

Date: November 14, 2023
To: Councilmember Lisa Herbold, Chair, Public Safety & Human Services Committee
From: Tanya Kim, Director, Human Services Department
Subject: Response to SLI HSD-300-A-002-2023: Human Service Provider Inflation Impacts

INTRODUCTION

In November 2022, the City Council adopted Statement of Legislative Intent (SLI) [HSD-300-A-002](#) with the 2023 Budget. The SLI requested that the Human Services Department (HSD) report on:

- “• *Impacts of the required annual inflationary adjustments on the City of Seattle’s (City’s) budget and contracted service providers’ financial stability, employee wages and retention, and provision of services;*
- *Evaluation of the Seattle-Tacoma-Bellevue Metropolitan Area Consumer Price Index for Urban Wage Earners and Clerical Workers, termed CPI-W, as a measure of changes in service providers’ cost of providing services; and*
- *Recommendations for changes, if any, to regulations requiring annual inflationary adjustments.*
- *Findings and recommendations of HSD’s comparable worth wage analysis of human services work, being conducted by the University of Washington (City 2022 Adopted Budget, CBA HSD-002-B-001);*
- *Findings and recommendations of the Homeless Service Providers workforce study by the Washington State Department of Commerce (State 2022 Supplemental Operating Budget, ESSB 5693-Section 128);*
- *Recommendations for strategies to address the staffing shortage among service providers; and*
- *Recommendations for potential funding sources to increase service providers wages.”*

Parts of this request lent themselves better to expertise in the City Budget Office (CBO), so HSD partnered with CBO on some sections, which are noted below within the report.

Elements of this SLI Response include:

- [Part I: Inflation Adjustment Survey Results](#)
 - [Background](#)
 - [Recruitment and Retention](#)
 - [Inflation Impacts and Adjustments](#)
- [Part II: Response to SLI Questions](#)
- [Appendix I: Survey Questions](#)

PART I: INFLATION ADJUSTMENT SURVEY RESULTS

Background

To provide the most informed responses regarding the impacts of annual inflationary adjustments to human services contracts found in the SLI and in [Ordinance 125865](#), HSD developed a survey for human service providers. Between October 4 and November 1, 2023, HSD disseminated the ***Inflation Adjustment Survey*** to assess the impact of annual inflationary adjustments on human service providers financial stability, provision of services, employee wages, and employee retention.

The survey was sent to over 200 local human service providers—many of which are the recipients of contracts with HSD. Additional outreach was conducted by the Seattle Human Services Coalition (SHSC) to publicize the survey. After initial dissemination, two reminders were sent by HSD, one to HSD’s provider listserv, and the second through all social media platforms. In addition, SHSC sent two reminders, one via email and the second through social media.

Fifty-five organizations completed the survey, with the highest percentage of providers engaging in: multiple programs (44%), housing/shelter (13%), food and nutrition (11%), older adult services (11%), and youth development (5%). In addition, these organizations were of varying size and budget.

Table 1. Number of Employees

Number of Employees	#	%
Fewer than 5	6	11%
5 – 9	4	7%
10 – 19	9	16%
20 – 49	9	16%
50 – 99	6	11%
100 – 249	8	15%
250 – 499	10	18%
500 – 999	1	2%
1,000+	2	4%
Total	55	100%

Table 2. Annual Budget

Annual Budget	#	%
Less than \$500K	8	15%
\$500K - \$999K	3	6%
\$1M - \$1.9M	11	20%
\$2M - \$4.9M	9	16%
\$5M - \$9.9M	4	7%
More than \$10M	20	36%
Total	55	100%

Recruitment and Retention

Barriers

The survey asked organizations to report which barriers most affect their ability to recruit and retain staff and what strategies they might adopt to address these barriers. The barriers reported for both employee recruitment and retention were similar. Notably, salary competition was the most common barrier to both recruiting and retaining employees.

Table 3. Top Five Barriers to Recruitment

Recruitment Barriers	#*	%
Salary competition	47	85%
Competitors for quality applicants	29	53%
Benefits and retirement	21	38%
Stress and burnout	18	33%
Advancement opportunities	12	22%

*Respondents could provide more than one option

Table 4. Top Five Barriers to Retention

Retention Barriers	#*	%
Salary competition	48	87%
Stress and burnout	36	65%
Advancement opportunities	25	45%
Benefits and retirement	22	40%
Competitors for quality applicants	19	35%

*Respondents could provide more than one option

In addition, some organizations noted additional barriers to recruitment such as: long commutes (due to affordability in Seattle and the region), employment instability due to year-long contracts with no guarantee of renewals, limited resources to offer competitive wages or hiring bonuses for people who are bilingual and bicultural, and not having enough funding to fully implement programs.

Strategies

Various strategies emerged to address these barriers. However, considering that the primary barrier to recruiting and retaining employees was the ability to provide a competitive salary, the main strategy to address this barrier was to increase wages/salaries.

Table 5. Recruitment Strategies

Recruitment Strategy	#*	%
Increase wages	28	50%
Add or increase benefits	13	23%
Create career paths, professional development	10	18%
Increase advertising	10	18%
Increase funding/fundraising	10	18%
Targeted recruitment	6	11%
Identified added expense of recruitment	6	11%
Attend more recruitment events	4	7%
Lobby for contracts that pay more and cover more	3	5%

*Respondents could provide more than one option

Table 6. Retention Strategies

Retention Strategy	#*	%
Increase wages or available hours	33	59%
Increase benefits (including remote work)	23	41%
Increase training, mentorship, or development	14	25%
Fundraising and added funding	9	16%
Employee recognition	6	11%
Increase HR Support and onboarding	3	5%
Reduce workloads	3	5%
Promote more internally	2	4%

*Respondents could provide more than one option

In addition, some organizations noted additional barriers such as: the expense of sponsoring staff work visas, maintaining implemented strategies because of the cost involved, and the general high cost of doing business in Seattle.

Inflation Impacts and Adjustments

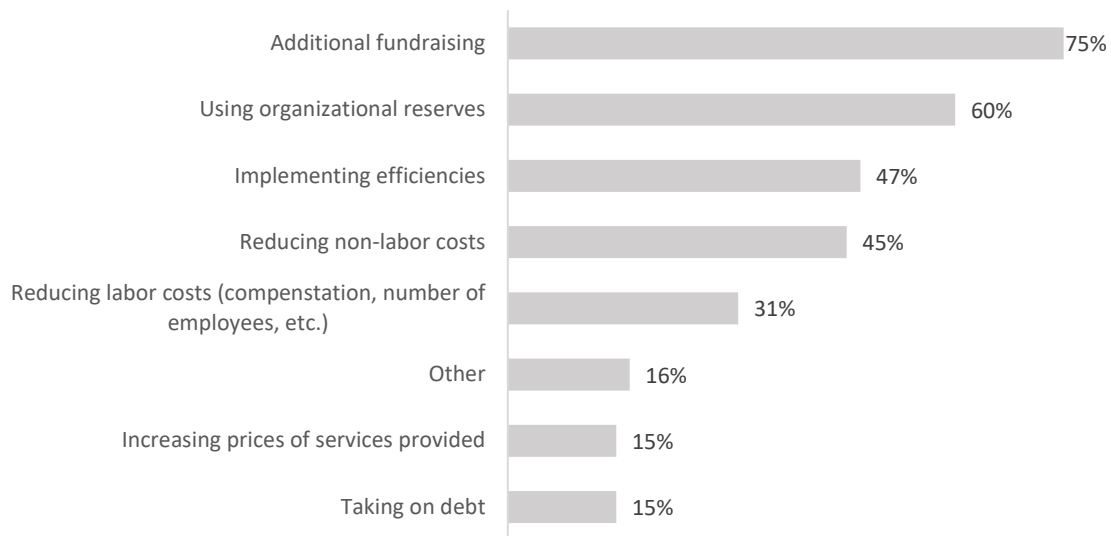
Impacts

In 2022, inflation in the U.S. reached a generational high of 9.1 percent – the largest yearly increase since 1981. The result of inflation is a loss of purchasing power over time and while rates have since fallen, every

human service provider that responded to the survey indicated that inflation was impacting their organization.

The most common response to inflation was additional fundraising (75%), using organizational reserves (60%), and implementing efficiencies (47%). Few respondents took on debt or increased the price of services.

Chart 1. How organizations responded to inflation



Note: Organizational reserves are funds allowed to be set aside year-over-year; similar, but not the same as savings-often coming from endowments, private or foundational funds.

Adjustments

31 of the 55 respondents reported they received an inflationary adjustment increase from the City of Seattle¹ and most used it for a combination of purposes:

- 74% used it to increase staff wages.
- 48% used it to cover increasing operational costs (rent, utilities, insurance, etc.).
- 45% used it to maintain service delivery.

In addition, one organization noted that they applied the adjustment directly to client services. In doing so, it helped justify increasing staff wages since the client service line item in the budget was more fully funded.

As noted above, 74% of the organizations that received an inflation adjustment used it to increase staff wages and primarily used it to increase the wages of frontline staff. Of these organizations, most (65%) thought it helped to improve staff retention.

¹ Of the 24 other respondents:

- 17 responded they did not receive the inflation adjustment from the City of Seattle
- 7 responded they did not contract with the City of Seattle

Some organizations with City contracts may not have reported to receive an inflation adjustment from the City because they are primarily Title XIX funded, or their contract may be funded with one-time funding. HSD plans to analyze these responses in more detail.

However, several organizations noted limitations to the inflationary adjustment:

- *“We used the inflationary adjustment to maintain our current services that we're providing as well as aid in our operational costs since those have continued to increase throughout the past few years. Increasing wages would put us in a position where we may need to cut certain positions in the future if we're not able to receive enough funding to support all of our staff and their new wages.”*
- *“Almost all of our staff wage increase came from organizational reserves from philanthropy and not the inflationary adjustments from the City.”*
- *“Wage adjustments are challenging in the union environment: we give a contracted 3% annual increase; but when we look at non-salary increases-- our business increases have jumped 18% YOY. So, we are still taking on debt.”*
- *“The cost of fringe benefits has significantly increased the cost of living in Seattle and King County (fuel costs have increased, childcare costs have increased). We need contracts that reflect the current economic reality in Seattle and King County.”*
- *“We have limited funding from the City of Seattle...the inflationary adjustment is helpful but when spread across the entire agency is very limited.”*

PART II: RESPONSE TO SLI QUESTIONS

Impact of Annual Inflation Adjustments on the City's Budget

Analysis provided by the City Budget Office

Each year, inflation is applied to HSD's human service contract budget as an ongoing cost and added to HSD's base budget the following year. Per Ordinance 125865, legislatively required annual inflationary adjustments for HSD contracts started with the 2020 Adopted Budget; however, the 2019 Adopted Budget also included an inflation adjustment for HSD contracts of 2%. [HSD's 2023-2024 Proposed Mid-Biennial Budget Adjustments](#) includes contract inflation added in Adopted Budgets from 2019-2023 (\$30.9 million) and an additional amount for 2024 (\$15.7 million). The total amount of contract inflation in HSD's 2024 Proposed Budget is \$46.6 million, of which about 95% is General Fund. The estimated cumulative cost of contract inflation for HSD contracts for the years 2019-2029 is estimated to be \$81.7 million, and the median ongoing increase is estimated to be \$6.4 million per year to HSD's budget.

Table 7. Cost and Projected Cost of HSD’s Contract Inflation for the Years 2019-2029

Budget Year	Adopted	Adopted	Adopted	Adopted	Adopted	Proposed
	2019	2020	2021	2022	2023	2024
Inflationary Rate*	2.00%	2.60%	1.90%	3.00%	7.60%	7.50%
Annual Inflationary Increase (in \$)	2,600,000	5,200,000	3,000,000	5,700,000	14,400,000	15,700,000
Cumulative Increase (in \$)	2,600,000	7,800,000	10,800,00	16,500,000	30,900,000	46,600,000

Budget Year	Projected	Projected	Projected	Projected	Projected	Median
	2025	2026	2027	2028	2029	
Inflationary Rate*	3.90%	2.90%	2.60%	2.50%	2.50%	2.60%
Annual Inflationary Increase	9,000,000	6,900,000	6,400,000	6,300,000	6,500,000	6,400,000
Cumulative Increase	55,600,000	62,500,000	68,900,000	75,200,000	81,700,000	

**For budget years 2025-2029 the inflationary rate is based on the August 2023 projection provided by the Seattle Office of Economic & Revenue Forecasts of the annual average growth rate of the bi-monthly Seattle-Tacoma-Bellevue Area Consumer Price Index for Urban Wage Earners and Clerical Workers, termed CPI-W during the prior 12-month period ending in June of each year.*

Contract inflation in HSD’s budget is largely supported by the General Fund. Ordinance 125865 requires, with some exceptions, HSD contracts funded with the General Fund, other sources, or a combination of General Fund and other sources, receive an annual adjustment for inflation. Contract inflation is not required for contracts when the City is solely acting as a pass-through agency for services that are not provided in the city limits, contracts solely supported by Medicaid funds or funds appropriated by Title XIX of the Social Security Act, contracts for services provided by a consultant, or for contracts with a funding source prohibiting or which are incompatible with the City’s contract inflation ordinance. As a result, the City often funds an inflationary increase with General Fund for contracts supported by grants received from outside sources. For example, a City held contract supported by a federal grant that is not inflated annually by the Federal Government, would receive an annual inflation adjustment using the City’s General Fund.

The City Budget Office notes that the City’s General Fund revenues do not keep pace with inflation in a high inflation environment. Property taxes, for example, represent 24% of General Fund revenue and are statutorily constrained to grow at just 1% plus the value of new construction. Further, policy choices around public utility rates and fees charged – which represent 34% of revenues – often are constrained to maintain affordability and not pass on the impacts of high inflation directly to consumers. As a result, when inflation outpaces General Fund growth, reductions in other City services are required to maintain the SMC-required increase for human service provider contracts.

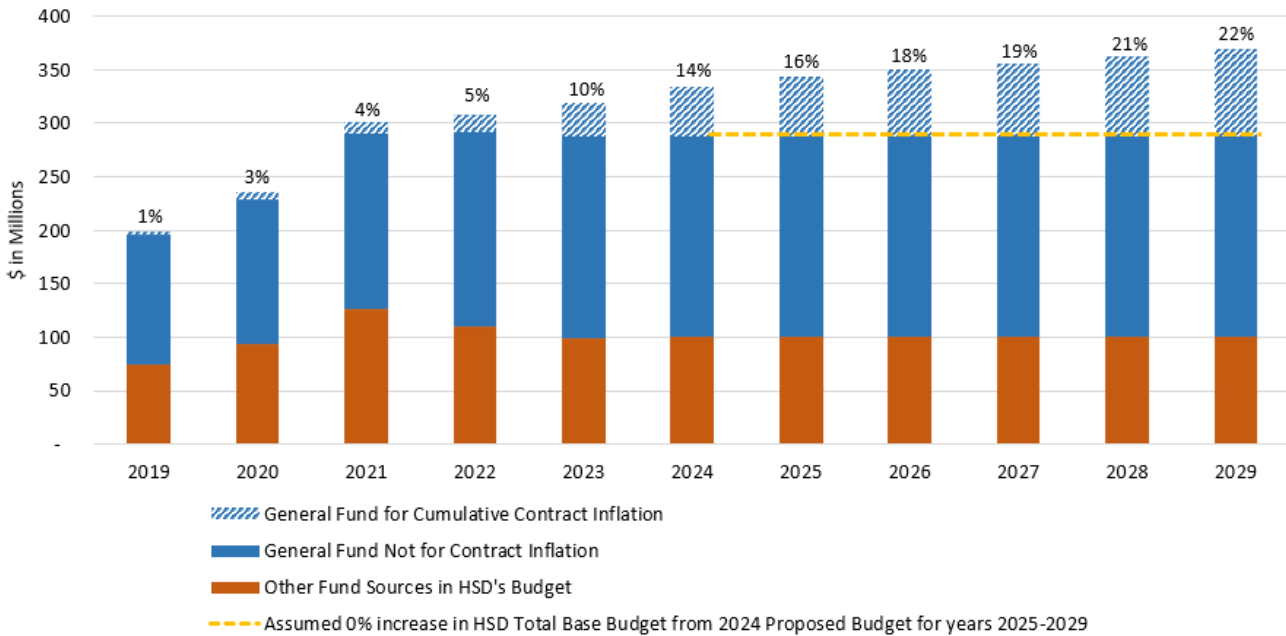
HSD’s General Fund budget and HSD’s total budget grow each year due to contract inflation. In the 2023-2024 Proposed Budget Adjustments, 14% of HSD’s total budget is for contract inflation and 20% of HSD’s General Fund budget is for contract inflation and. If HSD’s budget remains constant except for increases for contract inflation in years 2025-2029, 22% of HSD’s 2029 total budget will be for contract inflation, and 30% of HSD’s General Fund budget will be for contract inflation. Please note that these figures do not include any

equity pay adjustments proposed or enacted aside from the 2% equity pay adjustment found in the Mayor’s 2023-2024 Proposed Budget Adjustments.

The chart below shows the growth of HSD’s budget and portion of HSD’s total budget that is or is projected to be for contract inflation. The chart assumes no increases to HSD’s budget in 2025-2029 except for increases for contract inflation, which includes no increases for City worker wages, no increases for programs beyond contract inflation, and no increases for provider wages beyond the 2% provided in the Mayor’s 2023-2024 Proposed Budget Adjustments. The portion of HSD’s budget for contract inflation would further increase should HSD’s budget have any increases in addition to contract inflation in years 2025-2029.

Chart 2.

HSD's Budget & Portion of Total Budget for Contract Inflation
 Years 2025-2029 assume no changes to HSD's budget other than increases for contract inflation*



*The chart assumes no increases to HSD’s budget in 2025-2029 except for increases for contract inflation, which includes no increases for City worker wages, no increases for programs beyond contract inflation, no increases for provider wages beyond the 2% provided in the 2024 Proposed Budget.

*Percentages show the portion of HSD’s total budget, General Fund and all other funds, that is for contract inflation.

The Use of CPI-W for Annual Inflation Adjustments

Analysis provided by the City Budget Office

Ordinance 125865 specifies HSD contracts, with some exceptions, shall be inflated using 100% of the annual CPI-W during the prior 12-month period ending in June of each year and inflated 0% if index change is negative. During the consideration of Ordinance 125865 in 2019, the City Council reviewed and considered using other indexes. The Council considered using the Seattle area All Urban Consumers Consumer Price Index (CPI-U) or the national Consumer Price Index (U.S. CPI) and considered using a less common index, the Employment Cost Index (ECI). Their review prioritized certain characteristics: reliability, objectivity, timeliness of updates, geographic specificity, and relevancy to the contract inflation policy. Weighing those

considerations, the Council decided to use the bi-monthly Seattle-Tacoma-Bellevue Area Consumer Price Index for Urban Wage Earners and Clerical Workers, (CPI-W).

Released by the Bureau of Labor Statistics, the Consumer Price Index (CPI) measures inflation as experienced by consumers in their day-to-day living expenses for two target populations: All Urban Consumers (CPI-U population) and Urban Wage Earners and Clerical Workers (CPI-W population), a subset of the CPI-U population. The CPI-W consists of all CPI-U population households in which at least one of the members has been employed for 37 weeks or more in an eligible occupation and for which 50 percent or more of the household income must come from wage earnings associated with an eligible occupation. Eligible occupations include clerical workers, sales workers, protective and other service workers, laborers, and construction workers. The CPI-W population excludes households of professional and salaried workers, part-time workers, the self-employed, and the unemployed, along with households with no one in the labor force, such as those of retirees.

The City Budget Office agrees the Seattle area CPI-W is an appropriate index to use for the policy goal of providing annual contract inflation to human services providers for wages. CPI-W would not be the appropriate index for increases in non-labor costs.

Recommendations for changes, if any, to regulations requiring annual inflationary adjustments

Recommendations provided by the City Budget Office

The City's General Fund revenues do not keep pace with inflation in a high inflation environment which makes the City's current policy for HSD contract inflation unsustainable in the long-term. To increase sustainability of the City's investment in human service providers, the City Budget Office has the following recommendations:

Top Recommendations to Increase the Sustainability of the City's Investment:

- 1) Continue to apply pressure to other funders of human services to join the City in increasing support for human service providers.
- 2) Cap the inflationary increase for HSD contracts at a set percentage and in any given year inflation on HSD contracts would not exceed the percent cap.
- 3) Only inflate contracts paid for directly with City funds and exclude inflation for contracts funded with non-city sources, e.g., federal, state, or county grants.

Other Options for Consideration:

- 1) Use a different funding source, e.g., JumpStart Payroll Expense Tax revenue, to support the inflationary increase on HSD contracts.
- 2) Reduce the level of services contracted with providers and use the cost difference to support higher wages for providers. The total amount for contracts with providers could stay static, provider wages could increase, and as a result, the level of service would be reduced.
- 3) Explore a prevailing wage for human service providers under contract with the City.
- 4) Only inflate the estimated portion of HSD contracts that is for labor. However, this option may be challenging and time consuming to implement in practice.

Findings and recommendations of HSD’s comparable worth wage analysis of human services work, being conducted by the University of Washington (City 2022 Adopted Budget, CBA HSD-002-B-001); and findings and recommendations of the Homeless Service Providers workforce study by the Washington State Department of Commerce (State 2022 Supplemental Operating Budget, ESSB 5693-Section 128).

The Wage Equity for Non-Profit Human Services Workers analysis and report were completed in February 2023. The analysis was guided by the principle of comparable worth, equal pay for equivalent work. It also acknowledges that various forces have shaped employment patterns and suppressed wages in the non-profit human services sector over time, including race and gender discrimination. The report outlined four recommendations to be implemented by 2025 and three, by 2030.

By 2025:

RECOMMENDATION 1. Raise real wage rates by a minimum of 7% for non-profit human services workers in the near term. The report notes this to be a starting point for the minimum increase needed immediately to reduce the number of workers leaving human services posts for significantly higher paying jobs in other industries.

RECOMMENDATION 2. Make adjustments for inflation separate from equity adjustments and build in future inflation adjustments. Calculate wage increases to address pay inequity in addition to annual inflation adjustments. Wage adjustments to match inflation and wage adjustments for pay inequity are different issues and should be addressed separately.

RECOMMENDATION 3. Maintain or improve non-wage benefits and job characteristics throughout the wage equity increase process. Decreasing the generosity of fringe benefits or increasing job demands to increase salaries will erode the value of any increase in pay and make it meaningless.

RECOMMENDATION 4. Consider wage increases as a necessary part of ongoing racial and gender equity work in the City of Seattle and King County. Public agencies and non-profit organizations need to include wage equity – in addition to equal pay – as an action step within their anti-racism, gender equity, and diversity-equity-inclusion (DEI) plans.

By 2030:

RECOMMENDATION 5. Substantially increase wages for non-profit human services workers to align with those of workers doing comparable work in other sectors and industries. The 30% - 37% wage gap found in the wage equity analysis implies that wage increases of 43% or more would be needed to align wages for non-profit human services workers with workers with similar job responsibilities and training in non-care work industries.

RECOMMENDATION 6. Create a salary grade system and establish minimum pay standards based on job characteristics. Human services organizations should develop a broad salary grade system linking minimum salary requirements with job characteristics, including a job’s knowledge and skills required, initiative and independence, effort, responsibilities, and environmental demands.

RECOMMENDATION 7. Use public contracts to further wage equity. City and county contracts for human services work should make sure that public contracts do not reinforce wage inequities in the economy as a whole. The full report is available at <https://socialwork.uw.edu/wageequitystudy>.

At the time of this writing the Homeless Service Workforce Study has not yet been made public.

Recommendations for strategies to address the staffing shortage among service providers

Strategies to address staffing shortages at community-based organizations are addressed at the provider level.

Recommendations for potential funding sources to increase service providers wages

See CBO recommendations for how to more sustainably fund human service provider contracts on page 8.

Appendix I Survey Questions

1. Organization Name: *
2. Your First and Last Name: *
3. Job Title: *
4. How many paid staff does your organization currently employ? *
5. Are staff at your organization unionized? *
 - Yes
 - No
6. What was your organization's 2022 Fiscal Year operating budget? *
 - Less than \$500,000
 - \$500,000 - \$999,999
 - \$1,000,000 - \$1,999,999
 - \$2,000,000 - \$4,999,999
 - \$5,000,000 - \$9,999,999
 - \$10,000,000 and more
7. Please select your organization's primary activity. *
 - Association Management, Membership, Support Organizations, Philanthropy
 - Child Welfare/Child Care
 - Community/Economic Development
 - Conservation/Environment/Parks/Animal Welfare
 - Culture/Arts/Museums/Religious
 - Disability Services
 - Education/Schools/Colleges/Research
 - Emergency Preparedness
 - Employment/Workforce Programs
 - Food & Nutrition
 - Healthcare
 - Housing/Shelters
 - Legal Services/Advocacy/Civil Rights
 - Mental Health/Counseling/Behavioral Health
 - Older Adult Services
 - Youth Development
 - Safety: Community and/or Interpersonal
 - Social Service – One Major Program
 - Social Service – Multiple Programs
 - Other
8. You selected "Other" as your organization's primary activity -- please briefly describe your organization's primary activity below. *

Staff Retention and Recruitment

9. Which barriers most impact your organization's ability to recruit staff? *

Please select all that apply.

- Salary Competition
- Inability to find/maintain child care
- Stress and burnout
- Competitors for quality applicants
- Workplace policies
- Degree requirements
- Lack of remote work
- Advancement Opportunities
- Benefits and Retirement
- Commute
- We do not collect this information.
- Our organization does not face barriers recruiting staff.
- Other

10. If you selected "Other" - please note which barriers most impact your organization's ability to recruit staff.

11. Which barriers most impact your organization's ability to retain staff? *

Please select all that apply.

- Salary Competition
- Inability to find/maintain child care
- Stress and burnout
- Competitors for quality applicants
- Workplace policies
- Degree requirements
- Lack of remote work
- Advancement Opportunities
- Benefits and Retirement
- Commute
- We do not collect this information.
- Our organization does not face barriers retaining staff.
- Other

12. If you selected "Other" - please note which barriers most impact your organization's ability to retain staff.

13. What strategies could your organization adopt to improve recruitment for your organization? *

For example: increase advertising, host recruitment events, create career paths, etc.

14. What strategies could your organization adopt to improve retention for your organization? *

For example: explore remote work, mentorship, employee recognition, etc.

Costs and Inflation

15. Is inflation impacting your organization? *

- Yes
- No
- Don't know

16. How is your organization responding to inflation? *

Please select all that apply.

- Increasing prices of services provided
- Implementing efficiencies
- Taking on debt
- Using organizational reserves
- Reducing labor costs (compensation, number of employees, etc.)
- Reducing non-labor costs
- Additional fund raising Not Applicable
- Other

17. If you selected "Other"- please briefly describe how your organization is responding to inflation.

18. Did your organization receive an inflationary adjustment increase from the City of Seattle? *

- Yes
- No
- We do not contract with the City of Seattle

19. How did your organization apply the adjustment? *

Please check all that apply

- Used it to provide an increase in staff wages
- Used it to cover increasing operational costs (rent, utilities, insurance, etc.)
- Used it to maintain service delivery
- Other

20. If you selected "Other"- please briefly describe how your organization applied the adjustment.

21. If you selected staff wages, to whom did you prioritize increased wages? *

- Executive
- Front Line
- Administrative
- All
- Not Applicable
- Other

22. If you selected "Other"- please briefly describe which staff you were able to provide an increase for.

23. If you selected staff wages, do you think that the inflationary adjustments resulted in better staff retention? *

- Yes

- No
- Not Sure
- Not Applicable

24. If you did not select wages, what was the reason you did not use the inflationary adjustment to increase wages? *

Please enter N/A if you did select wages.

Pricing

25. Did your organization adjust the fees or prices of services in the last 12 months? *

- Yes
- No
- Not applicable (we don't charge fees)

Closing Comments

26. How did you find out about this survey? *

- Seattle Human Services Coalition
- The City of Seattle
- Human Service Organization
- Other

27. Is there anything else you would like to tell us?