



City of Seattle  
Edward B. Murray, Mayor

**Human Services Department**  
Catherine Lester, Director

Date: September 1, 2015

To: Seattle City Council, CHASER Committee

Councilmember John Okamoto  
Councilmember Tom Rasmussen  
Councilmember Kshama Sawant

From: Catherine Lester, Director Human Services Department  
Ben Noble, City Budget Director

RE: Statement of Legislative Intent (56-1-A-2)  
Phase II report on the cost to maintain existing human services delivery in light of minimum wage progression, including alternatives and assessment of capacity building for non-profit providers.

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This memorandum transmits Phase II of the City Budget Office and Human Services Department's response to the City Council's Statement of Legislative Intent (SLI) 56-1-A-2 included in the 2015 Adopted Budget. The SLI requested that the City Budget Office (CBO) and Human Services Department (HSD) provide a report updating Council on the impact of the minimum wage increase on City-funded human services providers, assuming current levels of human service delivery. The Council requested the following information in the Phase II report:

- An analysis and prioritization of potential services reductions in 2016, if funding levels are not increased to mitigate the impact to current City-funded human services providers of minimum wage increases;
- An analysis by SIP of how service delivery and contract costs could change based on implementation of the results-based accountability "Outcomes Framework";
- An analysis of how service delivery and contract costs could change based on the performance-based budgeting; and
- An assessment of potential programs, such as capacity building and development of new business models, to help human services providers adapt to the shifting revenue climate.

#### **BACKGROUND AND CONTEXT**

The Human Services Department is responsible for planning, grant-making and direct services and invests more than \$89 million annually in the local human services system. Increasingly, the department is focused on achieving a results culture through the implementation of an outcomes framework.

During the 2014 fiscal year, HSD held more than 500 contracts with approximately 200 unique organizations. In the role of grant-maker, HSD contracts with agencies to provide services, and as such can only provide direct assistance and support to City-contracted agencies.

In June 2014 the Seattle City Council passed Ordinance 124490, which established a new hourly minimum wage and minimum compensation for employers with employees who work in Seattle. The ordinance set out a schedule for minimum wage increases that began on April 1, 2015. All employers are required to implement the new wage scale in phases based on the size of their organization.

### **Update on 2015 Council-funded Mitigation**

As identified in the Phase I response to this SLI, HSD determined through its work with the State Auditor's Office that it would incur significant audit risk if it were to distribute 2015 mitigation dollars through amendments to existing contracts. As a result of that risk, HSD held a series of meetings with the Seattle Human Services Coalition (SHSC) Executive Board, their membership and other providers who hold City contracts through HSD in order to work collaboratively on potential options and solutions. Those meetings resulted in several fundamental points of consensus:

- Providers have planned for and mitigated 2015 impacts on their own
- HSD will not amend 2015 contracts to distribute mitigation dollars
- Providers do have capacity challenges that they would appreciate the City's assistance in resolving including: data collection/evaluation, overall fiscal health, and improved capacity to address the needs of the Immigrant and Refugee community.

The Provider community has also identified areas of ongoing concern:

- Early learning/DEEL programs and services were not included in the analysis or mitigation funding.
- The City cannot distribute funding to agencies that are not currently contractors to the City and this leaves many agencies on their own to deal with impacts from the wage ordinance.

The unspent 2015 funding will be carried forward in 2016 to address the impacts of minimum wage, and other impacts on human services providers.

### **Summary of Estimated Impacts (as identified in Phase I):**

The majority of human services providers funded by HSD have 500 or fewer employees and thus are in the Schedule 2 timeline for minimum wage implementation. Because the minimum wage for Schedule 2 employees is phased in at a slower rate than the Schedule 1 employers, the estimated impacts to human services providers in 2016 are small. Based on HSD's estimates, 24 providers would be affected in 2016 at a total cost of \$343,000. This is less than one-half of one percent of HSD's total contracted funds. The impact is projected to grow in 2017 as the wage requirements increase. HSD does not have data on human services providers who do not have contracts with the department. Direct mitigation for individual wages is not a long-term solution in a landscape shifting to results-based accountability contracts. As more services are shifted to the Outcomes Framework, and the scope of contracts change, HSD may not have data to support the direct mitigation of individual wages in City contracts.

### **Impact of Outcomes Framework Implementation**

HSD developed an [Outcomes Framework](#) to help HSD achieve a results culture, as well as address historical challenges faced by the department for many years. The Outcomes Framework is based on a strategy for results-based accountability and addressing disparities to ensure that the most critical human services needs are met by defining the desired results for the department's investments; aligning the department's resources to the desired results; and monitoring the result progress to ensure return on investment.

Implementation of the Outcomes Framework began with a pilot phase involving two funding processes in 2014: food & meal services and senior centers. In 2015 the Outcomes Framework extends to six more investments areas: 1) Rapid Re-Housing, 2) Family Caregiver services; 3) Aging & Disability Resource Centers; 4) Doula services; 5) Domestic Violence & Sexual Assault services; and 6) Adult Day Health services.

This year the department has strengthened its practice for planning and grant-making with a focus on incorporating the lessons learned from the 2014 pilot, as well as analysis from the Race & Social Justice Initiative (RSJI) equity toolkit. A refreshed policy guide on how the department designs and implementing procurement processes (i.e. RFIs) is anticipated to be released in the fall of 2015.

To date, the department has shifted 12% of its \$89 million of contract investments to outcomes using the "outcomes framework" methodology. This shift includes the two investment areas from the 2014 pilot, as well as those investments made in 2015.

The 2016 Notice of Funding Availability (NOFA) is currently in development and will be released in December 2015. By the end of 2016, it is anticipated that 22% of the department's investments will have made the shift to outcomes. An inaugural data report on that status of the investments under the Outcomes Framework will be available this fall, with future data reports being available on a semiannual basis.

Several strategies have been identified for scaling and sustaining the Outcomes Framework. These strategies include codifying the department's investment outcomes and procurement methodology; working to achieve greater funder alignment between the City and King County on joint outcomes and performance measures; and addressing capacity needs and opportunities within the system as well as in the provider network.

Additionally, HSD has assembled a cohort of homelessness services providers to develop a new Portfolio Model contract. This model is intended to take the Outcomes Framework a step further, by providing opportunities to agencies with multiple contracts and services with the department to bundle these functions and all associated overhead costs into one, performance-based contract. Ultimately this new model should result in administrative efficiencies, which will allow for more of the City's investments to serve clients and services, rather than overhead and administration.

The Outcomes Framework, increased use of NOFAs for funding processes, and the Portfolio Model approach do not align well with the contracting mechanics of direct mitigation for the impact of the minimum wage increment. Backfilling incremental costs does not promote accountability to outcomes for clients. As more funding processes are released through NOFAs, the cost to deliver on outcomes, including any staff wages that will be higher as a result of the minimum wage, will be part of provider applications. HSD will work with its partners to find solutions that recognize the shifting cost realities in the context of results-based accountability.

### **Performance Based Budgeting**

The Department of Human Services (HSD) is one of four departments participating in the 2015 Performance Measures Budget Book Pilot Project. This pilot explores potential use of the annual budget book as a venue to discuss and display performance measures for City departments.

As part of this project, HSD worked with the City Budget Office to:

1. Identify and present service area workload performance measures to be included in the 2016 Mayor's Proposed Budget;
2. Present actual and estimated achievements for each measure; and
3. Present specific budgetary appropriations and position authorities associated with each measure, as appropriate.

The 2016 Proposed Budget sets the baseline for HSD's performance measures and coordinates measures with the Performance Seattle initiative. No changes to service delivery and contracts are expected based on the performance measures included in the 2016 Proposed Budget.

The performance-based budgeting work is closely integrated with HSD's Outcomes Framework. The outcomes-based contracts that are a key component of the Outcomes Framework set the foundation for performance-based budgeting. Both the Outcomes Framework and performance-based budgeting have the goal of results-based accountability and ensuring that limited resources are spent in a way that achieves the best results.

### **Collaboration with Seattle Human Services Coalition (SHSC)**

HSD and the SHSC Executive Board have convened in both formal and informal settings to begin to formulate partnership opportunities. While the minimum wage mitigation effort is one aspect of the collaboration, there is mutual interest in identifying other long-term opportunities for partnership that will result in sustainable and meaningful support from the City to the provider community.

### **Capacity-Building Opportunities**

As a result of the extensive outreach to the provider community regarding the shifting revenue climate, cost impacts and operational challenges, several primary themes emerged relating to overall system capacity for providers of human services.

- 1) Data/Technology;
- 2) Racial Equity;
- 3) Staffing: adequate numbers and continuity;
- 4) Support collaboration; and
- 5) Financial stability/resiliency.

The City could fill the role as convener and facilitator of capacity building partnerships and opportunities as human services providers struggle to meet the challenges of increased costs, increased need for client services, and competitive local and national funding environment. HSD will continue its collaborative work with SHSC, other funders and researchers to determine appropriate strategies to assist the local provider community in navigating these challenges. Specific opportunities include scaling the department's new 'Portfolio Model' to more efficiently achieve contracted outcomes, and providing opportunities for new models of data collection and governance.