

June 10, 2019 (REVISED)

MEMORANDUM

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

On June 13, 2019, the Housing, Health, Energy, and Workers' Rights Committee (HHEWR) will discuss [Council Bill \(CB\) 119542](#), which amends the Seattle Municipal Code (SMC) to require the Human Services Department (HSD) include annual inflation adjustments for renewed or renegotiated contracts. This annual increase is intended to reflect the actual operating costs for HSD contract grantees which have been escalating rapidly during the current period of economic growth.

Current Practice

HSD contracts are funded through the General Fund (GF) or through federal or state grants such as Community Development Block Grants (CDBG) or Housing Opportunities for Persons with AIDS (HOPWA). Because HSD is designated as the Area Agency on Aging (AAA) for Seattle and King County, HSD contracts cover services in Seattle, King County, or a combination of both.

Currently, HSD funds services through a competitive process that awards funding to organizations for multiple years, usually for four years. Though the award is for multiple years, funds are dispersed through successive single-year contracts and each year of the award the contract is renegotiated or renewed. Increases in contract amounts or changes to scope can be made during the Request for Proposals (RFPs)/awards process or during contract renegotiation, but are not required during either the award process or contract renegotiations.

As illustrated in Table 1, from 2014 to 2020, the budget has included an inflationary adjustment ranging from 0.6 percent to 2.3 percent. From 2014 to 2018, these adjustments applied only to GF contracts. The 2019 Adopted Budget and 2020 Endorsed Budget included a two percent inflationary adjustment for both GF and non-GF contracts. (The Mayor's proposed budget included a two percent increase for all GF supported contracts and Council amended the budget to apply this two percent increase to non-GF supported contracts as well.)

Table 1: Recent Contract Inflation Adjustment Amounts and CPI-W

| Year | Adjustment Amount | Contract Type | CPI-W** |
|-------|-------------------|-----------------------------------|---------|
| 2014 | 2.3% | General Fund only | 1.5% |
| 2015* | 0.6% | General Fund only | 1.1% |
| 2016 | 2.3% | General Fund only | 2.3% |
| 2017 | 2.0% | General Fund only | 2.5% |
| 2018 | 2.0% | General Fund only | 4.0% |
| 2019 | 2.0% | General Fund and non-General Fund | 2.7% |
| 2020 | 2.0% | General Fund and non-General Fund | |

Source: Seattle Human Services Department and Bureau of Labor Statistics

*There was a revision to the 2015 forecast for CPI-U from 2.1% to 0.6%; and the 2015 Adopted was not adjusted for this. However, the 2016 base for the affected account groups were reduced to capture the 2015 savings.

**Annual change in CPI-W (December to December) for previous year

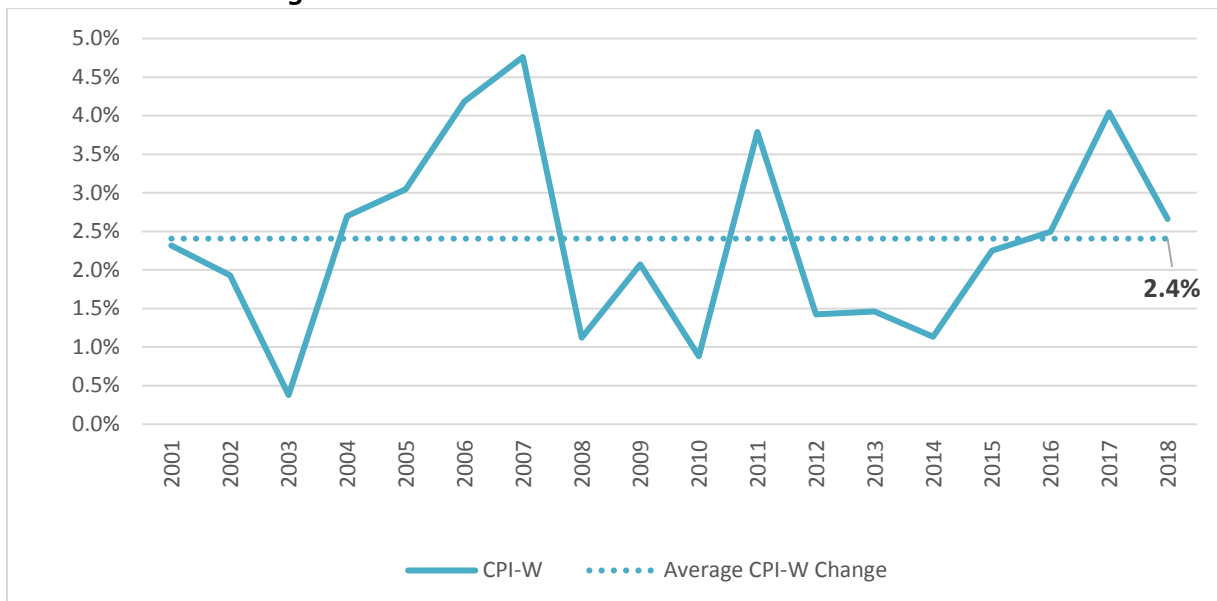
CB 119542

Council Bill 119542 would amend the Seattle Municipal Code (SMC) to require that HSD contracts, both those funded by GF and non-GF sources, include an annual inflation adjustment when renewed or renegotiated. The bill would apply to contracts issued under the authority granted HSD in [SMC § 3.20.50](#), with four exceptions:

1. The City is solely acting as a pass-through agency for services that are not provided in the city limits; or
2. The contract is solely supported by state Medicaid funds or funds appropriated by [Title XIX of the Social Security Act](#); or
3. The services are provided by a consultant as defined in [SMC § 20.50.010](#); or
4. Explicitly prohibited by or otherwise incompatible with requirements of the funding source.

The annual adjustment will be based on the change in the Seattle-Tacoma-Bellevue Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). If the annual change for CPI-W is negative, the annual inflation adjustment for the contracts will be zero percent. As shown in Chart 1, the annual change in CPI-W ranged from a low of 0.4 percent (2009 to 2010) to a high of 4.8 percent (from 2006 to 2007), averaging a 2.4 percent increase from 2001 to 2018.

Chart 1: Annual Change in CPI-W – 2001 to 2018



CB 119542 requires that new awards consider previous contracts when determining what would be an accurate and fair assessment of the cost to fulfill the new contract.

Section 2 of CB 119542 makes a technical correction requested by Law to clarify that HSD contracting is governed by SMC 3.20, not SMC 20.60 which governs city contracts granted and administered by Finance and Administrative Services.

Policy Considerations

Budget Impacts

As discussed above, the 2019 Adopted Budget and 2020 Endorsed Budget included a two percent inflationary adjustment for HSD contracts, estimated to cost \$2.316 million in 2019 and an additional \$2.632 million in 2020 – a total of \$4.678 million in 2020. The mayor and council have budgeted \$4.526 million for the cost of the adjustment, therefore \$152,003 will be needed for this budget item. If the CPI-W is over two percent, additional funds will be needed in 2020. For example, if the CPI-W is 2.4 percent, an additional \$1.087 million will be needed and if the CPI-W is four percent, an additional \$4.830 million will be needed in 2020.

Attachment 1 shows the cost of an annual inflationary increase at two percent, which is the amount of the increase for 2019 and 2020, at 2.4 percent, which has been the average CPI-W increase since 2000 and at four percent, which was the annual increase of CPI-W from December 2016 to December 2017, the highest increase during this economic cycle. These calculations demonstrate that the cost of the annual increase will vary significantly depending on the CPI-W change. For example, in 2021, a two percent increase would cost ~~\$3.995 million~~

\$2.362 million and a four percent increase would require an additional ~~\$7.990 million~~ **\$4.725 million**.

The required contract adjustments will need to be funded in future budgets approved by Council. Without sufficient budget increases to cover the contract adjustments, HSD will need to reduce the scope or number of its service contracts.

Impact on Contract Bidding Process

The legislation states that new awards should reflect “previous contracts and inflationary adjustments” which aims to ensure that new contracts do not reverse previously provided annual adjustments, however it could limit the benefits of a competitive bidding process, such as encouraging the leveraging of outside funds.

Next Steps

The HHEWR Committee will continue discussion of and potentially vote on CB 119542 during a special committee meeting on July 13, 2019.

Attachments:

1. Potential Cost of Annual Increase

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

Attachment 1: Potential Cost of Annual Increase

| | 2020 Endorsed* | 2.0% Increase | | 2.4% Increase | | 4.0% Increase | |
|---------------------------|-------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 |
| - | | | | | | | |
| GF | \$124,667,383 | \$127,160,731 | \$129,703,945 | \$127,659,400 | \$130,723,226 | \$129,654,078 | \$134,840,241 |
| Non-GF | \$75,082,895 | \$76,584,553 | \$78,116,244 | \$76,884,884 | \$78,730,122 | \$78,086,211 | \$81,209,659 |
| Total | \$199,750,278 | \$203,745,284 | \$207,820,189 | \$204,544,285 | \$209,453,348 | \$207,740,289 | \$216,049,901 |
| Increase from 2020 | - | \$3,995,006 | \$8,069,911 | \$4,794,007 | \$9,703,070 | \$7,990,011 | \$16,299,623 |

*Assumes increase of 2.0% in 2020

Attachment 1: Potential Cost of Annual Increase (REVISED)

| | 2020 Endorsed* | 2.0% Increase | | 2.4% Increase | | 4.0% Increase | |
|---------------------------|-------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 |
| GF | \$86,429,272 | \$88,157,857 | \$89,921,014 | \$88,503,574 | \$90,627,660 | \$89,886,442 | \$93,481,900 |
| Non-GF | \$31,687,989 | \$32,321,749 | \$32,968,184 | \$32,448,501 | \$33,227,265 | \$32,955,509 | \$34,273,729 |
| Total | \$118,117,261 | \$120,479,606 | \$122,889,198 | \$120,952,075 | \$123,854,925 | \$122,841,951 | \$127,755,629 |
| Increase from 2020 | | \$2,362,345 | \$4,771,937 | \$2,834,814 | \$5,737,664 | \$4,724,690 | \$9,638,368 |

*Assumes increase of 2.0% in 2020