department does not provide sufficient fiscal monitoring of PSH provider contracts to ensure they are spent down proportionately to the budget or project period. In FY 2021-22, over $73 million in PSH grant budgets were unspent out of a $180.6 million revised budget for the year. The Department does not:

- **Sufficiently manage service provider contracts to ensure sufficient provider staffing is in place, housing unit vacancy rates are minimized consistent with rates assumed in approved contract budgets, and the Department's housing resources are being optimally utilized.**
- **Adequately manage and track invoices to prevent significant delays in the invoicing process, negatively impacting the Department's ability to monitor contract underspending or accurately forecast total over- and under-spending for the year.**
- **Follow best practices on fiscal and compliance nonprofit monitoring set forth by the Controller's Office to ensure the financial health of their nonprofit contractors.**

PSH Services & Unit Inventory Growth

The two primary types of Permanent Supportive Housing (PSH) in San Francisco are: 1) site-based PSH and, 2) scattered-site PSH. In site-based PSH, tenants live in a building that is managed and operated by a nonprofit provider often under contract to HSH, and receive support services on site, also through a nonprofit provider. In scattered-site PSH, tenants use subsidies to live in private market units, either through a Flexible Housing Subsidy Pool (partnerships with nonprofit providers and private landlords) or Federal voucher programs (providing rental assistance based on the tenant's income) and receive support services from service providers whose case workers meet with clients either on- or off-site. Exhibit 5.1 below shows the growth of the Department's total site-based and scattered-site inventory from FY 2016-17 to FY 2021-22.

Exhibit 5.1 PSH Unit Inventory Growth, FY 2016-17 to FY 2021-22

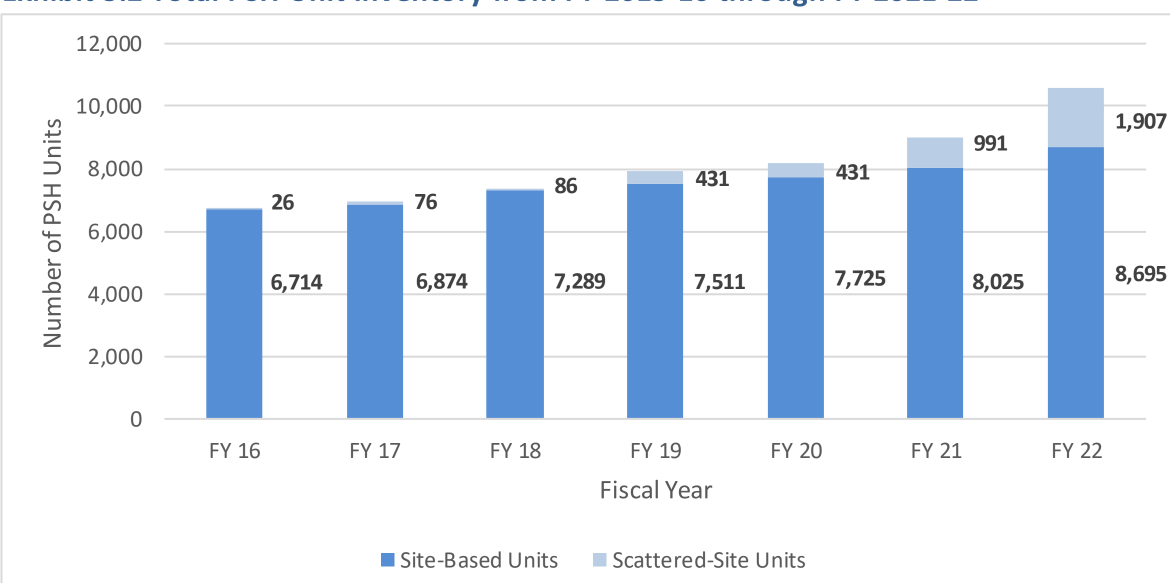
Fiscal Year	Site-Based Units	Scattered-Site Units	Total PSH Units
Pre-FY 2016-17, Total	**6,714**	**26**	**6,740**
FY 2016-17	+160	+50	+210
FY 2017-18	+415	+10	+425
FY 2018-19	+222	+345	+567
FY 2019-20	+214	0	+214
FY 2020-21	+300	+560	+860
FY 2021-22	+670	+916	+1,586
End of FY 2021-22, Total	**8,695**	**1,907**	**10,602**
FY 2016-17- FY 2021-22, #	+1,981	+1,881	+3,862
FY 2016-17- FY 2021-22, % Change	+29%	+7235%	+57%

Source: HSH Data

As shown in Exhibit 5.1 above, the Department increased PSH inventory by 3,862 units, or approximately 57%, from FY 2016-17 through FY 2021-22. While there are many more site-based units compared to scattered sites, there was significant growth in scattered site units during this period and moderate growth in site-based units.

Exhibit 5.2 below shows the total available PSH units by type from FY 2015-16 through FY 2021-22. As can be seen, in spite of the significant increase in scattered-site units during that time, site-based units still make up the majority of units.

Exhibit 5.2 Total PSH Unit Inventory from FY 2015-16 through FY 2021-22

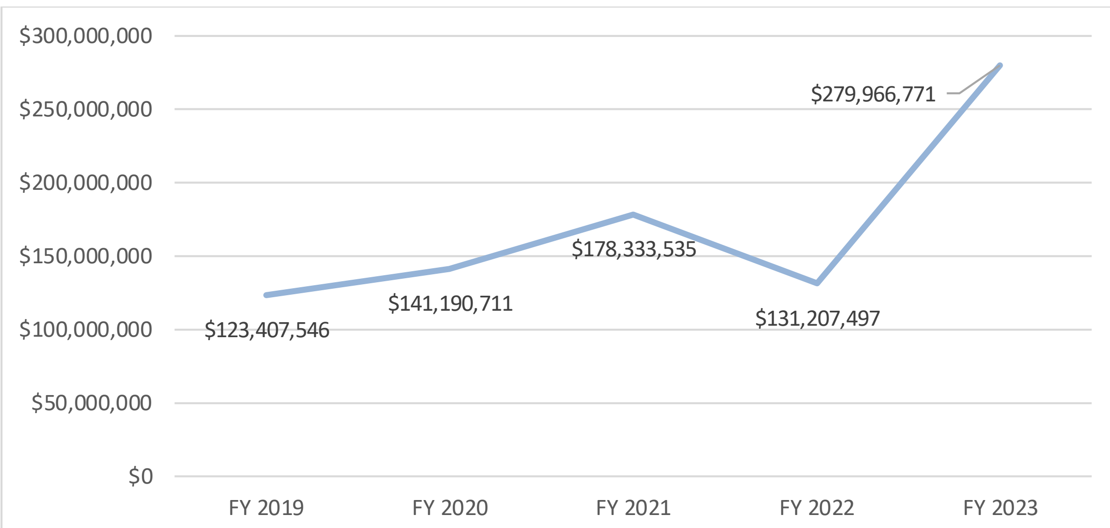


Source: HSH Data

The Department underspends on PSH contracts

As discussed in the Introduction to this report, and shown in Exhibit 5.3, most of the funds allocated for PSH expenditures have been awarded to contracted providers, appearing in the City's Budget System under the "City Grant Program" account code. Annual budgets for PSH contracts increased in all but one of the five most recent fiscal years (from FY 2018-19 to FY 2022-23); in FY 2021-22, the annual budget for PSH grants declined. The allocation of PSH funds to grantees represented over 70 percent of the total annual PSH investments in Fiscal Years 2018-19, 2019-20 and 2022-23.

Exhibit 5.3: Total PSH Grant Allocations, FY 2018-19 to FY 2022-23



Source: HSH Data

We note that while it appears that grant allocations as a percentage of annual PSH allocations declined in Fiscal Years 2020-21 and 2021-22, that is primarily due to the influx of State Homekey and Proposition C revenues which were largely allocated by the Department to multi-year "programmatic projects" [1] in those two years, which likely included grants to contracted providers. In FYs 2020-21 and 2021-22, over $200 million was allocated to Programmatic Projects.

[1] Programmatic Project budgets include all expenses for a project, such as personnel, non-personnel, capital outlays, and materials and supplies.

Exhibit 5.4 Annual PSH Funding by Account, FY 2018-19 to FY 2022-23

Account Description	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
City Grant Program	$123,407,546	$141,190,711	$178,333,535	$131,207,497	$279,966,771
Services Of Other Depts	12,775,245	16,922,239	15,123,582	19,257,123	29,434,013
Programmatic Projects	20,607,802	23,930,372	215,885,422	210,665,074	29,263,273
Non-Personnel Services	13,102,681	15,141,244	12,621,035	15,546,439	14,740,769
Aid Assistance	2,812,467	2,962,329	2,879,786	2,453,118	2,453,118
Materials & Supplies	0	0	89,908	97,332	97,332
Overhead and Allocations	0	0	0	2,208,005	0
Total Original Budget Allocations	**$172,705,740**	**$200,146,894**	**$424,933,268**	**$381,434,589**	**$355,955,276**

Source: HSH Data

As noted, the exhibit above shows the annual, or "original", budgets allocated for PSH services and programs. Over the past five years reviewed, the Department carried forward unspent funds in PSH grants, resulting in "revised budgets" that were significantly higher than the original annual amounts, as shown in Exhibit 5.5.

Exhibit 5.5: PSH Original and Revised Budgets, Actual Expenditures, and Underspent Amounts for City Grant Programs FY 2018-19 to FY 2021-22

	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	% Change
Original Budget	$128,355,860	$123,407,546	$141,190,711	$178,333,535	$131,207,497	2.2%
Revised Budget	139,771,257	148,001,245	214,966,293	187,774,722	180,647,140	29.2%
Actual Expenditures	87,662,458	87,994,520	92,785,343	99,592,726	107,636,233	22.8%
Underspending	$52,108,799	$60,006,725	$122,180,951	$88,181,996	$73,010,907	40.1%
Underspending as % of Actual Expends	59.4%	68.2%	131.7%	88.5%	67.8%	

Source: HSH Data

The Department's original annual allocations for PSH contracts increased from $128.4 million in FY 2017-18 to $131.2 million in FY 2021-22, or by 2.2 percent, while the revised budgets for contracts increased from $139.8 million in FY 2017-18 to $180.6 million in FY 2021-22, or by 29.2 percent. Actual spending increased from $87.7 million in FY 2017-18 to $107.7 million in FY 2021-22, at a rate of 22.8 percent. However, the rate of spending did not keep pace with the influx of resources, and in no year of our review did the Department spend down its contracts in line with annual allocations. As funds continued to get carried over in these contracts, the Department's authority to spend (as reflected in the revised budgets) far exceeded its demonstrated ability to spend. As shown in Exhibit 5.5, underspending as a percentage of actual expenditures ranged from 59.4 percent to 131.7 percent over the five-year period.

As stated in HSH policy guidance for FY 2021-22 contracts, "providers are expected to spend down ongoing funding proportionally to the budget or project period." The policy also states that a failure to spend a significant amount of funding, especially non-General Fund dollars, may result in reductions in future allocations. However, based on in-depth analysis of a sample of contracts discussed below, we found that the Department has not adequately monitored contract spending or held contractors accountable for unspent funds.

Summary of Contract Monitoring Review

Auditors reviewed the spending patterns of 54 of the 130 PSH contracts in place in FY 2021-22, comparing budgeted to actual expenditures. These 54 contracts were selected for review based on an initial comparison of contract spending reports (one from CARBON, the other from a report prepared by the Department) which indicated that the information on those contracts was consistent across the information systems, suggesting that we would find adequate records for review in the CARBON system for these selected contracts. The total annual budgeted expenditures for the 54 contracts were approximately $32.1 million in FY 2022, but, consistent with the pattern for all PSH contracts in FY 2021-22 shown above, actual expenditures for our sample 54 PSH contracts were only $24.8 million, or $7.3 million less than budgeted, as shown below in Exhibit 5.6. In total, the 54 selected PSH contracts left 22.7 percent of their annual budgets in FY 2021-22 unspent.

Exhibit 5.6: Contract Spending by Line Item for 54 Selected PSH Contracts, FY 2021-22

	Budget	Actuals	$ Unspent	% Unspent
Salaries & Benefits	$11,084,958	$8,404,937	$2,680,021	24.2%
Operating	6,747,165	5,278,428	1,468,737	21.8%
Indirect	2,201,360	1,715,748	489,612	22.2%
Capital/Other	2,893,957	1,975,067	918,890	31.8%
Prop C Bonus Pay	329,691	203,973	125,718	38.1%
Rental Assistance	8,847,758	7,728,899	1,118,859	12.6%
Total	**$32,104,889**	**$24,807,052**	**$7,297,836**	**22.7%**

Source: CARBON Invoices

Contracted Providers Staff Vacancy Rates

As shown in Exhibit 5.6 above, salaries and benefits represented the largest annual budgeted amount and the largest amount unspent among the sample of 54 PSH contracts. Of the sampled contracts, $11.8 million was budgeted for provider salary and benefits, of which the contractors collectively did not spend $2.7 million, or 24.2 percent. According to Department staff, contractors underspent salaries and benefits due to challenges in hiring and retaining staff.

In May 2022, the Controller's Office published a memorandum, "Findings and Recommendations for Addressing Nonprofit Wage Pressures", which reports low wages of nonprofit providers have negatively impacted client services and service provider stability, as low wages have led to difficulty hiring and high turnover. In response to the findings, the Mayor's FY 2022-23 budget provided wage enhancements for HSH providers. In August 2022, the Controller's Office provided guidance to departments on the treatment of FY 2022-23 Cost of Living Adjustments and Cost of Doing Business (CODB) allocations with nonprofit contracts and grants, instructing departments to request providers to allocate 70 percent of their enhancement to wages and benefits. Because these enhancements were rolled out in FY 2022-23 program budgets and in some instances, implementation was delayed, the impact of the wage increases on provider staffing remains unclear. HSH should evaluate the impact of the wage enhancements on contractor staffing to determine whether it has achieved its intended goal and should report to the Board of Supervisors on these results in March 2024 to help inform the budget process for FY 2025. This effort should include enhanced and more frequent contract monitoring, through which staffing levels are reported by contractors and reviewed through the monthly invoice review process by HSH contract analysts.

PSH Unit Vacancy Rates

As shown in Exhibit 5.6 above, PSH contractors were also unable to expend all the rental assistance allocations in FY 2021-22, due to unoccupied units at PSH sites. Importantly, some of the rental assistance provided through these contracts comes from grant awards from the U.S. Housing and Urban Development Department (HUD) through the Continuum of Care (CoC) program. Following a Notice of Funding Availability, the City applies for grant funding through the CoC program. The CoC program awards funding annually to HSH, which must be spent within the applicable fiscal year. The funds typically cannot be carried into the next year if they are not expended, although certain eligible projects are able to submit a renewal grant for the subsequent fiscal year.

Department staff explained that providers cannot invoice HUD for CoC rental assistance if the unit is vacant, which not only results in annual underspending of the contract but potentially results in HUD recapturing the unspent funds. Section 2 of this report discusses vacant PSH units in more detail. According to the Department, over the most recent three fiscal years, CoC grantees have been unable to spend between 18 and 19 percent of the HUD CoC awards.

Exhibit 5.7: HUD CoC Grant Budgeted and Actual Spending, FY 2020 to FY 2022

	Total Budget	Total Actuals	Total Unspent	% Unspent
FY 2019-20	$37,405,334	$30,279,008	$7,126,326	19%
FY 2020-21	37,795,257	31,122,603	6,672,654	18%
FY 2021-22	40,675,840	32,761,843	7,913,997	19%

Source: HSH Data

Because accessing Federal and other non-local resources alleviates pressure on the General Fund, it is imperative that the Department ensure that those non-General Fund sources can be utilized to the fullest extent. The Department should immediately enhance its efforts to adequately monitor contracts, particularly provider invoicing and spending, to ensure that the City maximizes its leveraging of all funding sources.

Fiscal Monitoring

Invoice Tracking

Contract Analysts within the Department's Contract Management Division are responsible for conducting monthly reviews of provider invoices. As identified in the Department's Contract Management Manual, contract analysts review the overall program expenditures to date and remaining amounts to determine if spending is proportional to the time left in the fiscal year. If the analyst finds the contract is not being spent proportional to the fiscal year, the analyst should flag the issue for both the provider and the Department's Programs Division. In addition to assessing spending rates of the contracts, invoice review allows Department analysts to identify and reconcile any issues in a timely manner, to deliver swift payments, and close out the fiscal year in accordance with the Controller's instructions.

The Department does not consistently track and manage invoices or promptly follow up with providers to prevent significant delays in the invoicing process. The Contract Management Division is not consistently following internal policy related to tracking or managing late invoices. Specifically, the Contracts Management division is not ensuring adherence to the following Department policies:

- Generate monthly overdue invoice reports for contractors that have not submitted their invoices on the 15th day of the following service month.
- Add status updates to the monthly report (demonstrating the Department's most recent communication with the provider regarding the delinquent invoices) one to two business days following the creation of the report.

- Send a formal late invoice follow-up letter to providers, if a contract has two or more missing monthly invoices, based on the findings of the monthly report.

According to Department staff, contract analysts utilize monthly invoicing to monitor contract underspending; therefore, without timely submission of invoices, the Department is unable to monitor contract underspending on a monthly basis, as intended, or accurately forecast total over- or under-spending for the year.

Production of Monthly Invoice Report

According to the Department's internal policy, the Contracts Management division is required to generate a monthly overdue invoices report on the next business day following the 15th day of each month. According to the Method of Payment Appendices included in HSH contracts, providers must submit all invoices within 15 days after the month of services provided into the Department's CARBON system.

For this audit, our office requested the most recent monthly report of late invoices on two occasions: in November 2022 and in April 2023. At the time of the first request in November 2022, the Department was only able to provide a late invoice report from August 2022, explaining that the September and October reports were unavailable due to errors in the grant billing database. The Department did not provide information on if and how it identified and followed up on late invoices during September and October. We note that the Department was able to provide the March 2023 late invoice report upon our request in April 2023.

Addition of Status Updates to Monthly Report

According to the Department's Contract Management Manual, contract analysts should add status updates to the monthly report within one to two business days after the report is generated, documenting the Department's most recent communications with the providers regarding the delinquent invoices.

The August 2022 report showed 102 contracts with late invoices. Of the 102 contracts with late invoices, a status update was not included for 94, or the majority of contracts. The March 2023 reports reflected 72 contracts with late invoices. Of the 72 contracts with late invoices, a status update was not included for seven of the contracts. Although these results show improvement in contract monitoring performance from August 2022 to March 2023, late invoicing remained a problem. The Department should ensure that all required status updates are documented on a monthly basis, in order to hold contractors accountable for timely invoice submission and to ensure that the Department can track contract spending and determine the need for technical assistance.

Formal Notification to Providers

According to HSH policy, a formal late invoice follow-up letter should be sent out to providers if a contract has two or more missing monthly invoices, based on the findings of the monthly report. The late invoice follow-up letter should inform the provider of the delinquent invoices and request that they be promptly submitted. Of the 72 contracts with late invoices identified in the March 2023 report, 47 contracts had invoices that were late by two or more months, with an average delinquency of approximately five months. Of the 47 contracts, 24 had six or more months of late invoices, with one contract missing 10 months of invoices. In April 2023, auditors requested evidence that the required notification letters were sent in response to the findings of the March 2023 report, and, in response, auditors received evidence of only three formal follow-up letters sent out of the 47 contracts with two or more late monthly invoices, as detailed in Exhibit 5.7 below.

Exhibit 5.7: Formal Notification Status of Contracts with Delinquent Invoices of 2 or More Months, March 2023 Report

Formal Notification Status	Number of Contracts
Received Formal Notification	3
No Formal Notification	44
Total Contracts Requiring Formal Notification, Per HSH Policy	**47**

Source: March 2023 Late Invoices Report, HSH

A review of the late invoices report demonstrates that providers could not submit timely invoices for a significant number of contracts, primarily due to delays on the part of the Department. The evidence provided in the late invoice reports indicates systemic issues with the invoicing process for contracts. Providers were unable to provide timely invoices for 24 of the 44 contracts that did not receive formal notification due to documented delays caused by either the Department (18 contracts) or the provider (6 contracts). Departmental delays included invoicing delays of wage enhancement funding, billing invoices to incorrect funding sources, and delays in program opening. Providers for six of the 44 contracts were unable to submit invoices due to their own delays, including pending budget revisions and internal reviews. The specific issues mentioned, such as the delay in wage enhancement funding and billing errors, reflect procedural bottlenecks that could impact the operational effectiveness of the providers. The remaining delays, attributed to the providers, point to potential administrative or financial management issues within these organizations. Overall, these delays can lead to cash flow problems and strained relationships between the Department and its providers.

Adequate reasoning for the absence of formal notifications of late invoicing was not provided for 20 of the 44 contractors that did not receive formal notifications. Sixteen of the 44 contracts received informal email notices, in lieu of the formal notification. Sending informal rather than formal notifications of late invoicing contravene internal policy and undermines the transparency and accountability mechanisms in place, potentially leading to confusion and lack of proper documentation for audits.

According to the information included in the late invoices report provided by the Department, the reasoning for the lack of formal follow-up notifications for all 44 contracts is summarized in Exhibit 5.8 below. Overall, of the contracts lacking the required formal notification, adequate reasoning was not provided for 45% of the contracts, providers were unable to submit invoices due to department delays for 41%, and providers were unable to submit invoices due to their own internal delays for 14%.

Exhibit 5.8: Reasoning for Lack of Formal Follow-Up Notification, March 2023

Reasoning for Lack of Formal Notification	Number of Contracts
Total Contracts Unable to Invoice Due to Department Delay	**18**
Invoicing Delays of Wage Enhancement Funding	*16*
Invoices Billed to Incorrect Funding Source	*1*
Delay in Program Opening	*1*
Total Contracts Unable to Invoice Due to Provider Delay	**6**
Pending Provider Revisions to Budget	*1*
Pending Internal Review	*5*
Adequate Reasoning not Provided	**20**
Informal Notification	*16*
No Update	*2*
Some Invoices Provided Since Report Created	*2*
Total Contracts Requiring Formal Notification that did not Receive Formal Notification, Per HSH Policy	***44***

Source: March 2023 Late Invoice Report from Department

According to the Department, in those 16 instances where providers received informal email notification of late invoices, the Contract Analyst knew the reason for the delayed invoice and determined that email notification was sufficient. Although the policy provides that a formal notice "should" be sent if there are more than two missing invoices, in practice, the Department sends formal notifications if invoices are more than three months delayed. Prior to that, Contracts staff provide technical assistance and support to the provider's accounting staff through regular communications to facilitate the submission of invoices. The average number of missing monthly invoices across the 44 contracts that did not receive a formal notification was 4.3 months, including one contract with 10 months of missing invoices.

We recommend that the Department review the "overdue invoice" policies to better communicate the message to contractors of the importance of timely invoicing, and that the

Department improve monitoring of compliance with the policy to ensure timely invoice submission.

In addition to failing to meet its internal standards for contract monitoring, the Department has not documented how the information from contract monitoring impacts decisions regarding contract renewals or grant awards. The importance of using this information for contract award decisions has been affirmed by the San Francisco Controller's Office, whose Citywide Nonprofit Monitoring and Capacity Building Program guidelines describe multiple best practices for fiscal and compliance monitoring of nonprofits, including "utilize the monitoring information in renewal or contract/grant award processes and discussions". As discussed in this section and throughout this report, given the magnitude of funding that the Department contracts out for PSH programs and services, it is incumbent on the Department to monitor how those funds are being spent by contractors. In cases where particular contractors continue to be unable to spend their annual allocations, despite technical assistance from the Department, the Department must use that information to inform future grant awards and allocations to ensure that service delivery goals can be met and that unspent contract funds do not carry forward year after year.

Conclusion

HSH has not been able to fully achieve its objectives to spend down PSH contracts proportionately to the contract budget or for the project period. The Department does not provide sufficient fiscal monitoring of PSH provider contracts to ensure contracts are spent down. Specifically, the Department does not: a) sufficiently manage service provider contracts to confirm provider staffing and client occupancy rates reflect the rates assumed in the approved contract budget, b) adequately manage and track invoices to prevent significant delays in the invoicing process, c) follow best practices on fiscal and compliance non-profit monitoring set forth by the Controller's Office to apply monitoring standards consistently across all contractors, nor d) utilize the monitoring information in renewal or contract/grant award processes and discussions.

Recommendations

The Director of the Department should:

5.1 Enhance and enforce internal policy to monitor and avoid contract underspending.

5.2 Evaluate the impact of the wage enhancements on contractor staffing as part of the monthly invoice review process to determine whether it has achieved its intended goal and report the results to the Board of Supervisors in March 2024 to help inform the budget process for FY 2025.

5.3 Review the "overdue invoice" policies to ensure that they better communicate the message to contractors regarding the importance of timely invoicing, and that the Department improve its monitoring of contractor invoicing.

5.4 Develop an internal policy to ensure the Citywide Nonprofit Monitoring Program is being followed by HSH and results of this monitoring are reviewed by HSH management and retained in HSH's contractor files. Furthermore, the policy should ensure the files are utilized in the renewal and/or contract award processes and discussions.

5.5 Develop an internal policy to apply the Citywide Nonprofit Monitoring Program guidelines consistently across all contractors, including contractors not included in the Citywide monitoring pool.

Benefits and Costs

Implementation of the proposed recommendations would enable the Department to better track that contractors are spending budgets proportional to the goals of the program and allow for a more holistic assessment, across the applicable divisions within the Department, of contract spending and service delivery issues. This would also allow the Department to better forecast total over- and under-spending. Our recommended enforcement of invoice submissions would incentivize providers to follow the required deadline for monthly invoice submissions, thereby allowing the Department to identify and rectify issues in a timely manner, provide swift payments to providers, and close out the fiscal year in accordance with the Controller's instructions. Lastly, ensuring the Citywide Monitoring Program guidelines are utilized in the contract award process and consistently across all contracts within the Department would ensure the Department is conducting fiscal monitoring practices in accordance with identified best practices of the Controller's Office.

DEPARTMENT OF
HOMELESSNESS AND
SUPPORTIVE HOUSING

Shireen McSpadden, Executive Director

London Breed, Mayor

March 11, 2024

Amanda Guma
San Francisco Board of Supervisors' Budget and Legislative Analyst's Office
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco, CA 94102

Re: Performance Audit of Permanent Supportive Housing Funds

Dear Ms. Guma:

The Department of Homelessness and Supportive Housing (HSH) submits this letter in response to the San Francisco Budget and Legislative Analyst Office's (BLA) Performance Audit of Permanent Supportive Housing funds and thanks the BLA for its work.

The Department appreciates the recognition of improvements in implementing data systems and tracking for the City's PSH housing portfolio and successfully implementing the recommendations of the BLA's 2020 performance audit. As the report notes, HSH achieved these improvements along with significant new demands on the Department to expand programming during a period of tremendous growth in local and state funding.

Since 2021, HSH has completed several bold initiatives to expand housing exits from homelessness. HSH and its nonprofit partners successfully housed more than 2,500 guests from temporary Shelter-In-Place hotels opened during the COVID-19 pandemic response. In less than two years, HSH completed an historic expansion to acquire and open more than 1,000 new units of permanent supportive housing for families with children, transitional age youth, and adults experiencing homelessness in San Francisco.

Last year, HSH released the Citywide 2023-2028 Strategic Plan, "Home by the Bay: An Equity-Driven Plan to Prevent and End Homelessness in San Francisco". The Plan reflects widespread input from people with lived experience and from the City's communities with the highest rates of homelessness. The 5-year Strategic Plan describes bold and achievable goals and clear strategies to reduce and prevent homelessness in San Francisco. HSH is establishing new systemwide and program-specific performance measures aligned with these strategic goals and greater accountability tools to demonstrate and measure progress.

Many of the report's recommendations are already well underway, and HSH looks forward to implementing many of these strategies in 2024 and beyond.

Enclosed are HSH's response to the audit's recommendations.

Sincerely,

Shireen McSpadden

440 Turk Street
San Francisco, CA 94102

628.652.7700
hsh.sfgov.org

Recommendation	HSH Response
Section 1: Department's Strategic Plans Lack Details on Cost and Operational Requirements for Success	
The Director of the Department should: *1.1: Ensure that the annual implementation updates to the 2023 strategic plan provide greater detail on the Department's progress in adding to the homeless system inventory, tracks cost-effectiveness of these efforts, reflects adjusted goals based on evolving needs and funding availability, and discusses coordination with other relevant City departments on related matters, such as implementation of the Housing Element Update. These reports should be presented directly to the Board of Supervisors.*	Partially Agree: The Citywide 2023-2028 Strategic Plan "Home by the Bay: An Equity-Driven Plan to Prevent and End Homelessness in San Francisco" provides guiding principles, priorities, and achievable strategies to reduce homelessness during the next five years. It also included a quantitative system model showing how changing the mix and scale of investments in shelter, housing, and prevention can impact homelessness in San Francisco. The Plan recommended an expansion of packaged investments to reach a 50 percent reduction in unsheltered homelessness and projected the level of investment to achieve these reductions. However, the Plan was not intended to be a detailed implementation plan with a budget and operational requirement for success, nor does this reflect a gap in the Plan. As the Plan makes clear, those details are part of the Department's annual implementation plans and adopted departmental budgets. The Plan, posted on HSH's public website, includes information on the development of annual implementation plans, performance measure plans and accountability to the public, people with lived experience, and the City's Homelessness Oversight Commission. Contrary to the report, HSH participated in the development of the City's Housing Element and has a role in achieving the goals of the Element as related to the successful operation of supportive housing. However, HSH is not the City's housing developer and cannot take responsibility for the development of extremely low-income (ELI) housing that goes far beyond the work of housing people with histories of homelessness within the Homelessness Response System. Finally, the Department notes that the report selects topline cost projections from the Home by the Bay Plan to calculate a per-unit cost per intervention that is different from costs used to develop the analysis in the Plan, and therefore, could be misleading to the reader. HSH's public presentations on the Plan and the FY23-FY25 budget reflects the Plan's costs per unit estimates.
1.2 Develop a cost-effectiveness metric (including an updated standard for	Partially Agree: HSH will consider this recommendation when preparing annual implementation updates for the strategic plan.

cost-per-unit) which should be included in the annual implementation updates.	
Recommendation	**HSH Response**
Section 2: Vacant Units	
The Director of HSH should: *2.1 Urgently adopt the recommendations of Sections 4 and 5 of this report to enhance contract and performance monitoring of the Housing Navigator agreements in order to ensure timely placement of eligible clients in available PSH units and reduce the permanent supportive housing vacancy rates to the Department's target seven percent instead of actual 10.2 percent average rate between January 2022 and May 2023.*	Disagree: Beginning in March 2020, HSH, like other City departments, suspended normal business operations, including its annual program monitoring, and shifted its operations to the COVID-19 emergency response. In 2022, HSH hired a new housing placement team and began the work to rehouse guests at more than 2,500 units of Shelter-In-Place hotels/emergency shelters. In 2023, HSH re-started its regular program monitoring that included a focus on reducing vacancies in site-based permanent supportive housing. Many vacancies were due to a slowdown in routine housing referrals and placements for existing buildings. At the February 2024 meeting of the Homelessness Oversight Commission, HSH reported a **32% decrease in PSH vacancies** since January 2023, and an overall vacancy rate of 7.1 percent as of January 31, 2024, and is on track to meet its goal.
2.2 Incorporate the analysis of unit vacancy into regular program monitoring and management reporting to hold providers accountable and to establish performance targets for reasonable timeframes to bring offline units online and to place tenants in online units. We recommend the Department make this unit status information available to the public on the Vacancy Dashboard no later than December 31, 2023	Partially Agree: HSH already collects PSH vacancy rates, including the number of units offline, number of units pending referral, and number of units pending tenant placement. This information is publicly available on the HSH website and is reported monthly to the Homelessness Oversight Commission. Furthermore, HSH has established performance targets and timelines for 1) providers to bring offline units back online and 2) timeline to place tenants in online units. HSH will continue to monitor performance aligned with these standards. HSH also has hired a national consulting firm to help revise and fully standardize all performance metrics within the HSH portfolio of funded services. The metrics are currently in draft form, and HSH is developing a plan to finalize these metrics with input from external stakeholders, including PSH providers and people with lived experience. HSH anticipates finalizing the metrics by the start of the next FY24-25 and beginning to phase them into its grant agreements.
2.3 Evaluate and report to the Board of Supervisors on the total investment	Partially Agree: In Fiscal Year 2022-23, HSH funded $5 million in capital improvements for the highest need buildings in HSH's

needed to maintain the SRO units to a habitable level to reduce chronic SRO vacancy rates and increase occupancy for PSH clients.	funded portfolio of nonprofit-leased permanent supportive housing. The Board of Supervisors appropriated another $10 million for capital repairs for master leased sites in FY2023-24. HSH was also tasked with implementing $10 million in MOHCD funding for elevator upgrades in privately owned SRO buildings. HSH agrees that the City needs an ongoing funding strategy should policymakers continue to subsidize the renovation and repairs of privately owned SROs leased for permanent supportive housing. HSH agrees that the Board and the Mayor should consider adding additional funding to HSH's budget that keeps pace with the growing costs of maintaining and repairing existing PSH buildings to support the rapid turnover and lease up of vacant units. To ensure compliance and habitability across its funded portfolio, HSH is implementing a new Housing Quality Standard (HQS) inspection program in 2024 to inspect all HSH-funded units at a minimum of every two years. This inspection standard is already required for federally funded housing units.

Recommendations	HSH Response
Section 3. Contract Development	
3.1 Analyze actual spending across service types (specific to population served, as applicable) in order to develop unit cost standards to incorporate in future solicitations and to include in contracts to control contractor expenditures. The Department's unit cost standards should be reflective of their equity goals, meaning the Department should develop tiered cost standards adequate to specialized needs of specific populations. These standards should be developed by April 2024.	Partially Agree: HSH has analyzed its portfolio and established average per-unit costs to guide its PSH contracting process. Moreover, the Department has established tiered rates for supportive services serving Families, Transitional Age Youth, and Adults. HSH publishes these rates when soliciting proposals for new housing sites. Proposals are evaluated based on these standardized average costs as well as the specific characteristics of individual buildings such as the building's age, condition of the building systems, number of units, and site layout. Since 2017, HSH annually has sought additional funding to right size its legacy housing portfolio (sites established prior to 2016 by the Department of Public Health and Human Services Agency). However, these funding requests have not been consistently or comprehensively funded. This lack of funding for the legacy portfolio has created budget inequities between legacy and new projects. In FY2022-23, HSH switched its approach to funding legacy sites and advocated for targeted investments such as standardized case management ratios in PSH, additional funding to raise wages for front-line workers, given the level of staffing vacancies in the nonprofit sector during and after the pandemic, and funding for PSH capital improvements. In the FY22-23 budget, the Mayor and the Board of Supervisors approved these targeted investments and continued them in FY23-24. As HSH reprocures existing programs, absent additional funding, HSH will need to evaluate whether to reduce the number of units it contracts for in order to address funding gaps between its legacy sites and newer projects.
3.2 Institute a process to monitor contract spending at least quarterly in order to identify any changes in spending that would warrant adjustments to the unit cost estimates and associated budget allocations.	Partially Agree: This fiscal year, HSH is getting closer to a level of staffing on its programs, budget, and contracts teams to be able to better monitor contract spending but also make mid-year and annual contract budget adjustments. One barrier to making mid-year adjustments in contract underspending is HSH's legacy grants management system and the manual processes required to adjust contract budgets and reconcile manually using spreadsheets.

	In 2024, HSH selected a vendor to develop and implement a new contracts lifecycle management system to streamline its contracting processes, link financial and ONE system data with contract data, and make it easier to monitor spending and performance metrics of grantees. The system will enable grantees to invoice more seamlessly and request budget adjustments as needed. Development is slated to begin in May 2024. The new system is scheduled to go live in early 2026.
3.3 Reconsider the need for the vacant Manager III position who would oversee a new Real Estate unit, and instead consider utilizing the asset management team at MOHCD for these City-owned sites, focusing internally on managing the support services and leasing processes for the units. This position should be deleted if MOHCD's team can be utilized.	<u>Disagree:</u> The Manager III position oversees all real estate responsibilities and facilities maintenance responsibilities for HSH. These duties include supervising the 3-person team that are responsible for eight newly acquired PSH sites, HSH's directly leased PSH sites, all HSH's City-owned and leased shelters, as well as siting and identifying new shelter sites, and managing HSH's multi-million General Obligation Bond program. The manager also oversees the 8-person facilities team of stationary engineers, utility workers, and a buildings and grounds supervisor who maintains a large portion of the City's temporary shelter and crisis intervention portfolio. HSH partners closely with the Mayor's Office of Housing and Community Development (MOHCD) on ongoing construction management and large-scale rehabilitation of several new City-owned PSH sites. This position plays a key role in leading and managing that work between the two departments and leveraging MOHCD's expertise.
3.4 Continue to work closely with MOHCD and other City departments to ensure more accurate estimates for rehabilitation costs on future PSH acquisitions.	<u>Partially Agree</u>: HSH has secured more than $200 million in state and federal funds through the state's competitive Homekey grant program to acquire and operate more 1,000 new units of permanent supportive housing in under two years. HSH worked closely with City affordable housing experts, consultants, and affordable housing construction management experts at the Mayor's Office of Housing and Community Development throughout this process. To be competitive for Homekey funding, HSH and its partners moved quickly to identify, assess and evaluate potential PSH sites, prior to purchasing buildings directly or funding nonprofit partners to purchase sites. Buildings requiring more substantial seismic and rehabilitation work cost significantly less to acquire than newly constructed or rehabilitated buildings. The team working on the acquisition of

	new sites recognized that older buildings would require extensive rehabilitation to convert to PSH and preserve the asset long-term. All rehabilitation scopes were evaluated by construction management experts at the Mayor’s Office of Housing and Community Development as well as by in-house HSH staff with architectural and affordable housing development expertise. However, as with all capital projects, estimates are not finalized until construction bids are received and approved.

Recommendations	HSH Response
Section 4: HSH Has Not Fully Established and Enforced Consistent Performance Metrics for Permanent Supportive Housing Contractors	
The Director of the Department should: *4.1 Proceed with its plan to standardize performance metrics by type of contract, ensuring that they are developed with community-based providers to be specific, measurable, achievable, relevant, and time-bound for all PSH providers, including development of a timeline for doing so that tracks with the earliest contract term end date among all the contracts of a particular type.*	Partially Agree: HSH is proceeding with its plan to implement systemwide performance measures and standardize performance metrics by program area within individual contracts. Standardized metrics will be implemented across each program area and memorialized within CBO agreements as part of HSH's multi-year procurement plan. The multi-year procurement plan started in FY23-24 and is anticipated to be completed by FY27-28. HSH is implementing systemwide performance standards that will be publicly reported. The Department will continue to track and monitor performance through both the program monitoring process and regular reporting of data captured in the Online Navigation and Entry (ONE) System which serves as HSH's federally required Homeless Management Information System (HMIS) for collecting client-level data on San Francisco's homelessness and programs.
4.2 Ensure the timely completion of the Programs Agreement Management Handbook, which should include standard policies and procedures for program monitoring, including the retention of files.	Agree: HSH performs annual site visits and /desk audits to monitor performance against established performance and services objectives in its agreements. HSH also includes results of recent program monitoring and any findings/corrective action as part of contracting approval memos that are submitted to the Homelessness Oversight Commission. These materials are publicly available as part of the Commission's agenda materials. HSH has transitioned much of its required monthly programmatic reporting into the ONE System to further support streamlining and centralizing this information and reporting processes for our contracted providers. This change also allows the HSH data and performance team to aggregate monthly ONE System reports with other data sources to tailor departmental performance reports. Over the last two years, HSH has migrated all contracting materials to a file sharing system, hired a dedicated program compliance analyst, and is ensuring all program monitoring reports and documents are stored centrally with the contracting files. HSH is finalizing a new Provider Performance Management Policy and Programs Agreement Management Handbook to

	ensure expectations for program monitoring are consistently met and well-documented. The Programs Agreement Management Handbook will instruct staff on policies and procedures and HSH anticipates releasing it prior to July 1, 2024. HSH acknowledges that with high staff turnover and increased workload, program managers did not consistently upload program monitoring centrally with other contract documents, opting to retain them in program files. HSH also acknowledges that some monthly reporting that was required to be uploaded into the CARBON grants management system was not consistently submitted by grantees. HSH has finalized its record retention policy and document retention schedule. These documents are being reviewed by other City agencies for final approval. HSH anticipates issuing this policy and schedule prior to the end of the FY23-24.
4.3 *Develop a corrective action procedure, similar to the San Francisco Human Services Agency (HSA) Department of Disability and Aging Services (and/or the San Francisco Department of Public Health), including standard improvement plans for assisting contractors that are failing to meet minimum standards related to service and outcome objectives, or other contract terms and include an enforcement mechanism if a contractor fails to show progress.*	Agree: In 2021, HSH implemented a corrective action process. As part of this process, HSH issues corrective action letters to grantees to address programmatic and/or contract deficiencies. A corrective action letter requires the grantee to take specific corrective action and document compliance with HSH and City requirements and performance expectations. HSH has drafted corrective action written procedures and plans to finalize the draft procedures and issue them no later than July 2024.

Recommendations	**HSH Response**
Section 5: Contract Management & Fiscal Monitoring	
The Director of the Department should: *5.1 Enhance and enforce internal policy to monitor and avoid contract underspending.*	<u>Agree</u>: During the last three fiscal years, a multitude of factors have resulted in grantee underspending. These factors span the disruption of normal business operations and routine program monitoring during the COVID-19 response, followed by Shelter-in-Place hotel guests needing to be rehoused, to an unprecedented and rapid expansion in new funding for homeless services and growing demand for services among newly homeless households. The pressures of the global pandemic and growing demand for homeless services laid bare the challenges facing the City's nonprofit sector, already struggling to recruit and retain staff for demanding work at relatively low wages (many at minimum wage). To support its nonprofit partners, HSH has focused on nonprofit sustainability initiatives to improve system and program performance. The Department has successfully implemented strategies to increase funding for the retention of front-line workers (janitors, shelter monitors, desk clerks and maintenance workers) and case managers working across the City's Homelessness Response System. HSH also has leveraged local and state funding to address deferred maintenance and quality of life improvements in PSH.
5.2 Evaluate the impact of wage enhancements on contractor staffing as part of the monthly invoice review process to determine whether it has achieved its intended goal and report the results to the Board of Supervisors in March 2024 to help inform the budget process for FY2025.	<u>Partially Agree:</u> HSH plans to evaluate the impact of wage enhancements in grantees' staffing and performance after the end of the fiscal year once the Department has at least a full year of data to analyze the impact and provide informed recommendations for future budget planning.
5.3 Review the "overdue invoice" policies to ensure that they better communicate the message to contractors regarding the importance of timeline invoicing, and that the Department improve its monitoring of contractor invoicing.	<u>Partially Agree:</u> The HSH contracts division issues written notices to grantees and contractors who are two or more months late in invoicing. Continued non-compliance with timely invoicing requirements can result in the agency receiving a HSH corrective action letter which requires demonstrated improvement as part of continuing to be in good standing.

	When soliciting new programs, HSH reviews past performance including corrective action letters when awarding new agreements.
5.4 Develop an internal policy to ensure the Citywide Nonprofit Monitoring Program is being followed at HSH and results of this monitoring are reviewed by HSH management and retained in the HSH's contractor files.	Agree: HSH will incorporate any updated citywide guidance from the Office of the Controller into the HSH monitoring handbook and programmatic policies and procedures. The Department will ensure program monitoring results are stored centrally in its contractor files rather than within individual program files. Monitoring results are now shared as part of the approval memo with the Homelessness Oversight Commission when seeking approval for new agreements or to amend an agreement.
5.5 Develop an internal policy to apply the Citywide Nonprofit Monitoring Program guidelines consistently across all contractors, including contractors not included in the Citywide monitoring pool.	Agree: HSH will incorporate any updated citywide guidance from the Office of the Controller into the HSH monitoring handbook and programmatic policies and procedures to ensure consistent application. The Department will ensure program monitoring results are stored centrally in its contractor files rather than within individual program files.

Appendix A: PSH Funds - Eligible Uses and Restrictions

Fund Code	Fund Description	Annual/Cont	Eligible Uses	Restrictions
10000	General Fund	Annual	Funds a range of PSH operations, including lease costs, nonprofit operating costs and supportive services and mental and health services.	Unrestricted general funds appropriated through the annual budget cycle and authorized by the Annual Appropriations Ordinance (AAO). While these funds are can support a myriad of expenditures, City departments are required to hold public meetings to present their budget proposals and gather public input, align their budget proposals with the Mayor's budget priorities, have their proposed budget reviewed and analyzed by the BLA and Budget and Appropriations Committee, and ultimately, incorporate input/recommendations into the budget proposal before it is finalized and adopted in the AAO.
10020	GF Continuing Authority Ctrl	Continuing		
10030	Human Services Care Fund	Continuing	The Fund shall be used by the Department to provide: (1) housing, utilities, and meals; (2) drug and alcohol treatment; (3) mental health care; and, (4) job training, for homeless CAAP recipients whose monthly cash payments have been reduced. In providing these services, the Department may use monies in the Fund to pay for master lease contracts for SRO hotels, expanded shelter operation contracts, meal contracts, and other agreements to provide in-kind benefits.	SF Admin Code, Sec. 10.100-77. Homelessness And Supportive Housing Fund: https://codelibrary.amlegal.com/codes/san_francisco/latest/sf_admin/0-0-0-4555
10060	Interdepartmental Work Order	Annual	Expenditure recoveries from DPH, HSA, and LIB supporting various outreach, housing, and temporary shelter services, including referring eligible patrons to social work services, funding Mental Health Services Act (MHSA) units/services, PSH subsidies for Housing and Disability Advocacy Program (HDAP)-eligible clients, and funding supportive housing for CalFresh Employment & Training (CFET)-eligible clients.	Work order agreements are negotiated by the requesting and performing department, and any use restrictions or client-eligibility requirements are memorialized in the agreement.
10581	ERAF	Continuing	Excess property tax revenues retained by the county for the state's Educational Revenue Augmentation Fund (ERAF). Appropriated by the Board of Supervisors for permanent supportive housing and other homelessness services.	Unrestricted excess property tax revenue appropriated for new permanent supportive housing sites and services. As funds are of a one-time nature, these ongoing investments were in anticipation of ongoing funding from the homelessness gross receipts tax (Prop C)
10582	OCOH / Prop C	Continuing	The Fund shall be used by the Department to provide: (1) Permanent Housing Expenditures to Homeless persons with mental illness or addiction, permanently exit homelessness and secure permanent housing, including providing short-term rental subsidies, construction, acquisition, rehabilitation, lease, preservation, and operation of permanent supportive housing units, and acquisition, rehabilitation, master lease, and operation of SRO Buildings; (2) Homeless Shelter Expenditures that help Homeless adults, families, or youth, including but not limited to Homeless persons with mental illness or addiction, secure short-term residential shelter, including but not limited to funding navigation centers and shelters, and to fund Hygiene Programs; (3) Homelessness Prevention Services to those at risk of becoming Homeless or who recently have become Homeless. These services are limited to providing financial, utility, and/or Rental Assistance; flexible funding (e.g., security deposit, expenses necessary to maintain housing); short-term case management; conflict mediation; legal representation in eviction cases; connection to mainstream services (e.g., services from agencies outside of the homeless assistance system, such as public benefit agencies); housing search assistance; and assistance to newly Homeless families and individuals to identify immediate alternate housing arrangements; (4) Mental Health Expenditures for Homeless Individuals for Homeless people severely impaired by behavioral health issues. Such uses shall be limited to: Intensive street-based mental health services and case management, assertive outreach services; mental health and substance abuse treatment, including medications; peer support; residential and drop-in services; and specialized temporary and long-term housing Rental Assistance, housing linkage, and referrals into supportive housing with continued intensive case management and mental health services that follow people from homelessness into housing.	SF Business and Tax Regulations Code, Sec. 2810. Deposit Of Proceeds; Expenditure Of Proceeds: https://codelibrary.amlegal.com/codes/san_francisco/latest/sf_business/0-0-0-48451 *Appropriations may not supplant existing expenditures *Amount/percentage of spending by service category (i.e., housing, prevention, shelter & hygiene) and client type (i.e., adults, families, under age 30/transitional-aged youth) codified in SF Business and Tax Regulations Code
12920	Human Welfare Grants / State	Continuing	State and Federal grants providing local jurisdictions (cities, counties, and Continuum of Care Programs) with flexible funding to continue efforts to end and prevent homelessness in their communities, including to promote communitywide commitment to the goal of ending homelessness; provide funding for efforts by nonprofit providers, and quickly rehouse homeless individuals and families while minimizing the trauma and dislocation caused to homeless individuals, families, and communities by homelessness; promote access to and effect utilization of mainstream programs by homeless individuals and families; and optimize self-sufficiency among individuals and families experiencing homelessness. **Major State Investments:** **Homekey** *Acquisition or rehabilitation, or acquisition and rehabilitation, of motels, hotels, hostels, or other sites and assets, including apartments or homes, adult residential facilities, residential care facilities for the elderly, manufactured housing, commercial properties, and other buildings with existing uses that could be converted to permanent or interim housing. *Master leasing of properties for non-congregate housing *Conversion of units from nonresidential to residential *New construction of dwelling units *The purchase of affordability covenants and restrictions for units *Relocation costs for individuals who are being displaced as a result of the Homekey Project *Capitalized operating subsidies for units purchased, converted, constructed, or altered with funds awarded under the Homekey Round 2 NOFA for FY 2021-22 **Homeless Housing, Assistance and Prevention Program (HHAP 2)** *Rapid rehousing, including rental subsidies and incentives to landlords, such as security deposits and holding fees *Operating subsidies in new and existing affordable or supportive housing units, emergency shelters, and navigation centers *Street outreach to assist persons experiencing homelessness to access permanent housing and services *Services coordination, which may include access to workforce, education, training programs, or other services needed to promote housing stability in supportive housing *Systems support for activities necessary to create regional partnerships and maintain a homeless services and housing delivery system, particularly for vulnerable populations including families and homeless youth *Delivery of permanent housing and innovative housing solutions, such as hotel and motel conversions *Prevention and shelter diversion to permanent housing, including rental subsidies	**Homekey:** https://www.hcd.ca.gov/sites/default/files/docs/grants-and-funding/homekey/Homekey-Round-2-FAQ-11182021.pdf **HHAP2:** https://bcsh.ca.gov/calich/documents/hhap_rd1_4_comparison.pdf **HDAP:**https://www.cdss.ca.gov/Portals/9/Housing/Housing%20and%20Disability%20Advocacy%20Program%20(HDAP)%20Fact_November%202020.pdf

Fund Code	Fund Description	Annual/Cont	Eligible Uses	Restrictions
12960	Human Welfare Grants / Federal	Continuing	*New navigation centers and emergency shelters based on demonstrated need **<u>Housing and Disability Advocacy Program (HDAP)</u>** *Interim housing *Rental assistance *Housing navigation *Case management *Security deposits *Utility payments *Moving costs *Legal services *Credit repair **Major Federal Investments:** **<u>Continuum of Care Program (CoC)</u>** *Acquisition *Rehabilitation *New Construction *Leasing *Rental Assistance *Supportive Services *Operating Costs *HMIS *Project Administration **<u>Housing Choice Vouchers (HCV) (Administered by the SF Housing Authority, not HSH)</u>** *Housing vouchers to low-income families and individuals **<u>HUD-VA Supportive Housing Program (HUD-VASH)(Administered by the SF Housing Authority, not HSH)</u>** *VA case management and supportive services for homeless Veterans	CoC: https://hsh.sfgov.org/wp-content/uploads/2022/05/CoC-and-ESG-Desk-Guide-January-2022_SIGNED.pdf HUD Continuum of Care funds are regulated by 24 CFR Part 578 HCV: https://www.hud.gov/topics/housing_choice_voucher_program_section_8 HUD-VASH: https://www.hud.gov/sites/documents/VASH-REFERGUIDE2012-10.PDF