

June 24, 2019

## MEMORANDUM

**To:** Housing, Health, Energy, and Workers' Rights Committee  
**From:** Amy Gore, Council Central Staff  
**Subject:** Follow-Up to Committee Discussion on Council Bill 119542: Annual Inflation Adjustment for Human Services Department Contracts

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On June 13, 2019, the Housing, Health, Energy, and Workers' Rights Committee (HHEWR) discussed [Council Bill \(CB\) 119542](#), which would amend the Seattle Municipal Code (SMC) to require that the Human Services Department (HSD) include annual inflation adjustments for renewed or renegotiated contracts. The following memo presents additional information based on Councilmember questions during and after the committee discussion, and updated information related to potential budgetary impacts. Specifically, the memo includes additional information on the following topics:

1. [Index Comparisons](#)
2. [Methodology for calculating inflationary adjustments](#)
3. [Return on investment of human services](#)
4. [Impact of turnover rate on outcomes](#)
5. [Increases in operating costs](#)
6. [Revised budgetary impacts based on more current data provided by the City Budget Office \(CBO\)](#)

### 1. Index Comparisons

Periodic contract adjustments can be calculated by a flat rate increase or a variable rate increase which is determined by an identified measure of inflation ("index linking"). There are a variety of indices which can be used for this purpose, including the Consumer Price Index – Urban Consumers (CPI-U), the Consumer Price Index – Urban Wage Earners and Clerical Workers (CPI-W), Producer Price Indexes (PPIs) and the Employment Cost Index (ECI).

When choosing an index for linking, considerations should include: source reliability and objectivity, timeliness of updates, geographic specificity and whether the index is a relevant measure for the purposes of the policy. This analysis examines the two most frequently used indices for contract escalation, CPI-U and CPI-W, as well as ECI. It does not examine PPIs, which are primarily used for goods contracts and are not as relevant for the cost of providing services.

The CPI-U tracks a basket of goods to determine changes in prices for all urban consumers. According to the Bureau of Labor Statistics (BLS), the CPI-U reflects spending patterns for about

93 percent of the US population.<sup>1</sup> It tracks the average change in the prices of consumer goods in eight major categories as listed in Table 1.

The CPI-W tracks the same basket of goods but weights the eight items differently to reflect the purchases of urban hourly wage earners and clerical workers. The CPI-W places a slightly higher weight on food, apparel, transportation, and other goods and services and places a slightly lower weight on housing, medical care and recreation than the CPI-U. Table 1 indicates the weights given to each measure by the two indexes. According to the BLS, the CPI-W reflects the spending patterns of 29 percent of the US population<sup>2</sup>.

*Table 1: Relative Importance of Components of CPI-U and CPI-W*

Major Goods Categories	CPI-U	CPI-W
All Items	100.000	100.000
Food & Beverages	15.272	16.011
Housing	42.173	40.464
Apparel	3.343	3.595
Transportation	15.289	18.015
Medical Care	7.716	6.308
Recreation	5.750	5.131
Education & Communication	7.062	6.875
Other Goods and Services	3.394	3.600

Source: Bureau of Labor Statistics Handbook of Methods, "Chapter 17-Consumer Price Index, Appendix 9". Updated February 24, 2018.

The ECI is a lesser-known data set also released by the Bureau of Labor Statistics. It is designed to reflect changing labor costs, including wages and benefits, and is the basis for the annual wage adjustments for many federal employees through the General Schedule. The ECI is published for fifteen cities, including Seattle, however data for specific geographies is much more limited than national data. For example, Seattle data is only for private-industry workers and does not include local or state government workers and does not include seasonally adjusted data. Because the data set only became available for Seattle beginning in 2009, longer term trends are difficult to determine.

### Historical Data

CPI-U and CPI-W track fairly closely with each other and ECI is relatively more volatile. Since 2001, year-over-year change in CPI-U has ranged from a low of negative 0.5 percent to a high of 5.8 percent, averaging 2.3 percent. Over the same period, year-over-year change in CPI-W

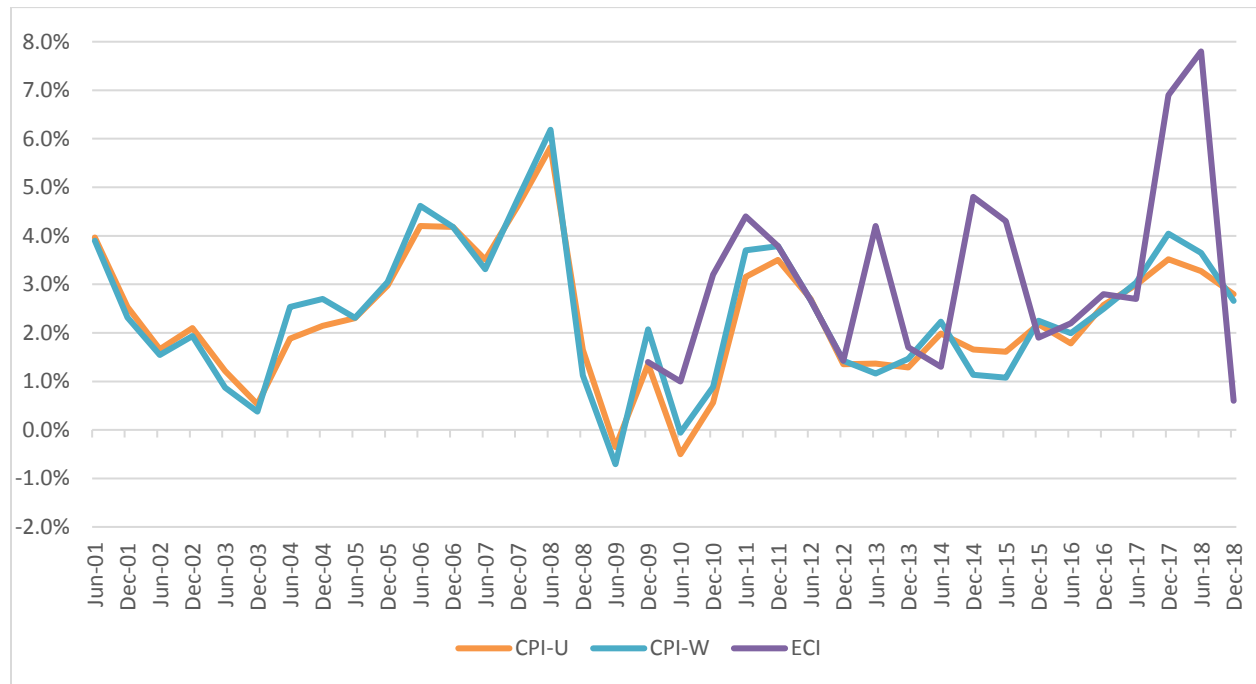
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<sup>1</sup> Bureau of Labor Statistics, Press Office. (April 10, 2019). *Consumer Price Index – March 2019* [News Release]. Retrieved from <https://www.bls.gov/news.release/pdf/cpi.pdf>

<sup>2</sup> Ibid.

ranged from a low of negative 0.7 percent to a high of 6.2 percent, averaging 2.4 percent. Since 2009, ECI ranged from a low of negative 0.2 percent to a high of 7.8 percent, averaging 2.8 percent. (Chart 1 illustrates the year-over-year change in June and December for each of these indices and Attachment 1 presents the historical data.)

*Chart 1: Year-over-Year Change in CPI-U, CPI-W and ECI 2000-2018 Selected Data\**



Source: Bureau of Labor Statistics

\*Note: The chart above presents year-over-year increase in June and December for CPI-U, CPI-W and ECI. CPI-U and CPI-W are issued bimonthly and ECI is issued quarterly.

## 2. Methodology for Annual Adjustment

Council Bill 119542 states that the City “shall use” the Seattle-Tacoma-Bellevue Consumer Price Index for Urban Wage Earners and Clerical workers as a measure of how much the cost of services has increased. However, the CB does not specify what methodology HSD would use to calculate the annual adjustment. To provide clarity and reliability, Council may want to amend the proposal to provide a more specific calculation methodology. Options include:

- Annual Average – Calculate the percentage change in the annual average. The BLS issues an annual average for CPI-W, however this data is not available until the following year and would not be available for budgeting purposes.
- Point in Time Year-Over-Year Change – Calculate the percentage change from the previous year for a specific CPI reference month (February, April, June, August, September or December).

- Year-Over-Year Change in 12-Month Average – Calculate the previous 12-month average for a specific CPI reference month and then calculate year-over-year change. This methodology is currently used for the Seattle Minimum Wage adjustments, specifically using the 12-month period ending in August.

### 3. Return on Investment

Determining overall return on investments for the wide range of HSD services is a difficult task. The [Washington State Institute for Public Policy](#) produces in-depth research on the benefits and costs of specific program types, though it is impossible to draw broad conclusions about the overall return on investment of HSD service contracts at this time.

### 4. Impacts of Turnover Rate

There has been significant research on high turnover rates in the health and human service services, particularly in the area of child welfare, however most of this research documents the turnover rates rather than calculating the cost or the impact on outcomes. Still, some studies are revealing of these impacts:

- According to the Casey Family Programs, the cost of a caseworker leaving a child welfare agency ranges from thirty to two hundred percent of the exiting employee’s annual salary.<sup>3</sup>
- Turnover has also been shown to impact the outcomes of human service providers. For example, a 2005 study of Milwaukee County child welfare services showed that increases in the number of case workers due to turnover lessened the chance that a child would exit the program to permanent placement. “Children who had only one case worker achieved permanency in 74.5% of the cases. As the number of case managers increased the percentage of children achieving permanency substantiation dropped, ranging from 17.5% for children with two case managers to a low of 0.1% having six and seven case managers.”<sup>4</sup>

### 5. Increases in Operating Costs

Many HSD contract partners have reported significant increases in the cost of operating over the past several years. Because every organization and their operations are different, it is difficult to draw specific conclusions about the costs of any given organization or industry, however we can look at general trends in some of the basic costs of providing services.

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<sup>3</sup> Casey Family Programs. (Updated October 2017). *Healthy Organizations Information Packet*. Retrieved from [https://caseyfamilypro-wpengine.netdna-ssl.com/media/HO\\_Turnover-Costs\\_and\\_Retention\\_Strategies-1.pdf](https://caseyfamilypro-wpengine.netdna-ssl.com/media/HO_Turnover-Costs_and_Retention_Strategies-1.pdf)

<sup>4</sup> Flower, McDonald and Sumski. (January 2005). *Review of Turnover in Milwaukee County Private Agency Child Welfare Ongoing Case Management Staff*. Retrieved from <https://www.uh.edu/socialwork/docs/cwep/national-iv-e/turnoverstudy.pdf>

- As discussed above, the Seattle CPI-W, an index of the cost of purchasing goods and services, has risen steadily recently. Since 2009, the CPI-W (Dec) has increased a total of 20.9 percent.
- Likewise, the Seattle Employment Cost Index, a reflection of the cost of wages and benefits, has risen, averaging a 2.8 percent year-over-year increase since 2009.
- Other costs, such as utility rates, have also increased. For example, since 2009, Seattle City Light rates have increased an average of 5.7 percent per year and Seattle Public Utilities rates have increased an average of 6.9 percent per year.

*Table 2: Average Utility Rate Increases*

Year	Seattle City Light	Seattle Public Utilities
2009	1.8%	20.5%
2010	14.3%	4.5%
2011	4.3%	9.3%
2012	3.2%	6.5%
2013	4.4%	8.1%
2014	6.8%	4.8%
2015	5.1%	2.9%
2016	4.9%	4.1%
2017	6.8%	5.2%
2018	5.6%	4.3%
2019	5.8%	5.7%
2020	5.4%	7.0%
<b>Average</b>	<b>5.7%</b>	<b>6.9%</b>

Source: Seattle City Light Rate Design Report Adopted Rates 2019-2020, Seattle Public Utilities Strategic Plan Update 2018-2023

## 6. Revised Budgetary Impacts

The proposal will have budgetary impacts in 2020 and beyond. With additional information and collaboration with the Seattle City Budget Office (CBO), revised potential budget estimates are provided in Table 3, though specific budgetary impacts will not be known until Council chooses an index, methodology, and that index information is published.

### Two Percent Adjustments in 2019 and 2020

The 2019 Adopted Budget included a total of \$2,597,782 for a two percent inflationary adjustment for both General Fund (GF) and non-General Fund (non-GF) HSD contracts. This included \$1,694,692 in the Mayor’s proposed budget for GF contracts<sup>5</sup> and \$903,090 added by

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<sup>5</sup> BIP HSD-142

the Council for non-GF contracts<sup>6</sup>. Due to exemptions for some contracts, the actual cost of the non-GF two percent adjustment was \$634,791, for a total cost of \$2,329,483 for the two percent adjustment in 2019.

According to CBO, in 2019 HSD is administering \$134,368,563 in contracts that would be eligible for contract adjustments, including \$102,629,020 of GF contracts and \$31,739,543 in non-GF contracts. Therefore, the actual cost of providing a further two percent adjustment in 2020 (on top of continuing to fund the 2 percent increase from 2019) would be \$2,052,580 for GF contracts and \$634,791 for non-GF contracts, for a total cost of \$2,687,371. The 2020 Endorsed Budget included \$1,928,585 for a two percent increase for GF-contracts in 2020 and does not include funding for a two percent increase for non-GF contracts. An additional \$758,786 is needed to fully fund a two percent increase in 2020. If the unspent funds from 2019 are applied to this budget item, the remaining shortfall is \$490,487.

*Table 3: Impacts to 2020 Endorsed Budget*

<b>Two Percent Adjustment</b>	<b>GF</b>	<b>Non-GF</b>	<b>Total</b>
<b>2019</b>			
Cost of 2% Adjustment in 2019	\$1,694,692	\$634,791	\$2,329,483
Budgeted funds for 2% Adjustment in 2019	\$1,694,692	\$903,090	\$2,597,782
Difference in Cost of 2019 Increase and Budget	\$0	\$268,299	\$268,299
<b>2020</b>			
<i>Base 2019 HSD Contracts Eligible for Adjustment</i>	<i>\$102,629,020</i>	<i>\$31,739,543</i>	<i>\$134,368,563</i>
Cost of 2% Adjustment in 2020	\$2,052,580	\$634,791	\$2,687,371
Budgeted funds for 2% Adjustment in 2020	\$1,928,585	\$0	\$1,928,585
Difference in Cost of 2020 Increase and Budget	(\$123,995)	(\$634,791)	(\$758,786)

### 2.9 Percent Adjustment in 2020

The most recent CPI-W for Seattle-Tacoma-Bremerton is from April 2019 and the increase in the 12-month average from April 2018 to April 2019 was 2.9 percent. The cost of providing a 2.9 percent adjustment in 2020 would be \$2,976,242 for GF contracts and \$920,447 for non-GF contracts, for a total increase of \$3,896,688. The 2020 Endorsed Budget includes \$1,928,585 for the 2020 adjustment. Therefore, if the adjustment is increased to 2.9 percent in 2020, there would be a shortfall of \$1,968,103. If the unspent funds from 2019 is applied to this budget item, the total remaining shortfall is \$1,660,286.

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<sup>6</sup> GS 14-9-D-1

Table 4: Impacts to 2020 Endorsed Budget

2 Percent Adjustment (2019) & 2.9 Percent Adjustment (2020)	GF	Non-GF	Total
<b>2019</b>			
2% Adjustment in 2019	\$1,694,692	\$634,791	\$2,329,483
Budgeted funds for 2% Adjustment in 2019	\$1,694,692	\$903,090	\$2,597,782
Difference of 2019 Increase and Budget	\$0	\$268,299	\$268,299
<b>2020</b>			
<i>Base 2019 HSD Contracts Eligible for Adjustment</i>	<i>\$102,629,020</i>	<i>\$31,739,543</i>	<i>\$134,368,563</i>
2.9% Adjustment in 2020	\$2,976,242	\$920,447	\$3,896,688
Budgeted funds for 2% Adjustment in 2020	\$1,928,585	\$0	\$1,928,585
Difference of 2020 Increase and Budget	(\$1,047,657)	(\$920,447)	(\$1,968,103)

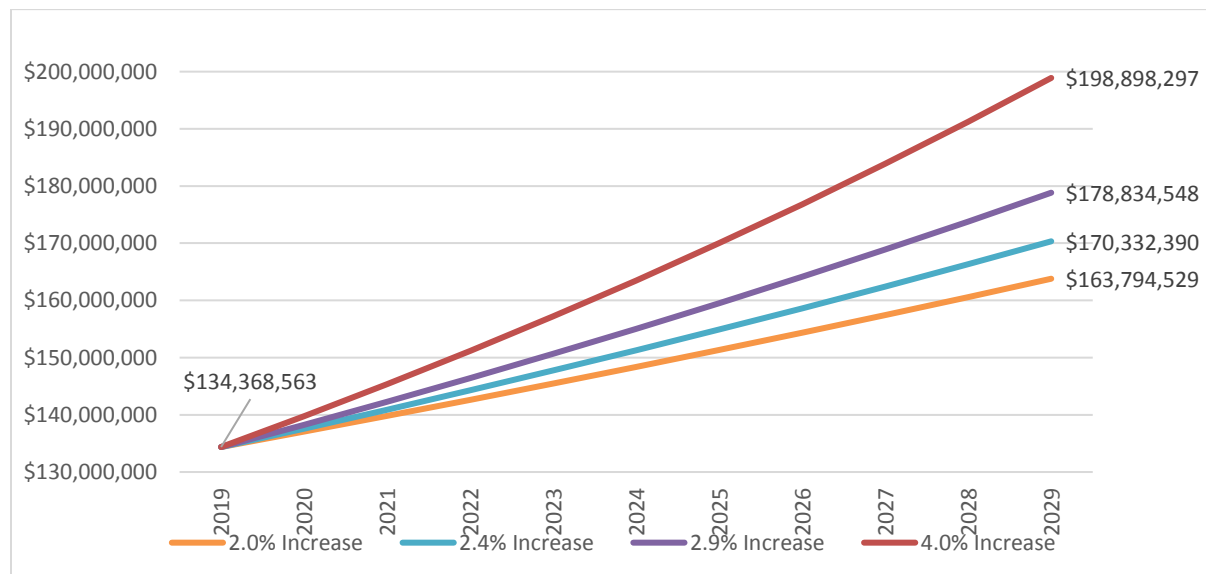
Long-Term Budget Impacts

Chart 2 and Attachment 2 show the cost of an annual inflationary increase under four scenarios:

- 2.0 percent - the most typical budgeted increase over the past several years,
- 2.4 percent - the average CPI-W increase since 2000,
- 2.9 percent - the most recent 12-month average increase in CPI-W, and
- 4.0 percent - the highest increase in CPI-W studied during this economic cycle.

These calculations demonstrate that the cost of the annual increase will vary significantly depending on the change in the CPI-W.

Chart 2: Potential Growth in HSD Contracts



**Next Steps**

The HHEWR Committee will continue discussion of and may vote on CB 119542 during a special committee meeting on July 11, 2019.

**Attachments:**

1. Year-over-Year Change in CPI-U, CPI-W and ECI 2000-2018 Selected Data
2. Potential Growth in HSD Contracts (Revised)

cc: Kirstan Arestad, Central Staff Director  
Aly Pennucci, Supervising Analyst



**Attachment 1: Year-over-Year Change in CPI-U, CPI-W and ECI 2000-2018 Selected Data\***

	CPI-U	CPI-W	ECI
Jun-01	4.0%	3.9%	
Dec-01	2.5%	2.3%	
Jun-02	1.7%	1.5%	
Dec-02	2.1%	1.9%	
Jun-03	1.2%	0.9%	
Dec-03	0.5%	0.4%	
Jun-04	1.9%	2.5%	
Dec-04	2.1%	2.7%	
Jun-05	2.3%	2.3%	
Dec-05	3.0%	3.0%	
Jun-06	4.2%	4.6%	
Dec-06	4.2%	4.2%	
Jun-07	3.5%	3.3%	
Dec-07	4.6%	4.8%	
Jun-08	5.8%	6.2%	
Dec-08	1.7%	1.1%	
Jun-09	-0.4%	-0.7%	
Dec-09	1.4%	2.1%	1.4%
Jun-10	-0.5%	-0.1%	1.0%
Dec-10	0.6%	0.9%	3.2%
Jun-11	3.2%	3.7%	4.4%
Dec-11	3.5%	3.8%	3.8%
Jun-12	2.7%	2.7%	2.7%
Dec-12	1.4%	1.4%	1.4%
Jun-13	1.4%	1.2%	4.2%
Dec-13	1.3%	1.5%	1.7%
Jun-14	2.0%	2.2%	1.3%
Dec-14	1.7%	1.1%	4.8%
Jun-15	1.6%	1.1%	4.3%
Dec-15	2.2%	2.3%	1.9%
Jun-16	1.8%	2.0%	2.2%
Dec-16	2.6%	2.5%	2.8%
Jun-17	3.0%	3.0%	2.7%
Dec-17	3.5%	4.0%	6.9%
Jun-18	3.3%	3.6%	7.8%
Dec-18	2.8%	2.7%	0.6%

Source: Bureau of Labor Statistics

*\*Note: The chart above presents year-over-year increase in June and December for CPI-U, CPI-W and ECI. CPI-U and CPI-W are issued bimonthly and ECI is issued quarterly.*

**Attachment 2: Potential Growth in HSD Contracts (Revised)**

<b>2.0% Increase</b>											
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>
GF	\$102,629,020	\$104,681,600	\$106,775,232	\$108,910,737	\$111,088,952	\$113,310,731	\$115,576,945	\$117,888,484	\$120,246,254	\$122,651,179	\$125,104,203
Non-GF	\$31,739,543	\$32,374,334	\$33,021,821	\$33,682,257	\$34,355,902	\$35,043,020	\$35,743,881	\$36,458,758	\$37,187,933	\$37,931,692	\$38,690,326
Total	\$134,368,563	\$137,055,934	\$139,797,053	\$142,592,994	\$145,444,854	\$148,353,751	\$151,320,826	\$154,347,243	\$157,434,187	\$160,582,871	\$163,794,529
Increase from Previous Year		<b>\$2,687,371</b>	<b>\$2,741,119</b>	<b>\$2,795,941</b>	<b>\$2,851,860</b>	<b>\$2,908,897</b>	<b>\$2,967,075</b>	<b>\$3,026,417</b>	<b>\$3,086,945</b>	<b>\$3,148,684</b>	<b>\$3,211,657</b>
<b>2.4% Increase</b>											
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>
GF	\$102,629,020	\$105,092,116	\$107,614,327	\$110,197,071	\$112,841,801	\$115,550,004	\$118,323,204	\$121,162,961	\$124,070,872	\$127,048,573	\$130,097,739
Non-GF	\$31,739,543	\$32,501,292	\$33,281,323	\$34,080,075	\$34,897,997	\$35,735,549	\$36,593,202	\$37,471,439	\$38,370,753	\$39,291,651	\$40,234,651
Total	\$134,368,563	\$137,593,409	\$140,895,650	\$144,277,146	\$147,739,797	\$151,285,553	\$154,916,406	\$158,634,400	\$162,441,625	\$166,340,224	\$170,332,390
Increase from Previous Year		<b>\$3,224,846</b>	<b>\$3,302,242</b>	<b>\$3,381,496</b>	<b>\$3,462,652</b>	<b>\$3,545,755</b>	<b>\$3,630,853</b>	<b>\$3,717,994</b>	<b>\$3,807,226</b>	<b>\$3,898,599</b>	<b>\$3,992,165</b>
<b>2.9% Increase</b>											
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>
GF	\$102,629,020	\$105,605,262	\$108,667,814	\$111,819,181	\$115,061,937	\$118,398,733	\$121,832,296	\$125,365,433	\$129,001,031	\$132,742,060	\$136,591,580
Non-GF	\$31,739,543	\$32,659,990	\$33,607,129	\$34,581,736	\$35,584,607	\$36,616,560	\$37,678,440	\$38,771,115	\$39,895,477	\$41,052,446	\$42,242,967
Total	\$134,368,563	\$138,265,251	\$142,274,944	\$146,400,917	\$150,646,544	\$155,015,293	\$159,510,737	\$164,136,548	\$168,896,508	\$173,794,507	\$178,834,548
Increase from Previous Year		<b>\$3,896,688</b>	<b>\$4,009,692</b>	<b>\$4,125,973</b>	<b>\$4,245,627</b>	<b>\$4,368,750</b>	<b>\$4,495,444</b>	<b>\$4,625,811</b>	<b>\$4,759,960</b>	<b>\$4,897,999</b>	<b>\$5,040,041</b>
<b>4.0% Increase</b>											
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>
GF	\$102,629,020	\$106,734,181	\$111,003,548	\$115,443,690	\$120,061,438	\$124,863,895	\$129,858,451	\$135,052,789	\$140,454,900	\$146,073,096	\$151,916,020
Non-GF	\$31,739,543	\$33,009,125	\$34,329,490	\$35,702,669	\$37,130,776	\$38,616,007	\$40,160,647	\$41,767,073	\$43,437,756	\$45,175,266	\$46,982,277
Total	\$134,368,563	\$139,743,306	\$145,333,038	\$151,146,359	\$157,192,214	\$163,479,902	\$170,019,098	\$176,819,862	\$183,892,657	\$191,248,363	\$198,898,297
Increase from Previous Year		<b>\$5,374,743</b>	<b>\$5,589,732</b>	<b>\$5,813,322</b>	<b>\$6,045,854</b>	<b>\$6,287,689</b>	<b>\$6,539,196</b>	<b>\$6,800,764</b>	<b>\$7,072,794</b>	<b>\$7,355,706</b>	<b>\$7,649,935</b>