Washington State Department of Commerce

Impacts of Contracting Structures on the Sustainability of Human Services Providers

Pursuant to Chapter 376, Laws of 2024 (SB 5950 Sec. 127(122))

October 21, 2025

Report to the Legislature

Director Joe Nguyễn

RESEARCH AND DEVELOPMENT SERVICES UNIT

v3.5.1

Acknowledgments

Washington State Department of Commerce
Alice Zillah, Managing Director
Research and Development Services Unit

Sean Ardussi, Section Manager
Research and Development Services Unit

Kate Fernald, Research Program Manager
Research and Development Services Unit

Michealle Gady, President and CEO
Atrómitos, LLC

Amanda Rodgers, Principal
Atrómitos, LLC

Devon Cavaliere, Legal Analyst
Atrómitos, LLC

Human Services Provider Study Workgroup

1011 Plum St. SE
P.O. Box 42525
Olympia, WA 98504-2525

www.commerce.wa.gov

For people with disabilities, this report is available on request in other formats. To submit a request, please call 360-725-4000.

Table of contents

Executive summary 4

Introduction 7

Key findings: Human services providers' challenges with state contracting 13

Workgroup recommendations 28

State contracting structures assessments 39

Appendix A: Human Service Provider Study Workgroup formation and membership 54

Appendix B: Methodology 57

Appendix C: Human services and human services provider definitions 62

Appendix D: Abbreviations and acronyms list 64

Executive summary

Authorizing Legislation

In 2024, the Washington State Legislature directed the Department of Commerce (Commerce) to establish a Workgroup representing diverse organizations from around the state to examine allowable expenses and the contracting process of human service provider contracts. The study was established by Chapter 376, Laws of 2024, (Engrossed Substitute Senate Bill 5950):

> (a) $500,000 of the general fund—state appropriation for fiscal year 2025 is provided solely for the department to examine allowable expenses and the contracting process of human service provider contracts that have been directly contracted by the department or have been contracted by an entity that received funding by these departments for human services. The department may contract with an external consultant to consult a workgroup and evaluate the following issues:
>
> (i) Assess if existing contracting structures for human service providers that utilize state funding are adequate for sustaining the human services sector;
>
> (ii) Assess alternative contracting structures for human service providers that may exist within the United States;
>
> (iii) Assess the viability of a lowest responsible bidder contracting structure for state human service providers contracts;
>
> (iv) Facilitate discussion amongst interested parties; and
>
> (v) Develop recommendations for necessary changes in state RCW or agency rule.
>
> (b) The department or consultant must engage with and seek recommendations from a workgroup representing diverse organizations from around the state and whose membership may include:
>
> (i) Human service provider organizations;
>
> (ii) State government agencies that manage human service contracts;
>
> (iii) The office of equity; and
>
> (iv) Local governments.
>
> (c) The department must submit a final report to the governor and appropriate committees of the legislature by June 30, 2025. The final report must include:
>
> (i) An evaluation of existing contracting structures for human service provider contracts that utilize state funding are creating hardship for human service providers; and
>
> (ii) Recommendations for necessary changes in the Revised Code of Washington or agency rule to address structural hardships in human services contracting.

This report provides the recommendations for necessary changes before the evaluation of existing contracting structures to provide readers with context for understanding which contract structure changes may best serve Washington Human Service Providers.

Commerce contracted with Atrómitos, LLC to lead the Human Services Provider Study Workgroup (Workgroup). Atrómitos organized and facilitated eight Workgroup meetings, engaged interested parties across Washington and the United States, and conducted research to inform the Workgroup's recommendations for addressing the structural challenges faced by human service providers contracting with Washington state agencies.

Workgroup findings

The Workgroup found that state contracting structures are causing significant financial and operational hardships for human service providers (HSPs). This jeopardizes the long-term sustainability of HSPs, which provide services that are crucial for the health and well-being of millions of residents. Key challenges HSPs encounter are:

- **Financial hardships**, such as the cost-based reimbursement model and delayed payments.
- **Administrative obstacles**, including a lack of standardization across state agencies that creates inefficiencies and increases the need for state technical support.
- **Compliance barriers**, such as duplicative reporting and restricting HSPs ability to hire staff with lived experience.

Each area increases complexity, drives up costs and narrows service deliverability. The most significant financial challenge was that state contracts often do not cover HSPs' full cost of delivering services. Cost-based reimbursement contracts, commonly used by state agencies, often do not cover all service delivery costs, including contract management, overhead, and administrative salaries. This narrows the segment of HSPs that can afford to contract with the state to typically larger HSPs with the capital to absorb upfront and overhead expenses. This shortfall disproportionately affects smaller providers, who may lack the financial reserves to absorb total service costs, which poses concerns about the long-term sustainability and equity of the human services delivery system.

The current state contracting process also creates major operational burdens for providers, spanning the lifecycle of the contract from application to execution and compliance. The Workgroup identified key contracting challenges that include complex procurement procedures, delays in contract awards and execution, and burdensome monitoring and reporting requirements. While participants acknowledged that state agencies often provide technical assistance, they also noted that technical assistance often lacks tailored support for HSPs of differing sizes and locations.

In other states and municipalities nationwide, alternative contracting strategies have been used to enhance the sustainability of human services providers within a cost-based reimbursement model. Strategies include:

- Using advanced payments to improve cash flow and provide up-front investment in program implementation.
- Establishing clear contracting and payment timelines with interest payments if government agencies exceed those timelines.
- Increasing indirect cost rates.
- Streamlining and centralizing invoicing and reporting systems and processes

These practices are discussed in detail in this report.

Workgroup recommendations

Workgroup members (see Appendix A) included executive branch agencies, along with human service providers, the Office of Equity and local government officials. Together, they provided guidance and consultation as subject-matter experts on the Workgroup with knowledge that any recommendations for future actions with policy of fiscal implications for state agencies were not necessarily the position of these agencies.

Workgroup participants provided important insights that shaped the following recommendations. Because opinions differed among members, the recommendations are divided into two sets: recommendations with unanimous consent, and recommendations with majority consent. Recommendations with majority consent include dissenting opinions in the recommendation's narrative.

Unanimous recommendations

1. Ensure that state contracts cover the full costs of delivering services by scaling contracts' scope or budget.
2. Provide state agencies one full year to plan and award contracts, and HSPs at least one full year to execute the work.
3. Permit advanced payments to human services providers.
4. Establish a procurement and contracting technical assistance center to support human services providers.

Majority recommendations with dissenting opinions

1. Ensure that state contracts cover the full costs of delivering services by using fixed-price or cost-plus contracts and establishing statutory standards for cost-based reimbursements and indirect cost policies.
2. Establish new requirements for local government agencies that subgrant/subcontract state funding for human services.
3. Subject state agencies to timely contracting and payment requirements.
4. Increase transparency and streamline procurement and contracting processes to reduce administrative burdens.
5. Adopt relational contracting and active contract management to improve the relationship between state agencies and HSPs.
6. Define grant, grantee, and grant agreement in the Revised Code of Washington (RCW).
7. Define human services and human services provider in the Revised Code of Washington (RCW).
8. Increase state agency contract staffing and training.

Introduction

Overview

The long-term sustainability of human service providers (HSPs), which provide services that are crucial for the health and well-being of millions of residents, is essential for Washington.

State agencies contract with HSPs to provide a broad array of services — from affordable housing and child protection to job training and assistance for individuals with disabilities — because HSPs offer unique expertise and the trust of their communities. This relationship fosters effective services delivery directly within communities.

Washington's human services sector employs more than 65,000 people[1]. However, many human service providers face financial vulnerability, operating with limited reserves and substantial administrative challenges. HSPs' primary funding source is often state contracts. However, state contracts often do not pay HSPs' total costs to provide contracted services, which requires many HSPs to seek financial stability from other sources. This dynamic jeopardizes HSPs' long-term sustainability.

Additionally, providers must comply with state agency oversight and monitoring processes. While these controls are essential for ensuring compliance with laws, regulations, and contract agreements, the current system imposes administrative burdens on HSPs, particularly for organizations that operate "by and for" the communities they serve.

In response to these sustainability concerns, the 2024 Washington State Legislature directed the Washington State Department of Commerce (Commerce) to examine state contracts with human service providers and the contracting process through Chapter 376, Laws of 2024 (SB 5950, Sec. 127(122)).

With the support of a diverse Workgroup comprising human service providers, the Washington State Office of Equity, and state and local government officials familiar with the contracting process, this Workgroup assessed whether existing funding procedures and structures pose challenges for human service providers. This report provides recommendations to address these structural issues and to enhance the state contracting framework and processes that can support the long-term viability of the human services sector.

Background

Human services and state agencies overview

Washington state agencies have a long history of contracting with human service providers (HSPs) to fulfill government functions and meet the needs of its residents. This partnership enables the state to nimbly and efficiently deliver a wide range of services in a timely and cost-effective manner. Contracting with local human service providers strengthens community connections, as these organizations often gain the trust and confidence of the communities they serve.[2] [3] [4] State agencies benefit from the specialized expertise of HSPs

---

[1] Cause IQ, "Washington Human Services Organizations," (last visited April 9, 2025),
[2] Susan N. Dreyfus, Tracey Wareing Evans, Stanford Social Innovation Review, "Reframing Human Services for Greater Impact," (Feb. 13, 2020)
[3] Angela K. Shen, et al, Vaccine, Volume 41, Issue 12, "Trusted Messengers and Trusted Messages: The Role of Community-Based Organizations in Promoting COVID-19 and Routine Immunizations," (March 17, 2023),
[4] Andrea Ferrucci, CT Nonprofit Alliance, "Shifting Services to Community Can make State's Human Services Better," (April 3, 2017),

in working with specific sub-populations. While this approach offers many advantages, state agencies must maintain rigorous oversight and monitoring controls and ensure sufficient reimbursement payments to support high-quality service delivery.

Like many other states, Washington contends with various social risk factors that human services providers help address. These factors include, but are not limited to, an aging population, high poverty rates, income disparities, a lack of affordable housing, and other inequalities. Human services are crucial for the health and well-being of all communities. As the need for human service provider services increases, it becomes increasingly important for state agencies to ensure the sustainability of these organizations.[5]

This sector is a crucial economic driver, employing more than 65,000 people across the state.[6] Many providers in the human services sector are small to medium-sized organizations,[7] including some by-and-for organizations.[8] Smaller providers typically have fewer resources and limited capacity to engage in the state's contracting process.

Despite the important role of the human services sector, national studies have determined that HSPs are experiencing financial stress, particularly smaller organizations. A 2018 study found that:

- Nearly one in eight human services providers is technically insolvent, meaning what the organization owes (debt) is more than what it owns (assets).
- More than 40% of human services providers do not have liquid assets – assets that can quickly be turned into cash – to meet short-term obligations.
- Nearly half of all human services providers reported a negative three-year operating margin, meaning the organization's expenses exceeded revenue for three years.
- One-third of human services providers have cash reserves that cover less than one month of operating expenses.[9]

Government-funded contracts are the primary funding source for many human services organizations and, as a result, play a pivotal role in their solvency.[10] [11] [12]

Applying the statistics from this national study to the roughly 2,900 human services organizations in Washington suggests that about:

- 363 human service providers are technically insolvent.
- 1,160 organizations lack the liquidity to meet their immediate financial obligations.
- 870 organizations' cash reserves are insufficient to cover one month of operating expenses.

---

[5] Roger S. Ahlbrandt Jr., Howard J. Sumka, Volume 5, "Neighborhood Organizations and The Coproduction of Public Services, Journal of Urban Affairs," (December 5, 2016).
[6] Cause IQ, "Washington Human Services Organizations," (April 9, 2025).
[7] Cause IQ, "Sizes of Human Services Organizations in Washington," (April 9, 2025).
[8] According to Washington State Department of Commerce's internal glossary of terms, by-and-for organization is defined as "an organization that has a primary mission and history of supporting and providing services to unserved communities, and that is culturally based, directed and substantially controlled by individuals from the specific population they serve. For example, an organization led by people with disabilities, which serves people with disabilities."
[9] Wyman, Oliver, "A National Imperative: Joining Forces to Strengthen Human Services in America,"(2018).
[10] Jeri Eckhart-Queenan, Michael Etzel, Jess Lanney, and Julia Silverman, "Momentum for Change: Ending the Nonprofit Starvation Cycle," The Bridgespan Group, (September 2019),
[11] Wyman, Oliver, A National Imperative: Joining Forces to Strengthen Human Services in America, (2018).
[12] Wyman, Oliver, The Financial Health of the United States Nonprofit Sector: Facts and Observations, (2018).

While these statistics are estimates derived from national studies, feedback from interested parties involved in the evaluation and from Workgroup members reinforces these estimates.

Competitive procurement

Washington aims to promote open competition and transparency in contracts for goods and services.[13] It has established the Department of Enterprise Services (DES) as a centralized authority responsible for developing and overseeing contract-related policies. According to Washington law, state contracts for purchasing goods and services must undergo competitive procurement, ensuring equal opportunities for all bidders.[14]

Competitive procurement occurs when a state agency announces its intention to purchase goods or services. Interested parties submit bids demonstrating their qualifications for providing a specific product or service. Bidders can either propose a certain price or agree to receive cost-based reimbursement.

How proposals are evaluated and awarded

When evaluating proposals submitted by bidders, state agencies must assess whether a bidder is "responsible."[15] The agency is required to evaluate the bidders':

- Ability, capacity, and skill to perform the contracted services
- Character, integrity, reputation, judgment, experience, and efficiency
- Ability to perform the contract within the required timeframe
- Quality of performance under previous contracts
- Compliance with laws related to the contract
- Compliance with employment laws

Additionally, state agencies must consider the procurement's specific evaluation criteria within the procurement.

Washington law permits, but does not mandate, state agencies to award contracts to the lowest responsive and responsible bidder.[16] When evaluating proposals based on the lowest responsive and responsible criteria, agencies take the following into account:

- Is it responsive to the state's needs outlined in the solicitation documents?
- Does it encourage diverse contractor participation, such as veteran or minority-owned businesses?
- Does it provide competitive pricing? Are economies and efficiencies present?
- Does it consider human health and environmental impacts?
- Does it appropriately weigh the cost and non-cost considerations?
- Does it contain life-cycle costs or the costs of something over its entire lifespan, including maintenance and repair costs?

The Washington State Office of Financial Management (OFM) defines the lowest responsive and responsible bidders as "the bidder who fully complied with all of the bid requirements and whose past performance,

[13] Washington State Legislature, Revised Code of Washington, RCW § 39.26.005.
[14] Washington State Legislature, Revised Code of Washington, RCW § 39.26.120.
[15] Washington State Legislature, Revised Code of Washington, RCW § 39.26.160(1)(iii),(2).
[16] Washington State Legislature, Revised Code of Washington, RCW § 39.26.160(3).

reputation, and financial capability is deemed acceptable, and who has offered the most advantageous pricing or cost-benefit, based on the criteria stipulated in the bid documents."[17]

Performance-based contracts, cost-based contracts and cost-based reimbursement

In Washington, all contracts must be performance-based contracts (PBCs) to the extent practicable.[18] The phrase "to the extent practicable" means that PBC is required when performance goals are known and can be measured.

The Washington State Department of Enterprise Services (DES) explains in its 2019 WA-State Contract Management Manual, "Payment for goods and services under performance-based contracts should be contingent on the contractor achieving performance outcomes."[19] Additionally, the Office of Financial Management (OFM) defines performance-based contracts as "A written document detailing an agreement between parties and identifying expected deliverables, performance measures or outcomes with payment contingent on their successful delivery. Performance-based contracts also use appropriate techniques, including, but not limited to, consequences or incentives to ensure that agreed-upon value to the state is received."[20]

According to engagement for this report, Washington state agencies typically use either cost-based contracts or a hybrid of cost-based and performance-based contracts with HSPs. Under the hybrid approach, incentives, such as contract extensions, are often nonmonetary. For instance, the template contract provided by DES for state agencies includes the option to extend a contract by a number of months if agreed upon performance targets are reached.

The Washington State Department of Children, Youth, and Families (DCYF) has recently started using a hybrid PBC model.[21] Under this model, HSPs receive their base funding through cost-based reimbursement, and if they meet or exceed specified performance measures, they can earn various monetary or nonmonetary incentives, such as:

- additional funding in excess of their base funding for service delivery
- automatic contract renewal or bonus points in a competitive selection process
- increased base funding
- longer contract periods
- included on a preferred vendor list
- reduced monitoring or contractual requirements

Providers that do not meet performance targets can be placed on a performance improvement plan until targets are met.

---

[17] Washington State Office of Financial Management, "Washington Administrative Accounting Manual: Statewide Accounting Glossary" (Mar. 26, 2025),
[18] Washington State Legislature, Revised Code of Washington, RCW § 39.26.180(3),
[19] Washington State Department of Enterprise Services, "WA-State Contract Management Manual," (2019),
[20] Washington State Office of Financial Management, "Washington Administrative Accounting Manual: Statewide Accounting Glossary" (last visited Mar. 26, 2025),
[21] WA Department of Children, Youth, & Families, Office of Innovation, Alignment, and Accountability, "Introduction to Performance Based Contracting," (2023),

This example demonstrates how PBC is part of contracting with HSPs but that the primary payment model used in these contracts is still cost-based reimbursement.

Common contracting exceptions for human services

While the agency evaluates all bids and awards a contract to the most qualified bidder, there are several exceptions to the competitive procurement requirement.[22] [23] Common exceptions in human services include direct buying and client services contracts.

- **Direct buy contracts** enable procurement without a competitive process for purchases below a specified dollar threshold, allowing staff to exercise judgment in assessing agency needs without publicly announcing purchasing plans.[24] [25]
- **Client service contracts** apply when services are provided directly to individuals in state programs.[26] Like direct buy contracts, client service contracts allow the agency to determine the best provider of a specific service and contract for that service without publicly announcing purchasing intentions. For example, agency staff have identified a shelter providing services for unhoused individuals in a specified geographical area. Under a client service agreement, agency officials can offer that shelter a contract to provide essential services for that population.[27] Unlike direct buy contracts, there are no dollar thresholds for client services contracts.

Other types of contracts not typically used in human services

Additional contracting mechanisms under state law include sole source contracts, which are used when only one provider can deliver the required service, for interagency agreement contracts and for cooperative purchasing agreements. However, because these contract types are not typically used to contract with HSPs, they will not be elaborated on in this report.

Distinguishing grants from service contracts

Grants are awarded to support a public purpose, and the funding entity does not have direct control over how the work is carried out, as long as the outcome aligns with the grant's objectives according to the U.S. Code of Federal Regulations and the Federal Grant and Cooperative Agreement Act.[28] [29]

Contracts are awarded for procuring goods or services and directly benefit the party that awards the contract. According to Federal Acquisition Regulations, contracts are more specific, featuring clear deliverables, deadlines, and obligations.[30]

Some agencies provide grants as a form of contract for HSPs. However, the terms grant or grant agreement are not defined in statute. While DES is authorized to develop and oversee procurement policies, it offers no guidance on grants and grant agreements for state agency staff. Instead, OFM provides general guidance to

---

[22] Washington State Legislature, Revised Code of Washington, RCW § 39.26.010(4),
[23] Washington State Legislature, Revised Code of Washington, RCW § 39.26.125(6)
[24] Washington State Legislature, Revised Code of Washington, RCW § 39.26.125(3),
[25] Washington State Department of Enterprise Services, "Direct Buy Purchases Policy No. POL-DES-125-03 (draft),"(Mar. 26, 2025),
[26] Washington State Legislature, Revised Code of Washington, RCW § 39.26.010(4),
[27] Washington State Department of Enterprise Services, "Delegation of Authority FAQs (questions #4 and #5)," (Mar. 26, 2025),
[28] Code of Federal Regulations, Federal Acquisition Regulation, 48 CFR § 2.101,
[29] Public Law 95-224
[30] Code of Federal Regulations, Federal Acquisition Regulation, 48 CFR § 2.101,

state agencies through a Q&A document.[31] State agencies may also receive internal, agency-specific guidance regarding grants or grant agreements, adding to the complexity across all agencies.

[31] Washington State Office of Financial Management, "State Grants Questions and Answers," (2012),

Key findings: Human services providers' challenges with state contracting

Workgroup participants, literature reviews, focus groups, and subject matter expert interviews consistently indicated that human service providers (HSPs) encounter three primary challenges when contracting with Washington state agencies: financial hardships, administrative obstacles, and compliance barriers.

Financial hardships

Human service providers face financial difficulties due to the cost-based reimbursement payment structure commonly used in Washington state agency contracts. This model requires providers to pay costs upfront and seek reimbursement after delivering the service, which can lead to underpayment, delayed reimbursements, and increased administrative costs related to invoicing and financial reporting. Typically, cost-based reimbursement restricts indirect cost recovery, excludes start-up funding, and neglects inflation or cost-of-living adjustments. The interplay of all contracting structure and process factors impacts the overall economic viability of the human service sector.

Cost-based reimbursement

Cost-based reimbursement presents the least risk to the state because payments are issued only after services have been provided and invoicing and reporting requirements are met. The state agency defines allowable reimbursable costs and sets HSP payment schedules. It also determines which invoiced costs are unallowable or lack adequate documentation to justify reimbursement. Agencies may issue partial reimbursements or withhold payment until the service provider rectifies identified issues.

According to members of the Workgroup and participants in the engagement process, cost-based reimbursement is the most prevalent payment structure in contracts between Washington state agencies and human service providers. The most significant financial challenge HSPs identified with cost-based reimbursement contracts is that not all costs related to service delivery are reimbursable — costs that are classified as “unallowable.”

Allowable costs, which can be funded through the contract, are expenses incurred while HSPs provide contracted services. These allowable costs must be “reasonable,” meaning they align with market standards for similar services or items. Factors that determine the reasonableness of a specific allowable cost include responses to the following questions:

- Are costs ordinary and necessary for operation and efficient performance?
- Are costs related to regulatory requirements or restraints?
- Are costs comparable to market costs?
- Do individuals managing contracts act with prudence?
- Do costs deviate from established written policies and procedures for incurring costs?[32]

Unallowable costs cannot be paid with contract funds because reimbursement is prohibited by law or contract, or they are deemed unnecessary or unreasonable for achieving service delivery objectives.[33]

---

[32] Code of Federal Regulations, 2 CFR §§ 200.403, 200.404, (2024),
[33] Code of Federal Regulations, 2 CFR §§ 200.403, 200.410, (2024),

In addition to allowable and unallowable costs, contract expenses can be classified as either “direct” or “indirect.” According to federal regulations, there is no universal rule categorizing costs. However, “each cost incurred for the same purpose in like circumstances must be treated consistently as either a direct or an indirect cost.”[34] Direct costs are those that can be directly linked to contract services.[35] For example, purchasing bus passes for human service clients may be considered a direct cost in a state-contracted program designed to improve access to public transportation.

While indirect costs are vital for service delivery, they may not be directly associated with the daily activities of a specific project, service, or program. Examples of indirect costs may include office rent, information technology, finance and quality control, along with administrative staff and executive personnel. Although these costs are crucial to the organization's existence, HSPs may not be reimbursed for them depending on the contract's indirect cost limits.

Currently, Washington law does not define cost-based reimbursement, direct costs or indirect costs. Instead, Washington follows what is established in federal law. Federal law allows contractors to select a federally negotiated indirect cost reimbursement rate, which is a provider’s ratio of indirect costs to direct costs, or a de minimis indirect cost rate, which is a percentage of the modified total direct cost as defined by federal law.[36]

A de minimis rate is a small, standardized percentage that organizations can use to recover indirect costs without having to negotiate a custom rate with the government. Washington agencies can mandate the use of a de minimis rate, typically aligning with the federally established de minimis rate, or allow HSPs to utilize their federally negotiated indirect rate. Providers frequently opt for the de minimis indirect cost rate since few possess a federally negotiated indirect rate, as obtaining one is often a costly and time-consuming process. However, acquiring a federally negotiated indirect rate does not ensure reimbursement, as state agencies may accept the indirect rate fully, partially, or not at all. They also have the discretion to reimburse HSPs at any de minimis percentage, up to the full federal 15% de minimis rate, according to HSP grantees.

To receive reimbursement, an HSP provides the contracted services and submits an invoice along with documentation for allowable costs. The state agency reviews these submissions to verify allowable costs and proper documentation before issuing payments to the provider.

Risks to state agencies under this model include contractor overages related to unforeseen but permissible expenses. Clearly defined budget caps may reduce risks, but the cost-based payment model lacks incentives for contractors to manage costs that fall into permissible reimbursement categories.

While cost-based reimbursement is the least risky for state agencies, it poses significant barriers to sector-wide financial stability, particularly for smaller HSPs. Unlike larger, well-resourced providers, smaller organizations lack the financial resources and cash flow necessary to offset the inherent risks of the cost-based reimbursement model. Consequently, this payment structure disproportionately disadvantages smaller, community-based providers. Smaller, by-and-for HSPs are often led by and serve historically marginalized communities, including racial and ethnic minorities, immigrants, individuals with disabilities, and the lesbian, gay, bisexual, transgender, queer, intersex, asexual, and other (LGBTQIA+) populations.

Under cost-based reimbursement, HSPs encounter challenges such as underpayment when costs are disallowed or when contracts offer less than the actual costs of direct or indirect expenses, delayed or

---

[34] Code of Federal Regulations, 2 CFR § 200.412, (2024),
[35] Code of Federal Regulations, 2 CFR § 200.413, (2024),
[36] Code of Federal Regulations, 2 CFR §§ 200.1, 200.414, (2024),

inaccurate payments due to costs not being approved promptly, expenses related to managing cost-based reimbursement, and insufficient start-up funding to cover overhead costs like payroll and office expenses while waiting for reimbursement.

Contract underpayment

Both primary and secondary sources identified contract underpayment as a significant factor contributing to the long-term unsustainability of the human service sector. On average, HSPs that participated in the Workgroup were reimbursed for approximately 70% of direct program expenses.

In comparison, indirect costs are restricted to between 0% and 10% of the total contract value, according to national nonprofit and human service provider contracting evaluations[37] even though actual indirect costs range from 25% to 35%.[38] [39] [40] These findings align with the engagement survey conducted as part of this evaluation, where over 80% of respondents indicated that their state contracts covered 75% or less of actual costs. Feedback from key informant interviews and focus groups consistently highlighted contract underpayment as a significant concern for the long-term financial sustainability of HSPs.

Decades of cost limitations, applied without consistent or clear definitions of what costs are allowable and reasonable, have led to consistent HSP underpayment.[41] These payment constraints have deflated the market value of human service delivery, making it difficult for HSPs to break the cycle of underpayment and chronic underinvestment in personnel and infrastructure that directly affects HSPs' overall performance and sustainability.[42]

Providers consistently reported challenges in offering competitive salaries and benefits to their staff. Fiscal hardships also hinder career advancement due to limited professional development opportunities or resources. Human service workers have emotionally demanding jobs, often supporting individuals in crisis or during the most difficult times in their lives. Mental health distress, compounded by fatigue from overwork, leads to frequent job burnout and high turnover rates. One study conducted in 2018 estimated turnover rates of 30% or more among human service staff.[43]

Research indicates that turnover costs — resources spent on advertising, recruiting, interviewing, vetting, training, and orienting new employees — can range from 25% to 200% of an employee's annual salary.[44] [45] [46] High attrition also directly impacts the quality-of-service delivery and program outcomes. Participants interviewed for this report shared that new staff require time to establish trusting relationships with the people they serve and to familiarize themselves with organizational processes and systems.

Moreover, many HSPs lack funding to develop and maintain modern operational and data-reporting infrastructure because these administrative costs are often underpaid or unpaid indirect expenses. The

---

[37] Boris et al., Urban Institute, "Human Service Nonprofits and Government Collaboration: Findings From the 2010 National Survey of Nonprofit Government Contracting and Grants," (June 4, 2016),
[38] Oliver Wyman, "A National Imperative: Joining Forces to Strengthen Human Services in America,"(2018),
[39] Boris et al., Urban Institute, "Human Service Nonprofits and Government Collaboration: Findings From the 2010 National Survey of Nonprofit Government Contracting and Grants," (June 4, 2016),
[40] National Council of Nonprofits, "Toward Common Sense Contracting: What Taxpayers Deserve," (2014),
[41] Jeri Eckhart-Queenan, et al., The Bridgespan Group, "Momentum for Change: Ending the Nonprofit Starvation Cycle," (2019),
[42] Jeri Eckhart-Queenan, et al., The Bridgespan Group, "Momentum for Change: Ending the Nonprofit Starvation Cycle," (2019),
[43] Wyman, Oliver, "A National Imperative: Joining Forces to Strengthen Human Services in America," (2018),
[44] Hall, John, Forbes, "The Cost of Turnover Can Kill Your Business and Make Things Less Fun," (2019),
[45] Dipak Sundaram and Camille Patrick, Gallop, "The Real Value of Getting an Exit Interview Right," May 30, 2023,
[46] Human Services Council of New York, "HSC Procurement Briefing Book," (2023),

longstanding absence of investment in the necessary tools and training to support high employee performance can result in decreased productivity, lower efficiency, and reduced employee satisfaction.[47] [48] Underfunding infrastructure limits an organization's ability to establish and implement financial risk management practices, such as environmental assessments, fund loss strategies, and economic stability planning.[49]

Delays in payments and contract renewals create financial uncertainty for providers.

Feedback from interested parties across Washington and research referenced in the literature identified late payments, which often occur in cost-based reimbursement, as the second most common obstacle in contracting with state agencies. HSPs find it challenging to manage the upfront costs necessary to maintain operations while waiting for reimbursement, especially when payments are delayed. Moreover, provides shared that this approach frequently forces HSPs to seek alternative funding sources or, in some cases, abandon state contracts entirely due to operating on thin financial margins or at a loss.

A national study found that 53% of human service providers reported late payments from government agencies as a significant challenge to their organizational operations.[50] [51] In Washington state, HSPs described similar experiences, noting that they submit invoices for services already provided but often wait weeks, months, or over a year for reimbursement. These payment delays create persistent financial uncertainty, making it challenging to manage payroll, rent, and other operational expenses.

One HSP focus group participant said, "We've waited 18 months for funding to come in."

In addition to late disbursements, payment discrepancies present challenges as well. Washington HSPs reported receiving partial reimbursement payments without explanation, forcing organizations to expend valuable time and resources to address these inconsistencies.

Payment delays and discrepancies are especially disruptive because HSPs must rely on financial reserves or unrestricted funds to continue providing services. Providers may need to take out loans, draw on lines of credit, or use credit cards to maintain operating cash flow while awaiting reimbursement.[52] [53] [54] Reserve and unrestricted funds can be replenished after receiving delayed payments, but late disbursements disrupt other uses of funds (especially unrestricted funds) to fill gaps in state-funded programs or to deliver services not covered under state contracts.

Payment delays directly impact HSPs' ability to meet community needs with high-quality services. These delays also cost service providers money in interest payments and finance charges while delivering

---

[47] Oregon State legislature, Task Force on Modernizing Grant Funding and Contracting, "Report on Grants," (2024),
[48] Boris et al., Urban Institute, "Human Service Nonprofits and Government Collaboration: Findings From the 2010 National Survey of Nonprofit Government Contracting and Grants," (2016),
[49] Wyman, Oliver, "A National Imperative: Joining Forces to Strengthen Human Services in America," (2018),
[50] Boris et al., Urban Institute, "Human Service Nonprofits and Government Collaboration: Findings From the 2010 National Survey of Nonprofit Government Contracting and Grants," (June 4, 2016),
[51] [51] Wyman, Oliver, "A National Imperative: Joining Forces to Strengthen Human Services in America," (2018),
[52] Boris et al., Urban Institute, "Human Service Nonprofits and Government Collaboration: Findings From the 2010 National Survey of Nonprofit Government Contracting and Grants," (2016),
[53] Tim Delaney, and Patrick McWhortor, National Council of Nonprofits, "Costs, Complexification, and Crisis: Government's Human Services Contracting 'System' Hurts Everyone," (2010),
[54] Summers, John, "Government-Funded Nonprofits Face Serious Obstacles to Building Financial Reserves and Working Capital," (2023),

uninterrupted services on behalf of the state. Ultimately, payment delays can threaten organizations with limited reserves, no access to unrestricted funds, or an inability to secure other financing options.

Participants interviewed from state agency program management and procurement acknowledged that the reimbursement payment model presents significant barriers for HSPs, particularly disadvantaging smaller organizations, since payment delays can affect their operational efficiency. State agency representatives of the Workgroup pointed to internal capacity issues as a major reason for these reimbursement delays.

According to state agency representatives interviewed for this report, staff shortages and turnover rates within state agencies often lead to a workforce struggling to meet contracting needs. In addition, they felt outdated policies and technology were driving inefficiencies in payment processing. One state agency staffer noted that managers can make a big difference in helping support workload management by allowing staff to verify a sample of contract documentation instead of every single item, for example.

Some state agency staff identified 40-year-old payment systems contributing to slow payment processing.[55] A HSP focus group participant reflected that their organization "had to hire a full-time employee just to handle accounts receivable."

Administrative costs of managing cost-based reimbursement process

Washington HSPs described managing the cost-based reimbursement process as expensive and time-consuming, leading some organizations to hire extra staff to handle accounts receivable. Consequently, the current government contracting and payment system forces HSPs to invest in administrative capacity, even though these positions' indirect cost reimbursement rates are inadequate. Not all HSPs can bear the financial burden of additional administrative duties. (This issue is further explored in the Administrative Obstacles Section.)

Lack of startup funding

Cost-based reimbursement does not provide funding until after a service has been delivered. Therefore, HSPs must have sufficient funds and cash flow to cover all program start-up costs, including hiring, salaries, infrastructure, and other resource requirements. Regardless of an HSP's size and financial status, the absence of upfront funding creates financial challenges. But, it poses a significant barrier for smaller and new HSPs that often have limited cash flow or financial reserves. These organizations may be fully qualified to provide services for marginalized communities, but they cannot bear the initial financial burden of contracting with state agencies. One HSP focus group participant noted, "You need millions in the bank just to play this game. Small organizations can't afford to participate."

State agencies do not offer advanced payment options to HSPs, as this practice is prohibited by statute and has been deemed prohibited by the Washington State Constitution, Article VIII, Section 5 and Section 7.

Short-term funding and lack of stability in contracting

Many human service providers work under short-term contracts without a renewal guarantee, making long-term planning challenging and financially risky. Most state contracts are granted yearly, requiring providers to reapply for funding each year, resulting in fiscal uncertainty. In the perspective of one HSP focus group

---

[55] OneWashington, "The Case for Replacing Washington's Outdate Financial System," (last visited Mar. 26, 2025),

participant, "Short-term contracts don't allow us to build lasting programs. We need multi-year commitments to create real impact."

Without stable, long-term funding commitments, human service providers encounter significant challenges in maintaining operational stability, retaining qualified staff, and delivering consistent services. Many HSPs emphasized the crucial need for multi-year contracts to offer sustainable funding and alleviate uncertainties in service provision.

No cost-of-living or inflation adjustments

While contracts are executed annually and can be renewed, the available funding rarely increases, meaning HSPs are expected to provide the same, if not more, services with the same amount of funding. Despite rising operational and service delivery costs, contract renewals do not include adjustments for inflation or cost of living. Without mechanisms to adjust contract rates based on actual costs, HSPs often operate at a loss or seek additional funding to fill gaps. Providers in Washington agree that adjustments for cost of living or inflation are essential for alleviating the financial strain associated with state contracts. Cost-based reimbursement, contract underpayment and delays in payments and contract renewals all create financial hardships for HSPs and keep smaller HSPs from applying for state contracts.

Administrative obstacles

The state contracting process, from application to contract execution, poses multiple administrative challenges for HSPs. Complicated applications, inconsistent procedures, and tight timelines elevate HSPs' administrative workloads and costs.

Complex applications

Human service providers find state contracting application processes complex.[56] [57] In a national study by the Urban Institute, 75% of human service providers described the contracting application process as overly complex and time-consuming. [58] Many Washington HSPs interviewed for this report expressed similar views, pointing out that the application language is excessively legalistic or bureaucratic, necessitating professional grant writers and legal assistance to navigate procedures successfully. The expertise required to interpret and comply with application requirements excludes many smaller organizations, particularly grassroots and community-led groups that may lack the financial resources for professional grant writing services or legal counsel.

In the experience of one HSP focus group participant, "We've been the highest-scoring applicant before, but because we missed checking a single box, we weren't awarded the contract."

Additionally, state agencies have differing state contract application requirements, which requires HSPs to allocate additional time to review and determine what each contract application requires. In Workgroup discussions, state agency procurement and program staff reported that they must adhere to various requirements when preparing a state contract application. Because federal and state requirements can be similar but are not identical, state agencies cannot always follow the federal requirements in state contracting.

---

[56] Washington Nonprofits, "The Nonprofit Experience with Government Contracting: Challenges and Recommendations," (2022),
[57] Washington State Department of Commerce, "Equity in Funding: Final Review of Commerce Capital Programs," (2022),
[58] Boris et al., Urban Institute, "Human Service Nonprofits and Government Collaboration: Findings From the 2010 National Survey of Nonprofit Government Contracting and Grants," (2016),

For instance, state and federal contracts may have different funding periods, rules regarding allowable costs, or target populations. Agency staff may also seek to address state constitutional, legislative, and historical agency requirements simultaneously through their contracting processes.[59] As many requirements are rigid, a state agency's internal culture may prioritize compliance over understanding those rules' intent and practical application.[60] Consequently, state contract application requirements can vary greatly across agencies and divisions creating additional administrative burdens for HSPs that wish to apply for such contracts.

The perspective of one HSP focus group participant makes clear these inconsistencies, "Even within the same agency, two different departments will have completely different application processes. There is no standardization."

Frequent turnover among agency staff leads to inconsistent contract administration and a loss of institutional knowledge. Many new hires lack training in contracting policies, processes, and systems, causing misinterpretations and inefficiencies in contract execution. Additionally, according to engagement for this report, new employees may impose stricter requirements due to their unfamiliarity and inexperience with contracting policies and procedures.

Inconsistent contracting processes

Inconsistent guidance, policies, procedures, and application templates across and within state agencies further complicate the application process for human services providers. These inconsistencies include varying timelines for application submission, different submission systems or methods, and distinct documentation requirements. Providers must take time to understand the differences and nuances of each system.

Additionally, HSPs must submit the same information in slightly different formats, depending on the agency and the system. Since state agencies utilize various systems and which are not connected to each other, HSPs often submit the same documentation multiple times, even if they already have active contracts with the state.

Minimal advance notice and short application timelines

Human service providers often lack advance notice about upcoming state contracting opportunities because many state agencies do not forecast forthcoming opportunities, or do not know what new or continuing state programs the Legislature will fund. Additionally, while some providers use Washington's Electronic Business Solutions (WEBS) portal, some HSP focus group participants were unfamiliar with WEBS, found it challenging to use, or reported it as unreliable in providing information about appropriate funding opportunities. Some organizations with strong relationships with state agencies may be aware of upcoming funding opportunities through their professional networks. However, most HSPs rely on word-of-mouth or agency distribution lists to learn about state procurement solicitations, making it difficult for providers to plan financially for the future.

Many applications necessitate detailed program plans, complex budgets, and extensive documentation. A lack of forecasting, coupled with short application timelines, of 30 days or less, exacerbates the challenges HSPs face. This scenario is particularly difficult for organizations that need board approval or for tribal communities, where additional governance approvals may be necessary before an application can be submitted.

---

[59] Fyffe, Saunji D., Urban Institute, "Nonprofit-Government Contracts and Grants: The State Agency Perspective," (2015),
[60] Alms, Natalie, Next Gov/FCW, "Government Has a Policy Over People Problem, Civic Tech Leader Argues," (2023),

Short application timelines also disadvantage smaller providers who cannot quickly assemble detailed proposals. Larger organizations with dedicated grant writers and proposal teams are better equipped to meet tight deadlines. These structural barriers create an uneven playing field, allowing resource-rich organizations to continue winning contracts while leaving smaller providers with fewer opportunities. Local government officials and human services providers shared that this inequity perpetuates disparities, as small organizations with strong community ties and direct service experience through grassroots efforts are often excluded from state contracting due to inadequate funds or administrative support systems.

Missing HSP-specific technical assistance
Considering the complexity of state contracting, from application to implementation, all interested parties recognize that HSPs need substantial and ongoing technical assistance.

State agency staff interviewed for the study shared that, in their opinion, the existing technical assistance resources are not tailored to the specific needs of HSPs. "We've had organizations tell us they would love to apply for funding but simply don't have the ability to handle the invoicing and financial reporting requirements." While general workshops and standardized training materials are available, they do not meet the varying needs of HSPs that need customized, direct, hands-on support. For instance, the challenges faced by rural HSPs are different from those encountered by urban and suburban organizations, and small, community-based organizations have distinct needs compared to large, statewide providers. As a result, smaller organizations with limited resources are most impacted by the lack of technical assistance. [61]

State agency staff also noted that inadequate technical support results from limited technical assistance funds, staff shortages, and restrictions on the level of support the state can provide to HSPs. To address these concerns, some state agency staff suggested establishing a centralized technical assistance center to offer HSPs consistent, cross-agency support, which would help address gaps in contract application and management knowledge and experience.

Challenges in contract award, negotiation and execution

The period between application submission and contract execution involves several challenges for HSPs in Washington state. First, HSPs have noted that the evaluation and scoring process is unclear, and they have experienced inconsistent success in receiving feedback on scoring and applications. Sometimes, assessment information is readily available, but at other times, HSPs are instructed to submit a formal information request. Second, the feedback is often limited and fails to clearly explain why the HSP was not selected.

While providers are held to strict deadlines when submitting applications, state agencies may delay announcements for new awards and contract renewals, sometimes without explanation. According to engagement for this report, these delays in contract awards may stem from state agency staff capacity issues, either due to insufficient numbers of contract procurement employees or high staff turnover, leading to vacant positions or inexperienced new staff. Application review and award delays create uncertainty, making it difficult for HSPs to hire or retain staff, plan service delivery, and prepare for new program implementation.

Washington HSP and subject matter expert interviewees identified a failure to engage in contract negotiation as a systematic issue in state contracting. Providers are either unaware, unprepared, or hesitant to negotiate contracts with state agencies. During focus groups, several HSP participants were surprised to discover that negotiating contracts with state agencies was allowed. Conversely, some HSPs reported experiences where

---

[61] Washington Nonprofits, "The Nonprofit Experience with Government Contracting: Challenges and Recommendations," (2022),

state agency staff told them the contract was "as-is," meaning they could either accept it or reject it. However, in most cases, HSPs fear that negotiating contract terms will harm relationships with state agency staff and jeopardize future funding opportunities.

According to DES's Washington State Contract Management Manual, negotiations within contracts are permitted under the following circumstances:

1) agencies seek to lower the price, but not raise it,

2) agencies or HSPs aim to modify non-material terms, such as delivery dates, payment dates, and performance milestones, and

3) the state and vendors need to balance the agency's risks with the vendor's business concerns to ensure mutually beneficial agreements.[62]

State agency staff report that they are often unaware of the permissible flexibility in the contract negotiation process. Many agency employees who work directly with HSP contracts are program staff without formal training in contract language, procurement processes, or negotiation strategies, unlike procurement specialists. These program staff, unfamiliar with contract terms or the nuances of contractual conditions, may default to including broad, standardized language in contracts instead of tailoring terms to match the scope of provided services.

State-level procurement staff recognize that staffing shortages and inadequate training contribute to contracting challenges. The absence of dedicated procurement personnel and insufficient technical guidance for program staff can result in overly restrictive contracts that impose unnecessary legal and administrative requirements on HSPs.

Moreover, HSPs interviewed for this report shared that high turnover rates within state agencies diminish institutional knowledge related to contracting processes. Given limited staffing capacity, HSPs felt that agencies may emphasize efficiency over flexibility, making contracts difficult to negotiate or amend once executed. Without adequate staffing and training, program staff might inadvertently include terms that elevate compliance and cost burdens for HSPs, which poses significant challenges for smaller organizations with limited administrative resources.

Finally, when a contract is awarded, delays in contract execution introduce further pitfalls. Providers cannot invoice for services without an executed agreement, which forces them to postpone service delivery or take on financial risk by operating without reimbursement guarantees. The uncertainty surrounding contract execution leads to significant operational instability, discouraging organizations from participating in state-funded programs despite the clear demand for their services.[63] [64]

When contract execution is delayed, the performance period remains unchanged. For instance, if a contract's performance period spans from July 1 to June 30 but the contract is not signed until October 1, the performance period does not adjust for the three-month delay. Instead, HSPs must complete the services and meet the required outcomes within a shortened performance period, or commence work on the award start

---

[62] Washington State Department of Enterprise Services, "Washington State Contract Management Manual," (2019),
[63] Boris et al., Urban Institute, "Human Service Nonprofits and Government Collaboration: Findings From the 2010 National Survey of Nonprofit Government Contracting and Grants," (2016),
[64] Washington Nonprofits, "The Nonprofit Experience with Government Contracting: Challenges and Recommendations," (2022),

date, regardless of whether a signed contract has been received. Participants in the engagement process and Workgroup members often highlighted similar situations throughout Washington State.

Compliance barriers

State agencies are legally required to monitor performance-based contracts to ensure that all aspects of the contract are being properly fulfilled and that performance standards are being achieved."[65] State law specifies that contracts should be performance-based whenever possible, with DES providing guidance to state agencies on contract monitoring.[66] [67] [68] In addition, state agencies may have their own specific guidelines for contract monitoring.[69]

To comply with statutory and regulatory requirements, each contract must include a monitoring plan that outlines contractor performance reporting, specifies the number of site visits, if any, details the invoice review process, and includes other specific requirements identified by the agency procurement coordinator.[70]

For each state contract, HSPs must efficiently and accurately manage monthly invoicing and performance reporting to ensure compliance with contract requirements. When HSPs hold multiple contracts, which is common, providers are required to report identical or similar data in different formats for various agencies. Detailed invoicing and financial monitoring requirements add to the administrative workload, as HSPs must ensure that all documentation aligns with state standards.

Providers must also comply with additional requirements, such as obtaining specific types and levels of insurance, hiring staff with the necessary education or credentials to provide contracted services, and completing an independent financial audit. Although state agencies are responsible for managing contract risks, DES provides guidance and recommendations to state agencies on practical methods and strategies for risk management, including the incorporation of insurance requirements in contracts.[71] [72] [73] [74] [75]

Additionally, state agencies must adhere to OFM policies and guidance to ensure financial and administrative accountability.[76] Plus, some state agencies have their own internal policies that all staff members are required to follow.[77] These multiple layers of requirements create significant burdens on HSPs, as some rules may not apply to the program's circumstances or the contractor. For instance, hiring qualifications specified in contract terms, including credentialing requirements, may limit workforce availability by narrowing the qualified candidate pool, especially in community-based organizations that hire individuals with relevant lived

---

[65] Washington State Legislature, Revised Code of Washington, RCW § 39.26.180,
[66] Washington State Legislature, Revised Code of Washington, RCW § 39.26.180(3),
[67] Washington State Department of Enterprise Services, "Bidder Contracting Guide for Agency Contracts for Goods and Services," (2025).
[68] Washington State Department of Enterprise Services, "Contract Management Procedure Policy No. PRO-DES-080-02," (2023),
[69] For example, Washington State Department of Social and Health Services (DSHS), Administrative Policy No. 13.11, Monitoring Contractor Performance, October 2, 2024,
[70] Washington State Department of Enterprise Services, "Contract Management Procedure Policy No. PRO-DES-080-02," (2023),
[71] Washington State Legislature, Revised Code of Washington, RCW § 43.19.760,
[72] Washington State Legislature, Revised Code of Washington, RCW § 43.19.763,
[73] Washington State Legislature, Revised Code of Washington, RCW § 43.19.766,
[74] Washington State Department of Enterprise Services, "Enterprise Risk Management", (last visited Mar. 26, 2025),
[75] Washington State Department of Enterprise Services, Alliant, "Insurance Requirements in Contracts: A Procedure Manual," (2016),
[76] Washington State Office of Financial Management, "State Administrative and Accounting Manual," (2025),
[77] Washington State Department of Social and Health Services, Administrative Policy No. 13.13: Insurance Requirements for Contracts, (2024),

experience. These factors affect staffing capacity, particularly for by-and-for HSPs that employ people from their communities.

Challenges in performance reporting and monitoring

Performance data must be entered into the required formats and submitted using each state agency's mandated system. Since HSPs often manage multiple simultaneous state contracts, these requirements can be burdensome and costly. For instance, one HSP reported having 50 contracts that support 10 programs. Each of the 50 contracts is subject to programmatic reporting and monitoring. For four of its contracts, it took over a year to complete a state agency's monitoring process.

In addition to reporting, which may be monthly, quarterly, or another period specified in the contract, HSPs may also be subject to on-site monitoring visits, which providers commonly identify as a hardship. A 2015 national study found that HSPs face site visits more frequently than other contract groups.[78] However, state agency staff indicated that remote monitoring is more common due to travel budget constraints and changes in the workplace following COVID-19.

Reporting challenges are exacerbated by the various reporting systems of different state agencies. For instance, an agency might require information submission through a document-sharing platform, secure email, or another system. Many HSPs indicated that they often faced issues with documents failing to upload or losing entered information, requiring HSP staff to re-enter data or resend documentation. According to stakeholder outreach, increased administrative tasks hinder efficiency and reduce available time for service delivery, ultimately diminishing the overall impact of state-funded programs.

In the perspective of a local government participant, "There are seven state [monitors] in our office full-time. I'm literally paying for the state to [monitor] me. That's money that could be spent on services."

A survey of human service providers identified financial and capacity constraints as one of the main barriers to participation in state contracts. This survey outlined that the costs related to reporting and monitoring necessitate a considerable upfront investment, including staff training and data collection platforms, which HSPs with limited resources struggle to manage, thereby restricting their access to state funding.

Local government agencies have reported that state monitoring requirements place a significant administrative burden on them. Interviewees mentioned that many HSPs face multiple simultaneous monitoring visits, and that the volume and complexity of monitoring requirements lead to inefficiencies. Providers stated that failure to comply with reporting requirements, even those unrelated to service delivery, could result in a loss of funding.

According to HSP grantee feedback, recognizing that state funding fails to cover numerous contract-monitoring administrative costs, HSPs are forced to utilize their limited unrestricted funds to meet these requirements.

One HSP focus group participant shared, "I just last week reviewed one invoice for one month's expenses, and the completed invoice was 118 pages long because the backup documentation requirements and the reporting requirements are so substantial… that's pretty common that invoices and the backup documentation that's required with them will be a hundred plus pages long."

---

[78] Saunji D. Fyffe, Urban Institute, "Nonprofit-Government Contracts and Grants: The State Agency Perspective," (2015),

Many state contracts prioritize numerical data over qualitative outcomes, requiring providers to align their programs with standardized performance monitoring and reporting frameworks. Local government representatives noted that data collection often emphasizes quantitative metrics that fulfill contract requirements rather than focusing on the effectiveness of service delivery.

Interviewees used housing programs to illustrate the differences between reporting measures and actual outcomes. For instance, contract metrics may count the number of individuals placed in housing, but if individuals leave shortly after placement, the long-term effectiveness is unclear, according to HSP grantee feedback. In focus groups, HSPs pointed out that some contract performance measures do not align with service goals, service delivery improvements, or client outcomes and could be improved if state agency staff involved providers in program and contract development.

Challenges with invoicing and financial monitoring

The cost-based reimbursement contracting structure requires HSPs to submit detailed documentation to support payment requests. This often includes service logs, itemized expenses, and supporting evidence of program activities. Service logs play a central role in this process, as they must carefully track the nature, duration, and frequency of services provided. These logs typically contain detailed entries documenting the date and time of each service, the specific staff member delivering the service, the client or population served, and the justification for the service's necessity.

For cost-based reimbursement, additional verification is often required, such as signed confirmation from staff, supervisors, or clients that the reported services were provided. In some cases, invoice submissions may involve extensive documentation, often exceeding a hundred pages. HSPs provided that state agency requirements that include providing photos of supplies in addition to receipts, exceeding federal or foundation funding requirements. The level of documentation required can lead to delays in payment disbursement due to the time necessary to review and approve such extensive invoices, affecting cash flow for providers who rely on timely reimbursements to maintain operations.

In addition to monthly invoicing, HSPs must adhere to financial monitoring requirements set by state agencies. This monitoring includes reviewing invoices and payments, assessing the organization's financial status, and evaluating financial management policies, procedures, staffing, and systems. HSPs view the financial monitoring process as somewhat more straightforward than program monitoring because the financial standards are generally well-defined, making compliance easier to demonstrate. In contrast, program monitoring often requires pulling case files and notes and applying rules that can be more subjective. However, both types of monitoring can be administratively burdensome and expensive, particularly when required across multiple contracts several times a year.

Financial monitoring can pose challenges for HSPs if the monitoring agency mandates a completed independent financial audit, which entails a detailed examination of an organization's financial statements by an external, independent auditor. Some charitable nonprofit HSPs may not be required to undergo independent financial audits based on key factors like revenue size, state laws, and funding sources.[79] Independent financial audits are highly time-consuming and expensive. The National Council for Nonprofits recognizes, and

[79] National Council of Nonprofits, "Does Your Nonprofit Need to Have an Independent Audit?," (Mar. 26, 2025),

HSP grantees interviewed for this report confirm, independent financial audits are costly monitoring tools, with prices typically ranging from $10,000 to $60,000.[80] [81]

Mid-term contract changes

Human service providers report that state agencies often introduce new reporting requirements mid-contract, frequently without adequate notice or guidance. These mid-contract changes reflect challenges highlighted nationwide in a National Council of Nonprofits survey, which found that 44% of organizations with contracts experienced mid-term modifications, including changes to payment terms, service levels, and reporting or compliance requirements, without receiving corresponding compensation for the increased workload.[82] These changes compel organizations to reconfigure internal tracking systems, retrain staff, and modify workflows on short notice, leading to operational disruptions and additional costs.

Frequent turnover among state agency contract managers also contributes to mid-term changes. In interviews, state agency staff noted that turnover impacts contract oversight and diminishes institutional knowledge. Replacing experienced contract officials takes time, and new hires often receive limited training on contract policies and procedures, which can result in misinterpretations, inefficiencies, and stricter compliance requirements for providers. Contract managers leaving mid-contract may also necessitate providers to re-establish working relationships and re-explain contract details, further delaying technical assistance or cost reimbursement. Providers acknowledge that state staffing changes contribute to mid-term contract modifications, and inconsistent agency guidance leads to misinterpretations of contract requirements.

Insurance barriers

State contracts require providers to maintain specific types and amounts of insurance, including property, auto, general and professional liability, or cyber liability insurance. DES provides guidance on the categories and quantities of insurance that agencies may request from contractors, and state agencies also have the authority to enforce specific types and levels of insurance. Providers have indicated that contract insurance requirements are often presented as mandatory, even when the insurance coverage is not applicable to the services rendered. Agencies may apply blanket insurance requirements across all contracts rather than evaluating risk on a case-by-case basis. For instance, a provider delivering community education may face the same insurance requirements as a human services provider operating a residential treatment facility.

In a 2020 study, the DES Office of Risk Management stated, "[t]he world is facing the worst insurance market in over 30 years," and specifically noted that "Washington is also a uniquely difficult venue for liability insurers."[83] Insurance subject matter experts identified specific reasons why Washington's insurance market faces several dilemmas, including the lack of limits on liability damages. The absence of tort reform, along with service provisions for high-risk populations, such as children and vulnerable adults, creates significant challenges for HSPs seeking adequate and affordable insurance coverage.

Interviewees on insurance subjects also noted that HSPs are categorized as high-risk due to the consequences of chronic underfunding, which result in inadequate financial and risk management systems and personnel. Insurance requirements disproportionately affect small, rural, or "by-and-for" organizations that

---

[80] National Council of Nonprofits, "Costs of an Independent Audit,"(Mar. 26, 2025),
[81] Springly, "Our Breakdown of Nonprofit Audits: Everything you Need to Know," (ND)
[82] National Council of Nonprofits, "Toward Common Sense Contracting: What Taxpayers Deserve," (2014),
[83] Department of Enterprise Services Office of Risk Management, Study of Washington State Department of Children, Youth and Families' Tort Claims, (2020),

may not qualify for state contracts, even though they are capable of providing high-quality services for their communities.[84]

Despite the well-known challenges within the insurance market, HSPs report that state agencies are unwilling to negotiate or find reasonable compromises around insurance requirements. In fact, some HSPs do not pursue state contracting opportunities because of the insurance requirements listed in procurement applications, knowing they cannot afford or obtain adequate coverage.

A state subject matter expert shared, "I've seen agencies require the same insurance levels for a two-hour training session as they do for a residential care facility. That makes no sense."

Insurance subject matter experts highlighted risk pooling as a strategy to distribute financial and liability risks among multiple providers. Washington has a nonprofit risk pool, in which most participants are human service providers. However, constraints in the insurance market have made it challenging for risk pools to provide affordable coverage, leaving some providers interviewed for this report, particularly those considered high-risk, without any insurance options.

Restrictions on hiring staff with lived experience

State contracts may outline education and credential requirements for program staff, which limits the HSP workforce pool, making it challenging to fill program staff positions and driving up the cost of direct services. Many HSPs hire staff with lived experience since these employees often possess firsthand knowledge of the issues confronting the populations they serve, making them ideal for service delivery roles. Providers shared that education requirements hinder these individuals from being compensated through contract funding. For instance, a staff member with disabilities teaches other community members with disabilities how to use the bus system. Although these employees are highly capable of assisting clients due to their personal experiences, they may lack the degrees or certifications needed for state contract work.

It is not always clear why specific educational levels are required in state contracts. In some instances, state agencies utilize evidence-based practices (EBPs) to ensure the approach aligns with the evidence, serving as the foundation for state-funded contracts. Certain EBPs may impose staff education or credential requirements that are irrelevant to a program's intervention, or the populations served. All HSPs pointed out hiring issues related to educational requirements, especially those serving tribal populations.

According to engagement for this report, "Our methods of healing have always worked. Now, we're required to use Western methods that don't work in our communities. The EBPs have not been tested with Native populations, and yet we're forced to implement them."

State contract hiring requirements and restrictions create additional barriers to hiring qualified staff, worsening structural funding disparities that disproportionately impact small, community-led organizations.[85] [86] [87] Research shows that HSPs led by and for their service populations receive 24% less revenue and 76% less unrestricted net assets than their larger counterparts.[88] These organizations have limited financial resources

---

[84] Washington Nonprofits, "The Nonprofit Experience with Government Contracting: Challenges and Recommendations," (2022),
[85] Cheryl Dorsey et al., Accelerate Social Impact, "Disparities in Funding for Leaders of Color Leave Impact on the Table," (2016),
[86] Washington Nonprofits, "The Nonprofit Experience with Government Contracting: Challenges and Recommendations," (2022),
[87] Theodos, McManus, and Rajninger, "Removing Barriers to Participation in Local and State Government Theodos, McManus, and Rajninger, Urban Institute, "Removing Barriers to Participation in Local and State Government Procurement and Contracting for Entrepreneurs of Color," (2024),
[88] Cheryl Dorsey et al., Accelerate Social Impact, "Disparities in Funding for Leaders of Color Leave Impact on the Table," (2016),

to cover personnel costs not funded by state contracts, even though staff with lived experience are the most capable of delivering services for the populations they serve.

Impacts of lowest responsible bidder contracting

Selecting the lowest responsible bidder for human service contracts can be a flawed approach that prioritizes cost savings over service quality. Unlike other sectors where cutting costs may be beneficial, human services require expertise, stability, and long-term operational and infrastructure investment. When contracts are awarded based solely on price, organizations are forced to underbid, often at the expense of fair wages and high-quality service delivery.

The lowest responsible bidder contract is typically more common in contracts for commodities rather than human services. This approach could lead to contract over-specification, preventing HSPs from effectively using their unique expertise to deliver the best services.

This model also disproportionately impacts smaller, community-based HSPs that struggle to compete with larger entities with bigger cash reserves that can afford to absorb financial losses associated with lowest responsible bid contracts. The typical outcome is that contracts are awarded to large, well-funded HSPs that lack strong connections to the communities they serve and can lead to a loss of culturally competent, community-driven services critical for addressing local needs.

The emphasis on cost reduction also contributes to the trend of underpaying human service providers. Organizations must stretch limited funds to cover operational costs, often leading to understaffing, burnout, and high employee turnover, which disrupts service continuity and reduces overall program effectiveness.

Interviewees emphasized that a one-size-fits-all contracting model does not work for diverse geographic and service delivery contexts. Instead of imposing a uniform structure, some states have adopted flexible contracting models tailored to different community needs. This allows for greater adaptability while maintaining oversight. One HSP provider stated, "If we lose contracts to a big agency that underbids us, they may not have the relationships, the trust, or the knowledge of our community. The quality of care will suffer."

Careful contract design is needed to balance cost efficiency with quality service delivery. A lowest responsible bidder model must ensure that cost considerations do not override provider quality and community ties. Clear criteria should prioritize community engagement and service quality alongside cost. In addition, a quality-based evaluation system is needed to prioritize proven outcomes, experience, and the ability to meet community needs instead of relying on cost-driven selection criteria. The priority should be to ensure adequate funding is awarded to HSPs with a strong track record of delivering effective, sustainable services within the communities being served.

Workgroup recommendations

To ensure the sustainability of the human services sector in Washington, the Workgroup offered the following prioritized recommendations to improve financial sustainability and reduce the administrative burdens HSPs face when contracting with Washington state agencies. Through a facilitated process, Workgroup members developed and refined recommendations that reflected the full breadth of their experience.

Recommendations are divided into two sets. The first set of recommendations are unanimously supported by the Workgroup, while the second set is supported by the majority of the Workgroup with dissenting opinions included.

Unanimous recommendations

1. Ensure that state contracts cover the full costs of delivering services by scaling contracts' scope or budget.

The Workgroup unanimously recommends that state-funded contracts cover the full HSP cost to deliver human services.

State and local government contracts are the primary means of advancing human services in Washington. To ensure the financial sustainability of the human services sector, state-funded contracts must cover the actual costs of delivering services. This requires increasing payment for human services or reducing the scope and extent of services provided, which is also referred to as right-sizing the contract. Workgroup members acknowledge that right-sizing contracts will require increased state funding or a reduction in the services that can be provided. However, this is identified as a necessary change to improve the financial sustainability of the human services sector and address the long-standing underfunding of human services providers, referred to in one study as the "starvation cycle."[89]

The Workgroup discussed additional solutions to ensure HSPs are paid the full cost of providing services, but because some members raised concerns about the additional solutions, they are included in the majority recommendations with dissenting opinions section below, along with concerns that were raised.

2. Provide a planning year in the budget cycle

The Workgroup unanimously recommends that, to the extent feasible, the timeline for agencies to plan and receive proposals, select grantees/awardees, and execute contracts be extended by a year so that appropriated funding has a full year to be spent down in any budget cycle. Currently, state operating expenditures and contracts may only begin on or after July 1 and often must conclude by June 30 in the state fiscal year for which the funds are appropriated. This requirement restricts the agencies' ability to:

- forecast forthcoming contracting opportunities and the timing of the opportunities to human services providers, and
- engage with interested parties to determine the best design, cost, and appropriate performance requirements and targets for the program.

[89] Jeri Eckhart-Queenan et al., The Bridgespan Group, "Momentum for Change: Ending the Nonprofit Starvation Cycle," (Sept. 2019),

This change can give agencies greater flexibility and predictability when planning projects and programs. Extending the time between when funding is appropriated and when it must be spent will give agencies more time to prepare and ensure that contracts can be fully negotiated and executed before contract start dates, improving the ability of HSPs to receive timely payment for services.

Such a change would allow HSPs to plan and budget based on reliable forecasts from state agencies regarding upcoming opportunities or renewals. Additionally, state agencies will be better equipped to partner with local governments, HSPs, and other interested parties to design programs that achieve the desired outcomes, fostering a stronger partnership with human services providers. Furthermore, with more planning time, agencies will be in a better position to engage in active contract management.

This process would be similar to legislatively approved funding lists, in that projects are solicited up to one year in advance of appropriation authority. While a planning year would not necessarily require legislative approval to proceed, like the Building Communities Fund project list, it would provide the time for pre-contract work to be completed. The timing and sequence of project solicitation and appropriation authority would need to be considered within the boundaries of the state's budgeting process, as well.

3. Permit advanced payments to human services providers

The Workgroup unanimously recommends that the Legislature amend RCW 43.88.160 to explicitly allow Washington state agencies to make advanced payments to qualified human services providers.[90] The state Office of Financial Management, in consultation with the Office of the Washington State Auditor, should establish eligibility criteria, guidance for using advanced payments, and any necessary direction to ensure that taxpayer funds are used correctly.

The Workgroup specifically recommends that Washington allow up to 25% of the total value of the payments under the contract to be disbursed to the HSP immediately upon signing or renewing the contract. Colorado, New York, and New York City each offer this amount to HSPs as advance payments.

Changes in RCW 43.88.160 should also specify which organizations are eligible. Using Colorado's legislation as a model, the Workgroup recommends that eligible organizations include HSPs certified as nonprofit or charitable organizations, classified as small businesses, or certified by the Washington Office of Minority and Women's Business Enterprises (WA OMWBE). While most HSPs are nonprofit organizations, not all are. This proposal guarantees that all HSPs would be eligible for advanced payments.

Article VIII, Section 5 and Section 7 of the Washington State Constitution establish the Gift of Public Funds doctrine, "barring the state government and its political subdivisions from conferring benefits on private parties in ways that might disadvantage public interests."[91] This includes gifting or donating funds or property or loaning the credit of the state or of political subdivisions, which include counties, cities, towns, and other municipal entities. These two provisions "are commonly read as co-extensive," meaning the provisions have the same intent or meaning, even though the wording is different, and the Washington Supreme Court has held that the two provisions should be analyzed in the same manner.[92] [93] [94]

---

[90] Washington State Legislature, Revised Code of Washington, RCW §43.88.160
[91] Municipal Research and Services Center of Washington, Gift of Public Funds, (last visited April 25, 2025),
[92] Washington State Office of the Attorney General, AG Opinions, Constitutionality of proposed legislation providing background checks for private school employees at public expense, (July 1998),
[93] Municipal Research and Services Center of Washington, Gift of Public Funds, (last visited April 25, 2025),
[94] The Supreme Court of Washington, En Banc., CLEAN v. State, (December 1996),

While state agency representatives on the Workgroup noted that the Gift of Public Funds doctrine is cited as the reason why advanced payments are not permitted, the Workgroup believes that advanced payments are not prohibited by Article VIII, Section 5 or Section 7 because using public funds to carry out a fundamental government purpose "does not constitute an unconstitutional gift or loan of public funds."[95] [96] The State can make payments to support "the poor or the infirm without violating the Constitution."[97] Paying for human services falls under the government's obligation to ensure public health, safety, and welfare. Therefore, the Workgroup feels that advanced payments would not be prohibited under the state Constitution.

Additionally, human services are provided by an organization under contract with a state agency. This means there is a bargained-for exchange, subject to state contracting requirements. The state agency is purchasing services; therefore, it is not giving a gift and does not have "donative intent" and "adequate consideration would be received by the public" (such as, the contracted human services).[98] [99] Further, the state agency is not forgiving a debt or duty by providing advanced payment. Instead, it enables the HSP to carry out the contracted duty.[100] The HSP would still be required to carry out its contracted duty. If the HSP does not do so, the money is recoverable by the state agency, just as is currently the case if the state agency determines that a contracted HSP fails to perform the paid-for services as required. The advanced payment does not result in additional money; the total amount paid for services would be the contracted amount.

4. Establish a procurement and contracting technical assistance center to support human services providers

The Workgroup unanimously recommends that the Legislature establish a state-funded technical assistance (TA) center to partner with and support human service providers (HSPs) at all stages of the procurement and contracting process, from identifying and applying for funding opportunities to managing, reporting, and evaluating contracts. The technical assistance center should assist human service providers in:

- understanding procurement, application, and contract documents;
- responding to applications and procurement opportunities, including assisting HSPs in writing state procurement responses;
- review and understand contracts; and
- meeting reporting and compliance requirements.

The Workgroup agreed that the TA center should be co-designed with human service providers of different sizes, including by-and-for organizations. It should be run by an independent organization selected through a competitive process for a multi-year contract, and the Legislature should provide multi-year funding.

---

[95] The Supreme Court of Washington, En Banc., Marriage of Johnson, (Oct. 1981),
[96] Washington State Office of the Attorney General, AG Opinions, Use of public funds to repair or replace side sewers, (Aug. 2009),
[97] Washington State Office of the Attorney General, AG Opinions, DEPARTMENT OF REVENUE -- TAXATION -- PROPERTY -- PUBLIC FUNDS -- PUBLIC ASSISTANCE, (March 1991),
[98] Washington State Office of the Attorney General, AG Opinions, Use of public funds to repair or replace side sewers, (Aug. 2009),
[99] Municipal Research and Services Center of Washington, Gift of Public Funds, (April 25, 2025),
[100] Municipal Research and Services Center of Washington, Gift of Public Funds, (April 25, 2025),

Majority recommendations with dissenting opinions

The following recommendations have received majority support from the Workgroup. Although these recommendations are not unanimous, it is important to note that none of the Workgroup members object to the policy objective. Some Workgroup members chose not to vote on certain recommendations because they felt they did not have the requisite knowledge or experience, while others may have disagreed with the recommendations for technical reasons, or the opportunity to pursue alternative means to achieve the objective.

1. Use fixed-price or cost-plus contracts and establish statutory standards to ensure that state contracts cover the full costs of delivering services

Most Workgroup members supported broader changes to ensure that state contracts cover the full costs of delivering services. This includes ending the use of state-directed cost-based reimbursement models in favor of fixed-price or cost-plus contracts, which may allow HSPs to build budgets based on actual service needs. Additionally, the majority of the Workgroup supports establishing statutory standards for cost-based reimbursements and indirect cost policies. Each solution is discussed below.

1. a) Permit HSPs to contract for services under a fixed-price or cost-plus contract and stop using cost-based reimbursement with cost allocation as the payment model for human services, to the extent feasible. According to the Workgroup's assessment, one key reason HSPs are not adequately paid for the full cost of providing services is because the state primarily uses a cost-based reimbursement model with HSPs where cost allocation is directed by the state agency. The state agency decides which expenses can be included, which costs are direct, and which are indirect, and what limits apply.

For example, when a state-funded contract requires an HSP to hire a new employee to fill a necessary role for executing services within a program, the state agency will determine which components of the employee's compensation can be covered by the contract. The state agency may decide that program funding can only cover salary, while payroll taxes and benefits, such as insurance costs or paid time off, are deemed non-reimbursable costs since they are considered not directly attributable to the program. Consequently, the HSP must cover these expenses from other funding sources, even if the position exists solely to fulfill the state-funded contract. Further, the state agency assesses which indirect costs can be included, such as administrative expenses like information technology costs and management costs, and what limits will apply. Indirect costs are often restricted to between 10% and 15%, but they may be lower. The state agency establishes this limit. Given that most organizations operate with indirect rates of 25% to 35%, a limit of 15% or lower further underfunds the provision of state-funded services.

Instead, HSPs should be permitted to contract for services under a fixed-price or cost-plus contract, similar to other types of state contractors. The key requirement is that HSPs can develop a budget based on what is necessary to deliver the services.

Additionally, the Workgroup recommends that state agencies contract with HSPs using performance-based incentives, where the incentive (monetary or nonmonetary) is not tied to specific inputs but is instead based on achieving or exceeding agreed-upon performance metrics. The Workgroup does not advise using monetary sanctions, including fines, deductions from or recovery of contract payments, or liquidated damages. Financial penalties only worsen the financial distress of the human services sector. Instead of sanctions, the Workgroup recommends that the state agency implement a performance improvement plan if an HSP fails to perform

under a contract. Should the HSP fail to improve, the state agency can choose to terminate or not renew the contract.

For clarity, the majority of the Workgroup recommends that payment for services delivered, and performance incentives be administered separately. This would make them two distinct components of compensation for HSPs. To facilitate this approach, most of the Workgroup recommends revisions to RCW 39.26.180(3), which provides, "Payment for goods and services under performance-based contracts should be contingent on the contractor achieving performance outcomes." Most Workgroup members suggest the following statutory change to RCW 39.26.180(3):

"Payment of incentives (monetary or non-monetary) under performance-based contracts shall be contingent on the contractor achieving or exceeding agreed-upon performance targets."

Dissenting perspectives

Some Workgroup members from state agencies expressed concern about codifying such requirements in statute. While supportive of the recommendations' overarching goals, the members cautioned that statutory mandates could increase administrative burdens and limit agencies' flexibility to adapt their contracting practices over time. They noted that other tools and approaches, such as training, guidance, technical assistance, and contract negotiation might provide more agile and responsive solutions for addressing provider challenges without the risk of creating unintended consequences and heightened regulatory compliance requirements through legislation.

Additionally, one Workgroup member suggested that the proposed language be added to RCW 39.26.180 instead of replacing the current statutory language due to concerns that replacement would narrow the use of performance-based contracting in other contexts.

1. b) Establish statutory standards for cost-based reimbursements and indirect cost policies

The Workgroup acknowledges that cost-based reimbursement with applicable cost allocation may still be appropriate in certain contexts. Therefore, the majority of the Workgroup offers the following two recommendations to address the limitations inherent in cost-based reimbursement.

First, most of the Workgroup recommends that the Legislature establish statutory requirements for cost-based reimbursement contracts that align with federal standards, specifically 2 CFR § 200 Subpart E. It should also define when cost-based reimbursement is necessary and require state agencies to utilize alternative payment options in contracts with human services providers (as described above).

Second, a majority of the Workgroup recommends establishing a three-tiered indirect payment policy in statute along with other cost-based reimbursement requirements, which would allow HSPs to choose from three rate-setting options:

- A de minimis (a percentage of modified total direct costs) equivalent to the maximum federal de minimis[101];
- Federally approved negotiated indirect cost rate; or

[101] The Workgroup proposes aligning WA's de minimis rate to the federal de minimis because it is an established rate, with an existing formula, and process for review and updating. Office of Management and Budget, "Guidance for Federal Assistance, FR 30046," (April 22, 2024),

- A state-approved negotiated indirect cost rate as determined through a new procedure established by a Workgroup that includes representatives from OFM, SAO, state agencies, human service providers, and subject matter experts, including CPAs and WA-licensed and practicing nonprofit attorneys.

Establishing these options will create more pathways for human service providers to receive full payment for indirect costs, including administrative expenses and a margin. While not all human service providers can accommodate a 15% de minimis rate (the current federal de minimis rate), it may be adequate for some, particularly if allowable indirect costs are broadly defined. Moreover, obtaining a federally approved negotiated cost rate is complex and expensive, so organizations that have undergone this process should be allowed to use it in state contracts. Ultimately, implementing a method for negotiated indirect rates would provide a third pathway for human service providers to receive full payment for indirect costs.

Dissenting perspectives

Two Workgroup members from state agencies expressed concern about codifying such requirements into law. While they support the recommendations' overarching goals, these members warned that statutory mandates could heighten administrative burdens and diminish the flexibility necessary for agencies to adjust contracting practices over time. They pointed out that other tools and methods, like training, guidance, and technical assistance, might provide more agile and responsive means for tackling provider challenges without risking unintended consequences and increased regulatory compliance requirements through legislation.

2. Establish new requirements for local government agencies that subgrant/subcontract state funding for human services

State agencies contract most of their human services funding to local governments. The local government agencies are responsible for administering the state contract, which they can fulfill by providing the services directly or awarding a subgrant or subcontract to non-government HSPs while maintaining ongoing oversight. When local governments subcontract to non-government HSPs, the local government entity keeps a portion of the funding for contract management expenses. It may also impose additional or different requirements in the service contract than those in the state agency contract, such as terms that align with county or city codes or policies.

Most Workgroup members feel two recommendations address these issues. First, if a state agency uses a local government agency to administer and manage the contract, and if the local government opts to outsource the services, sufficient and appropriate funding for administration should be provided to the local government agency, separate from and in addition to the funding allocated for service provision. Second, local government agencies should not be allowed to impose requirements on the contract with a subgrantee/subcontractor that create additional or different obligations that result in undue financial strain on HSPs when the state fully funds the program.

Dissenting perspectives

While three Workgroup members chose to remain neutral on these recommendations, they did so because they believed they lacked the requisite knowledge or experience to either agree or disagree. However, they specifically noted that they had no policy or operational objections to the recommendations.

3. Subject state agencies to timely contracting and payment requirements

Human services providers consistently identified payment and contracting delays as major financial burdens that hinder HSPs' ability to deliver services. These delays consequently limit the state's capability to achieve the program's desired outcomes.

To remedy this problem, most Workgroup members recommend that Washington implement a Prompt Contracting Law for human services providers, similar to New York's Not-for-Profit Prompt Contracting Law[102]. The law would establish timelines for state agencies to execute a new contract or contract renewal, require agencies to report on compliance with these requirements, and impose interest penalties when a state agency fails to meet the timely contracting obligations.

RCW 39.76, Interest on Unpaid Public Contracts, specifies that state agencies, "shall pay interest at a rate of one percent per month, but at least one dollar per month, on amounts due on written contracts for public works, personal services, goods and services, equipment, and travel, whenever the public body fails to make timely payment."[103] Based on discussions with Workgroup members and participants in engagement activities, HSP contracts do not include a provision that subjects the state agency to interest if payment is delayed. This seems to occur due to uncertainty about whether the types of contracts used with human service providers such as grant agreements, client services contracts, direct buy contracts, and competitively procured service contracts fall under this RCW.

To address this problem, the majority of the Workgroup advises that the Legislature clarify that RCW 39.76.011 applies to all state agency contracts with human services providers and that all state agencies should be directed to include a late-payment provision in their contracts.

Dissenting perspectives

Some state agency members of the Workgroup expressed concern about establishing timely contract requirements in statute and applying interest payments on late payments due to staffing shortages and outdated information technology for invoicing and payment. Additionally, other state agency Workgroup members believe these issues could be negotiated within the contract, without requiring a statutory mandate.

4. Increase transparency and streamline procurement and contracting processes to reduce administrative burdens

Most Workgroup members recommend establishing a process to identify and address the administrative and technological burdens faced by human services providers when contracting with state agencies. Other initiatives to alleviate administrative burdens from the contracting process are underway across state government agencies. For instance, the Washington State Office of Equity is currently convening a cross-agency collaborative to help make state procurement processes more consistent and accessible. As part of this collaboration, it also supports the efforts of the Department of Enterprise Services (DES) in the areas where DES has primary responsibility.

This process could take the form of an advisory council, with policy making authority similar to the State Advisory Council on Homelessness that includes representatives from state agencies that contract with

[102] Office of the New York State Comptroller, "Guide to Financial Operations," (May 12, 2025),
[103] Washington State Legislature, Revised Code of Washington, RCW § 39.76.011,

human services providers, DES, the Office of Equity, local government representatives, human services providers, and subject matter experts, including CPAs and attorneys experienced in working with human services providers. The advisory council would be responsible for identifying and recommending solutions that all state agencies would adopt and implement to address administrative and technological burdens, including, but not limited to:

- Creating a standardized contract template for human services that uses plain language and identifies terms that are subject to negotiation and those that are not;
- Simplifying procurement processes;
- Simplifying and streamlining compliance and reporting requirements;
- Extending contract terms to two or more years;
- Standardizing inflation and cost-of-living adjustments in contracts;
- Identifying the information that state agencies should make available on their public-facing websites regarding contracting with the agency, similar to WSDOT (as explained in the Washington assessment section above).

The advisory council should work with the Washington Health and Human Services Enterprise Coalition (HHS Coalition) to ensure that efforts to improve health and human services information technology appropriately address the needs and concerns of the human services sector, which must utilize the information technology of state agencies in all phases of the contracting life cycle.

While all Workgroup members agreed that a streamlined procurement and contracting process is needed, members ran out of time before they could determine the best way to do that. Consequently, an advisory council is recommended to meet the need.

5. Adopt relational contracting and active contract management to improve the relationship between state agencies and human services providers

The majority of the Workgroup recommends that state agencies adopt relational contracting and active contract management approaches when contracting with human service providers. These strategies create more effective, equitable, and flexible partnerships between government and providers and are particularly well-suited to the complexity and unpredictability inherent in human services delivery.

A common refrain among human services providers engaged in the study was that they seek to be treated like partners. Relational contracting and active contract management enable this partnership.

Relational contracting emphasizes trust, transparency, and shared accountability. Unlike transactional contracts, which narrowly define services and monitor compliance, relational contracts are grounded in clearly articulated shared goals and mutually agreed-upon principles. These contracts allow delivery flexibility and incorporate pre-defined processes to adjust the contract in response to changing needs, costs, and outcomes.

State agencies typically operate at arm's length throughout the lifecycle of a contract with HSPs, meaning staff act independently without building a close relationship with HSPs. This approach is intended to ensure fairness and impartiality. While these public sector constraints can make full implementation of relational contracting challenging, the Workgroup identifies several elements of relational contracting that can be integrated into state HSP contracting processes. These include shared goal setting, risk balancing, and pre-award planning:

- Soliciting input from HSPs via Requests for Information (RFIs) or pre-solicitation conferences to understand gaps, community context, and fiscal challenges;
- Conducting cost analyses to establish competitive salaries and indirect costs;
- Issuing concept papers and incorporating feedback to shape the Request for Proposals (RFPs); and
- Establishing formal communication channels, such as question and answer (Q&A) documents and pre-proposal conferences.

Active contract management extends the principles of relational contracting into the post-award phase. Rather than relying solely on periodic reporting and compliance checks, this approach emphasizes performance monitoring in real-time or near real-time, collaborative problem-solving, and data-driven decision-making. All of these are vital to the state, ensuring that it receives the value of its investment and that community needs are met. They are also foundational to performance-based contracting.

When implemented effectively, active contract management helps address systemic contracting pitfalls. It improves accountability while enabling early intervention when problems arise, reducing the risk of program failure. It also transforms data use from a passive compliance tool to an active learning and service refinement driver.[104] Successful implementation requires staff training, relationship building, and data infrastructure investments. It also necessitates leadership commitment and clear guidance to guard against real or perceived conflicts of interest.

Dissenting perspectives

Some Workgroup members noted that state agency employees are already striving to perform active contract management, so this recommendation need not be made. The Workgroup fully acknowledged that while individual employees may strive to practice active contract management, not all employees will because they are not provided the requisite training to do so. To support state agency employees in consistently practicing active contract management, the Workgroup recommends that DES provide training that addresses how state agencies can engage in relational contracting and active contract management.

6. Define grant, grantee, and grant agreement in statute

A majority of the Workgroup recommends defining the following terms in the Revised Code of Washington (RCW): grant, grantee, and grant agreement. While provisions in the Washington Administrative Code (WAC) define the term grant, grantee, or grant agreement, the definitions are specific to the Department of Ecology[105].

Further, these terms are not defined in the RCW. Because these terms are not defined in the RCW, and specifically that RCW 39.26, Procurement of Goods and Services, does not address grant, grantee, or grant agreements, the state Department of Enterprise Services (DES) does not oversee or provide guidance to state agencies on grants or grant agreements[106]

This means each state agency uses grants and grant agreements based on its internal policies and procedures, which vary widely across agencies. For example, the Department of Commerce generally utilizes

---

[104] Harvard Kennedy School Government Performance Lab, "Active Contract Management: How Governments Can Collaborate More Effectively With Social Service Providers to Achieve Better Results," (Mar. 26, 2025),
[105] Washington Administrative Code, Washington State Legislature, "WAC 173-566-030," (May 12, 2025),
[106] DES is the agency delegated the authority and responsibility for the development and oversight of policies related to state procurement and contracting, centralize the location of information about state procurements and contracts, and provide state agency contract data to the public in a searchable manner per the Washington State Legislature, Revised Code of Washington, RCW § 39.26.005.

service contracts when the services provided are directly to the Department of Commerce but utilizes grant agreements when the services provided are to the community.[107]

Further, human service providers across the state noted that while some of their contracts are identified as grants, they are service contracts, with service delivery required in exchange for payment and corresponding consequences for non-performance. Referring to these arrangements as grants creates accounting issues, as they can be categorized as donations, which creates confusion for HSPs' donors and the Boards of Directors. Accordingly, the majority of the Workgroup recommends that contracts be used when services are provided directly to the state or a specified population.

Once defined, appropriate guidance can be issued to state agencies regarding the use of grants and grant agreements to ensure that state agencies use the appropriate type of contract with HSPs rather than interchangeably using contracts with different financial and legal implications.

Dissenting perspectives

A Workgroup member expressed concern about codifying detailed definitions and requirements in statute. While supportive of the recommendations' overarching goals, the member cautioned that statutory mandates may increase administrative and regulatory compliance burdens and reduce the flexibility needed for agencies to adapt contracting practices over time. They noted that administrative tools, such as training, guidance, and technical assistance, may offer more nimble and responsive mechanisms for addressing provider challenges.

7. Define human services and human services provider in statute

The majority of the Workgroup recommends that human services and human services providers (HSPs) be defined in legislation, as they are not currently defined in the Revised Code of Washington (RCW). Defining the terms will enable the development of policies specific to HSPs.

Definitions of human services and human services providers were created for this study (See Appendix D), but other states have definitions that the Washington Legislature could also consider, such as:

- **California** defines “human services provider” or “public social services provider” as funded by the state to provide services such as homeless children or youth services, health services, mental or behavioral health services, substance use disorder services, or public assistance or employment services.[108]
- **Oregon** has a broad definition of “human services” that encompasses a range of programs and services administered by the Oregon Department of Human Services. These services include child protective services, foster care, adoption services, services for elderly persons and persons with disabilities, financial assistance for those in economic need, developmental disabilities services, vocational rehabilitation, and the regulation of health and human services facilities and programs.[109]
- **North Dakota** defines “human services” as services or assistance provided to individuals or families in need, including child welfare services, economic assistance programs, medical service programs, and aging service programs. These services aim to help individuals or families achieve and maintain basic self-sufficiency, covering areas such as physical health, mental health, education, welfare, food and nutrition, and housing.[110]

---

[107] Washington Department of Commerce internal documents; Key Informant Interview with WA Department of Commerce staff.
[108] California Code, California Health & Safety Code, § 103577,
[109] Oregon State Legislature, ORS § 409.010,
[110] North Dakota State Legislature, N.D. Cent. Code § 50-06.2-02,

- **New York** defines "Human Services" as services, including social services such as daycare, foster care, home care, homeless assistance, housing and shelter assistance, preventive services, youth services, and senior centers; health or medical services, including those provided by health maintenance organizations; legal services; employment assistance services, vocational and educational programs; and recreation programs.[111]

Dissenting perspectives

A Workgroup member expressed concern about codifying detailed definitions in statute without a specific policy context for applying those definitions. While supportive of the recommendations' overarching goals, the member cautioned that statutory mandates may increase administrative and regulatory compliance burdens and reduce the flexibility needed for agencies to adapt contracting practices over time.

8. Increase state agency contract staffing and training

The majority of the Workgroup recommends that the Legislature increase funding for state agencies to hire additional procurement and contract management personnel. Participants in the engagement noted that state agency staff often work with limited procurement and contract management capacity, which leaves individual staff members responsible for overseeing large portfolios of contracts across various program areas. They also indicated that this stretching of resources can result in delays, inconsistent oversight, limited provider support, and missed opportunities for innovation or improvement.

The increased funding for state agencies should be invested in comprehensive and ongoing training for procurement and contract management personnel. The Department of Enterprise Services (DES) provides training that all state agency staff dealing with procurements and contracts must take.[112] Agency staff are required to follow specific training tracks based on their roles in procurement. Although DES defines the various roles and training tracks, each agency is responsible for identifying, assigning, and tracking employee completion. Compliance is monitored through the Risk Assessment Process. The training emphasizes basic contracting, contract management, risk assessment, and mitigation related to goods and services purchased under RCW 39.26.

Human services contracting is distinct from other forms of procurement. It requires a deep understanding of relational contracting principles, engagement in collaborative pre-award processes, and performance management through active contract management. These approaches necessitate specialized training beyond basic procurement compliance and extend into equity-informed partnership development, data literacy, culturally responsive service design, and continuous improvement strategies. DES's training should be updated to teach these concepts and how to implement them effectively.

Dissenting perspectives

Three Workgroup members who have not worked in state agencies remained neutral on this recommendation because they believed they did not have the requisite knowledge or experience to agree or disagree with it. They did not have any policy or operational objections to the recommendations.

---

[111] New York City Administrative Code 6-129,
[112] Washington State Department of Enterprise Services, "Contract and Procurement Training," (April 9, 2025),

State contracting structures assessments

State contracting structures overview

State contracting structures refer to the frameworks, systems, and rules that govern how state governments procure goods and services — including human services — from external providers. These structures determine how contracts are designed, awarded, funded, managed, and evaluated.

Per the proviso requirements, the sections below assess a sampling of existing contracting structures and their impact on human service providers that utilize state funding.

Common contracting structures include:

1) **Procurement processes**

- Establishing rules and procedures for bidding, applications, and contract awards.
- Evaluating proposals to determine contract awards for Requests for Proposals, Requests for Information and Requests for Quotes.
- Requiring transparency, fairness and, in some cases, competition.

2) **Contract types and payment models**

- Cost-based reimbursement: Providers are paid back for allowable costs after delivering services.
- Performance-based contracts: Payment is tied to achieving specific, often measurable, results.
- Outcomes-based contracts: Providers are paid based on the results or outcomes they achieve rather than just the activities they perform or the costs they incur.
- Pay-for-success contracts: Providers receive upfront funding from a private funder to deliver a service or social program.

3) **Contract management**

- Reporting, monitoring, and authorizing payments to providers.
- Performance evaluations, fiscal reviews of allowable and unallowable costs, and site visits.

State contracting structures shape the business environment for human services providers and can influence who is able to participate, the sustainability of service delivery, and how effectively services reach communities.

Lowest responsible bidder assessment

One of the final steps in the procurement process is evaluating contract proposals to select the vendor that will receive the award. One common evaluation method is the lowest responsible bidder approach, referring to the process of awarding a contract to the bidder that demonstrates the greatest value and capability to meet the requirements outlined in the law or specified in the bid itself. It is not a payment model.

Simply being the lowest bidder does not guarantee a contract award, however. Generally, government agencies evaluate lowest bidder solicitations through a value perspective, considering multiple qualifying factors before focusing on price. These considerations include:

- The contractor's experience and track record of delivering high-quality services or products

- The contractor's financial stability
- Having a strong internal understanding of product or service costs to assess the reasonableness of the bidder's pricing accurately
- Understanding value-added services that might differentiate one contractor from another
- Ensuring rigorous contract evaluation methods appropriately assess desired qualifications

The lowest responsible bidder approach is appealing because it seems transparent, competitive, and cost-effective. Additionally, the decision-making process for bid selection is straightforward, potentially leading to quicker contract awards.

However, this approach requires highly detailed contract specifications to fairly compare bids primarily based on price. Providing such specifications, particularly quantitative ones, is often easier for projects like construction, where the building, materials, timelines, and results can be clearly outlined in a contract. According to HSP grantee engagement, even in a construction contract, specifications can be unintentionally omitted, leading to varying quality of the final product. Moreover, exceptionally low bids may indicate that the entity lacks the knowledge and expertise to execute the project.

Government entities typically have definitions, processes, standards, and case law that inform such assessments. However, there is considerable flexibility in defining "responsible," highlighting that despite the lowest responsible bidder approach, the government remains at risk of funding poor outcomes.

Consequently, the literature and subject matter experts do not recommend using the lowest responsible bidder approach to determine contract awards for human services providers.

Payment models assessment

Cost-based reimbursement is the main payment model for human services contracts. However, other payment models can also be utilized in these contracts. The following section assesses three alternative payment models: performance-based, outcomes-based and pay-for-success.

Performance-based contracts

The Institute for Public Procurement, part of the National Institute of Governmental Purchasing, defines performance-based contracts (PBCs) as "a results-oriented contracting method that centers on the outputs, quality, or outcomes, potentially linking a portion of a contractor's payment, contract extensions, or contract renewals to the attainment of specific, measurable performance standards and requirements. These contracts may offer monetary and non-monetary incentives and specific remedies."[113] Non-monetary benefits can include contract renewals or extensions, preferred vendor status, or public recognition, among other items negotiated between the parties. Government agencies utilize PBCs to assess program or service delivery effectively. Depending on their structure, PBCs can mitigate HSP financial burdens in a cost-based environment.[114]

PBCs are not always suitable or allowed for use in human services contracting.[115] To assess the feasibility of a PBC for a human service contract, a state agency must first identify any contracting limitations, including restrictions from federal funding agreements with the state agency. To effectively utilize PBCs, state agencies

[113] The Institute for Public Procurement, "Dictionary of Procurement Terms," (last visited Mar. 26, 2025),
[114] Nonprofit Resiliency Committee, "Guide to Performance-Based Contracting For Human Services Contracts," (2019),
[115] Nonprofit Resiliency Committee, "Guide to Performance-Based Contracting For Human Services Contracts," (2019),

must determine whether the PBC model, which can incorporate incentives or sanctions, will promote high-quality human service delivery.

When using this contract structure, it's crucial to safeguard against unintentionally deemphasizing priority goals that cannot be quantitatively measured. If the state has priority goals that are not quantifiable, those goals may be overlooked. Furthermore, PBCs should rely on objective and observable metrics that can reasonably be achieved within the duration of the contract. Measures, benchmarks, and performance requirements should be based on data and evidence from experience whenever possible. Both the state agency and HSP should clearly understand what constitutes reasonable performance targets.

The performance-based model necessitates enhanced collaboration between agency and HSP staff to assess and adapt based on data and shared knowledge. Performance-based contracting demands strong cooperation between state agencies and HSPs during the development and design of requests for proposals (RFPs) to guarantee clear and transparent financial arrangements. A PBC should clearly define deliverables or performance requirements (e.g., outputs, outcomes, performance standards) and allow for easy verification of key metrics subject to monitoring and analysis. Moreover, historical data is crucial for setting reasonable targets and appropriate payment rates, but data collection should not burden HSPs. If it does, the significance of the measurement to the program's objectives should be carefully reconsidered before implementation.

A "pure" PBC should exclude any cost-based requirements, such as tying payments to a specific budget, identifying allowable or non-allowable costs, or remitting funds not spent according to a particular budget.[116] When a hybrid contract is utilized, where part of the contract is PBC and part is cost-based, it is important to differentiate funding based on costs from funding based on performance. For instance, if contract renewal or extension depends on meeting performance requirements, performance outcomes should not affect cost-based payments, as the incentive for performance-based reimbursement is linked to renewal or contract extension. Additionally, if a payment structure includes elements of both performance-based and cost-based contracting, only the cost-based reimbursement should be subject to financial auditing (such as invoicing with required documentation). Payments tied to performance measures should not be part of cost-based financial audits.

Outcomes-based contracts

A common criticism of performance-based contracting, both in the literature and among engagement participants, is that it emphasizes inputs and outputs instead of outcomes. In contrast, outcomes-based contracting (OBC) prioritizes the actual impact of the desired objective, such as enhancing a client's housing or employment stability.[117] In outcomes-based contracts, a portion of the payment is tied to outcomes, which sets it apart from PBC.[118] The examples below illustrate the difference between an outcome and a performance target:

- 95% of eligible community members will be assessed for housing insecurity (performance target)
- 75% of eligible community members placed in housing remain housed 12 months after placement (outcome target)

[116] Nonprofit Resiliency Committee, "Guide to Performance-Based Contracting For Human Services Contracts," (2019),
[117] Investing In Results, "What Matters: Investing in Results to Build Strong, Vibrant Communities, Section I," (2017),
[118] Hawkins et al., "Incentivizing Results: Contracting for Outcomes in Social Service Delivery," (2019),

With OBCs, government agencies can ensure taxpayer dollars are used efficiently to achieve desired service goals. [119] [120] OBCs empower HSPs to tailor services to meet desired outcomes, considering the unique circumstances of their communities and target populations. This shift also provides HSPs greater flexibility in utilizing funds, directly addressing the restrictive oversight associated with cost-based contracting models.

Nevertheless, using OBCs can be challenging because they require considerable implementation costs, due to transitioning to a new contracting style and ensuring the necessary data is available to measure the desired results.[121] [122]Outcomes-based contracts must be designed to identify appropriately and segment target populations while safeguarding against providers cherry-picking clients with the best chances of success.[123] [124]This contracting structure must also measure intended outcomes and reasonably attribute these successful results to the program intervention, which necessitates comparing the outcomes of those who received the service with those who did not, adding costs and ethical complexity to the evaluation process.[125]

Pricing and funding OBC contracts can be challenging because this model requires state agencies to use accurate historical data to understand service costs and adjust payments when external factors (such as the COVID-19 pandemic) impact the attainment of desired outcomes. Since OBCs typically involve paying an incentive above the cost, it can be difficult to justify this additional funding in a tight budget environment.[126] Decades of underfunding in the human service sector may not accurately reflect the true cost of delivering services, meaning state agencies should collaborate with HSPs to understand the actual costs of service delivery to achieve specified outcomes.

Both state agency personnel and HSPs must also be appropriately trained to negotiate and carry out OBC contracts. High staff turnover, a known problem within both government and HSPs, can hinder the effective use of these contracts if employees must continually be retrained to use them.[127]

Although OBCs have been seen as a contracting option since the 1990s, this model is infrequently used, and when it is, it only impacts a relatively small portion of the contract's overall value.[128] One landscape assessment in the United States identified merely four state or local entities utilizing OBC contracting.[129] The evidence supporting the use of OBCs is limited, showing mixed results. Oxford University's Government Outcomes Lab reported on four OBC programs that operated between 2006 and 2016 in the United Kingdom. Two program evaluations concentrated on implementation instead of results. One assessment revealed improved health measures despite minimal funding, while another study concluded that evidence for the success and cost-effectiveness of OBC was limited.[130]

Pay-for-success contracts

Pay for Success (PFS), or "Social Impact Bonds," is a payment model involving private investors funding evidence-based interventions. If the desired outcomes are achieved, the government agency reimburses the

---

[119] Investing In Results, "What Matters: Investing in Results to Build Strong, Vibrant Communities, Section I," (2017),
[120] Hawkins et al., "Incentivizing Results: Contracting for Outcomes in Social Service Delivery," (2019),
[121] University of Oxford, Government Outcomes Lab, "Outcomes-based contracting," (Mar. 26, 2025),
[122] Hawkins et al., "Incentivizing Results: Contracting for Outcomes in Social Service Delivery," (2019),
[123] University of Oxford, Government Outcomes Lab, "Outcomes-based contracting," (Mar. 26, 2025),
[124] Hawkins et al., "Incentivizing Results: Contracting for Outcomes in Social Service Delivery," (2019),
[125] University of Oxford, Government Outcomes Lab, "Outcomes-based contracting," (Mar. 26, 2025),
[126] Hawkins et al., "Incentivizing Results: Contracting for Outcomes in Social Service Delivery," (2019),
[127] Hawkins et al., "Incentivizing Results: Contracting for Outcomes in Social Service Delivery," (2019),
[128] Investing In Results, "What Matters: Investing in Results to Build Strong, Vibrant Communities, Section I," (2017),
[129] Hawkins et al., "Incentivizing Results: Contracting for Outcomes in Social Service Delivery," (2019),
[130] University of Oxford, Government Outcomes Lab, "Outcomes-based contracting," (Mar. 26, 2025),

private lenders along with a profit margin.[131] Financiers are drawn to PFS contracting because it provides socially responsible ventures with a return on investment. In this model, investors assume all liability, while government agencies minimize their risk by funding only effective service delivery interventions, alongside supporting rigorous assessments.

PFS models concentrate on outcomes, facilitating the funding of prevention and early intervention programs.[132] [133] As a result, high-quality data and evidence must be collected to assess an intervention's success.

The success of PFS is typically evaluated by an external evaluator employing meticulous appraisal techniques, including control groups.[134] The approach has its advantages and disadvantages. More so than many other forms of contracting, when PFS succeeds, it illustrates the link between government payments for interventions and the positive outcomes derived from that investment.[135] However, it necessitates comprehensive data and a formal evaluation, which can be costly. Using the PFS model may limit the participation of HSPs to those with advanced data collection capabilities.

The PFS model is not widely used, partly due to the challenges and risks associated with its implementation. Contracting for PFS can be lengthy and complex, as both parties must carefully specify the intervention, data collection, and evaluation that will determine the intervention's success. Consequently, PFS contracts often take a year or more to develop and execute.[136]

The Government Outcomes Lab raised concerns about PFS contracts causing the "financialization" of government services.[137] This model also involves certain risks, including mispricing the intervention and measuring the wrong outcomes due to data availability. Additionally, this contracting model requires strong political support since these contracts differ from traditional government investments. Shifting political priorities during the lifespan of a PFS-funded program or service can undermine the long-term viability of such approaches, particularly as the government aims for increased efficiency over time.[138] If the potential profit is insufficient for investors, they will be unwilling to provide upfront financing, a crucial aspect of this contract design.

Traditional, relational and active contract management assessment

Traditional contract management

Traditional contract management typically focuses on monitoring compliance with contracted terms, enforcing deliverables and timelines, and managing risk and minimizing disputes. Traditional contract management may be a common approach to how state agencies manage contracts because RCW 39.26.180 directs DES to "adopt uniform policies and procedures for the effective and efficient management of contracts by all state agencies."

---

[131] V. Kasturi Rangan, Lisa A. Chase, "The Payoff of Pay-for-Success," Stanford Social Innovation Review, Fall 2015,
[132] University of Oxford, Government Outcomes Lab, "Impact Bonds," (last visited Mar. 26, 2025),
[133] Urban Institute, "Pay for Success," (last visited Mar. 26, 2025),
[134] Hawkins et al., "Incentivizing Results: Contracting for Outcomes in Social Service Delivery," (2019),
[135] V. Kasturi Rangan, Lisa A. Chase, Stanford Social Innovation Review, "The Payoff of Pay-for-Success," (2015),
[136] Urban Institute, "Pay for Success," (last visited Mar. 26, 2025),
[137] University of Oxford, Government Outcomes Lab "Impact Bonds," (last visited Mar. 26, 2025),
[138] V. Kasturi Rangan, Lisa A. Chase, Stanford Social Innovation Review, "The Payoff of Pay-for-Success," (2015),

DES establishes policies and procedures and provides manuals to state agencies throughout all stages of the contract lifecycle, from procurement and contract development to contract negotiation and execution, as well as contract administration, monitoring, and management.

The Washington State Contract Management Manual outlines the roles and responsibilities of contract and procurement staff, the principles and objectives of contract management, and the procedures to follow during each phase of contract management, accompanied by checklists to ensure compliance with these procedures. The manual emphasizes internal needs, priorities, and stakeholders, designating state agencies as accountable for vendor oversight and compliance, which reflects a traditional contract management approach.

This traditional approach offers important benefits such as ensuring regulatory compliance, mitigating risk and providing a clear basis for holding contractors accountable. Nonetheless, Workgroup members that participated in this study noted an opportunity for the state to enhance its contract management approaches by shifting to relational or active contract management approaches.

Relational contract management

Relational contracting emphasizes trust and collaboration toward shared objectives. It incorporates shared goals, principles, and decision-making processes into contracts, relying on predefined methods to resolve disputes while maintaining flexibility in a constantly changing external environment. This approach is particularly beneficial when services are complex and accurately specifying needs, costs, and outcomes over time is challenging. While relational contracting may pose difficulties in the public sector, where the government must demonstrate strict spending controls, some aspects of this approach can enhance relationships in HSP and state agency contracting.

A relational contract differs from a standard transactional contract because it is based on shared goals. These goals are clearly defined in the contract and can be quite specific to outline success, similar to the OBC and PFS contracting models. However, the exact methods for achieving those goals are more flexible, or if specified, there is room for adaptability in the processes incorporated into the contract to respond to changing circumstances. Relational contracts also aim to balance the risk for each party, making it fair and adaptable for both the state agency and the HSP.

For example, this shared risk can manifest in the payment outlined in the contract. A standard service contract that pays per unit of service delivered may place most of the risk for successful outcomes on the government, whereas an OBC shifts much of the risk to the contracted provider. Offering hybrid payment approaches, where some payment is process-based and part is outcomes-based, can distribute the risk more equitably and allow for adjustments in processes throughout the life of the contract.[139]

A strong, trusting relationship between government agencies and HSPs is essential to this approach. One way to cultivate and strengthen these relationships is through collaborative planning that adheres to fair bidding requirements during the pre-award process.[140] Specific areas of pre-award collaboration include:

- Soliciting feedback through Requests for Information (RFIs) or pre-solicitation conferences with HSPs to identify service gaps, program design issues, financial challenges, and program metrics. This process should include performing a cost analysis of competitive salaries, indirect costs, and other relevant factors.

---

[139] University of Oxford, Government Outcomes Lab, "Relational Contracting," (last visited Mar. 26, 2025),
[140] Nonprofit Resiliency Committee, "Guide to Collaborative Communication with Human Services Providers," January 2018,

- Issuing concept papers and gathering feedback to identify any input challenges that will inform program design and RFP development. The RFP should incorporate a sample budget based on the collaborative cost analysis.
- Establishing formal communication channels after the RFP release, such as pre-proposal conferences and Q&A documents.

Enhancing information gathering and collaboration can help programs be more effectively designed to address local needs and reflect HSP realities.

Relational contracting can be integrated into existing contracting frameworks to enhance service delivery, design, payment, and outcomes expectations. However, this may necessitate greater collaboration between state agency officials and contracted staff throughout the contract.

Active contract management

Like relational contracting, active contract management may be founded on transactional contracting (such as cost-based contracts) but necessitates data-driven, high-touch, collaborative contract management between the state agency and HSP, emphasizing rapid-cycle monitoring and real-time problem-solving.[141]

In a traditional contracting arrangement, the state agency does not engage with the provider regarding service delivery and functions solely as an oversight body. In an active contract management scenario, the HSP and agency monitor service delivery data in real-time. This frequent review of performance data enables quick identification and resolution of problems. It necessitates regular collaborative meetings between HSPs and agencies and fosters a proactive commitment to service improvement.

For active contract management to work well, the Harvard Kennedy School Government Performance Lab identified keys to success for both HSPs and state agencies:

- Selecting the best measures to track performance
- Using data to drive action
- Creating a collaborative performance management culture
- Sharing government administrative data with providers regularly
- Elevating the status of procurement and contract management activities

Active contract management can tackle common pitfalls in standard contracting practices by fostering collaboration between government agencies and contractors to enhance service delivery proactively. Working together toward a shared goal often contrasts with performing oversight and monitoring tasks, such as tallying the number of service units or ensuring compliance with documentation requirements from a distance.

It also enables real-time improvement rather than waiting for an evaluation at the end of the contract term or during the next contract cycle. Compliance and monitoring are integrated with program functions and processes within state agencies and HSPs, allowing adjustments to enhance overall service outcomes. This contracting model can improve data collection and analysis because the government and contractors utilize real-time data, enhancing service delivery. Gathering meaningful data is crucial since the continuous collection loop quickly demonstrates how data is applied. In traditional contracting, data collection often appears disconnected from actual outcomes, making it challenging to ascertain whether the reported data is utilized,

---

[141] Harvard Kennedy School Government Performance Lab, "Active Contract Management: How Governments Can Collaborate More Effectively With Social Service Providers to Achieve Better Results," (Mar. 26, 2025),

particularly in the absence of provider feedback loops. This approach leverages real-time data to drive positive changes in service delivery by HSPs and government agencies.

Finally, active contract management enhances collaboration between the government and contractors. The government's role evolves from merely monitoring compliance to actively engaging in achieving service delivery outcomes. Additionally, these partnerships may bolster an individual's sense of accomplishment when the significance of their daily tasks is connected to the program's overall success.

Despite these benefits, effective contract management can be challenging to implement, as both parties require additional training and time to develop trusting relationships. It also relies heavily on data, which can necessitate a substantial financial investment in data collection systems, training, and maintenance. Increased funding, staff time, and a strong collaborative relationship between government and providers may raise concerns about actual or perceived conflicts, indicating that this contracting approach requires long-term leadership support to remain sustainable.

Assessment of alternative contracting structures

In other states and municipalities nationwide, efforts to enhance the sustainability of human services providers focus on minimizing structural challenges related to cost-based reimbursement. Strategies include:

- Using advanced payments to improve cash flow and provide up-front investment in program implementation.
- Establishing clear contracting and payment timelines with interest payments if government agencies exceed those timelines.
- Increasing indirect cost rates.
- Streamlining and centralizing invoicing and reporting systems and processes

These practices are discussed in detail below.

Colorado

Advanced payments

Colorado's General Assembly passed legislation allowing contractors of the Colorado Department of Public Health and Environment (CDPHE) to receive up to 25% of the total value of contract payments immediately upon execution or renewal.[142] In response to concerns about the inequitable distribution of grant funding, this legislation addressed the effects of cost-based reimbursement on small organizations. The law allows advance payment to ensure that cash flow does not hinder smaller, community-based organizations from applying for or accepting a CDPHE grant.

Compliance and audit staff at CDPHE developed the new program to ensure appropriate safeguards are in place for the proper use of taxpayer dollars.[143] For instance, in grant applications, providers seeking advanced payments must meet specific criteria, such as having nonprofit or charitable organization tax status and Fidelity Bond Insurance coverage, which protects CDPHE in case the advance payments are misused. The applicant must request an advanced payment in their budget submission, justify the amount requested, and identify the expenses the advanced payment would cover.[144]

The advance payment amount is deducted from invoices throughout the contract's life, based on the grantee's chosen repayment method, until the advance payment balance is fully repaid.[145]

Direct buy limit

Colorado has also reviewed and raised the "direct buy" limits, allowing state agencies to procure goods and services without engaging in competitive procurement.[146] Any purchases or grants under $50,000, increased from $25,000, can be made at the agency's discretion; this policy aims to assist smaller entities that often struggle to access the resources and expertise necessary to participate successfully in competitive processes. This reflects a change in federal procurement regulations, which permitted Colorado to raise the threshold.[147]

---

[142] Colorado Revised Statutes, C.R.S § 25-1.5-101(2)
[143] Jignasa Jani, Ryan Rivera, ASTHO, "Advanced Grant Payments: Creating a More Equitable Public Health System," (2024),
[144] Colorado Dept. of Public Health and Environment, "Request for Applications # 37298697," (2025),
[145] Jignasa Jani, Ryan Rivera, ASTHO, "Advanced Grant Payments: Creating a More Equitable Public Health System," (2024),
[146] Kailey Burger Ayogu et al., Harvard Kenny School Government Performance Lab, "The State of Procurement and Grantmaking in Colorado," (2024),
[147] 2 CFR §200.320

This adjustment aligns Colorado's policy with those of other states. Purchases between $50,000 and $250,000 require multiple quotes but do not necessitate a formal procurement process, while a formal, competitive process is required for purchases and grants exceeding $250,000.

New York State

Prompt contracting and payment law

New York State's Prompt Contracting Law for not-for-profit (NFP) organizations, including human service providers, has been in effect since 1991. This law establishes timeframes for executing grant contracts, allows state agencies to provide advance payments to NFPs when these timeframes are exceeded, and imposes interest penalties for late payments.[148] This list identifies the timelines for each type of contract.[149]

- Competitive Grant Contracts (using RFPs)
  - 150 days after funding is approved
- Non-competitive Grant Contracts
  - 120 days after the NFP is identified
- Federally Funded Grant Contracts
  - 120 days after receiving the federal funds
- Renewal Contracts
  - Notify NFP of intent to renew or terminate at least 90 days before contract ends

Source: New York State Financial Laws, NY State Fin. Law §§ 179-q - 179-ee,

The state attorney general and the state comptroller have 15 days to approve or reject new and renewal contracts.

Under New York's Prompt Contracting Law, state agencies are permitted to provide advance payments in specific circumstances, such as renewal contracts, to avoid service disruptions caused by exceeded contract timeframes.[150] A NFP may receive an advance payment if the renewal is not finalized by the start date, but this payment cannot exceed 25% of the previous contract value without approval from the state comptroller.

If payments to NFPs are delayed due to slow contract processing and no advance payment has been made, state agencies must pay interest based on the overpayment rate established by the state's Department of Taxation and Finance.[151] The interest calculation begins 30 days after the billing period ends and continues until the payment is received.

---

[148] New York State Financial Laws, NY State Fin. Law §§ 179-q - 179-ee,
[149] Office of the New York State Comptroller, "Procurement and Contract Management, Guide to Financial Operations, XI.4.A. Not-for-Profit Prompt Contracting" (Mar. 26, 2025),
[150] Office of the New York State Comptroller, "Procurement and Contract Management, Guide to Financial Operations, XI.4.A. Not-for-Profit Prompt Contracting," (Mar. 26, 2025)
[151] Office of the New York State Comptroller, "Procurement and Contract Management, Guide to Financial Operations, XI.4.A. Not-for-Profit Prompt Contracting," (Mar. 26, 2025)

The law has been periodically updated to address implementation issues, such as regulatory changes that clarify when interest penalties apply and how interest should be calculated.[152] Notably, the Office of the New York State Comptroller must issue an annual "Prompt Payment Interest Report" to ensure transparent and accountable enforcement of the law.[153]

New York City

New York City boasts a strong network of human service providers who have long advocated for reforms in the city's contracting environment. Consequently, several reforms have been enacted to improve the contracting conditions for HSPs, including increased transparency around indirect rates, cost-of-living adjustments for staff, and initiatives to develop tools for enhanced collaboration and contracting between city agencies and HSPs. Significant advancements have been made on various issues, such as clarifying indirect costs, providing extra funding for overhead and direct rates, permitting a 25% advance on contracts to improve cash flow, digitizing audits via a web-based procurement system, and releasing a Collaborative Program Design Guide.

Procurement reform

In 2011, a standardized human services contract provided common definitions, terms, fiscal procedures, and other essential elements. In 2016, the Nonprofit Resiliency Committee (NRC) was established as a collaborative effort between the City of New York and the region's nonprofits under former Mayor Bill de Blasio. The Committee furthered the standardization process, "identifying, designing, and launching solutions to support the sector in administrative processes, service and program design, and organizational infrastructure."[154] The committee produced a health and human services cost and procedure manual that defines indirect costs and clarifies their impact on proposal evaluations.[155] In 2017, to enhance nonprofit cash flow, NYC adopted an NRC recommendation allowing health and human service contracts to qualify for advance payments of at least 25% of the annual contract budget. These advances are issued automatically when the contract is registered and the budget is approved.[156]

NYC developed PASSport, a digital procurement platform that oversees every stage of the procurement process. Following PASSport, NYC launched PASSport Public, a data transparency portal that offers insights into PASSport and makes information at every stage of the procurement process accessible to the public. NYC also provides an additional system, Procurement Navigator, where users can view contracting opportunities without needing a PASSport account.[157]

The NRC now operates within a more structured Mayor's Office of Nonprofit Services, established in 2023 and organized as the Nonprofit Advisory Council, which was launched in 2024.

Indirect rates

---

[152] Office of the New York State Comptroller, "Procurement and Contract Management, Guide to Financial Operations, XI.4.A. Not-for-Profit Prompt Contracting," (Mar. 26, 2025)
[153] New York Consolidated Laws, State Finance Law - STF § 179-m. Duties of the Comptroller, (2024); Most recent report: Prompt Payment Interest Report, (2024)
[154] NYC Mayor's Office for Nonprofit Services, "Nonprofit Resiliency Committee's Page," (Mar. 26, 2025),
[155] Macintosh, John, City and State New York, "Will NYCs nonprofit procurement ever be functional?," (2023),
[156] NYC Mayor's Office for Nonprofit Services, "Nonprofit Resiliency Committee's Resources," (Apr. 1, 2025),
[157] NYC Mayor's Office of Contract Services, "About PASSport," (Mar. 26, 2025),

New York City implemented a process to promote transparency regarding indirect rates in its Fiscal Year (FY) 2020 Adopted Budget.[158] The policy provides organizations with three methodologies to establish an indirect rate for health and human services contracts with the city:

4) a 10% de minimis rate,
5) the federal Negotiated Indirect Cost Rate Agreement (NICRA), which is subject to additional review, or
6) an Independent Accountant's Report.

The Health and Human Services Cost Policies and Procedures Manual (Cost Manual) includes definitions for indirect costs, acceptable indirect cost allocation methodologies, and guidelines for applying for one of the three indirect rate options listed above.[159]

Under the de minimis policy, organizations do not submit a special indirect cost application when there is no NICRA or an independent accountant's report. Instead, they invoice for actual costs using a methodology outlined in the manual and are reimbursed for the identified actual costs up to the 10% rate. Therefore, option one does not require special applications or approvals.

To apply for methods two or three, above, the city accepts applications for indirect rate approval during a three-to-four-month period in the winter or spring before the intended year for the rate. For instance, the application window for fiscal year 2025 rates was open from February to April 2024. However, HSPs grantees interviewed for this report shared ongoing challenges with implementation, such as indirect rates often being approved too late to be included in the nearest fiscal years' service contract, resulting in significant delays for funding to reach HSPs.

For example, the process for the FY2025 application indicated that the city ultimately could not address all applications, meaning those without a response defaulted to the 10% policy or were permitted to carry forward an approved FY2022 indirect rate, with no chance to request adjustments until the FY2026 application opened.[160] The City will continue to initiate application processes between January and April as existing indirect rates expire to align with the City's upcoming contract period.

Cost of living adjustments

In 2024, New York City's Mayor allocated $741 million in the budget for cost-of-living adjustments (COLAs) to benefit 80,000 human services workers over three years.[161] The increase will be implemented at 3% annually, starting July 1, 2024. This initiative for salary increases highlights that the human services workforce is predominantly female (66%) and consists of women of color (46%).[162] Addressing the COLA, and thus the underpayment of salaries for HSP staff, is anticipated to lower turnover rates among HSPs.

Washington

Model procurement policies, four-year grant periods and new information technology

[158] NYC Mayor's Office of Contract Services, "Indirect Cost Rate Initiative," (Mar. 26, 2025),
[159] City of New York Health and Human Services, "Cost Policies and Procedures Manual," (2024),
[160] NYC Mayor's Office of Contract Services, "Indirect Cost Rate Initiative," (Mar. 26, 2025),
[161] NYC Mayor's Office of Contract Services, "FY2025-2027 Cost of Living Adjustment Investment Provider FAQ," (2024),
[162] City of New York, "Mayor Adams Boosts Pay for 80,000 Human Services Workers With $741 Million Cost-of-Living Adjustment," (2024),

The Washington State Department of Transportation (WSDOT) made several changes to its procurement and grant policies in recent years to enhance and streamline the contracting process. With new policies, procedures, and information technology, WSDOT fosters contract success through a collaborative process.

First, WSDOT employs a highly transparent process to communicate with contractors. Through its "Business with WSDOT" webpage, the agency outlines the requirements to contract with the department and provides technical assistance, support, and guidance on indirect cost rate reviews and audits.[163] In addition, WSDOT clearly defines its expectations regarding contractor fund administration and management:

- The 2024-2027 State Management Plan outlines the agency's goals, authorities, roles, responsibilities, financial management, reporting responsibilities, and requirements for auditing, monitoring, and site visits, clearly defining the expectations for contracted entities.[164]
- The Consolidated Grant Guidebook is updated biannually and provides guidance on grants, including eligible expenses, indirect rates, and reporting guidelines.[165]

WSDOT also provides various technical assistance resources for applicants on its website, including:

- "How to Do Business with Us" webpage that summarizes requirements and outcome expectations for potential vendors.[166]
- "Support for Local Programs" webpage includes staff contacts for help, guidance, tools, technical assistance, and local training opportunities.[167]
- "Equal Opportunity in Contracting" webpage has resources such as mentorship opportunities, contacts for questions and comments, disadvantaged business enterprise support service, and policy documents.[168]

WSDOT developed a Grants Management System for grantees to submit grant applications, reimbursement requests, required reports and compliance forms, amendment requests, and to designate a point of contact for the grant.[169] WSDOT program managers conduct application reviews to identify critical errors or improvements that can enhance the application before final submission. Moreover, WSDOT extended the grant period from two to four years, significantly easing the application burden on contractors seeking funding.

Human Services Funding Collaborative of King County

Streamlining funding and resource allocation processes

The Human Services Funding Collaborative (HSFC) is a cooperative effort among 16 municipalities in King County to streamline the funding and resource allocation process for community-based organizations.[170] This initiative aims to establish a common application system that all participating cities can utilize every two years.

---

[163] Washington State Department of Transportation, "Business with WSDOT," (Mar. 26, 2025),
[164] Washington State Department of Transportation, "2024-2027 State Management Plan for Federal Transit Administration Public Transportation Funds," (2024),
[165] Washington State Department of Transportation, "Consolidated Grant Guidebook," (2022),
[166] Washington State Department of Transportation, "How to do Business with Us," (Mar. 26, 2025),
[167] Washington State Department of Transportation, "Support for Local Programs," (Mar. 26, 2025),
[168] Washington State Department of Transportation, "Equal Opportunity in Contracting," (Mar. 26, 2025),
[169] Washington State Department of Transportation, "Grants Management System," (Mar. 26, 2025),
[170] City Vision Magazine, "Sweet Sixteen: A Broad Alliance Transforms Human Services Contracting," (2014),

Participating cities include Auburn, Bellevue, Burien, Covington, Des Moines, Federal Way, Issaquah, Kenmore, Kent, Kirkland, Redmond, Renton, Sammamish, SeaTac, Shoreline, and Tukwila. These cities work together to manage human services funding more efficiently and fairly.

The HSFC was established in 2010 to address inefficiencies in the grant funding process. City staff from multiple municipalities noticed they were contracting with the same nonprofit organizations. Many of these providers faced significant administrative burdens from submitting applications and extensive supporting documents to various cities, each with its deadlines. The collaboration was created to establish a streamlined funding process, reducing duplication and improving coordination between local governments and service providers.

The initial step in establishing HSFC involved developing a joint application to standardize grant questions and reporting criteria. A dedicated committee was assigned to design a common contract monitoring tool. Furthermore, a long-term subcommittee, comprised of representatives from Bellevue, Kent, and Redmond, researched and implemented an online application platform that meets the needs of all 16 cities. This effort culminated in the launch of Share1app in 2012, an online system that streamlines application submission, grant review, performance reporting, and invoicing.[171]

The collaborative functions through a structured process in which applications are submitted online, reviewed, and scored by commissions in each city. These commissions evaluate the applications based on predefined criteria before recommending them to their local governing bodies. The final funding decisions lie with elected municipal officials to ensure alignment with local priorities while maintaining consistency across the collaborative.

A long-term subcommittee made up of representatives from four cities offers technical assistance, cross-trains users, and collaborates with system developers to maintain and update Share1app. This subcommittee ensures the platform remains functional and adaptable to changing needs. Furthermore, HSFC encourages opportunities for joint monitoring visits and cost comparisons among cities, minimizing staff time spent on contract management and enhancing inter-city communication.

To promote accessibility, funding opportunities are communicated widely through multiple channels, including city websites, newspapers, and direct outreach to potential applicants. The cities also offer technical assistance to help organizations navigate the application process, increase participation, and ensure that various service providers can access contract funding.

The City of Kent provides administrative support for all memoranda of understanding and oversees the invoicing process for the participating municipalities. Its population size determines each city's financial contributions. According to HSPs interviewed for this report, the total annual cost, shared among all participants, is approximately $14,000, which is divided among the participating cities.

The collaborative approach increases transparency and accountability by sharing information about funding opportunities, application guidelines, and allocation decisions with all potential contractors. By standardizing the grant process, the collaboration allows smaller organizations to compete more effectively for funding, promoting equitable resource distribution.

---

[171] City of Redmond, "Share1App," (last visited Mar. 26, 2025),

The HSFC continues to serve as a vital mechanism for grant administration. The biannual funding cycle remains in place, and efforts are ongoing to refine the application process, enhance outreach, and improve technical assistance for applicants. The cities involved are dedicated to maintaining the collaboration to ensure effective resource distribution and support among community service providers.

City of Seattle

Outcomes-based contracting and active contract management

The Seattle Office of the Mayor and the Seattle Human Services Department conducted a pilot program with five service providers to understand better why more individuals were becoming unhoused despite significant budget investments and to address limitations in the contract structure by emphasizing contract outcomes.[172]

These agencies and service providers established a year-long, collaborative process involving regular meetings to discuss performance, adjust data collection, and align performance measurements with a mutually agreed-upon outcome data set. Providers received monthly performance reports and worked with department officials to resolve issues. Department staff convened quarterly to review data trends and assess program effectiveness. Both parties evaluated progress during joint quarterly meetings to understand the comparative performance of providers and the overall trajectory of efforts to reduce the number of unhoused individuals. Instead of serving as a compliance forum, these meetings functioned as joint problem-solving sessions. This collaborative approach represents a form of active contract management.

By emphasizing outcomes, this approach illustrates the commitment necessary for effective contract management. It demands increased data collection and dedication from both department and provider leadership to meet regularly and modify ineffective processes in real-time.

City of Spokane

Using software to simplify data reporting requirements

The City of Spokane and Spokane County are collaborating to streamline data collection within their Homeless Information Management Systems, a required reporting database for U.S. Department of Housing and Urban Development (HUD) funding recipients. This database contains information about unhoused individuals, helps track program effectiveness, and coordinates care by collecting data on demographics, service utilization, and housing status. The city and county have utilized this centralized database to meet federal reporting requirements.

The database provides a "Monthly Data Quality Report" (MDQR) that offers standardized program data, such as the number of people served, age, and certain other client characteristics. Additional filters, like data ranges and included programs, allow the report to be customized.[173] This has significantly reduced the reporting burden for HSPs because they can download and submit a portable document format (PDF) of the MDQR report instead of entering data into separate data collection systems.

---

[172] Azemati et al., Harvard Kennedy School Government Performance Lab, "Shaking up the Routine: How Seattle is Implementing Results-Driven Contracting Practices to Improve Outcomes for People Experiencing Homelessness," (2016),
[173] City of Spokane, "How to Run a Monthly Data Quality Report," (2023),

Appendix A: Human Service Provider Study Workgroup formation and membership

The legislative proviso requires specific membership for the Workgroup, including:

- Human service provider organizations;
- Relevant state government agencies;
- Washington State Office of Equity; and
- Local government officials.

Commerce initially formed the Workgroup to start the evaluation immediately. Atrómitos assessed Workgroup membership on the following to ensure a diverse spectrum of knowledge and experience:

- Geography (ensuring representation from throughout the state and a balance of frontier, rural, suburban, and urban areas);
- Organization size (number of employees, revenue, and assets);
- Organization services (housing, food, child welfare);
- Experience with state procurement and contracting procedures and structures;
- Local and state agency representatives; and
- Professional services or subject matter expertise, including accounting and legal expertise with knowledge of the human services sector

Following the assessment, Atrómitos recommended inviting additional Workgroup members to fill gaps identified in representation. During the first Workgroup meeting, the Workgroup members recommended additional candidates whose input would help the project succeed.

The Workgroup created a charter to create a governance structure and project plan to guide its work. Between September 2024 and April 2025, the Workgroup met monthly via Zoom. Atrómitos set the meeting agenda and prepared meeting materials. After the meetings, Atrómitos prepared meeting minutes summarizing the discussion, decision points, and next steps. The meeting minutes were shared with the Workgroup after each meeting.

The Workgroup provided guidance on the data collection and research plan, including the approach to engagement with interested parties. It facilitated the identification of structural hardships affecting human service providers' sustainability in Washington and approved recommendations to address the hardships.

Table 1 - Workgroup members, titles and organizations

Workgroup member	Title/role	Organization
Jackie Bender	Scribe	Atrómitos, LLC
Amanda Rodgers	Facilitator and Project Manager	Atrómitos, LLC
Michealle Gady	Project Director	Atrómitos, LLC
Sean Ardussi	Research and Development Services Unit Section Manager	Washington State Department of Commerce
Kate Fernald	Contract Manager	Washington State Department of Commerce
Alice Zillah	Research and Development Services Unit Managing Director	Washington State Department of Commerce

Workgroup member	Title/role	Organization
Rena Fay Carlson (Alternate to Annette Schuffenhauer)	ADA Compliance	Washington State Health Care Authority
Stephen Cotter	Office Chief, Contracts and Procurements	Washington State Department of Children, Youth, and Families
Susanne Guinn	Program Manager, Office of Crime Victims Advocacy	Washington State Department of Commerce
Tedd Kelleher	Policy Director, Housing Division	Washington State Department of Commerce
Allison Krutsinger (Alternate to Stephen Cotter)	Public Affairs Director	Washington State Department of Children, Youth, and Families
Sonja Morris (Alternate to Lauren Withey)	Office of Immunization and Child Profile	Washington State Department of Health
Annette Schuffenhauer	Legal Director	Washington State Health Care Authority
Patrick Stickney	Senior Policy and Legislative Affairs Advisor	Office of Equity
Monika Vasil	Director of Contracts, Legal Purchasing, and Background Checks	Washington State Department of Social and Health Services
Christine Warnock	Program Manager, Contracts & Procurement Division/Enterprise Procurement Policy	Department of Enterprise Services
Lauren Withey	Office of Nutrition Services	Washington State Department of Health
Kate Baber	Director of Strategic Partnerships	King County Department of Community and Human Services
Vanessa Gaston	Director	Clark County Community Services
Jani Hitchen	Human Services Committee Chair; Councilmember	Pierce County
Janet St Clair	Commissioner	Island County
Michael Torres (Alternate to Vanessa Gaston)	Contract Manager	Clark County Community Services
Keri Waterland (Alternate to Jani Hitchen)	Principal Policy Analyst	Pierce County
Ryan Beld (Alternate to Dave Foreman)	Accounting Manager	Opportunity Council/OCHP
Bridget Cannon	Senior Vice President for Shelter Services	Volunteers of America of Eastern WA & N. Idaho
Madelyn Carlson	CEO	People for People
Heather Fitzpatrick	Former CEO	Wellspring Family Services
Dave Foreman	CFO	Opportunity Council/OCHP
Mike Heinisch	Former Executive Director	Kent Youth and Family Services
Brittini Lasseigne	CEO	YWCA Clark County
Alison Poulsen	President	Better Health Together
Dave Richardson	Executive Director	Northeast Community Center
Emilio Vela Jr.	Executive Director	North Central Washington
Michael Yoder	Executive Director	Associated Ministries of Tacoma-Pierce County
Jake Ferrari	Attorney	Apex Law Group

Workgroup member	Title/role	Organization
Michaela Kay	CPA	BDO USA, P.C.; Chair of the Board of Directors at Wellspring Family Services

Note: Workgroup members contributing to this report served based on their particular subject-matter expertise and did not necessarily represent any specific organization or agency's view or position. Members from executive branch agencies (Washington State Department of Children, Youth, and Families; Washington State Department of Commerce; Washington State Department of Enterprise Services; Washington State Department of Health; Washington State Department of Social and Health Services; Washington State Health Care Authority; and Washington State Office of Equity) provided guidance and consultation as subject-matter experts on the Workgroup with the knowledge that any recommendations for future action with policy or fiscal implications for state agencies were not necessarily the position of these agencies. Any recommendations with future policy or fiscal implications will be subject to a future legislative process and the Office of Financial Management's budget review.

Appendix B: Methodology

The Human Service Provider Study adopted a comprehensive and participatory research approach to examine the structural hardships human service providers face in Washington state and explore pathways to more sustainable contracting practices. The study was guided by the following six steps, which are discussed in detail below:

1) defining key constructs and framing the inquiry;

2) conducting a literature review;

3) analyzing statutes and regulations;

4) evaluating contracting documents;

5) performing comparative research and subject matter expert interviews; and

6) engaging interested parties.

Throughout the process, Atrómitos prioritized clarity, inclusivity, and rigor to ensure the findings would be both meaningful and actionable.

1. Defining key constructs and framing the inquiry

The first step in conducting the evaluation was to clarify key terms that were not defined in the legislative Proviso or existing state law: human service provider, structural hardship, and sustainability. These definitions—developed through secondary research and validated through input from the study's Workgroup—shaped the entire scope and structure of the inquiry.

The three key constructs that guided the evaluation were:

Human service provider

A human service provider is defined as a public or private organization that delivers services focused on meeting an individual's needs to ensure a baseline quality of life. These organizations support one or more populations within a community, including those with limited financial resources, children and youth, adults (with or without partners), seniors, individuals with disabilities, and immigrants and refugees.

Services offered by HSPs span a wide range of supports, such as:

- Adoption and foster care support
- Services for seniors and people with disabilities to maintain independence
- Housing assistance and supported employment
- Legal aid and victim advocacy
- Domestic and gender-based violence prevention and response
- Early childhood education and support
- Food banks, child/adult daycare, and job placement
- Child welfare services

Human service providers may operate at local, regional, or state levels or serve the needs of sovereign tribal nations. Many collaborate or contract with government agencies to secure funding for service delivery. These

providers include nonprofit organizations, government agencies, faith-based entities, and mission-driven for-profit organizations, as well as those serving sovereign tribal nations.

For the purposes of this study, the term does not include:

- Entities offering broader public services, such as law enforcement or public schools
- Organizations indirectly connected to HSPs, like housing developers without service components
- Healthcare providers

Structural Hardships

Structural hardships refer to the formal laws, regulations, and administrative processes that govern state contracting and that, by design or impact, create adverse circumstances for human service providers. These hardships are not isolated incidents—they are systemic and embedded in the institutional fabric of government contracting.

Structural hardships may manifest as:

- Complex, inflexible, or duplicative procurement requirements
- Administrative burdens that disproportionately impact smaller or culturally specific organizations
- Legal or procedural barriers that discourage participation or delay contract execution

Because these challenges are deeply entrenched, addressing them requires more than technical fixes. Solutions must be comprehensive and systemic, involving shifts in public policy, community-informed engagement, and the intentional design of equitable systems and processes.

Sustainability

Sustainability, in this context, refers to the ability of contracting processes, systems, and relationships to be maintained over time in a way that supports long-term service delivery and organizational health. Rather than limiting the concept to fiscal sustainability, the evaluation team adopted a broader, more operational definition and identified several critical dimensions:

- Sustainable procurement processes – including accessible, transparent, and equitable opportunities
- Legal and fiscal terms – such as multi-year contracts, payment terms, and audit practices
- Contracting procedures – how contracts are initiated, managed, and monitored
- Contract structures – the terms and conditions that either support or constrain organizational resilience

An example of a sustainable approach to contracting would be a state agency offering an HSP three-year contract with annual renewal options, providing a 25% upfront payment, and using a streamlined, standardized reporting format across departments. This would allow organizations to hire and retain staff, invest in infrastructure, and focus on service delivery.

An example of an unsustainable approach is if the provider is awarded a six-month contract that requires services to begin immediately but only pays through monthly reimbursement after services have been delivered. This model puts strain on the provider—especially small organizations—by disrupting cash flow, diverting staff capacity, and making long-term planning difficult.

While the study did not quantify the fiscal impact of these themes, it focused on assessing whether current systems and policies include features that promote—or undermine—provider sustainability.

From there, four key research questions were developed to guide the inquiry:

- What factors create structural hardships for human service providers in state contracting?
- What are the facilitators and barriers to making state contracting more sustainable?
- What alternative contracting methods does Washington currently use—and how do these compare to practices in other jurisdictions?
- What are the characteristics of the lowest responsible bidder model, and are there alternative approaches that achieve the same or better outcomes?

2. Conducting a literature review

The evaluation team conducted an extensive literature review to ground the study in existing knowledge and identify gaps in the research. Searches were performed across four major research platforms—Google, Google Scholar, Science.gov, and Semantic Scholar—using 112 unique keyword combinations aligned with the study's core questions.

In total, more than 300 articles and reports were reviewed. Each was assessed for relevance, source credibility, focus area, research methodology, and how directly it addressed the constructs of hardship and sustainability in contracting. Approximately 30 highly relevant sources were selected for deeper analysis and were featured most prominently in the Literature Review Report. This review also incorporated materials shared by Workgroup members and additional stakeholders, ensuring the inclusion of practical and policy-focused insights.

3. Analyzing statutes and regulations

The study also included a detailed review of the legal and regulatory environment shaping contracting processes in Washington. This involved:

- Analyzing state statutes in the Revised Code of Washington and relevant administrative rules in the Washington Administrative Code (WAC).
- Reviewing federal regulations that intersect with or inform state procurement requirements.
- Examining agency-specific rules and procedures to identify variation and discretion in implementation.

The legal review helped the team map the structural foundations of contracting in Washington, identifying both opportunities for reform and constraints that may require legislative change.

4. Evaluating contracting documents

The evaluation team reviewed contracting documents from state agencies to understand how these legal frameworks play out in practice. This included:

- Solicitations such as Requests for Proposals (RFPs) and Requests for Applications (RFAs);
- Supporting materials like question and answer (Q&A) documents, bidder conference slides, and contract templates; and
- Documentation of complaints, protests, sole source justifications, and contract extensions.

Where necessary, the team worked directly with agency contacts to access materials not publicly available. This document review provided concrete examples of how contracting is structured, where barriers arise, and what elements either support or hinder sustainability.

5. Performing comparative research and subject matter expert interviews

Building on insights from the literature review, the evaluators identified contracting models from other states and municipalities that might offer alternative approaches for Washington. Subject matter experts—both in-state and nationally—were interviewed to provide insights into these models, with a particular focus on sustainability and equity. A second round of interviews was conducted based on referrals from initial participants, allowing the team to delve deeper into promising practices.

6. Engaging interested parties

A cornerstone of the evaluation was direct engagement with interested parties across Washington's human services landscape. The evaluation team, in collaboration with the HSP study Workgroup and Commerce, designed an inclusive engagement strategy that emphasized diversity of perspective and transparency, engaging individuals across all nine of Washington's Accountable Communities of Health (ACH) regions to ensure regional representation.

Identifying interested parties

Interested parties were identified through a structured mapping process, ensuring participation from:

- State agency representatives
- Local government staff
- Human service providers (both contracted and non-contracted)
- Tribal organizations
- Financial, legal, and policy experts

The Workgroup nominated participants, and additional organizations were identified through data analysis and national databases such as Cause IQ. Care was taken to ensure geographic, cultural, and organizational diversity.

Key informant interviews

A total of 26 key informant interviews were conducted with carefully selected stakeholders. Interviews were guided by standardized question sets tailored to each group and were conducted over Zoom. Each conversation was confidential, recorded with consent, and transcribed. Interviewers used inductive coding methods to identify emerging themes without imposing predefined categories, allowing participant experiences to shape the findings organically.

Focus groups

Nine focus groups were held across ACH regions to ensure regional representation. Participants were recruited through direct outreach, referrals from the Workgroup, Cause IQ data, and snowball sampling. All groups followed a consistent discussion guide and were facilitated by trained evaluators, with one facilitator leading and another documenting. Sessions were recorded and transcribed to support accurate thematic analysis.

Statewide survey

To complement qualitative findings with broader quantitative input, a statewide electronic survey was distributed to 943 human service providers across the state. Survey participants were identified through the

Washington Secretary of State business registry, Cause IQ data, and Workgroup recommendations. Administered via Qualtrics, the survey received 181 responses, including 119 complete submissions. The survey was designed to surface both numeric trends and rich narrative insights from providers' direct experiences.

Ensuring confidence and reliability in the findings

Throughout the study, multiple steps were taken to ensure the validity and reliability of the findings:

- The team verified key insights across formats by triangulating data from interviews, focus groups, surveys, and document reviews.
- Thematic analysis and inductive coding minimized bias and ensured findings accurately reflected participants' experiences.
- All participants were assured anonymity and confidentiality to encourage candor.
- The selection process emphasized inclusive representation, including small and rural providers, tribal organizations, and culturally specific agencies.
- Preliminary findings were shared with the HSP Study Workgroup for validation, accuracy checks, and additional input.

Appendix C: Human services and human services provider definitions

Broad definition of human services provider
A human service provider is a public or private organization that delivers services focused on meeting an individual's needs to ensure a baseline quality of life. A human service provider serves one or more populations within a community, such as those with limited financial resources, children and youth, adults (with or without partners), seniors, individuals with disabilities, and immigrants and refugees. Services provided include adoption and foster care support services, services related to maintaining independence and well-being for seniors and people with disabilities, housing assistance, supported employment, legal aid, domestic violence and gender-based violence services, crime victim services, early childhood education and support, food banks and related services, child and adult daycare, job/employment services, and child welfare. Human service providers may operate at local, state, tribal, or regional levels and often collaborate or contract with government entities to obtain funding needed to deliver services. Human service providers may include nonprofit organizations, government agencies, faith-based organizations, for-profit entities with a mission-driven focus, and tribes. For the purposes of this study, human service providers do not include organizations that provide a public service (such as law enforcement or public schools) or are indirectly connected to human service providers (such as housing developers without a service component).

Specific definition of human services provider
A human service provider is defined as an organization that meets at least one criterion from each of the following three categories: population served, services provided, and organization type.

Population(s): a group(s) of people within a community that require assistance meeting one or more basic needs to achieve a baseline quality of life:

- Children and youth (young children (under 6), children, and adolescents)
- Families (a group of two or more persons related by birth, marriage, or adoption who live together; unmarried partners living in the same household)
- Seniors (Aged 65 and above)
- Individuals and households with limited financial resources
- Immigrants and refugees
- Individuals with disabilities (people with intellectual, developmental, or physical disabilities)
- Veterans (people who have served in the military)
- LGBTQIA++ community
- Black, Indigenous, and other People of Color (BIPOC)
- Individuals living with mental illness, serious emotional disturbance, or substance use disorder
- Individuals who are unhoused
- Individuals who are justice involved
- Survivors of violence and other crimes
- Systemically non-dominant groups (groups that are marginalized or underserved due to systemic inequities, including those living in rural, frontier, or island communities)

Services
Services includes a range of services and supports designed to help individuals meet a basic need(s) to achieve a baseline quality of life, such as:

- Early childhood education (including ECEAP), school readiness programs, child day care, child welfare, adoption, and foster care programs.
- Family planning services
- Family resource centers
- Adult daycare, home care, and other services related to maintaining independence and well-being
- Food banks, food boxes, and other nutrition services
- Services for people experiencing homelessness, eviction prevention, housing services, rent assistance
- Supported employment, job training, and employment services,
- Advocacy, case management, information and referral services
- Utility assistance
- Income assistance
- Legal aid, immigration, and naturalization services
- Specialized support for refugees and immigrant communities.
- Residential or day treatment services
- Sexual assault survivor support, domestic violence services, victim advocacy support, and other crime services.

Organizations

Organization includes certain government entities, such as local government agencies and regional authorities, and private organizations whose purpose is to meet the basic need(s) of people within a community to ensure that they achieve a baseline quality of life.

- Government agencies: Agencies that directly provide services, including: Local governments (counties, cities), regional authorities (e.g., King County Regional Homelessness Authority), or tribal governments.
- Community-based organizations: Organizations deeply rooted in specific communities that provide a wide range of support services tailored to local needs. They include nonprofit organizations, faith-based organizations, for-profit organizations with a human service mission, or tribal organizations.

Organizations excluded from human service providers

Certain agencies or organizations provide services that complement human services or otherwise improve community or individual well-being but are outside the definition of human services for purposes of the HSP Study. These include:

- Healthcare providers: Hospitals, health systems, private practices, FQHCs/CHCs, and individual healthcare practitioners.
- Law enforcement and justice system: Law enforcement agencies and the justice system, including police departments, sheriff's offices, and prisons
- Education institutions: Traditional K-12 schools, universities, and for-profit educational institutions
- General housing development: Private housing development companies or real estate entities in the broader housing market.
- Employment in the private sector: Private sector employment services (e.g., staffing agencies, employment agencies, recruiting agencies)
- Certain federal and state agencies: While many federal and state agencies contract or interact with human service organizations, most do not directly provide human services.

Appendix D: Abbreviations and acronyms list

Abbreviation	Definition
ACHs	Accountable Communities of Health
CDPHE	Colorado Department of Public Health and Environment
COLA(s)	Cost of Living Adjustment(s)
Commerce	Washington State Department of Commerce
DBE	Disadvantaged Business Enterprise
DCYF	Washington State Department of Children, Youth and Families
DES	Washington State Department of Enterprise Services
FY	Fiscal Year
EBP(s)	Evidence-Based Practice(s)
HSFC	King County Human Services Funding Collaborative
HSP(s)	Human Service Provider(s)
LGBTQIA+	Lesbian, Gay, Bisexual, Transgender, Queer, Intersex, Asexual, and Others
MDQR	Monthly Data Quality Report
NFP	Not-for-Profit
NICRA	Negotiated Indirect Cost Rate Agreement
NRC	New York City's Nonprofit Resiliency Committee
OBC	Outcomes-Based Contracts (or Contracting)
OFM	Washington State Office of Financial Management
OMWBE	Washington State Office of Minority and Women's Business Enterprises
PBC	Performance-Based Contracts (or Contracting)
PDF	Portable Document Format
PFS	Pay for Success
Q & A	Question and Answer
RCW	Revised Code of Washington
RFAs	Request for Applications
RFI(s)	Request(s) for Information
RFP(s)	Request for Proposal(s)
TA	Technical Assistance
WAC	Washington Administrative Code
WEBS	Washington's Electronic Business Solutions
WSDOT	Washington State Department of Transportation