

Baker Places, Inc. Financial Status Update and Repayment and Purchase Agreements Health Commission

Drew Murrell, DPH Controller

Hillary Kunins, MD, MPH, Director of Behavioral Health and Mental Health SF



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SAN FRANCISCO DEPARTMENT OF PUBLIC HEALTH

Agenda



1. Purpose and Goals
2. Overview of Services at Baker Places, Inc.
3. 2021-2022 Financial Crisis at Baker
4. Key Interventions to Stabilize Baker in 2022
5. Progress toward Fiscal Solvency at Baker
6. Summary of Debt to be Repaid
7. Repayment Agreement Terms
8. Purchase Agreement

SFDPH Goals



1. To **preserve vital services and treatment for clients as well as residential services** in the behavioral health system of care.
2. To **hold Baker Places, Inc. accountable** for past financial issues and to **ensure corrective actions are implemented** in order to preserve vital services.

Purpose



To provide Health Commission with updates on:

1. **Financial status on Baker Places, Inc; and**
2. **SFDPH request to Board of Supervisors for authorization and adoption of:**
 - a) **Repayment Agreement with Baker Places, Inc.:**
 - Will require Baker to repay the City a debt amount of **\$7.7M** over a **23-year term** from April 1, 2024, through January 31, 2046
 - b) **Agreement of Purchase of Real Estate Property:**
 - Will allow the City to **acquire Baker's existing residential care facility located at 333-7th Street** for an amount of **\$3.0M**, using the value of the site as a credit to the portion of the debt owed

Overview of Services at Baker Places, Inc



- Baker **operates key health programs** such as mental health and substance use treatment, HIV treatment, and other services for thousands of people.
- Baker contracts with DPH to **provide essential behavioral health services** for some of our vulnerable San Franciscans.
- DPH currently **holds four active contracts with Baker** for mental health residential treatment and outpatient services:
 1. Hummingbird Potrero
 2. Hummingbird Valencia
 3. Ferguson Place
 4. Baker Regular (Residential and Housing)
- Combined, these contracts **serve nearly 2,000 clients annually and offer more than 200 treatment beds** that are critical for DPH's behavioral health system of care.

2021-2022 Financial Crisis at Baker



Cash shortfalls:

- In October 2021, Baker/PRC notified SFDPH it was facing critical cash shortfalls
 - Stated it would need a significant and immediate inflow of cash or be forced to reduce, suspend, or ultimately close programs
- From October 2021 through November 2022, Baker continued experiencing intermittent cash flow emergencies and potential shut-downs
- On October 28, 2022, Baker/PRC informed SFDPH of plans to initiate process to wind down operations by November 30, 2022, including laying off employees, discontinuing programs and disposing of facilities due to the exhaustion of available funds.

2021-2022 Financial Crisis at Baker (continued)



Audits:

- Baker/PRC's FY19-20 financial audit completed in March 2022 found that the agencies lacked internal control procedures to ensure timely preparation of financial statements
 - consolidated trial balance initially provided to auditors had to be corrected
 - Organization had no procedure to ensure journal entries were reviewed and approved prior to being entered by accounting staff

Red Flag Status:

- Based on FY22 monitoring activities and external audits, Controller's Office placed Baker on red flag status in December 2022

Key Interventions to Stabilize Baker in 2022



In 2022, the Board of Supervisors, SFDPH, and Controller's Office **implemented various interventions to mitigate cash flow issues**

- Board of Supervisors passed emergency grants of \$1.2M in June 2022
- DPH permitted all contracts held by Baker to be reimbursed via cost reimbursement instead of fee-for-service
- DPH temporarily increased the indirect cost rate for all programs subject to transfer or closure
- DPH allowed Baker to invoice without recovery of initial payments
- On behalf of Baker, Controller's Office paid for Community Vision to complete financial analysis and planning

These interventions allowed Baker to:

1. continue providing vital services and treatment to clients
2. provide enough time to complete financial analysis and planning using Controller's vendor Community Vision

Progress toward fiscal solvency at Baker



New leadership at Baker **completed financial planning:**

- Financial analysis to align the cost of services by program with the value of their contract
 - Adjust awards where Baker should stay as the provider
 - Transfer of services where another provider could provide services
- Successful transition back to fee-for-service for some programs

...and made tangible **progress in shoring fiscal solvency** for Baker

- Completing DPH corrective action plan
- Addressing significant audit findings and timeliness of financial audits

Progress toward fiscal solvency at Baker (continued)



- **Improving PRC/Baker consolidated audit results:**
 - **FY20:** Completed March 2022 with a material weakness and 4 significant deficiencies
 - **FY21:** Completed October 2022 with no material weaknesses and 3 significant deficiencies identified
 - **FY22:** Completed July 2023 with no material weaknesses and 2 significant deficiencies identified

Steady progression towards timely audits (completed within 9 months of the FY) with no weaknesses identified

Progress toward fiscal solvency at Baker (continued)



- **Completing long range financial sustainability plan**
 - Established a plan to repay debt owed to the City
 - Established an operating reserve
 - Restructuring operations by transferring under-utilized programs
 - Mitigate previously identified financial audit findings
 - Proposes a legal merger of PRC and Baker Places
 - Business decision by Baker and PRC
- Controller's office moved Baker's status from red flag to elevated concern status in December 2023



Summary of Debt to Be Paid

- SFDPH allowed Baker to continue invoicing without recovering full costs from compliance audit and initial payments
- Repayment and purchase agreements address this accumulated debt

Baker Places Debt to SFDPH	
FY 15-16 Baker Places Compliance Audit	\$1,304,352
FY 21-22 Unrecovered Initial Payment	\$1,904,987
FY 22-23 Unrecovered Initial Payment	\$4,641,376
Repayments from July 2023 through March 2024	(\$180,900)
Total Accumulated Debt as of March 2024	\$7,669,814
Proposed Purchase of 333 7th Street	(\$3,000,000)
Total Debt as of April 1, 2024 including Proposed Purchase	\$4,669,814

Repayment Agreement Terms



1. **Term** over 23-year term from April 1, 2024 to January 31, 2046
2. **Property Transfer** of 333 7th Street from Baker to City
3. **Parent Guarantee** from PRC
4. **Debt Repayment Schedule** at \$20,100 monthly rate with 1.12% interest
5. **Initial Payments** eliminated on all contracts for duration of agreement
6. **Annual Assessment of Available Funds:** Subject to available funds, Baker agrees to accelerate repayment of debt using year end surpluses net of operating reserve deposits
7. **Performance Deed of Trust and Declaration of Restrictions**
 - Collateralization of two real estate assets to secure the debt
 - Deed of Restrictions limits use of properties to City-contracted behavioral health services

Purchase Agreement



- **Property Transfer** of 333 7th Street
 - This is a real estate transaction only to preserve an existing behavioral health service
 - Baker will transfer title of 333 7th Street to City
 - SFDPH will credit the amount of the purchase proceeds against outstanding debt
- **Planning Department** determined:
 - Purchase Agreement is consistent with General Plan and Eight Priority Policies of Planning Code
 - As a real estate transaction, this is not defined as a project under CEQA because it would not result in any physical change in environment

Conclusion



- As part of our partnership with Baker, SFDPH is now **requesting BOS approval on proposed Resolutions** for the Repayment and Purchase Agreements
- Our goal was and continues to be to **work with Baker to stay financially stable** to ensure clients receive care and treatment as well as preserve treatment beds

Thank you