



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jacky Morales-Ferrand

SUBJECT: SEE BELOW

DATE: May 1, 2015

Approved

D. D. S. L.

Date

5/6/15

**SUBJECT: APPROVAL OF A FUNDING PLAN BETWEEN THE CITY AND
HOMEFIRST SERVICE OF SANTA CLARA COUNTY**

RECOMMENDATION

- a) Adopt a resolution authorizing the Interim Director of Housing to negotiate and execute an amendment to the existing grant agreement between the City and HomeFirst to increase federal Emergency Solutions Grant (ESG) ESG funding by \$146,287, from \$85,319 to \$231,606, to pay for an increased number of shelter beds at the Boccardo Reception Center and to extend the term of the agreement to August 1, 2015; and
- b) Adopt a resolution authorizing the Interim Director of Housing to negotiate and execute a separate grant agreement between the City and HomeFirst, providing \$25,000 of new funding from the City's Housing Trust Fund to support financial management improvements, and allowing funds previously advanced under a prior grant in the amount of \$138,300 to be reallocated and retroactively applied to costs previously expended for general shelter operations from October 1, 2013 through December 31, 2014.

OUTCOME

Approval of these recommendations will ensure that HomeFirst is able to continue providing uninterrupted shelter and supportive services for homeless individuals at the Boccardo Reception Center in San José, which serves approximately 250 clients each night.

BACKGROUND

On April 11, 2008, the City issued a Request for Proposal (RFP) for the administration of the Housing Services Partnership (HSP) Program. The HSP program was created in response to the Blue Ribbon Commission on Homelessness and Affordable Housing to support homeless

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prevention counseling, financial assistance, case management, and permanent housing placement services. On September 30, 2008 City Council approved the selection EHC Lifebuilders (now operating under the name of HomeFirst) to manage the HSP program. The Housing Department's Housing Trust Fund (HTF) funded the HSP agreement in the amount of \$2,310,712. From October 2008 through June 2010, EHC Lifebuilders successfully managed the HSP program, providing services for over 7,000 individuals who were homeless or at-risk of homelessness.

On June 22, 2010, the Council approved an extension of the HSP agreement and authorized an additional \$1,400,000 in Housing Trust Funds to be added to the agreement. The newly allocated grant funds were to be used for financial assistance (emergency rent assistance, rental deposits and transportation) for homeless individuals or individuals at risk of homelessness as well as operating costs associated with these services. Due to the need for immediate resources to be available to prevent an episode of homelessness through emergency support, EHC LifeBuilders requested an advance of contract funds. The Housing Department approved the request, but made the advance contingent upon regular submission of compliance documentation. At the end of the contract period in June 2013, a balance of \$238,188 of advanced HTF funds remained unspent under the HSP agreement.

At the same time, the Housing Department was working collaboratively with the Santa Clara County Health Services, the Santa Clara County Housing Authority, the non-profit Housing Trust of Silicon Valley, and the Law Foundation of Silicon Valley to evaluate solutions to the challenges faced by Section 8 voucher recipients whose rental subsidy was significantly reduced as a result of the federal sequestration in 2013. In response, the collaborative created the Sequestration Eviction Prevention Program (SEPP). The three government agencies committed resources to fund rental assistance for Section 8 recipients impacted by the sequestration. In October 2013, the Housing Department entered into contract with EHC Lifebuilders to utilize the unspent advance held by the agency to fund a portion of the SEPP assistance.

In July 2014, Housing Department staff learned that a portion of City's funds provided as part of the advance may have been used for general operating expenses, which was not authorized under the contract. After discussions with the previous Chief Executive Officer, Housing Department staff confirmed that while \$144,888 of the funds were used for eligible expenses, the agency used the remaining balance of \$138,300 for unauthorized general operating expenses. The Chief Executive Officer acknowledged the ineligible use of the funds and committed to working with the City to resolve the compliance deficiency.

In subsequent meetings with HomeFirst, City staff discovered that the organization was facing significant financial and operational challenges. Specifically, HomeFirst was transitioning from the prior Chief Executive Officer (CEO) to a new CEO, had suffered the departure of the majority of its finance and accounting staff, and experienced the retirements of other key members of the organization. Although HomeFirst was continuing to provide shelter and deliver services under their various contracts, the lack of adequate fiscal staff and financial expertise hampered their ability to track and collect receivables. As a result, the organization suffered

ongoing cash flow challenges. City staff determined that this was the primary cause for the unauthorized use of City funds.

ANALYSIS

In March, City staff met with the new Chief Executive Officer of HomeFirst to evaluate possible corrective actions related to the ineligible expenditures and the financial health of the organization. The group evaluated several options, including various reimbursement plans and increased services in lieu of repayment. After deliberating the various corrective action options, City staff came to the conclusion that requiring reimbursement or additional services without additional funding would add a significant financial burden to an already financially challenged organization that provides vital homelessness services to the City and community.

Therefore, staff is recommending City Council authorize the Interim Director of Housing to execute a new grant agreement between the City and HomeFirst to resolve outstanding funding compliance issues and build financial management capacity, and to amend an existing agreement to provide additional federal ESG funding for shelter operations.

New \$25,000 Capacity Building (HTF) Grant Agreement

Due to financial staff turnover and outdated financial software, HomeFirst has experienced challenges tracking, documenting, and collecting receivables. The Housing Department is recommending approval of a \$25,000 capacity building grant from the Housing Trust Fund (HHTF) to support efforts to bolster the organization's financial management structure. The grant will be used to fund two key areas:

Financial Software – The ability to accurately track and document expenditures and collect outstanding revenue is crucial to any non-profit or for-profit business. HomeFirst provides a significant number of homeless services administered under a variety of funding sources, including public and private funds. Each of these services and funding sources require the agency to track, document, and report unique and complex data back to each funder on a consistent basis. Housing staff determined that HomeFirst lacked adequate budgeting and financial systems to consistently generate accurate accounting data and lacked the capital to purchase the software. In order to ensure ongoing financial health of the organization, The Housing Department is proposing to fund the acquisition of software capable of meeting these financial needs.

Financial Consultant – HomeFirst has recruited the assistance of a financial consultant. The consultant has been tasked with assessing the organization's finances and working with the organization to develop a strategy to improve their financial health. The Housing Department is proposing to fund a portion of the consultant to include transition support for new accounting staff, help implement the new financial software, and assist in development of an accurate cost allocation plan.

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The \$25,000 financial capacity building portion of the agreement will be limited to the purchase of the financial software estimated at approximately \$7,500 and the balance will be committed to financial management consultant contract(s). The term of the agreement will run from June 1, 2015 to June 30, 2016.

In order to address the \$138,300 that was used for general operating expenses not allowable per the terms of the prior agreement, the new HTF Agreement will include provisions detailing the terms associated with reallocating and retroactively applying previously expended HTF funds totaling \$138,300. The reallocated and retroactively applied funds will be limited to general shelter operations incurred from October 1, 2013 through December 31, 2014. Although the general shelter operation expenses were not eligible under the City's original contract with HomeFirst, these expenses support homeless activities and therefore the new agreement would acknowledge the reallocated funds as an eligible expense. A condition of the new agreement will be a full submission and review of the supporting documentation associated with these expenses. As previously mentioned, requiring Homefirst to repay these funds would be infeasible.

Amendment to the Existing ESG Agreement

In July 2014, HUD approved the City's request to reallocate an unexpended balance of previous year's ESG funds in Fiscal Year 2014-15. Use of the fund balance requires that the funds must be used for existing or reprogrammed activities within the City's current Annual Action Plan and must be used for shelter operations only. Additionally, the City has been given a deadline to spend and draw down these funds by September 15, 2015.

Currently, the City has an ESG contract with HomeFirst in the amount of \$85,319. HomeFirst provides overnight shelter, outreach and case management services to homeless individuals and families under the existing City agreement. HomeFirst operates the largest facility in Santa Clara County providing overnight shelter and service year around.

On May 5, 2015, the City Council approved a recommendation by the Housing Department to process a Substantial Amendment to the City's FY 2014-15 Annual Action Plan to increase the 2014-2015 Emergency Solutions Grant (ESG) allocation by \$146,287, from previous years unused ESG allocations, for emergency shelter operations.

HomeFirst is the only agency under City contract with the capacity to fully utilize these funds given the timeframe and ensure the desired service outcome is achieved. Given the time and use constraints of these funds, amending the existing ESG agreement with HomeFirst by \$146,287 to \$231,606 is the most prudent option to avoid losing this valuable resource for the community.

Funding under the amended ESG agreement will be limited to shelter operations as defined by the ESG rules and regulations. Eligible shelter operation costs may include maintenance, rent, security, fuel, equipment, insurance, utilities, food, furnishing and supplies necessary for the operation of an emergency shelter. These funds may also provide hotel or motel vouchers for homeless families or individuals when appropriate emergency shelter is not available. Consistent

with the existing City contracts, the additional funding will support space and services for approximately 1,200 additional personal shelter days, which is equivalent to approximately 10 additional shelter beds during the extended contract period. The term of this agreement will run from June 1, 2015 to August 1, 2015.

If approved, these measures will provide short-term funding to stabilize the organization's current cash flow challenges, provide support for systems and process improvement to ensure long term sustainability, and support the City's efforts to respond to homelessness.

Monitoring and Compliance Requirements

Within 60 days from execution of the capacity building grant agreement, HomeFirst will develop a draft financial plan including an updated annual budget to improve the organization's long-term cash flow challenges. They must also provide the Housing Department 1) a draft cost allocation plan 2) monthly budget to actual report 3) updated six month cash flow projection report and 4) an aged receivables and payables report. Monthly meetings with City staff will be required for the first six months to review the projections and to provide ongoing support.

Recent Accomplishments

HomeFirst has already taken several steps over the past several months to remedy the challenges outlined in this memorandum. As noted earlier, the HomeFirst Board of Directors has hired a new Chief Executive Director (CED); Andrea Urton, who has extensive experience in the nonprofit industry. Filling critical positions such as the vacant Chief Financial Officer (CFO) was one of the top priorities of the new CED. Reaching out to other nonprofit partners, a new highly qualified CFO was hired in early spring. Additionally, qualified staff has recently been hired to replace the critical vacancies within the organization including:

- Controller
- Grants Accounting Manager
- Database Manager
- Human Resources Director

In addition to filling critical vacancies, HomeFirst has utilized the services of a financial consultant recommended by the City to begin the process of long term financial planning. The consultant will also provide training to new fiscal staff on how to appropriately track and collect aged receivables. To bolster the efforts to stabilize the future cash flow, HomeFirst has increased their fund development efforts, sold property to raise capital and reduce ongoing costs and has been awarded a Capacity Building Grant from the County in the amount of \$300,000 over the next two years.

EVALUATION AND FOLLOW-UP

As a major provider of homeless services for the City of San José, Homefirst is a key contributor to several homelessness goals within the Housing Department's quarterly and annual performance reports. Housing staff will continue to track and report results of these services and subsequent variations in performance in the quarterly and annual performance reports.

Additionally, in September 2015, the City will use the Consolidated Annual Performance and Evaluation Report (CAPER) to report on progress in achieving the goals associated with the ESG grant and those identified in the FY 2014-15 Annual Action Plan.

POLICY ALTERNATIVES

Alternative #1: Require HomeFirst to repay the unauthorized Housing Trust Fund expenditures.

Pros: Repayment would be the most expeditious option to achieve compliance and satisfy the Housing Trust Fund agreement.

Cons: Given their current financial condition, it is unrealistic that HomeFirst will be able to provide full or partial repayment in the near future. The requirement for repayment will likely result in additional non-compliance and further contribute to the financial challenges for the organization.

Reason for not recommending: This alternative is not being recommended by the Housing Department. This alternative would contribute to the existing cash flow issues and further jeopardize HomeFirst's long-term financial viability.

Alternative #2: Do not provide additional financial assistance to Require HomeFirst.

Pros: The City would be able to use these funds for another homeless purpose.

Cons: Homefirst is going through a difficult transition period. Without short-term assistance, it is possible that this vital City partner in the struggle to address homelessness would have to drastically cut service or shut down operations entirely. This would have a major, negative impact to the community.

Reason for not recommending: Homefirst serves many of the most challenged homeless individuals. It provides vital services that are leveraged by private donations, active volunteers, and other government grants. There is no other agency in San José that is currently capable of providing these services without a significant amount of financial support. Should Homefirst not be able to continue in its current capacity, the community's ability to provide shelter and homeless services to single homeless men, would be severely impacted.

PUBLIC OUTREACH

City staff has coordinated with the County of Santa Clara who is also a major funder of HomeFirst and other homeless and mental health service agencies in Santa Clara County. In conjunction with the funding under this agreement, the County is contributing toward the organizations financial management capacity building efforts.

COORDINATION

Preparation of these recommendations has been prepared in coordination with the Office of the City Attorney and the City Manager's Budget Office.

FISCAL/POLICY ALIGNMENT

The recommended action is consistent with the City's Five-Year Consolidated Plan FY 2010-2015, adopted by the City Council on May 4, 2010 and the needs and priorities identified in the City's FY 2015-2020 Five-Year Consolidated Plan to be heard by City Council on April 21, 2015 and recommended for adoption on May 5, 2015.

BUDGET REFERENCE

The table below identifies the fund and appropriations proposed to fund the grant agreements recommended as part of this memorandum.

| Fund # | Appn # | Appn. Name | Total Appn | Amt. for Agreement | 2014-2015 Adopted Budget (Page) | Last Budget Action (Date, Ord. No.) |
|--------|--------|-------------------------------|-------------|--------------------|---------------------------------|-------------------------------------|
| 440 | 2453 | Housing and Homeless Projects | \$4,703,000 | \$25,000 | XI-47 | 2/10/2015 Ord. 29533 |
| 448 | 2236 | Emergency Shelter Grants | \$776,459 | \$146,287 | XI-68 | 2/10/2015 Ord. 29533 |

CEQA

Not a Project, File No. PP10-066, Purchase Order/Cooperative Purchase of Supplies, Equipment & Professional Services with no changes in the physical environment.

/s/
Jacky Morales-Ferrand
Interim Director of Housing

For questions, please contact James Stagi, Grants Administrator at 408-535-8238.