

REPORT OF THE CHIEF LEGISLATIVE ANALYST

DATE: August 20, 2025

TO: Honorable Members of the City Council

FROM: Sharon M. Tso 
Chief Legislative Analyst

Council File No.: 24-1480
Assignment No.: 25-03-0260

SUBJECT: Direct Contracting of Homelessness Service Providers

SUMMARY

On March 26, 2025, Council adopted Motion (Rodriguez-Blumenfield; C.F. 24-1480), which instructs our Office to report on how the City can directly contract with service providers on all programs currently funded by the City relative to homelessness in order to bypass the Los Angeles Homeless Services Authority (LAHSA) which historically administers such programs. This instruction is included as Attachment I to this report.

In response, our Office met with City departments who manage private sector entities that deliver City-funded social services, including homeless services. With these meetings, our Office sought to better understand the requisite system and staffing to directly administer such programs. Our Office also met with LAHSA to better understand their internal system of contracts and administration. We also reviewed recent reporting regarding the scale of administration and staffing necessary to directly administer homelessness programs at LAHSA. Pursuant to instructions contained in amended Motion (Raman-Blumenfield; C.F. 25-0316), additional reporting from our Office and the City Administrative Officer (CAO) will address the actual cost to administer and manage contracts with homeless service providers. This report therefore provides an analysis for discussion purposes as to how the City may administer service provider contracts. A mechanism to transfer responsibility for all service provider contracts currently held by LAHSA to the City will be detailed in the subsequent report requested.

In the interim, should Council wish to move forward with direct City management of service providers, we recommend that it be piloted through the Inside Safe Program by removing LAHSA from service provider contracts relative to Inside Safe and managing those contracts with existing City staff. In addition, we provide a recommendation for our Office to report on the pilot in advance of Fiscal Year 2026-27 with lessons learned to evaluate its effectiveness.

RECOMMENDATION

That the City Council:

1. Determine whether to further explore direct administration of homelessness service providers.
2. If decision is in the affirmative, then adopt the following recommendations:

- a. Instruct the Housing Department (LAHD), with the assistance of the Chief Legislative Analyst (CLA), to remove program components relative to the Inside Safe Program (ISP) from all applicable agreements with the Los Angeles Homeless Services Authority (LAHSA);
- b. Instruct LAHD to effectuate a new contract, or contracts, between the City and ISP service providers; and
- c. Instruct the CLA, with the assistance of LAHD, to report with lessons learned from direct City management of ISP services, in advance of Fiscal Year 2026-27.

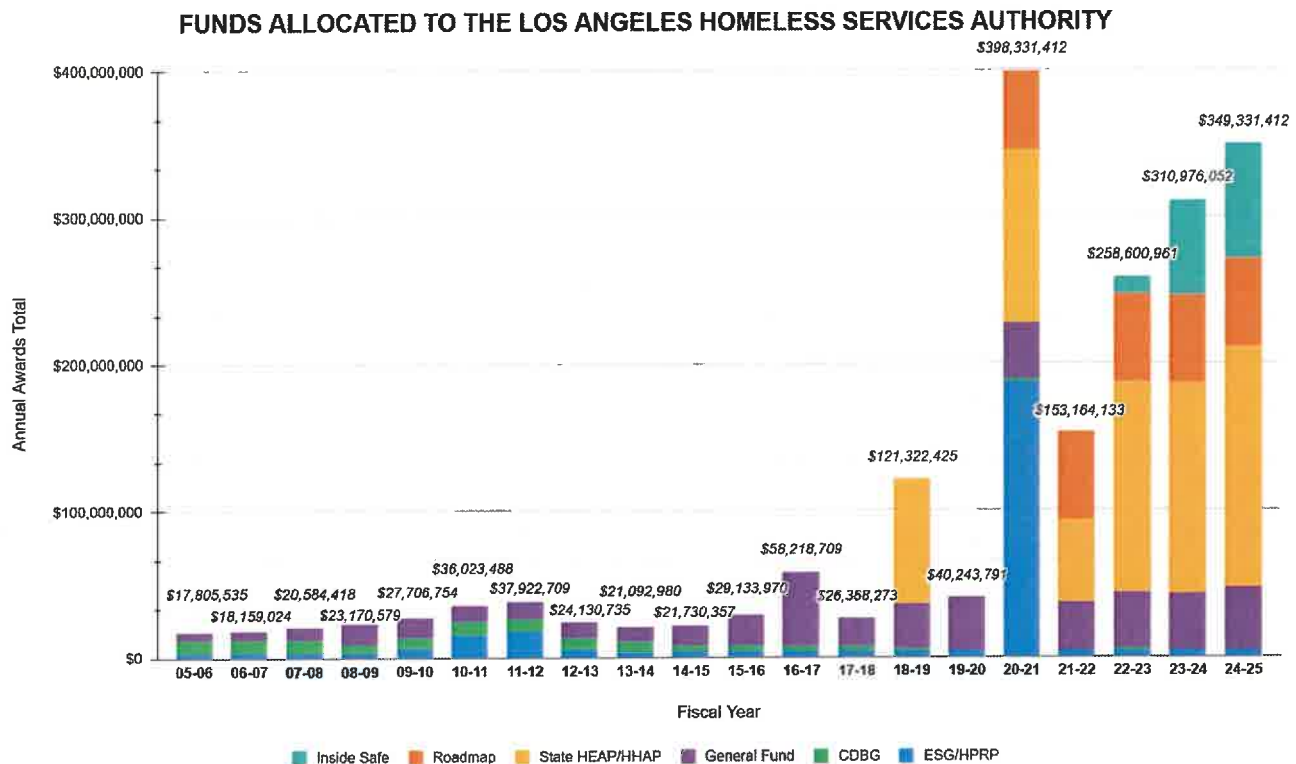
BACKGROUND

The Los Angeles Homeless Services Authority (LAHSA) was established in 1993 as a joint powers authority between the City and County of Los Angeles (“County”), which primarily functioned as a pass-through entity that administered and managed the distribution of federal funds on behalf of the City and County. As such, LAHSA managed on behalf of the City grants provided by the Department of Housing and Urban Development (HUD), including the Emergency Solutions Grant (ESG), and the Community Development Block Grant (CDBG), and, pursuant to the 2008 Financial Crisis, the Homeless Prevention and Rapid Re-Housing Program (HPRP) funds.

From fiscal year 2005-06 through 2014-15 the City also allocated an average of \$10.2 million in discretionary funding to LAHSA from the City’s General Fund (GF). Beginning in fiscal year 2016-17, relative to the City’s adoption of the Comprehensive Homelessness Strategy (CHS), the City allocated LAHSA an average of \$35 million from the City GF annually over the next ten years. Pursuant to Pandemic-era relief, LAHSA began to receive pass-through funds on behalf of the City from Federal, State, and local sources in the amount of approximately \$1.1 billion over five years, beginning in fiscal year 2020-21. Additionally, pursuant to the City Homelessness Emergency Declaration, the City has allocated \$150 million to Inside Safe Program service providers through LAHSA since the program’s inception. Figure 1.1 below illustrates and quantifies the increase in pass-through funds to LAHSA from the City over the past twenty years, from 2005 to 2025.

Since the adoption of the CHS, the City has invested approximately \$1.7 billion into LAHSA programs and administration. At the same time, City investment into management and contract oversight over LAHSA has not kept pace with the funds that LAHSA now administers on behalf of the City. With this context, we explore how the City may choose to stop allocating funds to LAHSA to pass through to service providers, but rather manage and administer homelessness programs directly.

FIGURE 1.1
City Funding for LAHSA (2005-2025)



It should be noted that funders at all levels of government are scaling back their investments into the homeless services sector, so the current trend in City funding may decrease. Such reductions will directly impact the ability of the City to address the homelessness crisis. For example, cuts are expected to federal programs that provide rental subsidies (Housing Choice Vouchers), to State funds used to maintain interim housing (Homeless Housing, Assistance and Prevention Program [HHAP]), as well as to County funding for direct services (Measure A). As a result of this anticipated loss of funding, the City should evaluate whether the scale of its need for contracting services will diminish over the near term.

DISCUSSION

This report reviews City management of social services and current City oversight over LAHSA, as well as the creation of a new City Bureau of Homelessness Oversight, pursuant to instructions contained in the City's 2025-26 adopted budget (C.F. 25-0600). The purpose of this review is to determine what would be needed to directly implement social service contracts with providers. This report then looks at the LAHSA staffing allocated to manage homelessness programs, which would need to be replaced by City employees if the City were to contract directly with service providers. For discussion purposes this report then estimates City staffing required to manage service provider contracts directly, as well as costs, with reference to recent County and LAHSA reporting.

This review provides a basis for the City to explore contracting directly with service providers, which includes implementation of a pilot program and an evaluation of its efficacy in advance of the 2026-27 budget process.

CITY ADMINISTRATION

Currently, the City manages most of its direct social services under the following departments: Economic and Workforce Development, Youth Development, Aging, Disability, and Community Investment for Families (CIFD). To explore City management of social services, our Office met with CIFD to better understand its management of programs that share a nexus with homelessness. We further met with LAHD to understand current City administration of City pass-through funding to LAHSA for homeless services.

Community Investment for Families Department

CIFD manages social services for the City, such as services for victims of domestic violence (“Survivor System”) and Family Source Centers (FSCs). To implement these programs, CIFD contracts directly with service providers and then monitors implementation, which occurs in a variety of ways.

First, CIFD utilizes a scorecard to measure billing and spending rates, as well as track outcomes and indicators related to the population served. CIFD terms this administrative review process “external monitoring.” In practice, external monitoring takes the form of reviewing a contractor’s records, procedures, and reports (“desk audits”); monitoring spending patterns to ensure regular invoicing (“spend down”); engaging monthly with both executive and program staff; and conducting site visits, which can take the form of either announced or unannounced visits. CIFD also conducts participant and administrative surveys, which it terms “internal monitoring.” Internal monitoring helps CIFD understand the client experience, as well as the contracted staffs’ experience.

CIFD reports that the monitoring process can be burdensome on contractors performing the work of social services. Site visits especially can cause interruption to services; therefore, CIFD prefers to conduct announced site visits twice a year, with each visit having a specific theme. If CIFD identifies problems with the contractor through any of the monitoring processes identified above, then CIFD communicates concerns to the contractor, and may choose to conduct unannounced site visits. If issues of non-compliance persist, then CIFD serves the contractor with a corrective action plan, which cites specific violations of contracts. This entails concerns becoming “findings” of non-compliance. Findings must be remedied, or the contractor risks termination of the agreement.

It is important to note that CIFD views contract monitoring as an opportunity for growth, rather than punitive in nature. CIFD reports only in extreme cases to have found evidence of fraud or abuse. CIFD generally provides technical assistance to help service providers comply with contract terms. CIFD considers monitoring of its service providers as a means to help an organization grow and better deliver services to its clientele. In addition, CIFD clarifies that their management of service providers, i.e., what is described above, constitutes “little m” monitoring. By contrast, CIFD notes that HUD conducts “large m” monitoring, as representatives from the

local HUD field office may visit sites and assess public services funded by federal grants to ensure compliance with federal standards in the delivery of such services.

Family Source Center System

As an example, the CIFD-managed Family Source Center (FSC) system provides a snapshot of the requisite City staffing to implement the system described above. Per CIFD, FSCs provide a continuum of services at 19 sites across the City, including, but not limited to, benefit screenings, homelessness prevention, employment support, financial literacy, parenting classes, food distributions, and child watch services. These services are designed to prevent low-income families from falling into homelessness by improving their housing stability and increasing their family security, as well as various youth services designed to improve academic achievement. Staffing required for CIFD to manage the FSC system is a Chief Management Analyst and a Senior Management Analyst, who also have the Survivor System under their purview. CIFD then requires a Senior Project Coordinator, along with five analysts, to deliver the depth of monitoring services for the twenty-one contracts for services under the FSC system. With this team, CIFD seeks to ensure that there is 100 percent documentation of services rendered.

Los Angeles Housing Department

LAHD is designated as the City's lead department to monitor budgets and performance related to individual City contracts with LAHSA. Each City contract with LAHSA is based on a unique funding source (e.g., City GF, HHAP, ESG, etc.), and each contract may house several, sometimes overlapping, program components. Using these City funding sources, LAHSA contracts directly with service providers to deliver homeless services. LAHD is removed from direct management, i.e., from the kind of monitoring that CIFD implements over the FSC system. The City is not involved with direct administrative authority over service providers, as the Joint Powers Authority agreement that founded LAHSA allows for LAHSA to contract for services directly. As such, the City has relied on LAHSA in its governmental capacity to negotiate, execute, and manage contracts with service providers on behalf of the City.

Homeless Services Unit

LAHD's Homeless Services Unit (HSU) oversees the contractual relationship between LAHSA and the City. This contract management falls into three major categories: contract drafting and amendments, budget monitoring and development, and performance management. LAHD amends and effectuates contracts in response to Council instructions, which largely derive from individual motions and CAO funding reports, e.g., "Annual Homelessness Funding" (C.F. 22-1022-S16), "Covid-19 Homelessness Roadmap" (C.F. 20-0841-S52), "Homelessness Emergency Account" (C.F. 22-1545-S29), etc. LAHD also receives cash requests from LAHSA for services rendered by service providers, which LAHD evaluates for budgetary compliance. LAHD develops budgets annually with LAHSA, which stipulate the total amounts of funding that may be used for direct and indirect costs, including salaries, fringe benefits, client support, cash assistance, etc., relative to each City contract. LAHD then evaluates ("reconciles") cash requests from LAHSA against the agreed-upon budgets, ensuring they conform to the spending amounts provided under each budget category and are eligible expenses. Cash requests to LAHD aggregate several service provider invoices to LAHSA into larger invoices to the City. Such cash requests are numbered sequentially and correspond to a given City-LAHSA contract.

Performance management largely occurs as LAHD receives quarterly reports for each City contract with LAHSA. These quarterly reports provide metrics and outcomes data on individual program components relative to each contract. However, the data that LAHSA provides on each program component does not speak to the performance of individual LAHSA-service providers. For example, quarterly reporting related to interim housing in the City's GF contract with LAHSA aggregates data from dozens of shelters but does not provide site-level analysis. Such site-level review is conducted by LAHSA on the City's behalf. LAHD monitors quarterly reports to ensure that each program component of a City contract meets its benchmarks. At the end of the fiscal year, LAHD also receives an annual performance report. Based on the annual report, LAHD could issue a performance letter to LAHSA, which enumerates program components that have underperformed or failed to produce data on the agreed-upon timeline.

LAHD also conducts site visits of service providers in concert with LAHSA. For example, site visits would observe access centers in the field or operation of City-funded interim housing. These site visits allow LAHD to observe that work is occurring, pursuant to City contracts with LAHSA, but do not serve to evaluate the performance of the individual service provider. It should be noted, LAHD reports to not have adequate staff to evaluate homelessness programs in the same manner as CIFD, as detailed above. LAHD notes that a process similar to "little m" monitoring could be adopted relative to the City's homelessness programs, but would require greater staffing levels to be implemented. Excluding management, LAHD currently has five analysts assigned to monitor the hundreds of millions in annual spending associated with City-LAHSA contracts, though LAHD will be receiving additional staff to manage existing homeless services contracting through formation of the Bureau of Homelessness Oversight, as discussed below. By contrast, the FSCs are funded for a total of \$30 million but have a similar staffing composition to the HSU, i.e., five analysts excluding management. The LAHSA staffing requisite to effectuate such monitoring is also further discussed below.

The Bureau of Homelessness Oversight

Subsequent to the adoption of Motion (Rodriguez-Blumenfield), the City approved its 2025-26 Budget, including instructions for LAHD to establish and implement a Bureau of Homelessness Oversight. Per the budget instruction, staffing for the Bureau will include:

Position	Quantity
Assistant General Manager	1
Director of Housing	1
Chief Management Analyst	1
Senior Management Analyst	1
Management Analyst	10
Management Assistant	1
Housing Planning and Economic Analyst	1
Senior/Principal Project Coordinator	8
Project Coordinator	1
Administrative Clerk	1
Project Assistant	1
Data Analyst II	1
Total Staff:	28 Full Time Employees (FTEs)

The Bureau staffing plan includes position transfers from CAO (9 Full-Time Equivalent employees [FTEs]), current staffing at LAHD (12 FTEs), and new positions (7 FTEs). With this staffing plan, it is intended that the Bureau provide the administrative services currently delivered by LAHD, as well as hotel/motel invoicing and reconciliation relative to the Inside Safe Program, broader homeless policy coordination, and outreach coordination. In addition, the Bureau will have additional capacity to provide contract administration and monitoring services. However, the staff capacity necessary to assume all service provider contract management currently provided by LAHSA was not contemplated in the formation of a Bureau. As such, additional staff at the Bureau, as well as new competences, will be required to effectuate direct administration and oversight of service providers.

LAHSA ADMINISTRATION

City administration of both social services and the current contracts with LAHSA, as described above, is considerably smaller in scale than the vast system of administration and contract management of service providers currently delivered by LAHSA. A forthcoming CLA report relative to contracting for interim housing will detail LAHSA contract administration and management of service providers (C.F. 23-1348). That report will address ways to improve the City-LAHSA contracting relationship, whereas this report contemplates an alternative administrative setting where LAHSA no longer manages contracts with service providers on behalf of the City.

As such, this report provides an overview of the potential system required to implement a new contracting service, similar in depth to CIFI, for administering and monitoring hundreds of homelessness contracts. Such a system will require significant increases to City staffing. In addition, LAHD will need to add several core competencies to the work program of the Bureau in order to implement direct service provider contracting. The below review of LAHSA administration therefore looks at the staffing and funding sources allocated in Fiscal Year 2024-25 to conduct administrative and contract management activities for service providers. It then seeks to discern how many staff at LAHSA currently serve City-funded programs, including oversight and administration of those programs.

LAHSA Staffing

Our Office has reviewed recent reporting on LAHSA staffing and funding sources supporting its workforce. Information we reviewed is included in CAO Budget Memo No. 113, submitted during the 2025-26 budget process, and the County Chief Executive Officer (CEO) report dated February 28, 2025, which was subsequently adopted by the Board of Supervisors. It should be noted that the CAO analysis, which cites LAHSA reporting that was also provided to our Office, includes fourteen more FTEs than included in the CEO report. However, the difference in total FTEs represents a 1.5 percent variance in total staffing between reports and as such does not affect estimates of City needs discussed later in this report.

The CAO Budget Memo shows the number of staff at LAHSA funded by the City (245.28 FTEs), County (481.28 FTEs), State (140.48 FTEs), and Federal (47.47 FTEs) resources, out of 914.5 total employees. In effect, the Budget Memo shows that City, State, and Federally-funded staffing at LAHSA represents approximately half (47 percent) of the total staff at LAHSA. It also

indicates the number of direct program staff (648.5 FTEs) and administrative staff (266 FTEs), of which 177.66 direct program FTEs and 67.62 administrative FTEs are City-funded.

The CAO Budget Memo does not indicate LAHSA staffing of specific departments; on the other hand, the CEO report provides a breakdown of staff within each LAHSA department and details the type and source of funding that supports each staff member. Using the CEO report, our Office was able to review LAHSA departmental staff allocations. This review is summarized in Figure 1.2 below. This analysis is preliminary and cannot disaggregate City from Federal and other sources of funds that are exclusive to LAHSA, though direct allocations of the State HHAP Grant to LAHSA are able to be isolated. Nevertheless, we can conclude, similarly to the CAO memo, that the combination of City, State, and Federal funding sources fund approximately 431 FTEs, which is roughly half (48 percent) of the total LAHSA staffing identified in the CEO report (900 FTEs).

FIGURE 1.2
CLA Analysis of LAHSA Staffing (Per CEO-HI reporting)*

Program Area	Full-Time Equivalent Employees (FTEs)			
	County-funded Staff	City (& Other)-funded Staff	State (HHAP CoC)-funded Staff	Subtotal
Interim Housing	19	14	15	48
Grants Mgmt. & Compliance	31	9.5	23.5	64
Data Management	20	30	-	50
Finance	27	19	-	46
Funding & Allocations	9	4	-	13
Executive/Risk Management	32	16	-	48
Systems & Planning	12	26	18	56
Contracts & Procurement	16	8	-	24
Special Projects	46	13	33	92
Access & Engagement	155	134	-	289
Operations/IT	13	7	-	20
Gov. Affairs/Communications	18	9	-	27
Human Resources/Equity	36	14	-	50
Permanent Housing	35	5	33	73
Total	469	308.5	122.5	900

*As noted, the CEO report, from which this figure is derived, indicates 900 total FTEs at LAHSA, while the CAO Memo indicates 914.5 FTEs. Further, a slash ("/") indicates where, for the purposes of this analysis, two LAHSA departments are combined into one program area.

Central Program Areas

In order for the City to fully implement direct service provider contracting, the Bureau of Homelessness Oversight would assume responsibility for the activities of LAHSA departments that currently provide capacity to manage service providers. Our Office understands the following LAHSA departments are required for direct service provider contracting: Interim Housing, Grants Management and Compliance, Data Management, Contracts and Procurement, Finance, and Funding & Allocations. However, there may be additional program areas required for this work. Core competencies that the Bureau would assume, which make these LAHSA departments required for City management of service providers, are described below:

Program Area	Core Competency
Interim Housing	<ul style="list-style-type: none">• Oversight of interim housing funded by the City to ensure adherence with the scope of required services (SRS) on site
Grants Management and Compliance	<ul style="list-style-type: none">• Fiscal oversight to ensure regular spending patterns, and review of documentation to ensure further SRS compliance
Data Management	<ul style="list-style-type: none">• Management of performance Dashboards for service providers; fulfillment of data requests and regular contract reporting
Finance	<ul style="list-style-type: none">• Review of general ledger expenses; facilitating service provider remuneration, and tracking expenses
Funding & Allocations	<ul style="list-style-type: none">• Development of budgets related to all City-funded service provider contracts
Contracts and Procurement	<ul style="list-style-type: none">• Oversight of bid process, and the scoring of applications for new notices of funding availability; contract development

Using data from the CEO report, and focusing on these LAHSA central program areas, we then attempt to estimate the rough number of staff that LAHSA employs to manage contracts for the City. These are lower bounds estimates that assume some ability for staff to work across different program areas, serving multiple roles, such as functions in peripheral departments, which we discuss in further detail below.

LAHSA reports that it allocates resources to administrative purposes for City-funded programs based upon the proportion of the number of City contracts to overall contracts. Our Office estimates that approximately 35 percent of total contracts are funded by the City, as LAHSA reports that roughly 250 contracts are City funded out of a total 700 contracts in Fiscal Year 2024-25. We therefore use this proportion to project core staffing needs related to essential program areas at LAHSA. As such, Figure 1.3 below provides City staffing estimates, rounded to the nearest .5 FTE, to directly administer the service provider contracts currently managed by LAHSA on behalf of the City. These staffing estimates are based upon the total staffing of each LAHSA department, as shown in Figure 1.2.

Figure 1.3 also provides the basis for the FTE estimate, indicating if direct reporting on a specific program area supersedes the 35 percent estimate. We describe the sole exception of the Interim Housing program area below, as well as duties related to Grants Management and Compliance that are relevant to City-funded LAHSA programs. Additionally, we discuss the Finance program

area in further detail, so as to make explicit how LAHSA manages service provider remuneration, and in order to corroborate the general accuracy of the estimate in Figure 1.3.

FIGURE 1.3
Estimated City Staffing Requirement For Direct Contracting

Program Area	FTEs Required (Approximate)	Basis for Estimate
Interim Housing	20	LAHSA reporting
Grants Management and Compliance	22.5	<i>35 percent estimate</i>
Data Management	17.5	<i>35 percent estimate</i>
Finance	16	<i>35 percent estimate</i>
Funding & Allocations	4.5	<i>35 percent estimate</i>
Contracts and Procurement	8.5	<i>35 percent estimate</i>
Total	89 FTEs	

For Interim Housing (IH), LAHSA reports that 40 FTEs are necessary to oversee the entire IH portfolio of the Los Angeles Continuum of Care (CoC), while the remaining eight FTEs oversee the IH placement (“matching”) process. For the City, we estimate that approximately 20 FTEs are necessary to ensure day-to-day adherence with the IH Scope Required of Services, as the City funds roughly half of the CoC’s IH portfolio. For Grants Management and Compliance, direct reporting on staffing is not available; however, there are additional City-funded programs beyond IH that would require the compliance, contract management, and budget monitoring service provided by this department, including Housing Navigation, Time Limited Subsidy, and Navigation/Access Centers, which are implemented by service providers. With so many City-funded programs requiring these services, it may help to explain why a considerable staff (22.5 FTEs) would be required for the City to effectively manage service providers in this program area.

For Finance, LAHSA reports approximately 20 analysts of the 46 total FTEs in this program area are employed to conduct invoicing and reconciliation activities. These analysts review service provider expenses (“general ledgers”), and allow or disallow costs based on the agreements between LAHSA and the given service provider. This reconciliation process requires that eligible costs be compared against what the service provider has invoiced. Upon final approval of the general ledger, additional finance staff in the “accounts receivable” section package that information into invoices that are sent to funders, i.e., the City and County. Once the City has conducted its own reconciliation process, and LAHSA receives payment from the City, then finance staff in the “accounts payable” section will pay service providers, and track that financial activity. As LAHSA reports that approximately 250 out of 700 contracts between LAHSA and service providers are City-funded, we estimate that approximately 35 percent of the 20 LAHSA finance analysts, i.e., seven FTEs, would be needed to reconcile invoices relative to City funding. Additionally, LAHSA reports that as many as eight FTEs are necessary to conduct accounting activities. In sum, total staffing reported by LAHSA for Finance-related services, i.e., to ensure service provider remuneration, falls close to the 16 FTEs estimated in Figure 1.3.

Peripheral Program Areas

Determinations as to what LAHSA program areas are not required for the City to directly administer service provider contracts are based on the considerations listed below:

Program Area(s)	Consideration(s)
Access & Engagement (A&E)	<ul style="list-style-type: none"> There are no City-funded service provider contracts for homelessness outreach here, as the City funds LAHSA to conduct such activities directly. For the limited number of City-funded programs currently managed by service providers in this department, including the Mobile Shower and Access Center programs, staff at the Bureau should be sufficient to provide oversight; in addition, FTEs identified for Grants Management and Compliance in Figure 1.3 should be sufficient to manage those contracts.
Permanent Housing	<ul style="list-style-type: none"> CES Coordination ensures the placement of people experiencing homelessness into permanent housing; however, the City is not contemplating replacing CES coordination activities currently implemented by LAHSA with service providers in this department. City-funded Housing Navigation and Time Limited Subsidy programs implemented by service providers under this program area could be absorbed by FTEs identified in Figure 1.3, as the City-funded portion of these regional programs are relatively small in scale. This scale is evidenced by the five total City-funded FTEs currently at LAHSA in this department, per figure 1.2.
Systems & Planning	<ul style="list-style-type: none"> Duties associated with service provider management in this department may be assumed by Housing Planning and Economic Analyst staff allocated to the Bureau; by LAHD Systems staff who manage and oversee digital infrastructure; and/or by CIFD staff who currently manage Prevention programs, as there are only two such City-funded service provider contracts in Fiscal Year 2024-25.
Executive/ Risk Management	<ul style="list-style-type: none"> Executive staff placed at the head of the Bureau and at LAHD should assume responsibility for the decision-making duties associated with this program area.
Operations/IT; HR/Equity; Government Affairs/ Communications	<ul style="list-style-type: none"> These program areas provide capacity at LAHSA for service provider management that would duplicate existing City capacity. For example, Operations capacity may be provided by the City's General Services Department; IT capacity by the Information Technology Agency; HR/Equity by the Personnel Department; and, Government Affairs/Communications by policy and/or communications staff at LAHD.
Special Projects	<ul style="list-style-type: none"> As this department provides services related to emergencies or change management, there is likely no core staffing capacity associated with direct contracting for service providers.

CITY SERVICE PROVIDER ADMINISTRATION

The CLA has not identified any limitation on the City's ability to directly contract with service providers who assist PEH; so, the City may explore the possibility of directly contracting with service providers for homelessness programs, moving away from its historical reliance on LAHSA. However, there are likely additional staffing requirements associated with this transition. As discussed above, we estimate that 89 FTEs are required to implement the core functions associated with direct administration of service provider contracts currently managed by LAHSA on behalf of the City. Below, we evaluate alternative methods to estimate staffing needs to test our assessment. We also produce cost estimates related to the core staffing at LAHSA necessary to implement essential administrative services, which would need to be assumed by the Bureau of Homelessness Oversight. However, as detailed reporting on such staffing and associated costs are anticipated in response to amended Motion (Raman-Blumenfeld; C.F. 25-0316), this report provides rough order of magnitude estimates, for discussion purposes only, concerning the estimated cost for the City to assume direct service provider contracting.

Transitioning to direct administration would require significant additions to the City's staffing and administrative structure, as described in Figure 1.3 above. Due to the enormity of such a transition, this report does not recommend immediately moving to implement such a change. Instead, we propose a pilot program for Fiscal Year 2025-26 to test the viability of such a significant change, should Council wish to move toward direct service provider contracting.

Alternative Staffing Estimates

Figure 1.3 above provides estimated total staffing required for the Bureau to implement direct service provider management which may require as many as 89 FTEs. This estimate is based upon CLA analysis of the CEO report, dated February 28, 2025. However, span of control requirements dictate that there may be additional executive management staff required to implement direct service provider contracting, beyond that which was identified within each LAHSA department for City-staffing purposes in Figure 1.3.

There are other alternative means to analyze the staffing required for the City to assume direct management of LAHSA service providers which provide similar order of magnitude estimates. For one, CIFI management of the FSC system requires six dedicated FTEs to implement this \$30 million program. LAHD reports that approximately \$310 million in contracts were provided to LAHSA under the City's current agreements with LAHSA in FY 24-25. With this figure, it may be possible to infer that 62 additional FTEs would suffice to manage a program with a dollar amount of \$310 million. However, the CIFI analysis was related to contract management, administration, and oversight, and therefore did not include accounting staff necessary to effectuate invoicing, reconciliation, and fiscal administration, nor did it include executive management to account for span-of-control issues. Further, CIFI possesses a longer duration of contract authority over City-managed service providers with respect to the FSC System, i.e., three to five years, while LAHD must oversee an annual contracting process with LAHSA. As a result, there may be additional staffing needs beyond the baseline estimate of 62 FTEs in order for the City to fulfill both administrative and direct management responsibilities of homeless service providers under one-year contracts.

In addition, CAO Budget Memo 113 shows that there are 67.62 FTE positions at LAHSA related to administration, which are funded by the City. This body of staff may suffice to effectuate direct service provider contracting; however, transitioning this body of City-funded staff over to City employment would likely require termination of the Joint Powers Authority agreement entirely. Termination of the Joint Powers Agreement would necessitate that those administrative staff conduct activities related to management of peripheral program areas at LAHSA which are not related to service provider contracting. As a result, there would likely be a need to hire additional staff, beyond the 67.62 FTEs identified in the CAO Budget Memo. Further, due to economies-of-scale issues discussed below, it is unlikely that the City would be able to conduct the related oversight duties with only those administrative personnel. Accordingly, similar to the estimate based on CIFD staffing, there may be additional staffing needs beyond this baseline estimate.

Due to the considerations detailed above, additional staff are certainly required in excess of 62 FTEs for the City to implement direct service provider contracting at current expenditure levels, while 89 additional City FTEs appears to be a robust staffing estimate. However, as previously discussed, the homelessness services sector is experiencing reductions in funding, and there is a possibility that fewer FTEs may be required, as soon as next fiscal year, to implement direct City contracting. In the context of these funding cuts, 62 FTEs might be the lower bounds for estimating staff required in future fiscal years for the the City to bypass LAHSA and contract directly with service providers.

Projected Costs

In view of pending reporting relative to amended Motion (Raman-Blumenfeld; C.F. 25-0316), this report also provides a rough order of magnitude estimate for staffing costs necessary to assume direct management of service providers. The 2025-26 Adopted Budget states that the fiscal impact of adding seven new staff positions for six months to implement the Bureau of Homelessness Oversight would be \$1,196,548, which is comprised of up to \$500,000 in contractual services and \$696,548 in direct and indirect staff costs. To calculate the cost of the City administering direct service provider contracting, the \$500,000 for contractual services has been excluded from the estimate as these initial costs will be used to establish the Bureau. Therefore, the annual cost to the City is projected at approximately \$1.4 million to support the seven new staff added to the Bureau. Accordingly, each new position is estimated to cost approximately \$200,000 annually. As such, it may cost the City from \$12.4 million (62 FTEs) to \$17.8 million (89 FTEs) annually for the City to implement direct contracting with service providers.

The above estimate does not account for dedicated office space, equipment and other resources, such as fleet vehicles, that may be required to implement direct oversight of service providers. Further, position responsibility determinations are required for classification under existing labor agreements for City employees (MOUs). Existing MOUs require a certain ratio of management to staff; therefore, additional management at the Bureau may be necessary to ensure span-of-control requirements for the addition of so many new staff. Additional staff at the City Attorney may also be required to negotiate and execute a significant quantity of new City contracts, though City Attorneys allocated to LAHSA could potentially perform this function in lieu of

hiring additional staff. Further, a contractual services allocation to LAHD may be required to implement the transition to direct service provider administration.

It should also be noted that the estimate provided above for \$200,000 per new employee is based on the addition of higher-level staff to the Bureau, e.g., Assistant General Manager, Housing Director, Chief Management Analyst, etc., per the relevant Adopted Budget instructions. As such, estimates for employee costs may be lower, while equipment/facilities, contractual services, and the addition of further management and/or City Attorney staff could impose additional costs on the City. Given these considerations, an additional 20 percent over the initial cost estimates may be required to provide the staff and resources necessary for the Bureau to directly manage service providers. Therefore, the total annual cost could be estimated at approximately \$14.9 million to \$21.4 million for the City to effectuate direct contracting.

Administration Rates/Funding

It is unclear to what extent current allocations for administrative overhead could be captured by the City to cover the potential staffing costs estimated above. However, the amount is likely a very small sum compared to the cost estimates above, with reference to recent budget reporting.

LAHSA reports that its administrative overhead is approximately five percent relative to its entire budget, so the nearly \$310 million in total City contracts with LAHSA for Fiscal Year 2024-25 could theoretically yield \$15.5 million in overhead. This figure roughly equates to LAHSA's budget request to the City for administration resources in Fiscal Year 2025-26. However, the City's adopted 2025-26 budget provides LAHSA roughly \$6.8 million for administration, of which \$4.5 million directly relates to LAHSA Administration and Operations, the remainder being dedicated to CoC program coordination/planning, administration of data systems, and the Point-in-Time count. Further, this \$4.5 million allocation must be shared with program areas that are peripheral to direct service provider contracting, such as Access and Engagement, Permanent Housing, and Systems and Planning. For example, LAHSA may utilize City administration funding in order to directly implement such programs as CES coordination and outreach, i.e. homeless engagement teams, without service providers. These functions would still need to be maintained by LAHSA, even if the City chose to fully implement direct service provider contracting. Accordingly, the administrative overhead left over to support the costs estimated in the previous section would not be sufficient to implement direct City contracting.

It should be noted that LAHSA is likely able to address the gap between their administrative needs and the City's actual allocation of administrative resources to LAHSA, as the rate for administrative costs is higher for County contracts than for City contracts. Further, as noted above, LAHSA receives significant funding from State and Federal sources to support its role as the Continuum of Care and Coordinated Entry System administrator. LAHSA may leverage those sources of funds to implement administration and management of service providers for City programs, in addition to the higher County administrative rates.

Economies of Scale

The City will also experience losses to cost efficiency should the City seek to expand its role in the homeless response system (HRS) to include direct management of service provision. Consolidating administrative functions, budget development and monitoring, and fiscal oversight

of service providers into a single organization such as LAHSA requires less expenditure on administrative overhead across the entire HRS. Should the City assume greater responsibility for direct service provision by managing service provider contracts directly, then the City would need to dedicate a larger amount of resources to the functions of administration, thereby losing the benefits of the economy of scale currently realized under LAHSA.

As an example, the analysis included in this report identifies 9.5 FTE positions supported by City/Federal funding sources in the Grants Management and Compliance Department of LAHSA. However, we estimate 22.5 FTE positions would be required to administer 250 contracts in this department. LAHSA leverages HHAP funding from the State as the CoC administrator to implement budget monitoring and fiscal oversight of its service providers. The City would thus lose cost efficiencies associated with economies of scale if it managed service providers directly, as these oversight activities would be solely supported instead with City discretionary funds. It is anticipated that the County will need to evaluate similar cost impacts as they evaluate their actions to assume LAHSA contracting.

Inside Safe Pilot Program

This report does not recommend to directly contract with service providers for all services currently managed by LAHSA; however, it identifies the option to pilot this function during FY 2025-26 with the Inside Safe Program (ISP). We recommend this pathway because Council has instructed the implementation of a Master Services Agreement with LAHSA, pursuant to the 2025-26 Budget, and contracting directly with service providers for all City-funded and LAHSA-managed programs in this fiscal year would disrupt that process.

If implemented, administration and management of ISP service providers could be streamlined, and costs associated with the delivery of services for ISP participants should be available for review. At present, CAO reports relative to the Homeless Emergency Account (HEA) state that service provider costs are not available per ISP participant, but rather for hotel/motel slots related to each encampment operation. Additionally, budgeted amounts for service providers for each encampment operation are unclear, as the most recent HEA report states that the last approved service-provider budget was related to an operation that occurred on March 28, 2024, but almost 200 repopulation and encampment resolution operations have occurred since that time. As a result, contract amounts for ISP service providers, and per client costs of the program, are not currently available for public review. Direct contracting with service providers could alleviate such barriers to analysis. Finally, direct administration could also facilitate more transparent and timely invoicing for service providers, as the City would control the payments process directly.

To effectuate, the Bureau would conduct administrative oversight over the service provider contracts relative to ISP services. For these contracts, existing staff at the Bureau could provide the requisite capacity to manage the relatively small subset, roughly 18 contracts, out of the reported 250 service provider contracts managed by LAHSA with City funding. However, should Council approve the recommendations in this report, our Office would review and report on the extent to which existing capacity at the Bureau was sufficient to assume responsibility for service provider contracts, using CIFD's model as a point of reference for best practice with this analysis.

CONCLUSION

Contracting directly with service providers, rather than with LAHSA, could enhance the City's control and effectiveness in addressing homelessness by fostering a more direct relationship with service providers on the ground, but should not be implemented without a full implementation plan. The primary benefits to the City by directly managing service provider contracts include:

- **Increased Oversight and Accountability:** Direct contracting would allow the City to implement more granular monitoring processes, similar to CIFD's "little m" monitoring, which involves desk audits, spend-down reviews, monthly engagements, and site visits, and ensuring 100 percent documentation of services rendered. This would provide a clearer picture of how funds are being utilized and the direct impact of services.
- **Improved Data Availability:** The current system often lacks specific data on the performance of individual LAHSA-service providers and related costs. Direct contracting would help to alleviate this gap, offering more transparent invoicing and detailed data for analysis, which is crucial for evaluating program effectiveness.
- **Streamlined Payments:** By controlling the payment process directly, the City anticipates facilitating more transparent and timely invoicing for service providers.

Despite the potential benefits, the staffing requirements for the City to make such a change would be immense, and the fiscal impacts to the City would likely be commensurate with such an increase. Knowing this, should Council choose to proceed with implementation, we recommend moving forward with a pilot program to initiate direct service provider contracting, and to study the impact and effects of implementing such a program.

Further, as mentioned previously, reductions in funding for homeless services may occur as soon as Fiscal Year 2026-27. If the City continues to experience reductions in funding for the homeless services sector, there may be less need for contracting and administrative services related to homelessness contracts. As a result, the scale of need for additional staffing, and associated costs, to implement a contracting service as identified and estimated in this report may be reduced for the City in subsequent fiscal years. Therefore, this option provides leeway to determine the actual staffing and funding needed to implement in advance of any such future reductions.

Nevertheless, this report finds that in order to fully implement direct service provider contracting at the current expenditure level, the City would need 62-89 additional staff to manage service provider contracts currently handled by LAHSA. There will also be costs for office space, vehicles, supplies, contractual services, information technology, and other such related costs outside of salaries and benefits. Including all of these costs, this report provides an order of magnitude estimate that the total cost to the City to fully implement direct service provider contracting would be \$15 to \$21 million.


David J. Wimsatt
Analyst

Attachment:

- I. Housing and Homelessness Committee Report (C.F. 24-1480)

Attachment I

File No. 24-1480

HOUSING AND HOMELESSNESS COMMITTEE REPORT relative to requesting a report from the Chief Legislative Analyst (CLA), with assistance from the City Administrative Officer (CAO) and the Los Angeles Housing Department (LAHD) on how the City can directly contract with Service Providers on all programs currently funded for homelessness interventions and bypass the Los Angeles Homeless Service Authority (LAHSA).

Recommendation for Council action, pursuant to Motion (Rodriguez - Blumenfield):

DIRECT the CLA, with the assistance of the CAO and the LAHD to report to on how the City can directly contract with Service Providers on all programs currently fund by the City. This would allow the City to bypass LAHSA who historically administers all programs.

Fiscal Impact Statement: Neither the CAO nor the CLA has completed a financial analysis of this report.

Community Impact Statement: None submitted

SUMMARY

At the meeting held on March 5, 2025, your Housing and Homelessness Committee considered a Motion (Rodriguez - Blumenfield) relative to the transfer of HHAP-3 funding to be used for the rehabilitation of the Oak Tree Inn Project located at 17448 Ventura Boulevard in Council District Four and the Motel 6 Project located at 15711 West Roscoe Boulevard in Council District 12 to be used for interim housing.

After an opportunity for public comment was held, the Committee moved to approve the recommendation contained in the Motion, as detailed above. This matter is now forwarded to the Council for its consideration.

Respectfully Submitted,

HOUSING AND HOMELESSNESS COMMITTEE

<u>MEMBER</u>	<u>VOTE</u>
RAMAN:	YES
JURADO:	YES
PRICE:	ABSENT
BLUMENFIELD:	YES
NAZARIAN:	ABSENT

LV 3.5.25

-NOT OFFICIAL UNTIL COUNCIL ACTS-