



MEMORANDUM

TO: HONORABLE BOARD OF SUPERVISORS

FROM: CLARICE DUMA, Sr. Legislative Analyst

DATE: February 18, 2000

RE: File No. 00-0220: Shelter Availability and Services

SUMMARY OF REQUEST

A motion approved by the Board of Supervisor directs the Office of the Legislative Analyst (OLA) to evaluate shelter availability for individuals with limited income, including an evaluation of Single Room Occupancy (SRO) hotels, occupancy rates and trends, and how shelter needs fit within the mosaic of other services.

EXECUTIVE SUMMARY

In San Francisco, SRO hotels have historically been concentrated in the Tenderloin/Downtown area, South of Market, the Mission/Market area and the North Beach/Chinatown area. Commercial Single Room Occupancy hotels, or SROs, were originally intended to provide low-cost long-term housing for single adults, and intermittent housing for non-residents such as seamen. The overwhelming increase in the numbers of homeless people in the last 20 years, combined with the shortage of affordable housing since the 1960s, has made SRO hotels an important housing option for many low-income adults. The need for this service has nevertheless, come with a price. In the current housing market, average monthly room rates have risen to \$550 and above. However, public assistance, in the form of rental subsidies, have helped to reduce monthly payments for eligible recipients by almost half. A diminishing supply of the SRO hotel stock serving low-income single adults and hikes in room rates have also led the City to seek collaborations with local hotel operators and non-profit organizations to ensure the availability and affordability of rooms for low-income and homeless single adults.

BACKGROUND

Homelessness is one of the toughest challenges facing the City and County of San Francisco (the "City"). Since it has been difficult to determine the total number of homeless single adults in San Francisco, City departments have been relying on family data that are compiled by Connecting Point, a local non-profit agency, indicating that between 1998 and 1999, 1,072 unduplicated families sought emergency services. Because these figures do not provide a complete count of homeless people in San Francisco, the upcoming Census data will be helpful in supplying that information.

A stream of public and private funding together with a myriad of other supportive services have been provided by public and private agencies to enable the City's poor and homeless people rebuild their lives. The Department of Human Services (DHS) reports that in Fiscal Year 1998-1999, the City's overall expenditures for homeless services totaled approximately \$60 million. These expenditures included: almost \$32 million for emergency/front-end

services, such as eviction prevention, urgent care, outreach, drop-in centers and shelters; almost \$11 million for transitional services, including services for detoxification, residential treatment, and transitional housing; and the remaining \$16 million which was spent on long-term stabilization services, such as outpatient services, housing subsidies, childcare, vocational/employment programs, and other related services linked to permanent supportive housing.

A broad network of City departments, local non-profit agencies and church groups plays a role in service delivery by developing affordable housing units, and by providing employment and training services, substance abuse treatment, mental health services, and other emergency services. Many of these agencies work in partnership with City Departments, such as DHS, the Department of Children, Youth and their Families, the Redevelopment Agency (RDA), the Department of Public Health (DPH), and divisions in the Mayor's Office, including Housing (MOH), Homelessness, and Community Development (MOCD).

SHELTER AVAILABILITY

Single Room Occupancy (SRO) Hotels

Commercial Single Room Occupancy hotels, or SROs, were originally intended to provide low-cost long-term housing for single adults, and intermittent housing for non-residents such as seamen. The overwhelming increase in the numbers of homeless people in the last 20 years, combined with the shortage of affordable housing since the 1960s, has made SRO hotels an important housing resource for many low-income adults. The need for this service has nevertheless, come with a price. In the current housing market, average monthly room rates have risen to \$550 and above. However, public assistance, in the form of rental subsidies, helps to reduce monthly payments for eligible recipients by almost half.

In San Francisco, SRO hotels have historically been concentrated in the Tenderloin/Downtown area, South of Market, the Mission/Market area and the North Beach/Chinatown area. According to the *1998 Housing Inventory* of the San Francisco Planning Department, the total number of residential hotels and rooms is as follows:

Residential Hotel Stock (1994-1998)

Year	For-Profit Residential Hotels		Non-Profit Residential Hotels		Total Residential Hotels	
	No. of Buildings	Residential Rooms	No. of Buildings	Residential Rooms	No. of Buildings	Residential Rooms
1998	522	18,096	43	1,690	565	19,786
1997	515	18,132	43	1,690	558	19,822
1996	501	18,077	43	1,690	544	19,767
1995	496	18,415	36	1,481	532	19,896
1994	496	18,415	36	1,481	532	19,896

Source: 1998 Housing Inventory, San Francisco Planning Department
(Statistics compiled by: Department of Building Inspection, Housing Inspection Services Division)

These figures indicate that between 1994 and 1998, the total number of residential hotel buildings increased from **532 to 565** - a 6 percent increase. During the same period, total residential rooms decreased from **19,896 to 19,786** - a reduction of 0.5 percent. However, the reduction (of 1.7 percent) in the number of residential rooms occurred only in the for-profit residential rooms. Non-profit residential rooms actually increased from **1,481 to 1,690** - a gain of 14 percent.

Some City officials and homeless advocates report that, despite a boom in the City's real estate market, there continues to be an insufficient supply of SRO hotels for poor and homeless people. They maintain that a rash of fires, demolitions, and conversions, which began in the 1970s, and the 1989 Loma Prieta earthquake contributed toward the loss of the SRO housing stock serving low income people.

Based on reports filed by the San Francisco Fire Department (SFFD), fires alone have had a damaging effect on the SRO hotel stock. SFFD staff report that from 1994 to 1999, their department responded to 62 fire-related incidents that occurred in 42 local hotels. They add that hotel fires led to the closure and abandonment of some hotels and the displacement of many poor and homeless people. Additionally, City officials state that many hotel rooms, which were earmarked for the poor through the City's Memorandum of Understanding (MOU) program (described below) with hotel operators, have been lost because some operators believed the City's reimbursement rate for the rooms was not competitive with current market rates.

Occupancy Rates

The loss of the SRO housing stock serving the very poor, as noted above, has increased the competition for limited rental units. Advocates for the homeless estimate current occupancy rates above 90 percent. This Office of the Legislative Analyst (OLA) was however, not able to confirm this figure. Nonetheless, given the reduction in the privately-held hotel stock and the increase in the number of poor and homeless people who need housing services, the OLA expects that occupancy rates in SRO hotels will be significantly high. Our office also expects that Census 2000 data, due next year, will be helpful in providing this information. In addition, since DBI already gathers and reports data on SRO guest and tourist hotels, the City could urge this Department to begin compiling and reporting occupancy rates for hotels that serve poor and homeless individuals.

Trends

Changes in welfare laws - calling for reductions in federal welfare rolls, rising housing costs in San Francisco, a diminishing housing supply - particularly for households at 20% or below the median income level, and personal challenges with substance abuse and mental illness are contributory factors to the City's problem with homelessness. Following are some of the trends in the last 20 years:

- *Decline in for-profit housing supply* - For-profit hotel operators have historically provided a bulk of the SRO housing supply. As demonstrated in the previous table, even though there was an increase in the number of non-profit operated residential rooms during the 1994-1998 period, the number of for-profit residential rooms declined by a 1.7 percent. Much of the decrease (in the for-profit rooms) occurred between 1995 and 1996 when a total of 338 residential rooms were lost. We are not able to determine from these figures the total number of rooms that were lost to single poor or homeless adults.
- *Slow pace of new affordable housing production* - According to the Planning Department's *1998 Housing Inventory*, there has been a decline in the number of affordable housing units constructed between 1994 and 1998. In 1994, there was a total of 776 newly constructed units for very low-, low- and moderate-income people. By 1998, 234 affordable housing units were produced for people in these income groups. These figures should however be regarded with caution because 1) they represent a portion of housing production in the City and 2) there are many factors that affect affordable housing production.
- *Increasing housing costs* - A trend noted by the Coalition on Homeless is the continuing increase in rents for SRO rooms. The Coalition notes that in the 1980s, average rents increased 166 percent. Housing activists note

that the “hot” real estate market of the 1990s has triggered further increases and caused average rents to almost double. Current monthly rates, as noted above, are \$550 or above, per room.

ISSUE ANALYSIS - Shelter and Related Services

SRO Hotels as a Housing Option

Homelessness remains the foremost concern for most people in San Francisco. Rising housing costs, mental illness, substance abuse, and cuts in federal welfare programs are some of the contributory factors which have exacerbated this problem. As the supply of affordable housing dwindles, SRO hotels have become a viable housing option for many poor and homeless people, despite lingering concerns and criticism about management practices and sub-standard health and safety conditions in these properties. The City, for its part, has become involved with SRO hotels through its Memorandum of Understanding (MOU) program and through the Master Lease program, which are described below.

Memorandum of Understanding (MOU) Program

Pressed with the challenge to house San Francisco’s poorest residents, the City became involved with 25 local SRO hotels in 1993 through the Memorandum of Understanding (MOU) program. According to DHS, MOUs held with private owners were intended to allow City departments, such as DBI, SFFD, and DPH to conduct regular inspections of certified residential and tourist hotels to ensure compliance with health, safety and fire regulations.

Over the years, the number of hotels participating in the MOU program has diminished. DHS attributes the decline in participation to the “hot” real estate market in San Francisco, increases in citywide rent levels, and the devastating effect of hotel fires. Among hotel operators, there has also been the perception that the City’s MOU requirements were “onerous.” Currently, there is only one remaining hotel that participates in the MOU program with DHS and those rooms are used mainly for hospital discharges and for General Assistance (GA) recipients who have health problems. Whereas DHS had previously been able to obtain between 300 to 400 rooms on a monthly basis for these groups, the supply has been reduced to about 20 rooms per month. DHS also indicates that there are 5 other privately owned SRO hotels which are covered under the City’s MOU and participate in the City’s Modified Payments Program which is administered by the Tenderloin Housing Clinic (THC), a non-profit organization.

Many non-profit housing providers and activists for the poor have urged the City to seek further involvement with hotel operators in order to increase the housing supply for clients and to ensure compliance by owners in raising service standards. As DHS has indicated, the MOU program does enable the City to conduct health and safety inspections as well as to make client referrals. However, since this program does not require owners to guarantee the availability of rooms based on those referrals, its effectiveness has been limited.

Master Lease Program

Unlike the MOU program, the Master Lease program allows the City to establish 10-year contractual relationships with SRO hotel operators, thus enabling the City to capture an entire building or a portion of a building in order to house poor or homeless individuals. Through the Master Lease, the hotel operator is paid a flat rate regardless of occupancy levels, and the responsibility for maintenance (currently, maintenance costs over \$5,000 are assumed by the hotel owner), property management, and the selection of clients rests with non-profit intermediaries who hold contracts with the City. The Master Lease also enable the City to preserve the affordability of units by providing subsidies that depress costs for room rates for very low income and homeless individuals. Additionally, service delivery is strengthened by combining the Master Lease program with a “Continuum of Care” Plan which enables

the City, through non-profit service providers, to provide additional supportive services such as substance abuse treatment, enrollment in an employment plan, case management and money management services.

- *DHS Master Leases* - DHS began “master leasing” three hotels totaling 563 units in 1999. The City holds a contract with the Tenderloin Housing Clinic (THC), a non-profit intermediary, at an annual cost of \$1.6 million. The target population for these units comprises homeless single adults who are either in an employment or case management plan and those who have been referred out of the emergency shelter system, or through DHS’s Personal Assisted Employment Services (PAES) program. The \$1.6 million expenditure includes costs for property management of the buildings, on-site support services, and a partial subsidy. DHS is currently in discussions with other operators, and hopes to add 300 to 400 units under this program over the next two years.
- *DPH Master Leases* - DPH’s Master Lease program began in 1998 with the Pacific Bay Inn (PBI), and was followed by the Windsor Hotel in 1999. Combined, these hotels provide approximately 170 units and are funded through various sources, including City dollars - budgeted at \$1.4 million, a \$625,000 Hilton Foundation grant, and from tenant payments. Unlike DHS’s Master Leases, DPH’s program is directed at the indigent population that requires emergency medical care, as follows:
 - The lease on the 76-unit Pacific Bay Inn, operated by Episcopal Community Services (ECS) since 1998, also enables the provision of on-site supportive services. These include property management and round-the-clock maintenance provided by a sub-contractor property management firm retained by ECS.
 - The Windsor Hotel, acquired in 1999, is a lease of 94-units by DPH without the involvement of a non-profit intermediary. DPH has however, hired Health Department employees through Civil Service to provide medical services as well as case workers from a local non-profit agency. DPH believes that services provided through this lease have resulted in significant cost savings, including those resulting from using hospital beds.
- *Non-profit Master Leases* - Some local non-profit providers also participate in Master Leases with local SRO hotels. For example, Connecting Point, an intake agency for all local family emergency shelters, has modified its Hotel Voucher Program thus enabling this agency to “master lease” a total of 20 residential rooms every month from the Franciscan Motel. Rooms are however, available only for homeless families who are in immediate need of emergency shelter.

Because DPH and DHS have recently begun participating in the Master Lease program, it will be difficult to fully evaluate the success of these programs. To date, 324 formerly homeless adults have moved into the THC master-leased hotels and have stabilized in housing. These are individuals who were formerly on the streets or in the emergency shelter system. Nevertheless, the comprehensive approach engendered in the Master Lease program, unlike the MOU program, is likely to provide more benefits to clients. Additionally, Master Leases provide Departments control over the tenant roll, guarantee the affordability of units for the length of the contract, enable the City - through non-profit intermediaries, to improve safety and health standards, and provide clients with a “continuum” of services needed to achieve self sufficiency. However, since the direct responsibility for the management and operation of units rests largely with an intermediary and not with City, the City must ensure compliance by contractors, in terms of performance and accountability standards, in order to guarantee the effective delivery of services.

Addressing health and safety issues

Substandard health and safety conditions that exist in some commercial SROs have been of major concern for the City and many non-profit providers. The City has attempted to address these issues through annual inspections that are conducted by agencies such as DBI, DPH, and SFFD. However, it has become apparent that without the full

cooperation and participation of operators, routine inspections alone will not adequately address all problems associated with SRO hotels. Low participation rates by hotel owners in the MOU and Master Lease programs also pose a challenge for the City in terms of requiring the City to re-establish partnerships with operators. Beginning an on-going dialogue with hotel operators could help shed light on reasons behind their low participation levels, as well as regenerate their interest in the City's residential hotel programs. DHS staff have also indicated that they do not view the MOU as an obstacle for hotels participating in the Master Lease program. Instead, they believe the challenge lies in determining the level of investment the City will make from the General Fund to expand the Master Lease program.

Linking housing to supportive services

Staff from City departments such as the Mayor's Office of Homelessness, DHS, DPH, together with staff from non-profit programs such as Connecting Point, Richmond Hills Family Center, and Raphael House indicate that a comprehensive service package helps individuals make a transition from homelessness to self sufficiency. As discussed earlier, City Departments have been collaborating with local non-profit intermediaries to ensure service delivery in three areas: emergency/front-end services; transitional services; and long term stabilization services. According to a report issued by DHS, expenditures for homeless services, have increased – from a total of \$38,000,000 in FY 1993-94 to almost \$60 million in FY 1998-99, as illustrated below:

City Expenditures in Homeless Services

Services	FY 1993-94 Expenditures		FY 1998-99 Expenditures	
	Expenditures in \$	Expenditures in %	Expenditures in \$	Expenditures in %
Emergency/Front-End Services	29,316,706	77%	31,509,735	53%
Transitional Services	5,711,047	15%	10,614,922	18%
Long Term Stabilization Services	3,045,892	8%	17,078,756	29%
TOTAL EXPENDITURES	38,073,645	100%	59,203,413	100%

Source: Department of Human Services, San Francisco

These figures indicate that not only are City dollars utilized to provide comprehensive services, but that a majority of the expenditures -about 53 percent, are in the provision of front-end emergency services, with remaining dollars allocated to transitional and long-term stabilization services. While spending for transitional services has been somewhat stable (under 20 percent), in FY 98-99, there was a dramatic increase in spending for long-term stabilization services - from 8 percent in FY 93-94 to 29 percent in FY 98-99. The shift in spending priorities is welcomed by many non-profit providers, such as staff at the Richmond Hills Family Center, who believe that additional resources must be invested on the back-end (for long-term stabilization services) in order to relieve the front-end backlog (in emergency services) that occurs when providers are unable to refer their clients either for transitional or long-term services.

As the City continues to address the growing needs in the homeless population, budget priorities should continually be reassessed to determine if they are representative of current environmental conditions. Departments will also be challenged to work collaboratively to discover strategies for maximizing use of existing resources. City officials and non-profit providers such as Raphael House also note that, given that a substantial portion of the City's homeless people - about 42 percent of families who sought emergency shelter in San Francisco, according to Connecting Point's family data - migrate from counties outside San Francisco, regional collaborations will therefore, be necessary to promote the sharing of ideas and resources.

Conclusions

This report does not attempt to address all the complex issues that affect homelessness. An evaluation of services for the homeless must include study of the impact of substance use and mental illness on the ability of very poor households to avoid homelessness, the effects of poverty, the mis-match of employment skills with the market, and other issues such as sub-standard housing and domestic violence. Readers should however, note that the substance abuse issue has been addressed in a separate but related report (File No. 99-2098) that was prepared by this Office of the Legislative Analyst (OLA).

Additionally, future evaluations of the homelessness issue, including funding and resource considerations, must depend on use of reliable data and data gathering methods. Many City officials and non-profit providers have indicated that the lack of reliable data hampers efforts to effectively address the issue of homelessness, including the ability to evaluate resource allocation. The Census 2000 data, which will be available in 2001, and the Census Bureau's American Housing Survey data can be a useful resource for estimating the number of homeless people in the City, identifying types of services, and providing statistical data on the number of SRO hotels that serve homeless and at-risk people. Therefore, the City should work closely with staff at the U.S. Census Bureau to ensure that Census data account for this information.

City officials and non-profit groups have also indicated that DBI can also be instrumental in compiling occupancy data on local SROs hotels. The City could further urge DBI to develop a database that regularly reports activity on SRO hotels, especially occupancy rates, tenant make-up, and the physical condition of hotels occupied by homeless people. DBI has already indicated that, if directed by the Board of Supervisors, departmental staff could begin collecting these data.

In conclusion, there are various stakeholders who are involved at all levels of the homelessness issue. They include homeless people and those at risk of homelessness, service providers, policymakers and government officials at all levels, and private property owners such as SRO hotel operators. It will therefore be imperative that efforts aimed at addressing the problem of homelessness include an on-going dialogue and a plan for collaboration among all the primary stakeholders.

EXECUTIVE SUMMARY

TO: HONORABLE BOARD OF SUPERVISORS

FROM: CLARICE DUMA, Sr. Legislative Analyst
PAULA VLAMINGS, Legislative Analyst

DATE: February 18, 2000

RE: **File # 000220 - Shelter Availability and Substance Abuse Services**

SUMMARY OF REQUESTED ACTION

The Honorable Board of Supervisors has called a hearing to consider the availability of shelter and substance abuse services for low-income and homeless individuals in San Francisco. The Board has also requested the Office of the Legislative Analyst (OLA) to evaluate the availability of shelter in Single Room Occupancy (SRO) hotels. Additionally, the OLA must evaluate the availability of substance abuse services, gather data on best practices in other counties and San Francisco's sources of money for substance abuse services.

SHELTER AVAILABILITY

In San Francisco, SRO hotels have historically been concentrated in the Tenderloin/Downtown area, South of Market, the Mission/Market area and the North Beach/Chinatown area. Commercial Single Room Occupancy hotels, or SROs, were originally intended to provide low-cost long-term housing for single adults, and intermittent housing for non-residents such as seamen. The overwhelming increase in the numbers of homeless people in the last 20 years, combined with the shortage of affordable housing since the 1960s, has made SRO hotels an important housing option for many low-income adults. The need for this service has nevertheless, come with a price. In the current housing market, average monthly room rates have risen to \$550 and above. However, public assistance, in the form of rental subsidies, have helped to reduce monthly payments for eligible recipients by almost half. A diminishing supply of the SRO hotel stock serving low-income single adults and hikes in room rates have also led the City to seek collaborations with local hotel operators and non-profit organizations to ensure the availability and affordability of rooms for low-income and homeless single adults.

SUBSTANCE ABUSE SERVICES

In November of 1996, the Board of Supervisors passed the Treatment on Demand Initiative and resolved to provide treatment to all active drug users upon request by essentially expanding treatment capacity. There are currently 13,700 slots for substance abuse treatment services. There are additional outpatient treatment services not included in that number, as well as a host of prevention and other services. The Community on Substance Abuse Services (CSAS), under the Department of Public Health, is the administrator of all Treatment on Demand funding and planning.