IMPROVING MEASURES OF EFFICIENCY FOR
EMPLOYMENT AND TRAINING PROGRAMS

OVERVIEW OF STUDY AND KEY FINDINGS AND RECOMMENDATIONS

Prepared for:
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Prepared by:
Burt S. Barnow, Johns Hopkins University’s Institute for Policy Studies
John Trutko, Capital Research Corporation

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PROJECT OVERVIEW

- Study Purposes:
  - Analysis of alternative outcome-based efficiency measures for WIA (4 programs), TAA, ES, SCSEP, NFJP, Indian and Native American, Work Incentive Grant, & Apprenticeship
  - Develop recommendations to adopt a measure or measures
- Study conducted by Capital Research Corporation and Johns Hopkins University
- Study began in June 2008 and concludes in June 2010 – a period of substantial change and shifting priorities within ETA and OMB
- Study involved several stages:
  1) Identify efficiency measure options
  2) Data collection/analyses to develop efficiency measure recommendations for 11 ETA programs
  3) Analysis of special issues and challenges, e.g., co-enrollment, cost sharing, multi-year participation, self-service customers
OVERVIEW OF STUDY METHODOLOGY

- Study findings/recommendations are based on qualitative and quantitative data collection and analyses
  - Review of literature on performance management
  - 2 rounds of telephone interviews with state workforce agencies
    - Early on -- CA, FL, MI, NY, UT, VA
    - Near end – CA, MD, NY, OH, WA
  - Telephone interviews with OECD, UK, and Canada to explore their efficiency measures use
  - Analysis of efficiency measures used in other federal agencies for workforce programs– DHHS, DOE, HUD, USDA, VA
OVERVIEW OF STUDY METHODOLOGY

- Collection/analysis of cost, outcome, and efficiency measure results for ETA programs (at national and state/grantee levels)
- Ongoing review and comment by ETA program offices, ETA regional offices, an ETA internal Cross-Functional Performance workgroup, and an external Expert Panel
- Some key topics of interest and analysis throughout study:
  - Measures/standards used and concerns in adopting each measure
  - Applicability at national, state, and local levels
  - Data collection methods and burden
  - Use of measures to enhance program performance
  - Positive/negative effects and unintended consequences
KEY STUDY FINDINGS

Findings from the Review of the Literature on Efficiency Measurement

- Presence of performance standards affects who is served and services received
- Most significant problem is that performance standards can encourage “cream skimming” and “gaming”
- It is critical in selecting measures, standards, rewards, and sanctions to anticipate behavioral changes likely to be induced and to structure system so that efficiency measures do not result in undesirable behavior by states and grantees
- Careful thought needed as to whether efficiency measures should be applied at national level or “drilled-down” to states and/or local programs
**Findings on Use of Efficiency Measurement in the United States and Other Industrialized Countries**

- In U.S., agencies have interpreted the concept of efficiency broadly:
  - Many federal agencies have more than one efficiency measure for workforce programs and tailor measures to reflect concerns about aspects of programs that can be made more efficient
  - Most commonly used efficiency measure -- cost per participant
  - Outcome- and output-based efficiency measures are common
- United Kingdom, Canada, and OECD have not implemented outcome-based efficiency measures for ongoing performance management/measurement
  - Some programs use process and output efficiency measures
  - Some periodic evaluation efforts have rigorously examined cost-effectiveness and return on investment (ROI) for workforce programs
KEY STUDY FINDINGS

Findings from Analyses of Expenditure and Outcome Data to Produce Preliminary Efficiency Measure Results

- Analyses of expenditure and outcome data demonstrate feasibility of producing outcome-based efficiency measure results for most ETA programs.
- Attached exhibits highlight results for efficiency measure results for candidate efficiency measures (based on Common Measure outcomes) at the national level for PY/FY 2007.
- Very substantial variation across programs in candidate efficiency measures points to widely varying cost structures for ETA programs.
Findings from Analyses of Expenditure and Outcome Data to Produce Preliminary Efficiency Measure Results (continued)

- There are sizable cross-state and year-to-year differences on efficiency measure results for each program (see attached exhibits)
- Analyses also examined prospects for implementing performance standards with or without statistical adjustments –
  - Various adjustment models tested using WIA state-level cost and outcome data did not explain state variation in efficiency measure results
  - Analyses suggest great caution required before ETA should consider implementing performance standards for states/grantees on recommended efficiency measures
STUDY RECOMMENDATIONS

Recommendation #1: Use Program Expenditures Rather than Appropriations or Obligations as the Measure of Program Costs in Efficiency Measure

- Expenditures can vary substantially from what is initially appropriated/allocated, especially at state level (e.g., because of transfers, rescissions, and unexpended funds).
- Expenditures reflect what is actually spent on delivery of services and capture underlying notion of efficiency.
- States interviewed, ETA program offices, and Expert Panel endorsed use of expenditures over other available measures of costs.
Recommendation #2: Use Common Measures as Starting Point for Measuring Program Outcomes in Efficiency Measures

- Ten (of 11) ETA programs currently use Common Measures – Apprenticeship is transitioning to Common Measures; WIG applies Common Measures to WIA customers with disabilities as there are no WIG customers.
- For Common Measures programs (except WIA Youth), outcome measures are entered employment, retained employment, and post-program earnings.
- For WIA Youth, outcome measures under Common Measures are placement in education or training, credential attainment, and literacy/numeracy.
Recommendation 2a: **Cost per entered employment should be tracked (for monitoring purposes initially) as efficiency measure for 8 of 11 ETA programs: WIA Adult, WIA DW, NEG, WP-ES, TAA, SCSEP, INA, and NFJP**

- WIA Youth could use cost per placement in employment or education; exclude WIG and Apprenticeship

Main rationale for recommendation --
- Employment is a high priority for all programs (except WIA younger youth)
- Entered employment is simplest and most direct way to assess whether programs are achieving their goals
- Data are already being collected on number of entered employments under Common Measures
- Data are available sooner for entered employment than for post-program earnings and job retention
Recommendation 2b: Cost per retained in employment should be tracked as efficiency measure for 8 of 11 ETA programs: WIA Adult, WIA DW, NEG, WP-ES, TAA, SCSEP, INA, and NFJP (exclude: WIA Youth, Apprenticeship, and WIG)

Main rationale for recommendation --
- Job retention is a high priority for all programs (except WIA younger youth)
- Participants employed at the time of entry into program are included in this measure (unlike entered employment rate)
- Data already being collected on retained employment
- Indicator provides longer-term measure of effects of programs and is appropriate for incumbent workers
Recommendation #2c: Cost divided by post-program earnings should be tracked as efficiency measure in 8 of 11 ETA programs: WIA Adult, WIA DW, NEG, WP-ES, TAA, SCSEP, INA, and NFJP (exclude WIA Youth, Apprenticeship, & WIG)

Main rationale for recommendation --

- Most programs should increase earnings as well as employment
- Omitting earnings might encourage focus on inexpensive services
- Participants employed at the time of entry are included in this measure (unlike entered employment rate)
- Data are already being collected on pre- and post-earnings under Common Measures
- Indicator provides longer-term measure of earnings effects of training and other employment services
STUDY RECOMMENDATIONS (CONTINUED)

- **Recommendation #2d**: Cost divided by change in earnings should be tracked as efficiency measure in 8 of 11 ETA programs: WIA Adult, WIA DW, NEG, WP-ES, TAA, SCSEP, INA, and NFJP (exclude WIA Youth, Apprenticeship, & WIG)

- Main rationale for recommendation --
  - Effective skill building programs should increase earnings as well as employment
  - Omitting earnings might encourage focus on inexpensive services
  - By looking at pre/post earnings change (versus average post-program earnings), programs face fewer incentives for “creaming” individuals who are likely to have highest post-program earnings
  - Data already being collected on the pre- and post-earnings under Common Measures
Recommendation #3: Carefully Consider Programmatic Differences Before Implementing Efficiency Measures – Among 11 ETA Programs, WIG, Apprenticeship, and NEG Programs Will Likely Require a Different Set of Efficiency Measures

- Apprenticeship: consider cost per additional apprenticeship program certified and timeliness of certification decisions
- WIG: consider cost per change in the number of One-Stop customers served with disabilities; because WIG may be terminated, it may be appropriate not to develop efficiency measures
- WIA Youth: cost per placement in employment or education
  - Longer term -- investigate possibility of collecting separate cost and customer data for in-school and out-of-school youth; then, might be feasible to apply four WIA efficiency measures to WIA older youth
Recommendation #4: Performance Standards for States/Grantees on Recommended Efficiency Measures Should Be Considered Exploratory at This Time -- Do Not Reward or Sanction States/Grantees for Performance on Recommended Efficiency Measures

- Several years (3 or more) of data are needed to determine results are stable
- Additional time is needed to analyze definitional problems (e.g., expenditures to be included) and variation in performance across units, and determine if/how standards should be adjusted
- Co-enrollment patterns are not stable, with some states increasing co-enrollment of ES customers in WIA by 1,000% in recent years
Recommendation #5: Improve Consistency and Quality of Cost, Customer Characteristics, and Outcome Data

- Efficiency measure results for WIA, ES, and TAA varied substantially within states from year to year and among states/grantees within a single program year.
- Not clear this variation reflects “efficiency” of programs or other factors – including cross-state differences in co-enrollment and in ways states collect and report costs and outcomes.
- ETA should study variation in expenditure and outcome data within programs (across states and grantees) and across programs; require states and grantees to use common definitions/procedures in reporting.
- If substantial errors are found, ETA should provide technical assistance.
STUDY RECOMMENDATIONS (CONTINUED)

**Recommendation #6: ETA Should Explore Developing Efficiency Models by Activity for Programs That Offer a Range of Activities**

- Some programs (WIA Adult/DW/TAA) offer wide range of activities -- assisted core services may cost under $100 per customer vs. occupational training at $10,000 or more
- Concept of cost per customer loses meaning when services vary so much
- More meaningful adjustment models are likely if separate regression models are estimated for each major activity
- Challenges: cost data are currently not collected by service/activity in most states; allocating joint costs and dealing with co-enrollment is problematic
Recommendation #7: Adjustment Models for Efficiency Measures Are Not Likely to Be Useful at the State-Level for Many Years; They Potentially Could be Useful and Valid at the Local/Grantee Level for Some Programs

- Adjustment models tested using WIA state-level cost and outcome data did not explain (with statistically significant coefficients) state variation in efficiency measure results
  - Too few observations (about 50)
  - Cost sharing, co-enrollment, customers who result in costs but not accounted for in outcomes vary across states, making results difficult to interpret
- If not used for adjustments, such models may be useful for monitoring program performance or informing understanding of factors associated with higher/lower costs of serving participants
Recommendation #8: Estimate Return on Investment (ROI) in Conjunction with Impact Studies but Not as Regular Performance Measurement

- ROI and cost-benefit analysis are essential to determine if programs are worthwhile investments and to compare alternative investments
- Challenges to using ROI on regular (annual) basis:
  - Very expensive to measure ROI
  - Lack of consensus about best methods to generate appropriate comparison group data
  - Time required to generate reasonable post-program data is too long for annual performance measurement
  - Lack of consensus on appropriate discount rate
  - Difficult to make reasonable assumptions about how long observed earnings gains will persist
Recommendation #9: Further Study Is Needed on Several Topics Related to and Likely to Affect Efficiency Measure Results, Including Co-Enrollment and Cost Sharing

- Should stipends and needs-related payments be counted as expenditures in computing efficiency measures?
- How should co-enrollment be accounted for in efficiency measures?
- How should shared costs across programs, such as One-Stop infrastructure costs, be dealt with in efficiency measures?
- How should efficiency measures deal with customers who remain in the program for more than one program year?
- How should self-service and incumbent worker customers be dealt with in programs such as WIA Adult/DW where such customers are not counted for outcome measures?
- These issues generally require value judgments and some of them would have major cost implications for data collection