



King County Department of Community and Human Services (DCHS)

Policy Title	Effective Date:
Inflation Rate Adjustment Policy for Human Services Contracts	September 1, 2024

Departmental Approval:

Kelly Rider

1.0 PURPOSE

Community-based human services providers play a critical role in addressing the most pressing issues we face as a region—providing shelter and supportive housing, behavioral health treatment, legal system alternatives, and case management in King County. The COVID-19 pandemic and the nationwide racial reckoning further underscore the integral role of nonprofit providers in the community. Traditionally, human services funders (like King County) have only paid a portion of the true cost of services. Under this fractured funding model, contract amounts have stagnated while program operating costs and living expenses have climbed, making it difficult for organizations to maintain (and grow) service levels and nearly impossible to raise employee pay to living wages. Many human services organizations have reached the point in which it is a challenge for them to stay in business and/or do business with King County¹.

To address these conditions and contribute to a thriving human services sector, DCHS seeks, wherever possible, to:

- Fund contracted services at their full (or actual) cost,
- Make possible and incentivize payment of living wages, and
- Budget for annual inflation rate adjustments of contract payments based on the federal Bureau of Labor Statistics Consumer Price Index for All Urban Consumers for the Seattle area (CPI-U-Seattle).

DCHS intends to normalize these actions across human services funders. To promote contract payments that increase with the rate of inflation, this policy directs that Inflation Rate adjustments be embedded in DCHS contracts by:

¹ King County NonProfit Wage & Benefits Survey. 2021. <https://www.501commons.org/resources/putting-people-first/KingCountyWageBenefitsSurveyReport.pdf>

1. Incorporating Inflation Rate estimates into financial plans, implementation plans, and biennial budgets proposed to the Executive and County Council;
2. Including Inflation Rate commitments, reflecting this policy, into applicable contracts and related payments when Council adopted budgets, implementation plans, and financial plans or other external fund sources allow it (as detailed in Section 3.0);
3. Prioritizing one-time, under-expended and over-collection of revenues to fund Inflation Rate adjustments above and beyond planned adjustments;
4. Completing the Annual Inflation Rate Assessment process, detailed in Section 6.4, to confirm fund sources can sustain Inflation Rate adjustments;
5. Notifying contracted providers, no later than November 30th of each year, of any changes to Inflation Rate implementation based on Annual Inflation Rate Assessment findings; and
6. Encouraging or requiring other interjurisdictional or non-governmental contracts to allow Inflation Rate increases when contracting with DCHS for services provided by community-based organizations.

2.0 CONTEXT

As of 2023, DCHS managed a diverse portfolio of 170+ (depending on annual investments by funders) federal, state, and local funding sources. This includes sources supporting base programming and funding that may be received for new and urgent programs (for example, COVID Relief Funding and Council-directed investments). The complexity of DCHS funding includes unique, braided interjurisdictional investments, matching requirements for grants and federal funding, and inter-fund and interdepartmental partnerships. These challenges require DCHS to balance numerous priorities in managing the annual \$1.2B+ budget. See the [County Revenue Manual](#) for a comprehensive description of revenue sources that support and sustain DCHS operations.

Within this fractured funding model, DCHS has the greatest influence over local King County fund sources. This influence happens through proposed budgets and implementation and financial plans, executed contracts, and ultimately payments to service providers. As of 2024, the County's General Fund contributed less than 2 percent of the annual DCHS budget. Instead, DCHS programs and services rely on several local dedicated revenue streams, including:

- The Best Starts for Kids Levy
- The Crisis Care Centers Levy
- The Health through Housing Sales Tax
- The MIDD Behavioral Health Sales Tax, and
- The Veterans, Seniors, and Human Services Levy

Non-local fund sources are also critical to providing the County's current level of service. This includes funding from Federal and State sources, as well as some local partnerships with cities and philanthropies. However, many of these sources do not currently provide sufficient flexibility or growth to accommodate Inflation Rate adjustments. Medicaid funding, for

example, must be based on state actuarial data that may accommodate inflation adjustments in combination with other factors like service utilization; this can result in overall funding increases or decreases. DCHS can work with other funders to encourage inclusion of Inflation Rate adjustments and incorporate Inflation Rate adjustments when permitted.

In 2021, the King County Council adopted [2nd Omnibus Budget Ordinance](#) requested the Executive submit a report on evaluating the feasibility of implementing an inflation adjustment requirement for contracts. This language was later amended to remove the report requirement. This policy responds to this Council interest.

3.0 APPLICABILITY

This policy is applicable to all local investments in DCHS Human Services Contracts. This policy is not applicable when explicitly prohibited by or otherwise incompatible with requirements of the funding source. This policy does not direct the use of local funds to provide Inflation Rate adjustments for programs funded through non-local sources, such as funds passed through from federal and state government sources.

DCHS will assess all funding sources available, to maximize the implementation of this policy across all possible fund sources. This assessment will include analysis of any current or projected use of those fund sources and the potential impacts of implementing this policy on those uses.

4.0 DEFINITIONS

- 4.1 **Annual Inflation Rate Assessment** – The process of determining whether DCHS can increase payment amounts by the Inflation Rate as more fully described in Section 6.4 of this policy.
- 4.2 **Human Services Contract** – Agreements for funding the provision of services and goods primarily for the use and benefit of persons or entities other than King County. “Human Services Contracts” may be awards made to agencies or providers (public or private, non-profit or for-profit) for them to (1) carry out all or part of a Program, (2) assist agencies or providers in applying for funding through DCHS or carrying out all or part of a Program, or (3) subcontract with others to carry out all or part of a Program
- 4.3 **Inflation Rate** – The rate at which prices for services rise over the evaluation period. The 12-month percentage increase in the Consumer Price Index for All Urban Consumers for Seattle-Tacoma-Bellevue as measured by the U.S. Bureau of Labor Statistics (CPI-U-Seattle) as published in October of each year.
- 4.4 **Program** – An initiative, activity, service, or group of related initiatives, activities, or services, that are funded by King County government and designed to achieve a

specific outcome for persons or entities other than King County government. “Programs” may have a specific or general focus in relation to need, population, demography, or geography, be a part of a larger strategy or stand on their own. “Programs” may be established by DCHS, levy implementation plan, or local, state, or federal law, rule, or regulation.

5.0 RESPONSIBILITIES

- 5.1 **DCHS Department Director:** Responsible for signing and authorizing contracts. See signature delegation policy.
- 5.2 **Division Directors:** Responsible for implementing and applying the Inflation Rate Adjustment Policy.
- 5.3 **Finance & Compliance Services (FACS):** Responsible for conducting Annual Inflation Rate Assessment; tracking Inflation Rates; advising division and department leadership; informing DCHS Staff when the Annual Inflation Rate Assessment indicates an Inflation Rate adjustment is viable and increased payments should be made.
- 5.4 **Contracts & Procurement (C&P):** Responsible for supporting and advising DCHS Staff to ensure the Inflation Rate Adjustment Policy is embedded in the procurement process and responsible for setting up and amending contracts in accordance with this Policy.
- 5.5 **DCHS Staff:** Responsible for maintaining understanding and awareness of the Inflation Rate Adjustment Policy priority and implementing the Policy.

6.0 POLICY AND PROCEDURES

It shall be the policy of DCHS to fund Inflation Rate adjustments to increase payments for applicable contracts, as defined in Section 3.0, and prioritize increasing payments to these existing providers over identifying new providers or programs for funding. DCHS shall follow the following procedures to determine whether such payment increases can be made for applicable contracts, and if so, the amount of such increase.

- 6.1 DCHS will integrate Inflation Rate adjustments into biennial budget proposals, financial plans, and implementation plans when proposed to the Executive and County Council. Inflation Rates for budgeting and planning purposes will be determined for each fund utilizing the following data: Historical trends (3-6 years depending on relevance of data), King County Office of Economic and Financial Analysis (OEFA) inflation forecasts, and current (prior 2 quarters and next forecasted quarter) Seattle area CPI data.

- 6.2 When County Council adoption of implementation plans, financial plans, and budget ordinances allows, DCHS C&P will implement Inflation Rate adjustments in relevant and applicable Program contracts, as defined in Section 3.0.
- 6.3 To maintain the fiscal health of each fund, FACS staff will annually review and evaluate each fund source to maintain capacity for appropriate reserves and for implementation of Inflation Rate adjustments within the bounds of the program budget. Inflation Rate increases will not be implemented until appropriate reserves have been achieved.
- 6.4 FACS staff will conduct an Annual Inflation Rate Assessment of the County's long term financial outlook to measure the impacts of implementing Inflation Rate adjustments and confirm funding availability. The annual assessment will include, but not be limited to accounting for all existing contracts and obligations, carryforwards as authorized by ordinance or state law, and ensuring a sufficient required reserve.
 - 6.4.1 FACS will also measure reliability of each fund source, review collections trends and region economic trends, and confirm King County OEFA revenue estimates. This evaluation will be conducted quarterly.
- 6.5 Once FACS has determined the affordable levels of Inflation Rate adjustments in each fund source, Division Directors will have their proposed adjustments approved by the Department Director prior to distribution.
- 6.6 The priority for use of unanticipated revenue, such as in the case of under-expended contracts or revenue collections exceeding applicable revenue forecasts, will support implementation of this policy.
- 6.7 Inflation Rate adjustments may be suspended or reduced in the following circumstances:
 - 6.7.1 When revenue forecasts underlying a fund source anticipate a decline in fund balance, compared to the revenue forecasts underlying the adopted budget for that fiscal year. Adjustments will resume when positive revenue growth is reflected in the revenue forecasts underlying the adopted budget.
 - 6.7.2 If the Inflation Rate surpasses the rate of growth of the revenue fund and surpasses the assumed Inflation Rate in applicable budgets, financial plans and implementation plans as adopted by the County.
- 6.8 No later than November 30th of each year, each DCHS Division Director, or their designee, will notify contracted providers of the results of the Annual Inflation Rate Assessment and corresponding Inflation Rate contract adjustments, as determined

through Section 6.5 of this Policy. This will occur in advance of the upcoming year so that relevant adjustments can be made to provider delivery models.

- 6.9 In working with funding partners, DCHS staff will encourage or require that interjurisdictional or non-governmental contracts incorporate allowances for Inflation Rate increases over time for services provided by community-based organizations.






DCHS Inflation Policy_FINAL

Final Audit Report

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