

REVISED DRAFT

**FINDING JOBS FOR WELFARE RECIPIENTS THROUGH
PERFORMANCE-BASED CONTRACTING**

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The last few years have seen major changes in the way that New York City manages and operates its human service programs. At the same time, there has been a major decline in New York City's public assistance caseload. According to Human Resources Administration (HRA) data, between March 1995 and September 2001, the caseload dropped from 1,161,000 to 464,000—a drop of over 60 percent. Several factors are responsible for the decline.¹ This report analyzes the effects of a management tool, performance-based contracting, on the welfare caseload in New York City.

As is often the case, programs being analyzed are constantly changing. This project examines the performance-based contracting system in effect in the last six months of 2001. Most of the interviews were conducted between November 2001 and March 2002. Michael Bloomberg was elected Mayor of New York City in November 2001, and a new Commissioner of HRA, Verna Eggelston, was appointed shortly thereafter. A number of changes were made in the way that HRA's programs are operated and managed, and the epilogue documents the changes since then.

INTRODUCTION

In this section, we present the purpose of the study and then describe the general approach. Major caveats are stated, and the section concludes with a guide to the rest of the report.

Purpose of Study

We examine the role that one of the reforms instituted during the Giuliani Administration, performance-based contracting, has had on the decline in the public assistance caseload. Although we had originally hoped to be able to develop numerical estimates of the impact, for a variety of reasons described in more detail below, we had to use a more qualitative approach to analyze the effects of performance-based contracting. Thus, the purpose of this study is to

provide evidence obtained from interviews with knowledgeable parties about the effects of performance-based contracting on caseload changes and services to HRA clients .

General Approach

This study is based on interviews conducted with HRA officials, federal and state government officials, and contracted service providers with a variety of perspectives on performance-based contracting. We began by reviewing the literature on performance management and performance-based contracting in general. We then focused on several studies that dealt specifically with performance-based contracting in HRA programs. This was followed by a series of interviews. We spoke with ten HRA administrators who deal with various aspects of performance-based contracting, administrators/staff at the four Skills Assessment and Placement (SAP) vendors, and administrators/staff at six (of the 12) Employment Services and Placement (ESP) vendors (see Appendix A for a list of interviewees). Individuals who were interviewed were guaranteed anonymity so that they would share their views candidly. All but one of the interviews were conducted in person.

Caveats

Qualitative studies are generally better at capturing the general effects and the direction of change rather than the magnitude of a change. Our intent had been to supplement the interviews with quantitative analyses to estimate the effect of performance-based contracting on the size of the public assistance caseload.² As we describe below, the problem with using a quantitative approach is that so many other aspects of the public assistance program and its management changed at the same time that we considered it unlikely that a quantitative analysis would be able to isolate the impact of the intervention of interest. HRA research officials concurred in our decision to abandon the quantitative component of the analysis.

Qualitative analyses are not free of risk either. In particular, there is a risk that respondents will provide self-serving answers to queries rather than true answers. Although this may have occurred to some extent in this study, we were pleasantly surprised at the consistency of the answers on factual matters. Both vendors and HRA officials were in surprising agreement on the problems that were experienced in implementing performance-based contracting and the direction of the impacts. Sometimes there was disagreement on whether the changes brought about by the implementation of performance-based contracting were desirable or not. For example, virtually everyone interviewed agreed that performance-based contracting led to more emphasis on obtaining a job and less emphasis on obtaining education and training to increase human capital; respondents often disagreed, however, if this was an improvement or not. That is, some people disagreed with the goals of the program. Not surprisingly, therefore, there was disagreement when we asked HRA respondents to rank performance-based contracting in relation to other management and program reforms that were implemented at roughly the same time. Much of what we heard is also consistent with the popular research literature on the use of performance-based contracting by HRA.

Organization of the Report

The next section of the report provides general background on performance management and performance-based contracting, including findings in the literature on the impact of performance-based contracting on employment and earnings in employment and training programs,

Next, we describe the HRA public assistance programs, with an emphasis on the Temporary Assistance for Needy Families (TANF) program. The section indicates how the program was administered prior to the implementation of performance-based contracting and the many changes that were implemented in roughly the same period that performance-based contracting was implemented.

This is followed by a review of the studies identified on the effects of performance-based contracting in HRA programs. We include both academic

articles and stories from the popular press. The next section summarizes the findings from our interviews, and the final section presents conclusions.

PERFORMANCE MANAGEMENT AND PERFORMANCE-BASED CONTRACTING

The National Performance Review defined performance management as “The use of performance measurement information to help set agreed-upon performance goals, allocate and prioritize resources, inform managers to either confirm or change current policy or program directions to meet these goals, and report on the success in meeting those goals.”³ Thus, performance management is a broad category of techniques that can be used by a government (or private) organization to help manage its sub-components or contractors it has retained to deliver services. HRA’s use of JOBSTAT (Job Statistics) and VENDORSTAT (Vendor Statistics) to track the accomplishments of its job centers and vendors, respectively, are good examples of performance management that will be discussed below. Barnow (1992) has noted that a performance management system generally has three components: (1) performance measures against which the performance of the entity being monitored can be judged, (2) standards of acceptable performance for the measures, (3) and rewards and sanctions to encourage the units being judged to meet or exceed the performance standards.⁴

Performance-based contracting is a special case of performance management that is available when a vendor is retained to deliver services for the organization that issues the contract. We adopt the definition of performance-based contracting proposed by Kettner and Martin (1993): “A contract that uses performance specifications and ties at least a portion of a contractor’s compensation to their achievement.”⁵

There are several reasons to rely on performance-based contracting, but the primary reason is to align the vendor’s interests with those of the party that issued the contract, commonly referred to as the “principal-agent” problem.⁶ In the absence of a performance-based contract, a vendor may wish to pursue interests other than the issuer’s primary goal, or the contractor may have different

beliefs regarding how to achieve goals that are shared. For example, in employment and training programs focusing on welfare recipients and other disadvantaged groups, there are different philosophies and conflicting evidence about whether it is better to try to get participants into jobs quickly (the “labor force attachment” model) or to provide them with education and training so that they can qualify for better-paying and more permanent jobs (the “human capital” model). A performance-based contract can provide strong incentives for the contractor to adopt the objectives and means of the contract issuer rather than seek to achieve its own objectives, particularly if a significant amount of the payment is at risk. In HRA’s case, the Employment Services and Placement (ESP) contracts provide vendors with a strong incentive to perform because the payments are based entirely on placements and retention; the Skills Assessment and Placement (SAP) contracts include milestone payments (for assessment and engagement of participants in work-related activities) as well as performance incentive funding for placements and retention.

In the human services field, there are differences of opinion on how to measure HRA vendors’ performance. Peter Cove, the founder of one of HRA’s for-profit ESP vendors (America Works), argues strongly that the service an HRA vendor is providing is job placements, and vendors should receive payment only if they produce value for HRA by getting their clients placed and retained in employment.⁷ He argues that if a defense contractor delivered 20 planes and only four could fly, it would not make sense for the government to pay for the non-functioning planes.

On the other hand, some observers argue that providing human services is different than manufacturing goods, especially when one is dealing with the disadvantaged populations served by HRA. Proponents of this reasoning note that many of the clients have severe barriers to employment, and that a vendor cannot be expected to achieve a high rate of success in placing such individuals in jobs. Ironically, while a strong economy can result in high success rates initially, after a while only the most unemployable individuals will remain jobless, and it will be more difficult to find such individuals jobs. Proponents of this view argue that

payment to vendors should be based on services provided rather than on job placements and retention.

Moreover, those concerned with performance-based contracting note that such contracts can lead to several effects they deem undesirable:

- Performance-based contracting can lead to “creaming” whereby the vendors concentrate most or all of their resources on clients who are most job ready, thus ignoring those most in need.
- By paying vendors for events that take place long after services are provided (especially in the case of retention), smaller organizations lacking substantial capitalization may be effectively barred from participating; (On the other hand, advocates of such contracting point out that this may be a normal evolutionary development and not necessarily bad.)
- Vendors have an incentive to provide the least expensive services that will result in a placement, thus emphasizing job search over education and training. (This is consistent, however, with the new federal, state, and local policy.)

.The issues raised here are not unique to HRA. As the Social Security Administration is developing policies to implement the new “Ticket to Work program” to enable disability program beneficiaries to receive education, training, and other rehabilitation services, it must decide on the right balance between pay for performance and pay for services.

Performance-Based Contracting in Employment and Training Programs

Although there are many anecdotes about the virtues of performance-based contracting, there are surprisingly few rigorous evaluations in the employment and training field.⁸ In this section, we review findings from some of the relevant studies.⁹ In a study of the impact of performance-based contracting in the JTPA program, Dickinson, et al., hypothesized that performance-based contracting would result in “creaming” by local programs, that is, selecting participants with the least barriers to employment.¹⁰ Their empirical work, based on a survey of local programs, did not support the theory very well. The use of performance-based contracting was *not* associated with increased creaming, but

contracts with high wage standards did result in creaming; the amount of payment at risk was not associated with a clear pattern in selecting participants. In a study involving case studies of performance-based contracting in welfare programs, Vinson (1999) found that performance-based contracting was associated with reduced cost per placement and improved placement rates.¹¹

Several recent studies analyze the relationship between the use of performance-based contracting and outcomes in JTPA programs. Heinrich and Lynn (2000) unexpectedly found a statistically significant *negative* relationship between use of performance-based contracting and program outcomes.¹² In another study, however, Heinrich (2000) found large, statistically significant *positive* impacts on outcomes in one county. More recently, Spaulding (2001) analyzed the impact of performance-based contracting on placements and earnings of JTPA participants across the country.¹³ She found that the use of performance-based contracting is associated with increased employment and earnings for participants, with stronger results for employment than earnings.

In summary, although there is some evidence on the virtues of performance-based contracting, there are a limited number of analytical studies looking at the relationship between performance-based contracting and outcomes of interest. More often than not, these studies support the hypothesis that performance-based contracting improves performance, but the evidence is not strong enough to draw unambiguously firm conclusions.

WELFARE REFORM AND THE STRUCTURE OF PUBLIC ASSISTANCE PROGRAMS ADMINISTERED BY THE HUMAN RESOURCES ADMINISTRATION

The enactment of the Personal Responsibility and Work Opportunity Reconciliation Act (PROWRA) of 1996, followed by passage of the New York State Welfare Reform Act (WRA) by New York State, provided local governments in New York State with the flexibility and resources to design and implement welfare reform initiatives. These landmark acts ended entitlement for cash assistance and ushered in lifetime limits on the receipt of welfare benefits

and work requirements for individuals receiving public assistance. Critical goals of the legislation were to make public assistance (under New York’s Family Assistance and Safety Net Assistance programs) temporary and to assist needy individuals (and their families) in making the transition from welfare dependency toward economic self-sufficiency.

The City of New York had already embarked on reform of its welfare system prior to the enactment of federal and state legislation – for example, requiring able-bodied public assistance recipients to work. However, the scope and pace of change in the welfare system increased as the 1990s drew to a close. While introduction of performance-based contracting – the focus of this paper – proved to be a fundamental change with wide reaching impacts on the welfare system in the City, it was only one of a long list of changes that “rocked” the system. As discussed later in this report, the many fundamental changes introduced to the welfare system in New York City – and which continue to be introduced in the early 2000s – make it exceedingly difficult to disentangle the effects of changes in new contracting methods (e.g., introduction of “milestone” payments emphasizing job placement and retention) with the broader array of changes enacted. Below, we briefly highlight some of the most important changes that have occurred as part of the welfare reform initiative in New York City, as well as provide a brief overview the structure of welfare programs administered by HRA.

Before the passage of New York’s Welfare Reform Act in 1997, the major income support programs in New York State were Aid to Families with Dependent Children (AFDC); General Assistance or Home Relief (HR); the state’s AFDC waiver demonstration project (operating in 14 counties); Supplemental Security Income (SSI); the state’s Earned Income Tax Credit; and food stamps.¹⁴ At the time of PROWRA, New York State had one of the largest public assistance caseloads (enrolled in AFDC or Home Relief) in the nation and was also one of the most generous in terms of benefit levels. For example, in 1995, New York had the second-highest AFDC caseload in the nation (on average 456,900 families per month). New York State’s Home Relief program was the

largest in the nation relative to need, and the number of recipients served each month was the highest in the nation. Annual Home Relief expenditures – divided evenly between the state and local county governments – totaled \$1.1 billion in 1995, the most spent for any General Assistance program in the country.

Under New York’s Welfare Reform Act of 1997, former AFDC recipients became covered under the new Family Assistance (FA) program for a lifetime maximum of five years. The Safety Net Assistance (SNA) program replaced the Home Relief program. Under SNA, single adults and childless couples (formerly covered under the Home Relief program) receive cash assistance for two years, after which benefits are to be provided in the form of noncash payments for housing and utilities. Individuals losing Family Assistance eligibility after five years of coverage may continue to receive noncash SNA benefits indefinitely (if eligible). The welfare reform legislation also placed strong emphasis on work – requiring able-bodied welfare recipients to work for their benefits. The legislation also extended considerable flexibility to local governments to structure their programs to meet local needs and to provide the types of assistance FA and SNA participants needed to make the transition from dependency to unsubsidized work and self-sufficiency.

HRA embraced the goals of welfare reform and made a series of significant changes in the structure of the City’s welfare system. Under the leadership of Mayor Giuliani and HRA Commissioner Jason Turner, New York City’s welfare reform program came to be called “Ladders to Success.” The basic goals and structure of the Ladders to Success initiative are delineated in HRA’s publication, *Ladders to Success: Innovations in City Government*.¹⁵ As discussed in this publication, HRA’s approach “is based on the fundamental principle that every adult, who is capable of some level of work, should work...A corollary is that a work-based system of support is the best way to help low-income adults escape poverty.” HRA identifies a series of rungs on the “ladder” leading to a final goal: (1) first rung--assist participants to find alternatives to dependence, (2) second rung--labor force attachment, (3) third rung--simulated work week, and (4) final rung--work. As envisioned, the program is to be flexible and adaptable to

the needs of each participant. Each of the rungs of the ladder provides a variety of options, allowing the participant (with help from Job Centers and contracted service providers) to create a customized package of activities and services that facilitate the transition to work and self-reliance.¹⁶ HRA has set goals for moving work-ready cash assistance (and food stamp) recipients into employment (e.g., 100 percent engagement and annual job placement goals for Job Centers) and to prevent the return of former participants to the welfare rolls in the future. Several key aspects of HRA's efforts to reform the structure of the welfare system and to enhance performance within a work-first framework are highlighted below.

Work-First Orientation

Welfare reform in NYC is predicated on the belief that “everyone seeking aid can work to support him or herself, or can contribute to his or her support through participating in a work activity.”¹⁷ Program services through Job Centers, Skills Assessment and Placement (SAP) vendors, Employment Services and Placement (ESP) vendors, and an array of specialized programs are designed to prepare each participant within his or her abilities as quickly as possible to move into the working world. The application process for TANF requires an active job search through the full application period (30 days for Family Assistance (FA) and 45 days for Safety Net Assistance (SNA) applicants). Once an individual begins receiving benefits and is determined by HRA to be capable of working, he or she must meet the federal work requirement under TANF. Job Center and contracted vendor staff systematically track participant involvement in work activities – and those who fail to meet work requirements without justification are sanctioned.

To meet work requirements, most FA and SNA participants are assigned to job search and are given Work Experience Program (WEP) assignments. WEP assignments involve community service in a suitable work setting such as an office or a park. The actual number of WEP hours assigned to the participant is determined by the value of the family's cash and food stamp benefits. Regardless of the number of WEP hours, all participants are engaged in a simulated 35-hour

week. Typically, the simulated workweek consists of 20 hours at a WEP assignment and 15 hours of job search and/or skills enhancement activities.

Introduction of Job Centers

Job Centers have gradually replaced former Income Support and Begin Employment Gain Independence Now (BEGIN) Employment Centers as the locations where individuals go to apply for public assistance benefits and receive an array of services designed to move applicants and recipients into work. Job Centers – a total of 33 centers serve the City’s five boroughs – in addition to determining eligibility for benefits, are intended as the setting for delivery of comprehensive employment and training services. Where Income Support and BEGIN Centers in the past focused on helping people to collect benefits, Job Centers are designed to address the needs of individuals who are in temporary crisis (through lack of available income or resources) and to move these individuals as quickly as possible into work. To the extent possible, Job Centers (with the help of SAP vendors) attempt to divert applicants from receiving FA or SNA in the first place, by providing job search assistance, a range of temporary support services, and referral to other community-based services available within the City.

Consolidation of HRA Contracts and Reliance on SAP/ESP Vendors to Provide Employment Preparation and Employment Services

A critical feature of the welfare reform initiative in New York City has been the replacement of a multitude of contracts with large and small vendors, by fewer than twenty substantially larger contracts with Skills Assessment and Placement (SAP) and Employment Services and Placement (ESP) vendors. HRA has entered into performance-based contracts (explained below in greater detail) with four SAP providers and twelve ESP vendors for employment preparation and employment services. SAP and ESP vendors provide individualized assessment services to determine each participant’s background, capabilities, and interests. These vendors then work with applicants and participants to assist with a

combination of work, training, work experience, job search and placement activities, and other support services that are intended to lead quickly to employment.

Initially, HRA contracted with five SAP vendors Arbor, Curtis and Associates, Federation Employment and Guidance Services (FEGS), Goodwill Industries of Greater New York, and MAXIMUS – to work with FA and SNA applicants while their public assistance applications were pending (i.e., prior to receiving benefits).¹⁸ The services provided are aimed at quickly assessing individual needs (and interests), providing job readiness skills, and attempting to attach applicants to jobs as quickly as possible to avoid welfare receipt before it occurs. Each SAP provider is assigned to serve specific Job Centers (and each Job Center is served by just one SAP vendor). Job Centers and SAP providers work out the specifics of client flow into and through SAP services. SAP providers may or may not locate staff directly at Job Centers for purposes of intake and initial assessment. Applicants are typically assigned to SAP vendors for a period of about 4 to 6 weeks while their application for public assistance is pending. Though the structure of services varies somewhat by vendor, the following flow through one of the vendors visited as part of this study is fairly typical:

- Every day Job Centers refer new FA/SNA clients to the SAP vendor (about 100 per week for this vendor, though the flow varies week to week).
- During the first week, participants attend a group orientation (2-3 hours) and a 3-day assessment, held at the Job Center. The assessment is a group activity – which includes taking the Test of Adult Basic Education, completing an interest inventory test, and developing an employability plan.
- During the second week, participants attend a job readiness workshop at the SAP vendor's principal office. The workshop, which runs for 3½ hours a day for five days, provides instruction and interactive group activities focusing on goal setting, resume development, job search skills, and interviewing skills. During the other hours (to meet the 35-hour simulated workweek), participants are given varying assignments to facilitate job search and placement (e.g., obtaining identification, spending time researching and identifying skills needed

to enter occupations of interest, and preparing and submitting job applications).

- At the end of week two, participants are referred to the vendor's Job Search Unit. On the following Monday, participants receive an orientation and a Job Search Booklet. Each day, they attend a half-day workshop to assist with job search techniques; the other half-day is spent searching for a job with the help of a job developer. Each day the job developer works with the client to provide job leads and do whatever is necessary to eliminate barriers to successful job search. These job search activities go on for about 2 to 4 more weeks (until the individual obtains a job or begins to receive FA/SNA benefits).
- If an individual is placed in a job, the SAP vendor has a job retention specialist to track and provide retention help. This retention specialist talks with the participant during the first week of employment, encourages the individual to keep in contact, and periodically contacts each individual during the first 180 days of employment. During the first 3 months, participants are given a \$17 metro card; at the 90-day benchmark, the vendor provides a monthly metro card to the participant and makes the participant aware that an individual training account (ITA) voucher is available for upgrading skills. The vendor also operates a "Call Before You Quit" 24-hour hotline, as a last gap measure to assist with job retention.

Once applicants become active beneficiaries, most are reassigned to ESP vendors to receive services for up to two days per week while they participate in a work experience program three days per week. Initially, HRA contracted with thirteen ESP vendors to serve TANF/SNA recipients across the City's five boroughs: America Works of New York, Career and Educational Consultants, Consortium for Worker Education, Curtis and Associates, Federation Employment and Guidance Services, Goodwill Industries of Greater New York, MAXIMUS, New York Urban League, New York Association for New Americans, Non-Profit Assistance Corporation, RF/CUNY/LaGuardia Community College, and Wildcat Services Corporation.¹⁹ New TANF/SNA recipients (who have not been exempted from work requirements) are assigned randomly to ESP contractors (generally within their home borough).²⁰ In addition to new cases, ESP contractors receive assignments of existing TANF/SNA beneficiaries, and also provide services under their contract with HRA for non-

public assistance (non-PA) cases.²¹ ESP vendors are encouraged to subcontract with other community-based providers to assign PA (and non-PA) participants to receive the same blend of services (e.g., one of the ESP providers we visited subcontracts with ten other local organizations, which together serve an estimated 40 percent of the individuals referred by HRA to this ESP provider). ESP providers select subcontractors, negotiate subcontracts (including payment terms), monitor subcontractor performance, submit subcontractor invoices for payment by HRA, and reimburse subcontractors (once they are paid by HRA).

Participants are generally assigned to ESP providers for up to six months, at which time their status is re-assessed by HRA and a decision is made whether to keep the individual with the ESP provider or move the individual to another ESP provider or a special program operated by HRA. In reality, within about three months, most of those individuals assigned to an ESP provider are either placed into jobs or are returned to Job Centers for sanctioning and/or re-assignment to another vendor or special HRA program (e.g., for failure to report for services or to comply with work requirements). The blend of services varies by vendor – though in all cases, there is a clear emphasis on rapid work attachment and relatively few are engaged in job training activities (and if they are, it is typically short-term training). After an initial period of working intensively with the ESP vendor, which generally lasts about two weeks, if FA/SNA participants have not yet been placed into a job, they receive a work experience (WEP) assignment through HRA. The WEP assignment typically covers three days of the work requirement (although it is reduced in accord with FA/SNA and food stamp benefit levels so that the Fair Labor Standards Act is not violated), and the remaining two days the individual is to report to the ESP provider for job readiness, search, and placement activities. This blended approach – 3 days of WEP and 2 days of ESP activity – is designed so that recipients do not languish in WEP assignments indefinitely (which are considered to be temporary assignments) and are engaged in ongoing activities to obtain unsubsidized work. The basic client flow through ESP services (though varying

by vendor) is illustrated below based on one vendor we visited as part of this study:

- On a bi-weekly basis, HRA provides the vendor with a referral list of about 150 FA/SNA participants for ESP services (about 60 percent of which show up for orientation at the vendor). In addition, the vendor mounts its own recruitment efforts, which results in recruitment of non-public assistance individuals interested and in need of employment and training services. About one-fourth of FA/SNA referrals are passed on to one of the ESP vendor's seven subcontractors (based primarily on the expertise of the subcontractor).
- On the first day, the participant attends an orientation session about the program, completes various intake and assessment forms, and takes the Test of Adult Basic Education.
- On the second day, the individual returns for an in-depth interview with one of the vendor's case managers. During this session, the case manager assesses the individual's capabilities and interests, and comes up with a service plan and goals.
- The next eight days (days 3 through 10), the individual attends an all-day pre-employment job readiness workshop. This workshop focuses on effective job search techniques, completing job applications, interviewing skills, resume preparation, and generally preparing the individual for the world of work.
- WEP assignments come in about two weeks after assignment of the individual to the ESP provider. So, following the job readiness workshop, the participant is shifted to a simulated workweek, which generally involves attending a WEP assignment for three days each week and then going to the ESP vendor the other two days each week for job search/placement assistance, short-term training, and an array of other services to facilitate transition from welfare into work.
- Short-term training (generally involving less than six weeks of training) is offered to a small proportion of those assigned to the ESP vendor where training is needed and leads directly to a job. Example of the limited types of training offered are: training for home health care aide (about 3 weeks), security guard, food service worker, copy machine repair worker, medical billing/records worker, and emergency medical services (EMS) worker.²²
- When individuals are placed in jobs, case managers periodically check with the participant on how work is going and provide

retention services as needed to reduce chances of job loss. Employed participants are also eligible to receive transportation vouchers (bus/metro passes) and ITAs to upgrade skills (while working).

Institution of Performance-Based Contracting

HRA, which had formerly contracted for services primarily on a cost basis (using line-item contracting), has instituted performance-based contracting with SAP and ESP vendors. Negotiated acquisition contracts are awarded on a fixed-price basis with each contractor, and the contracts include significant built-in performance incentives. Payments to contractors are contingent upon meeting performance criteria, with payment closely tied to success in placement and retention of participants in jobs. Higher payment levels are also provided for placing individuals in higher paying jobs and for assisting individuals to leave and remain off of public assistance. Hence, payment is tied closely to effective results of moving welfare participants into jobs and promoting self-sufficiency. The payment points (referred to as “milestones” within contracts) are different for ESP and SAP contracts – though each has milestone payments for job placement and retention. In addition, actual payment rates for each milestone vary across vendors (within ESP and SAP contracts) to reflect slightly different blends of services and rate structures across contractors. Below, as an illustration, we provide details from the ESP contract of one vendor we visited (terms in other ESP contracts are similar, though payment amounts vary slightly):

- HRA agrees to pay up to an overall maximum to the ESP contractor over the three-year period of performance under the negotiated acquisition contract. This payment is based on the contractor reaching maximum payments for each of the milestones included in the contract. For example, one ESP vendor we visited had an overall contract maximum of \$30,630,000. Neither HRA nor vendors anticipated that they would achieve the maximum contract amount. In managing ESP and SAP contracts, HRA obligates on an incremental basis a portion of the total maximum to the contractor – and, as needed increases the obligation as reimbursement occurs.
- Compensation in the contract is stipulated as on “a unit price basis.” The payment amount assumes that the ESP contractor shall be responsible for all direct costs associated with the program. Under the

payment methodology ESP providers are paid for achievement of specific “milestones” in serving each participant. For each ESP contractor, a “base rate” is established for each participant if all milestones are achieved – this base rate for one vendor is \$4,641. HRA pays ESP vendors for each milestone achieved in serving each participant. In the case of the sample vendor, payment is made at the following points:

- Job Placement: 40 percent of the base rate (\$1,856) is paid per job placement.
- 13-week Job Retention: 30 percent of the base rate (\$1,392) is paid for each participant employed during the 13th week in which the 90th day following job placement occurs.
- 13-week High Wage Retention Bonus: In addition, 10 percent of the base rate (\$464) is paid for each participant employed who receives “high wages” at the 13th week of employment (“high wages” are defined in the contract for the particular vendor as an average weekly wage of \$344.25).
- 26-week Job Retention: Percentage of payment (and amount paid) is variable according to the following – The vendor is paid the following amounts for each participant employed in an unsubsidized position during or after the 26th week after job placement: (a) 30 percent of the base rate (\$1,392) for each participant, formerly receiving public assistance benefits who is no longer receiving such benefits; or (similarly) 30 percent of the base rate (\$1,392) for each participant who, while not a public assistance recipient, is placed in a “high wage” job; (b) 10 percent of the base rate (\$464) for each participant who receives public assistance benefits who cannot be removed from public assistance following job placement; or (similarly) 10 percent of the base rate (\$464) for each participant who is not a public assistance recipient, but is placed in a job that does not pay “high wages.”
- Vendors may place a participant into multiple jobs, but can be compensated only once for the placement milestone and each of the retention milestones for any particular participant within a 12-month period.

The concept of paying when milestones are achieved is the same for SAP contractors as ESP contractors, but specific milestones and payment amounts are quite different. In addition, the first two milestone payments under SAP contracts

are tied to completing client processing – completion of the client assessment process and full engagement of the participant in a simulated workweek -- rather than participant outcomes. Under SAP contracts, there are five potential payment points (amounts shown are for one of the vendors we visited and vary slightly by vendor):

- completion of client assessment, \$250;
- full engagement (based on five days of attendance in SAP activities), \$500;
- job placement, \$1,250 for full-time employment (31 or more hours) or \$750 for part-time employment;
- job retention at 90 days, \$250; and
- public assistance case closure because of earnings, \$1,500.

Finally, ESP and SAP vendors are encouraged to bring on smaller subcontractors to provide services. In each case, the ESP/SAP vendors negotiate milestones and unit prices with each vendor and monitor vendor performance. Subcontracting agencies submit invoices for payment by HRA through the ESP/SAP vendor with which they are subcontracting – and are paid directly by the ESP/SAP vendor.

Implementation of Enhanced Electronic Tracking and Payment Systems (JOBSTAT, VENDORSTAT, NYC WAY, and PACS)

As part of its overall efforts to enhance program performance and tracking of welfare recipients through the wide array of services provided under welfare reform, HRA initiated major efforts to enhance information flow and technology through the introduction of JOBSTAT, VENDORSTAT, NYC WAY, and PACs. These systems provide a critical structural underpinning for monitoring vendor performance, without which HRA would have had a very difficult (if not impossible) time in implementing performance-based contracting. In particular, these systems provide information necessary for assigning individuals to vendors,

for vendors to track individuals and submit information needed for payment, and for HRA to verify payment claims and process invoices in a timely manner.

VENDORSTAT (Vendor Statistics) is of particular importance for monitoring performance of ESP and SAP vendors. This system enables HRA (as well as each ESP and SAP vendor) to monitor vendor performance across a set of agreed-upon performance indicators. VENDORSTAT reports are generated every month for each vendor site in the city (i.e., if vendors have more than one site location, they receive a report on each location). The performance indicators in the report are calculated for the site, the vendor as a whole, and the city (all vendors together). For each performance indicator, there is a rank that indicates how well the site (or the vendor) is performing in comparison to other sites (or vendors) for the most recent month and for the year to date. VENDORSTAT reports are reviewed at periodic meetings (several meetings each year with each vendor) involving HRA administrators and representatives of each vendor.

Though similar in purpose and general appearance, VENDORSTAT reports vary in terms of performance indicators for SAP and ESP vendors. For example, the ESP VENDORSTAT reports contain a set of outcome indicators, as well as length of stay indicators (which measure the average time taken by a vendor to achieve an outcome), administrative indicators (which measure administrative timeliness), and statistical indicators (which are raw numbers and averaged for different outcome indicators). The ESP VENDORSTAT report displays the following seven outcome indicators:

- **Placed and Closed Cases:** This outcome is defined as the ratio of all cases that were placed and had their public assistance (PA) case closed, to the sum of all outcomes.
- **Placed and Still Open:** This outcome is defined as the ratio of all cases that were placed but are still on PA, to the sum of all outcomes.
- **Fail to Comply (FTC):** This outcome is defined as the ratio of all cases that failed to comply to all outcomes.
- **De-Assigned or Closed:** This outcome is defined as the ratio of all cases that were de-assigned or closed for a reason other than employment to the sum of all outcomes.

- **Still Open No Job:** This outcome is defined as the ratio of all cases that are still with the vendor and do not have a placement yet to the sum of all outcomes.
- **Returns:** This outcome is defined as the ratio of all cases that were returned to the center to the sum of all outcomes.
- **Non-Fail to Comply (FTC)/De-Assign (DA)/Returned Placed:** This outcome is the ratio of all cases that were placed to all outcomes minus the FTC, De-assigned and those who got returned.

The PACS (Payment and Claims System) system is also of fundamental importance to the ESP and SAP providers. It is this system that enables vendors to receive milestone payments for participants served. NYC WAY (“Work, Accountability, and You”) provides HRA and vendors with the capability to track the status of each public assistance recipient and to assign individuals to ESP and SAP vendors for services. Finally, the JOBSTAT system (Job Statistics)—much like the VENDORSTAT system – provides HRA with performance data to monitor Job Center performance (on a Center-by-Center basis) across a set of standardized measures.

HRA Assumes Responsibility for the Workforce Investment Act (WIA)

HRA was given responsibility for administering WIA funds and program activities for adults within New York City. This has provided HRA with flexibility in funding a range of employment, training, and support service for low-income and welfare recipients. In its contracting with ESP and SAP vendors, HRA has been able to use the same performance-based contracts (including the same milestones and payment amounts) for serving public assistance and non-public assistance individuals. HRA has also been able to make available (as needed and appropriate) an Individual Training Account (ITA) or training voucher for public assistance participants in need of training to upgrade skills and advance to higher-paying (and more secure) jobs. Recently, however, New York City transferred responsibility for administering WIA back to the Department of

Employment (DOE), which had administered WIA prior to its transfer to HRA in the Giuliani Administration.²³

REVIEW OF LITERATURE ON PERFORMANCE-BASED CONTRACTING IN HRA PROGRAMS

Although not extensive, there is some literature assessing the impact of the use of performance-based contracting in HRA programs. For the reasons noted above, all of the articles are based on qualitative assessments rather than statistical analyses. The study by Sanger (2001) is especially noteworthy as it includes three additional cities in its analysis.

Before reviewing articles that address performance-based contracting in HRA, it should be noted that some of the criticisms directed at HRA's performance-based contracting system might be broader in nature. For example, a study released in December 2000 by City Project of 152 contracts with 77 nonprofit organizations in New York City identified several concerns that have been directed at HRA in other studies.²⁴ The study notes that the City is generally slow at providing money to CBOs, with an average waiting time of about four months for the first payment after contract award. The City was even slower, however, in paying HRA contractors; the latter had an average waiting time of 4.5 months.

City Limits Article

The article by Kathleen McGowan provides an appraisal of the changes to New York City's welfare programs in the late 1990s.²⁵ Based on interviews with current and former City officials and vendors, the article discusses the changes in the City's welfare program and their likely impacts.

In addition to noting the shift in emphasis from enhancing human capital to job placement and retention, the article presents several of the most commonly voiced criticisms of performance-based contracting. First, the article notes that "performance-based contracting can be tough on nonprofits." Payments based on accomplishments mean that there is a delay between provision of services and receipts of cash for meeting contract requirements. (A critic's rebuttal is that the

goal of this effort is not to ease the life of nonprofits, nor to pay for work that was promised but not yet accomplished.) McGowan concludes that the cash flow structure favors for-profit organizations, although she does not indicate why a well capitalized nonprofit might not also prosper and why a small for-profit organization would not suffer. McGowan's second major charge is that performance-based contracting leads to the provision of services to those who are most job ready while ignoring others: "...the dirty little secret of welfare-to-work is creaming—finding a way to get clients who are more talented, better educated, or more motivated than the general pool, and thereby boosting a program's success rates. Everybody accuses everybody else of doing it. But nobody will own up to it and it's very hard to prove." McGowan does admit, however, that after several years of welfare reform, much of the cream is long gone from the welfare rolls. If there is a desire to avoid creaming, then the incentive system can be structured so that rewards are greater or standards are lower for serving individuals with more barriers to employment.

McGowan also claims that the emphasis on job retention can be contrary to a client's interests. Specifically, she quotes a worker at a for-profit HRA vendor as saying that she would sometimes try to keep a client employed by a "sleazy employer" rather than risk losing their pay. Based on the contract language, this criticism appears misguided. The HRA contracts do require employment subsequent to the initial placement to receive a retention payment under the contract, but there is no requirement that the subsequent employment be with the original employer.

City for an Urban Future Article

This article provides a more recent overview of how the welfare reforms have affected vendors and clients.²⁶ Although published by the same organization as *City Limits*, this publication provides more depth and balance than the article reviewed above. In addition to providing comments on the likely effects of the welfare reforms, the article provides a good description of how the workforce development system is organized.

The article notes that many providers suffered from startup problems during the first year. “The first year of prime contracts and performance-based compensation has been a virtual debacle, characterized by inept assessments, tardy reimbursements, overly strict regulations, unrealistic goals, and Kafkaesque record-keeping requirements.” The report acknowledges that some vendors, such as America Works, praised the shift in emphasis. In addition, the trend has clearly been toward improved functioning of the system: “The prime and subcontracting agencies who spoke with CUF generally found consensus around two points: The system has functioned more smoothly over time, and the lines of communication with HRA have generally remained open, with the agency largely responsive to providers’ concerns and complaints.”

Another concern raised by the report is that through December 2000, the vendors had filled only 26 percent of their contractual maximum, but that again the trend was toward improvement. Low placement rates relative to the contract specifications could reflect a number of potential problems. It could indicate that either the population was too difficult to serve or that the vendors were ineffective. Another potential problem is that if the placement and retention rates are low and the contract ceilings are not periodically adjusted, the agency might not spend its entire allocation. We explored these issues in our interviews, and our findings are presented in the next section.

As was the case for the *City Limits* study, the Center for an Urban Future found that vendors who built on existing infrastructure—usually large and experienced organizations—fared better than others. A major concern raised by the study is whether small community-based organizations (CBOs), who typically function as subcontractors under the system, will be able to survive under the new performance requirements and cash flow restrictions: It conjectures, “If CBOs decide that they cannot earn enough money to stay in business as subcontractors under this system, their departure could open a hole in the bottom of the system, weakening its ability to serve the hardest cases.”

The article also notes that the system presents the vendors with a number of uncertainties, all of which threaten the cash flow to the vendors:

In a nutshell, the problem those training providers face is pretty simple. They have little idea of how many referrals they will receive from the stop before them in the system... Then, they have no real way of knowing just how ready for work the referred clients will be when they arrive. Finally, when they do manage to train and place clients in jobs, they must wait for payment to flow first from HRA, and then, in the case of the subcontractors, through the prime.²⁷

The Center for an Urban Future report concludes by offering five recommendations to improve operation of the system:

- The City should revisit the Welfare-to-Work contracts, convening a panel of providers, employers, and clients to determine what is and isn't working for all parties. The two biggest concerns of CUF are that SAP providers are not performing enough assessment for the people they do not place, and that the City should determine ways to allow the ESP providers to spend more time and resources on the hardest-to-serve clients.
- Government officials and individual training providers should do everything they can to ensure that clients are getting skills, training, and placement that leads not just to short-term work but to career track positions paying a living wage.²⁸
- To assist providers concerned about cash flow while adapting to performance-based contracts and voucher-driven referrals, HRA and the Workforce Investment Board (WIB) should consider creating and funding a nonprofit organization to assist vendors with cash flow problems.²⁹
- When drawing up contracts, HRA and the WIB should offer incentives for CBOs to work together by sharing resources and offering training programs that are complementary.
- CBOs should look for ways to become leaner and more efficient.

These recommendations deal with the common themes we encountered throughout our study: dealing with cash flow, assuring that those with the greatest barriers are provided enough services, and that steps be taken to assist the providers in dealing with cash flow problems. In addition, the first recommendation expresses concern about whether there is adequate assessment in the first step in the process.

When the Private Sector Competes

Bryna Sanger's article differs from the other studies reviewed because New York City is one of four jurisdictions analyzed rather than the sole focus of the study. Sanger looks at what happens in four local jurisdictions (Houston, Milwaukee, New York City, and San Diego County) when the private sector is used to deliver services to welfare recipients. Pressure due to the national welfare reform legislation (PRWORA) to increase services and job placements to recipients led some cities to "contract with large, experienced, well-financed organizations" to avoid long-term commitments to public employees and to "harness market forces to provide services in a manner that some public officials believe is cheaper and more efficient."³⁰

Three of four sites she studied (Milwaukee, New York City, and San Diego County) used performance-based contracting. Agency officials in these sites claimed that performance-based contracting provides incentives for contractors to place their clients in stable, well-paying jobs because payments to the contractors are based on placements and retention. Critics at the sites told a different story. Citing the "cream-skimming" argument, they told Sanger that performance-based contracting induces "fewer and lower quality services and encourages contractors to select easier-to-place clients over those who are more difficult (and more expensive) to serve." She also notes that because payments are determined more by placements than by retention, the contractors focus more on getting clients into jobs than on long-term prospects for retention and advancement. This presumed shortcoming could be overcome by changing the payment schedule. Sanger's concerns go beyond performance-based contracting. She believes that the approach adopted by the cities she studied of transferring responsibility for managing service delivery from government agencies to a small number of large vendors that oversee the delivery of services provided by smaller vendors may lead to dereliction of responsibility by the cities without a necessary improvement in services to the clients. Sanger cites New York City's experiences as illustrative of the risks of such a strategy:

The risks for accountability loom large, however. New York, in effect, relinquished much of its authority and responsibility for oversight to third parties when it selected contractors whose role now included insuring the

performance of their subcontractors. There is little evidence that public officials in New York and elsewhere have improved their oversight or increased their personnel commitments to ensure the long-term well-being of clients.

But Sanger's fears may be premature. Although New York City clearly has shed much of the direct responsibility to the vendors, HRA has adopted a number of management strategies to identify weak performers. In particular, the VENDORSTAT program enables HRA officials to monitor the performance of its direct contractors. Sanger's concern may be valid, however, at the subcontractor level where considerable service delivery takes place. By looking only at aggregate contract performance, HRA leaves it up to the prime contractors to identify and remove or improve weak performing subcontractors. It is, of course, in the financial interest of prime contractors to monitor the performance of their subcontractors and remove poor performers or reduce their role.³¹

Sanger notes that it is too early to draw conclusions about effectiveness about different types of providers, but she finds that the contract arrangement adopted by New York City and other cities in her sample threatens the ability of nonprofit organizations to place the needs of the client first: "A major dilemma for large, stable nonprofits is whether they will compromise their missions of putting the client first and meeting individual needs. Performance-based contracts and current payment levels favor rapid placement of clients and few specialized services." She also expresses concern that HRA contracts provide no incentive for long-term investment and that the contracts pay only a small portion of the cost of effectively serving a client with major barriers. Since Sanger's paper was prepared, HRA has partially met this concern by offering the vendors the opportunity to issue individual training accounts (ITAs), which do not come from their contractual payments.³² Also, an HRA official pointed out that TANF recipients with the most severe barriers are referred to vendors serving "special populations," such as those with literacy problems or who are disabled, and these vendors have different incentive structures that better enable them to provide more services.

Sanger notes that the cities she studied show a general pattern of moving responsibility for service provision and monitoring performance away from the government and toward large, well-capitalized for-profit and nonprofit organizations, with performance-based contracting generally used as a tool for promoting the goals of placement and cost efficiency. Her conclusions on the success of such efforts are mixed:

- Market incentives generated by performance-based contracting are inducing innovation and desirable management changes in many nonprofit providers but they are producing distortions of contractual intent by motivating ...contractors to make service delivery choices that may compromise the well-being of clients in order to minimize costs. Minimizing costs may inadvertently be threatening service quality and ultimately client outcomes.
- The future of mission-driven nonprofits is uncertain and worrisome.³³
- Market forces alone are likely to drive the large national for-profits to arenas where their comparative advantages make them dominant. This could lead to a void.
- The competition for talent in stronger nonprofits and private organizations may drain people from the public sector.

One of our reviewers questioned the merits of Sanger's final conclusion; he noted that the purpose of the programs is to accomplish their mission efficiently, not to retain workers in the public sector, and that if the workers move to jobs that are more satisfying outside the public sector, that is not a bad result.

FINDINGS FROM INTERVIEWS

The scope of work under this project focuses on documenting the goals, design/implementation, and effects of performance-based contracting as part of HRA's overall effort to reform the welfare system in New York City. In this section, we report on the results of interviews we conducted with HRA officials and ESP/SAP vendors. The interviews were conducted with a total of 10 administrators at HRA and administrators/staff at four SAP providers and six ESP providers (see Appendix A for a list of individuals interviewed).³⁴ At the start of the project, HRA identified individuals knowledgeable about the design or

implementation of performance-based contracting that we should interview as part of the study; as the project proceeded, we added other individuals and vendors to our list of interviewees. Below, we have divided our discussion into findings from interviews with (1) ESP and SAP vendors and (2) HRA administrators.

Findings from Interviews with ESP/SAP Vendors

According to our interviews with ESP and SAP vendors, the implementation of performance-based contracting – coupled with the range of other changes introduced under welfare reform – has had a profound effect on ESP/SAP contractors’ program goals, structure and types of services delivered, project staffing, and overall operations. The general patterns reported by vendors are as follows:

- SAP contractors are generally more satisfied with performance-based contracting than ESP contractors.
- Among ESP vendors, for-profit contractors appear generally more satisfied with performance-based contracting than their non-profit counterparts.
- Some concerns of vendors are not solely tied to performance-based contracting, but are linked to wider policies and events – such as timely processing of reimbursement claims.

Several of the contractors interviewed have both SAP and ESP contracts. The vendors invariably prefer the SAP contract arrangements for several reasons. First, the population is generally easier to serve -- all applicants are first assigned to SAP vendors; those who are unsuccessful in their efforts to obtain employment during their involvement in SAP services are then assigned to ESP vendors. Hence, SAP providers filter out the most employable individuals, leaving ESP providers with those individuals who face steeper barriers to employment.

Second, SAP providers we interviewed consider SAP milestones and payment levels generally fair. In comparison to ESP contracts (which are entirely performance-based), the first two (of five) milestones under SAP contracts are based on delivery of services. Regardless of whether an individual served by a

SAP provider is eventually successful in securing a job, SAP providers receive some payment if enrolled individuals complete the assessment process and become fully-engaged (i.e., meet work requirements). SAP vendors can achieve these two milestones within the first two weeks of providing services to individuals assigned by Job Centers. ESP contractors receive payment for a particular individual only if that individual is placed in a job, regardless of the staff time and resources expended on serving the individual.

Third, cash flow can be better for SAP providers because the assignment of participants is for a much shorter period (typically four to six weeks), and vendors receive a portion of their payment as they complete processes such as assessment. While it is possible for ESP vendors to achieve the first milestone (job placement) within a short period (within several days to several weeks) – if the placement process is drawn out, the reimbursement process is drawn out over many weeks or months. If they are ultimately unsuccessful in placement of the individual in a job, not only will the ESP provider put several months of effort into working with the individual on placement, but also the potential for realizing other milestone payments (for job retention, “high-wage” employment, and termination of welfare receipt) disappear. Comments by several SAP contractors reveal their general satisfaction with performance-based contracting:

- One SAP contractor notes that SAP works pretty well: “...the mix of payments is pretty good -- would keep it.” This vendor also observes that ESP vendors have a “trickier population to serve” and have to wait a long time before payment is received.
- Another SAP vendor indicates that performance-based contracting helps to “focus the staff on placement and retention...under line item contracting you are not as placement oriented.” This SAP vendor has done well under the contract – expecting to reach close to its contract maximum. If there is any area in which the payment system might be changed, this vendor suggests that the job retention payment rate is relatively low compared to other milestones – increasing the payment level would create greater incentives for SAP vendors to concentrate on job retention.

With respect to ESP vendors, opinion varied substantially about the merits of performance-based contracting. Even those ESP providers who expressed

enthusiasm about performance-based contracting acknowledged some of the difficulties the system could impose on contractors – particularly in relation to long lag times between providing services and receiving payments and uncertainties (risks) that vendors face in terms of providing services for participants but receiving no compensation because the client fails to achieve specific milestones. Under a payment system that solely rewards contractors for job placement, job retention, “high-wage” employment, and termination of welfare benefits, prospects for contractors can be particularly perilous in times of high unemployment and deteriorating economic conditions. In general, for-profit vendors we interviewed seemed to be more enthusiastic about performance-based contracting than non-profits.

The main arguments made by one ESP contractor (a for-profit firm) for performance-based contracting – which were echoed (though perhaps not quite as enthusiastically) by other ESP vendors – are as follows:

- “We like the freedom and flexibility we have to run the program.” This vendor (and others we interviewed, including those less enthusiastic about performance-based contracting) noted that a major advantage of such a system is that vendors can hire whom they want and provide the services they think are needed.
- “With performance-based contracting you are paying for results, not process.” This particular vendor (and other for-profit vendors) likes the private-sector spirit of performance-based contracting and hires staff that is similarly inclined. Two vendors we interviewed indicated that they pay staff commissions related to successful outcomes for participants. Paying for performance, according to vendors, concentrates program staff and participants directly on primary goals of the program (i.e., getting and keeping a job and leaving welfare).

The ESP vendors that support performance-based contracting also observe that several of the criticisms against performance-based contracting are unwarranted. For example, one vendor (a for-profit that strongly supports performance-based contracting) indicated that concerns about contractors not spending funds is not the fault of performance-based contracting, but result from contracts not being set up correctly in the first place (e.g., milestones and payment

amounts are not calibrated correctly or contractors fail to anticipate costs correctly and hence do not bid payment rates at proper levels).

Second, some critics have leveled the charge that performance-based contracting will lead contractors to “cream” – by selecting and focusing services on those who are most likely to achieve milestones. One contractor noted that random assignment of participants by HRA went a long way to alleviate this problem -- “We don’t know the cream from the sour cream.” If such problems persist, this vendor argues contracts should be adjusted to deal with the problem— but performance-based contracting is not to be blamed.

A third criticism leveled against performance-based contracting centers on cash flow – namely, that contractors are required to make large expenditures prior to being reimbursed (and under risky conditions they may not be able to re-coup costs). While supporters of performance-based contracting acknowledge that this may have been an initial problem, they note that HRA has introduced a system for providing cash advances and changes (especially the PACS payment system) that deliver reimbursement in a more timely and accurate manner to vendors.

Even the most ardent supporters of the system (mostly for-profits) have some criticisms of performance-based contracting – and think it could be improved in a number of areas:

- *HRA should, to the extent possible, reduce paperwork requirements:* According to one vendor, “HRA has created a paperwork nightmare in setting up requirements for documentation because people did not trust performance-based contracting.” Paperwork includes documentation of attendance, case notes, notification of caseworkers, and documentation of placements.
- *Documentation of placements is not always easy:* HRA holds vendors to a high standard in documenting job placements and retention – either producing a pay stub or a verification letter on employer letterhead. However, once placed, some clients may lose the incentive to return to contractors and may be reluctant to bring their pay stub to the vendors. However, HRA tries to provide incentives to those who work by providing transportation vouchers for six months if they come in and provide documentation. In addition, in the absence of pay stubs, businesses that hire program participants often do not want to waste time writing a letter verifying employment (and small businesses may not even have stationery).

- *Contracts do not take into consideration local economic conditions:* If the economy deteriorates (which has been the situation over the past year), it is harder to place people in jobs, but the terms of the contract remain the same. Contractors have to expend more time and resources to place individuals in jobs – and for some individuals, job placement may not be possible regardless of the efforts made to secure a job.
- *Vendors are at the mercy of HRA referrals.* Without a steady and sufficient flow of referrals, vendors cannot achieve milestones. In our interviews, ESP vendors indicated that they receive bi-weekly lists of referrals from HRA and, thus far, the flow has been generally adequate and steady. However, HRA clients often do not show up and/or are not motivated to find a job. There is also some worry that over time as welfare rolls taper off, so will the flow of referrals to vendors for ESP/SAP services. Several vendors we interviewed indicated that the ability to serve non-PA walk-ins has been a big help in terms of meeting participant goals and realizing placement and retention milestones.

Compared to their for-profit counterparts, nonprofit ESP vendors expressed somewhat greater concern over their performance-based contracts. One nonprofit ESP vendor indicated that it had initially selected subcontractors based on their expertise in training, but in fact, under the performance-based contract that focused on job placement and retention, their subcontractors had little or no opportunity to offer participants training. Another nonprofit indicated that it was doing well at placements but poorly at retention. This vendor felt it could do better on the retention milestones if ESP contractors could provide more in the way of training and basic skills to enhance employability. According to this vendor, the payment system provides no incentives to train to the detriment of outcomes for some participants: “One size does not fit all; the ability to offer training is important. There needs to be leeway to provide training if needed...some need more work experience and others need training. The case manager is in the position to make this determination. Under Work First, the pendulum has swung too far.” Although ESP providers have always been able to refer participants to training available under WIA (formerly JTPA) and HRA has made it much easier for vendors to make ITAs available to participants (especially once they are working), the milestone payments under performance-based

contracting provide virtually no incentive for training. In fact, the provision of anything but short-term training may result in delays in realizing milestone payments.

Nonprofits report the same problems as for-profits getting verification of placements. For example, one nonprofit said: “It is very hard to get retention information from employers...In addition, participants often do not want to be bothered once they are employed.” Several nonprofits also indicate that reimbursement rates are too low and milestones are too back-loaded (toward retention): “We are losing money on this contract...we are way below capacity on both 90- and 180-day retentions. We lay out the dollars before we get paid...reimbursement comes in months and months after providing the service. It is very tough to break even on ESP...SAP is okay. Under our ESP contract, we would like a higher initial placement payment rate.”

Discussions with one subcontractor raised many of the same issues as were raised in Bryna Sanger’s study. Specifically, the staff interviewed felt that by having subcontracting arrangements, the actual providers of services did not receive sufficient reimbursement because the prime contractors retained a substantial portion of the funds for themselves. Staff at the subcontractor felt strongly that that the system was unfair because even though they delivered the services to clients, they were isolated from HRA staff and were unable to negotiate with HRA on terms and conditions. This subcontractor was so dissatisfied with their relations with one of the prime contractors that they ultimately broke off relations with that contractor.³⁵ As we noted above, reducing the number of direct contractors produces some advantages for the City in dealing with a more manageable number of contractors, but the disadvantages include isolation from some of the ultimate service providers and the potential for abuse of the subcontractors. This is the perennial principal-agent problem.

FINDINGS FROM INTERVIEWS WITH HRA AND STATE OFFICIALS

Our interviews under this project have been with officials who implement policy rather than set it. The HRA officials all point out that during the Giuliani-Turner years there was a strong emphasis on Work First as a philosophy. Although this is the underlying philosophy of PRWORA, New York City has pushed work activities very strongly.³⁶ HRA officials recognize many of the same benefits and problems with performance-based contracting as the vendor community; where possible, they have made a concerted effort to eliminate the problems.

HRA officials argue that the advantages (benefits) of performance-based contracting far outweigh the disadvantages (costs). In our interviews, HRA officials cite a host of benefits that emanate from performance-based contracting. First, the government and vendors spend substantially less time documenting the process of serving clients and focus on outcomes such as job placement and retention. This is because vendors do not get paid unless individuals are placed in jobs. Formerly, under cost-based (line-item) contracts, HRA spent lots of time monitoring how vendors delivered services – now the focus is clearly on results. Line-item contracting required HRA to authorize many different types of changes, even small ones relating to staffing and acquisition of equipment and supplies. HRA officials point out that there is a huge administrative burden for the City to “micro-manage” line-item contracts. Under performance-based contracts, vendors can easily make changes in staffing, for example, hiring additional staff to meet increased client flow, without HRA approval. Hence, performance-based contracting has placed HRA in less of an adversarial role with vendors – vendors are free to design their service delivery systems in a way they feel will be most effective for the participant and profitable to the agency.

Second, performance-based contracting has spurred vendors to move participants quickly into jobs – a major goal of welfare reform. The placement process is speeded up because vendors do not receive payment until an individual is placed in a job (with the exception of the small amount of payment made to SAP vendors for assessment and engagement milestones). Formerly (under the JOBS program), vendors in New York City were much more oriented toward providing many months of training (six or more months) to prepare participants

for jobs – performance-based milestones place the focus squarely on getting clients into jobs quickly.

Third, milestone payments encourage vendors to keep working with participants – they are reluctant to return participants to HRA because they forfeit their ability to obtain milestone payments in the future on these (returned/de-assigned) individuals. Typically, ESP providers have about six months to work with participants – if at the end of six months they are not placed in jobs (and have not been sanctioned), HRA re-assigns participants to different program activities (e.g., BEGIN (Begin Employment, Gain Independence Now), PRIDE (Personal Roads for Individual Development and Employment), or other special initiatives).

Finally, the introduction of performance-based contracting has made it easier and less costly for both HRA and vendors to manage contracts and determine which programs and vendors are operating effectively. In the past, vendor performance was evaluated not just on placements, but also on many other factors. Under performance-based contracting, job placements and retentions are what matter most—this makes it easier for HRA and vendors to manage contracts to achieve agreed-upon results.

Despite the overall advantages—which HRA officials argue well outweigh the disadvantages—HRA officials acknowledge that there are some problems inherent in performance-based contracting and risks of potential abuses if contracts are not carefully monitored. HRA officials identified several problems or potential problems with performance-based contracting. First, there is the potential for overlap between programs administered by the City (e.g., the local TANF program) and the state (e.g., the Welfare-to-Work program) in terms of payment for the same placement of individuals. In fact, there is currently an investigation to determine if there have been multiple payments made to vendors for the same job placements or retentions. In a similar vein, there are worries at HRA about the potential for two vendors billing for the same individual being placed in a job. If such duplication in payments occurs, it creates a poor impression of the program. The need for FA/SNA participants to be engaged 35

hours in the simulated workweek creates less of a likelihood of duplicate payment, because it lessens the likelihood that an individual will have the time available to participate in more than one employment services program. The careful tracking of cases through NYC WAY is another way HRA attempts to minimize this problem.

Second, performance-based contracting can make it difficult to subcontract with vendors to serve particularly difficult to place subpopulations (i.e., where the potential for job placement is limited). For example, HRA would like to have one of its ESP contractors cover Riker's Island (where a prison facility is located), but under the existing milestone payments (where job placement and retention are the key payment points), the contractor would likely realize few milestone payments. In a case such as Riker's Island, it may make sense to provide an existing contractor with a line item to cover costs of serving this special location and population, but a separate contract is necessary because of HRA contracting constraints on mixing performance-based and line-item payment in the same vendor contract.

Third, HRA officials acknowledge that cash flow was initially a problem for some vendors – though HRA offered cash advances to ease cash flow problems under contracts with the initial round of ESP and SAP providers. As noted earlier in the literature review, some analysts argue that performance-based contracting requires a substantial organization. This is not necessarily a problem, particularly since small vendors can work as subcontractors. Because we did not interview vendors who formerly received HRA funding to serve welfare recipients, but no longer do, we do not know if there are small vendors who feel shut out of the process.

Fourth, performance-based contracting does not create an incentive for vendors to train and upgrade skills of participants. Though HRA officials acknowledge that under the current system few participants undertake training, they do not necessarily view this as a disadvantage and note that it is consistent with the Work First philosophy that is the underpinning for welfare reform: “We do not view this as a downside...we've moved away from development of human

capital to moving people into the labor market. Also, we have lots of training opportunities available through other programs (e.g., WIA).” As welfare reform has developed, HRA has recognized that in some instances training is desirable, and it has made ITAs available to the ESP vendors.

Fifth, one HRA official notes it is possible that some participants might benefit from several vendors working together toward job placement. Collaboration between vendors is difficult (if not impossible) under the structure of the payment system because of fears that two vendors will claim milestone payments for the same individual.

Sixth, obtaining needed documentation to verify placements and retention can be difficult and time-consuming for vendors. While acknowledging that contractors can run into difficulties with participants and/or employers in securing necessary documentation, HRA officials feel that the integrity of the system necessitates that HRA insist on a high standard for documenting each milestone.

Finally, it appears to some HRA officials that ESP vendors have concentrated more on initial job placement during the first year of their contracts, perhaps at the expense of job retention. This may be one reason that retention rates have lagged (though there are other factors, such as the deteriorating local economy). Only recently have contractors seemed to focus on retention. To get contractors to emphasize retention, HRA actively promoted the availability of six months of transportation/carfare payments and ITAs for upgrading skills of individuals.

We also interviewed a New York State Department of Labor official to obtain his views on HRA’s performance-based contracting system.³⁷ He indicated that the state is supportive of performance-based contracting. The state did have concerns, however, with some aspects of the specific approach used by HRA. In particular, the state was concerned that HRA’s system puts too much emphasis on placement and retention; the state would prefer to see a system with more milestone payments for services provided instead of putting the entire weight on placements and retentions.

CONCLUSIONS

Our interviews have led to a consistent set of responses about the effects of performance-based contracting. There were, however, a variety of opinions about whether the changes bring net benefits to the human resource system and participants. Major study findings are:

- *Performance-based contracting has greatly increased emphasis on getting clients placed in jobs quickly.* Everyone we talked to, both vendors and HRA officials, agreed that by paying vendors mostly (in the case of SAPs) or entirely (for ESPs) on the basis of placements and retention, vendors have responded by shifting their attention to getting their clients placed, and getting them placed as quickly as possible.
- *Performance-based contracting is one of the reasons that the welfare caseload declined dramatically in New York City, but it is impossible to determine what share of the decline should be attributed to performance-based contracting.* So many other aspects of New York City's welfare system changed at about the same time that performance-based contracting was introduced, that it is impossible to isolate the impact of performance-based contracting. The other changes instituted include the reorganization of HRA services through job centers, the great reduction in the number of vendors from several hundred to under twenty, the implementation of JOBSTAT and VENDORSTAT to track performance of HRA Job Centers and vendors, and improvements in the City's management information systems to track the status of clients and to speed payments. It should be kept in mind that the welfare caseload decline in New York City was commensurate with the declines in most states; the strong economy undoubtedly played a major role in the decline in New York City as it did in other parts of the country that did not use performance-based contracting. One HRA executive opined that performance-based contracting was the third-ranking cause of the caseload decline, following the reorganization of HRA staff into Job Centers and the decision to greatly reduce the number of vendors and carefully manage their performance.
- *The SAP vendors, whose contracts included some payments for services as well as performance-based provisions, were much more satisfied with the use of performance-based contracting than the ESP vendors.* For the most part, the SAP vendors believed that the payment levels were fair, that the cash flow pattern was reasonable, and that the mix of performance-based payments and service-based payments was reasonable. The SAP vendors also had easier to place clients than the ESP vendors, and the uncertainty resulting from the ESP caseload may have contributed to ESP concerns.

- *Among the ESP vendors, the for-profit organizations were enthusiastic about performance-based contracting, but the nonprofit vendors had more reservations.* For-profit vendors liked the concept of pay for performance, and they frequently paid their staff on a commission basis. The nonprofit vendors, however, were oriented toward assisting the client in the manner they believe is most appropriate rather than emphasizing immediate job placement. Often the nonprofit vendors were frustrated because they had to get jobs immediately for clients when they believed that providing education, job training, and social services were more appropriate initial activities. In short, they disagreed with the blanket application of federal, state, and city policy in affect at this time.
- *There was agreement among vendors and HRA officials that there were start-up problems in moving toward performance-based contracting and other management reforms, but everyone agreed that HRA understood the problems and that matters improved somewhat over time.* Problems frequently mentioned by vendors include slowness in receiving payment, and excessive paperwork and documentation for placements. HRA has improved the cash flow through advance payments, and has moved to a sampling system for documenting placements. Some concerns have not yet materialized, and may present problems later. For example, if economic conditions worsen, the contract terms originally agreed upon may no longer be fair to vendors, and if the caseload drops, vendors may not receive enough clients to operate at the scale contemplated when the contract was assigned. This latter concern may be more important because HRA no longer is responsible for the Workforce Investment Act, and it may no longer be possible for vendors to serve walk-ins.
- *Many vendors and observers expressed concern that performance-based contracting leads to “creaming” and thereby results in too little service to those most in need, and that there are incentives to push people into jobs when—the vendors and observers believe—they need education or vocational training.* Unless adjustments are made, performance-based contracting creates incentives to serve those who are most likely to succeed with little help, but one vendor said it is not so simple to identify the cream, and HRA’s goal is to obtain employment for all welfare recipients and applicants. HRA has concurred that there is a bias against providing training, and the agency has recently made individual training accounts (ITAs), which are essentially training vouchers, available for ESP clients at no cost to the vendors. This reduces the incentives to avoid training, but because the provision of training delays placement and payment to the vendor, some incentive to avoid training still exists.

In summary, the management reforms introduced by HRA in recent years have simplified the system, made it easier to identify the performance of the

vendors, and oriented the system toward job placement rather than long-term human capital development or the provision of social services. The performance-based contracting implemented by HRA has clearly played a key part in changing the system and in reducing the caseload. HRA has recognized the complexity of the system and has made changes to make sure that vendors receive payments in a timelier manner. Some issues involve more than management, however. In particular, there is a national debate on how effective job training is for welfare recipients and even if the training can boost earnings, how much the system should invest in training rather than emphasize immediate placement. In addition, Sanger (2001) and others raised concerns about whether the contracting system and structure used by HRA is draining human resources from the government and driving the small community-based organizations that have traditionally served the disadvantaged out of business.³⁸ With a new administration in place, HRA must take stock of its philosophy on services to welfare recipients. This study indicates that performance-based contracting can provide important management tools for achieving the administration's goals, but care must be taken to make sure that the incentives are properly structured.

EPILOGUE

Most of the interviews for this project were conducted between November 2001 and March 2002. Michael Bloomberg was elected mayor of New York City in November 2001 and took office the following January; Verna Eggelston was appointed HRA Commissioner in early 2002. The change in administrations was not a change in parties, so the changes in HRA's programs were not as significant as they might have been had a new party come to office. There were, however, several important changes that occurred after we completed our interviews:

- The base payments for ESP contracts increased slightly to an average of \$5,500. The new payment amounts are 25 percent for the initial placement, 45 percent for 13-week retention, and 30 percent for 26-week retention. This reflects increased importance to job retention, as the corresponding percentages before were 40 percent, 30 percent, and 30 percent, respectively.

- The SAP contracts have also been modified to put more emphasis on job retention rather than placement. Payment for full engagement and assessment remain about the same, but payment for job placement has been reduced from \$1,250 to \$875 while job retention at 90 days after employment has increased from \$250 under the old terms to \$875 under the new terms.
- Several of the contractors have stopped participating, either voluntarily or because HRA dropped them. Among the SAP contractors, MAXIMUS no longer participates, and among the ESP contractors, MAXIMUS and the Urban League no longer participate.
- HRA no longer administers major components of the Workforce Investment Act (WIA) programs. The program is now administered by the Department of Employment. An important effect of this change is that HRA no longer has authority to provide WIA support for training and other activities to non-public assistance customers. Vendors can no longer augment their pool of participants through outreach to poor non-public assistance individuals and now must rely exclusively on referrals from HRA to fulfill their contracts.
- HRA is continuing to fine-tune its system for monitoring job centers and vendors. The agency will be tracking monthly status of clients in more detail through modifications to JOBSTAT and VENDORSTAT.

No doubt the system will continue to evolve over time.

APPENDIX A: LIST OF INTERVIEWEES

Human Resources Administration (HRA) - Central Office Administrators

Swati Desai
Fran Abadessah
Seth Diamond
Amy Peterson

HRA Resource Development

Rita Delespara, Director
Abigail Morrison, Deputy Director [Employee of The Research
Foundation of State University of New York]
Brenda Felix, Deputy Director [Employee of The Research Foundation of
State University of New York]

HRA Business Link

Judith Marcus, Executive Director
Marcia Legree, Senior Account Manager
Vincent S. Taddoni, Director, Grant Diversion & Employee Contract
Hiring

New York State Department of Labor

Joseph Cappobianco

Arbor (SAP Vendor)

David Fairly, SAP Project Coordinator (Manhattan Office)
Kate Thrall, Comptroller

Curtis and Associates (SAP and ESP Vendor)

Audry Rogers-Stewart, SAP Director
Tanya Hobbs, Job Center Liaison
Sonia Alicea, Supervisor (SAP program at Waverly Job Center)
Mark Smith, Workshop Facilitator (SAP program at Waverly Job Center)

Goodwill Industries (SAP and ESP Vendor)

Laura Struthers, Manager of Quality Control
Carmen Rodriguez, Case Manager (SAP)
Elizabeth Castro, Case Manager (ESP)
Constance Sivells, Coordinator (ESP)
Jorges Martinez, Case Manager (ESP)

Federation Employment & Guidance Services – FECS (SAP and ESP Vendor)

Virginia Cruickshank, Sr. Vice President (SAP/ESP Project Coordinator)
Julie Shapiro, Assistant Vice President, (BEGIN & WTW Project
Coordinator)

Meryl Kordower, Assistant Vice President (ESP Supervisor)

America Works (ESP Vendor)

Peter Cove, Founder

Lee Bowes, Chief Executive Officer

Career and Educational Consultants – CEC (ESP Vendor)

Susan Melocco, President (ESP Project Coordinator)

Warren Richman, Executive

Wildcat Services Corporation (ESP Vendor)

Karen Smith, Vice President (ESP Project Coordinator)

Berks Trade and Business School (ESP Subcontractor to Wildcat)

Myra Page, Director

Joseph Holmes, Job Developer

Denise Mars, Case Manager

Parks Department (WEP Provider)

Elana Levy, Manhattan Coordinator, WEP

Clinton Jones, WEP Crew Chief

Waverly and Melrose Job Centers (Interviews conducted with variety of Job Center administrators, supervisors, and workers)

WHEDCO (Subcontractor to ESP and SAP contractors and Special Population Contractor)

Nancy Biberman, President

Barbara Petro-Budacovich, Vice President

Rachel Miller, Vice President

The authors are grateful for comments received on previous drafts from Swati Desai, Toby Herr, E.S. Savas, and Jason Turner.

¹ All states have experienced significant caseload declines in recent years. New York's decline appears to be similar to the declines in many other states. See <http://www.acf.dhhs.gov/news/stats/case-fam.htm> as of February 15, 2002 for state-by-state comparisons from 1993 through 2000.

² In broad terms, we planned to use regression analysis in a “difference in differences” framework. In somewhat simplified terms, the change in caseload for New York City from before the use of performance-based contracting would be estimated as a function of economic conditions and other factors expected to influence the size of the caseload. To identify the effect of performance-based contracting, we would compare the change in the caseload in New York City with the change in nearby areas experiencing the same economic conditions but not implementing performance-based contracting.

³ National Performance Review (1993). *From Red Tape to Results: Creating a Government That Works Better and Costs Less*. Washington, DC.

⁴ Barnow, B.S. (1992). The effects of performance standards on state and local programs. In C. Manski and I. Garfinkel (Eds). *Evaluating Welfare and Training Programs*. Cambridge, MA: Harvard University Press.

⁵ See Spaulding, S. (2001). *Performance-based contracting under the Job Training Partnership Act*. Baltimore: Unpublished Master's Thesis, Johns Hopkins University; and Kettner, P.M. and Martin, L.L. (1993). Performance, accountability, and purchase of service contracting. *Administration in Social Work*.

⁶ For a discussion of the principal-agent model applied to employment and training programs, see Marschke, G. (2001). The economics of performance incentives in Government with evidence from a federal job training program. In D. W. Forsythe (Ed). *Quicker, better, cheaper?* Albany, NY: Rockefeller Institute Press; and B.S. Barnow (2000). Exploring the relationship between performance management and program impact: A case study of the Job Training Partnership Act. *Journal of Policy Analysis and Management*.

⁷ See Cove, P. (2000). “Making Welfare-to-Work Fly.” *Civic Bulletin*. Center for Civic Innovation at the Manhattan Institute.

⁸ Performance-based contracting is one of the approaches recommended by Osborne and Gaebler for “reinventing government.” See Osborne, D.E. and Gaebler, T. (1992). *Reinventing Government: How the Entrepreneurial Spirit Is Transforming the Public Sector*. Reading, PA: Addison-Wesley Publishing Company.

⁹ This section is based on Spaulding (2001), which provides more detail on the studies. We discuss only studies dealing with performance-based contracting here.

¹⁰ See Dickinson, K., West, R., Kogan, D., Drury, D., Franks, M, Schlichtmann, L., and Vencil, M (1988). *JTPA performance standards: Effects on clients, services, and costs*. Washington, DC: National Commission for Employment Policy.

¹¹ See Vinson, E. (1999). “Performance contracting in six state human service agencies.” Washington, DC: The Urban Institute.

¹² Heinrich, C. and Lynn, L. “Government and performance: The influence of program structure and performance on the Job Training Partnership Act (JTPA) program outcomes.” In Heinrich, C. and Lynn, L. (Ed.). *Government and performance: New perspectives.* Washington, DC: Georgetown University Press.

¹³ See Spaulding, S. (2001). *Performance-based contracting under the Job Training Partnership Act.* Baltimore: Unpublished Master’s Thesis, Johns Hopkins University.

¹⁴ Background materials in this section are based in part on: S. Riedinger, L. Aron, P. Loprest, and C. O’Brien (1999). *Income Support and Social Services for Low-Income People in New York.* Washington DC: The Urban Institute.

¹⁵ City of New York, Human Resources Administration (2000). *Ladders to Success: Innovations in City Government.* New York, NY.

¹⁶ City of New York, Human Resources Administration (2000). *Ladders to Success: Innovations in City Government.* New York, NY, p. 2.

¹⁷ City of New York, Human Resources Administration (2000). *Ladders to Success: Innovations in City Government.* New York, NY, p. 9.

¹⁸ At the time of our field work on this study (late 2001), MAXIMUS was no longer providing SAP services. As noted in the Epilogue, HRA did not contract with MAXIMUS as part of the second round of SAP contracts – hence, as of December 2002, there were four SAP vendors.

¹⁹ At the time of our field work on this study (late 2001), MAXIMUS was no longer providing ESP services. As noted in the Epilogue, HRA did not contract with MAXIMUS or New York Urban League as part of the second round of ESP contracts – hence, as of December 2002, there were 11 ESP vendors.

²⁰ Able-bodied individuals (those not exempted from work requirements) are assigned to ESP. For example, individuals with low basic skills (below 6th grade) are assigned to BEGIN; individuals who have been assessed by Certified Alcoholism and Substance Abuse Counselors (CASAC) as having substance abuse problems are mandated into treatment programs (for a minimum of 15 hours per week for up to 90 days, whereupon they are re-assessed for ongoing treatment needs and employability). In addition, HRA has contracted with a variety of organizations to provide services for special populations (e.g., such as the PRIDE program, which provides vocational rehabilitation, work-based education, SSI counseling, and other services for individuals with physical limitations, medical conditions, or other factors that have limited or prevented past involvement of individuals in work).

²¹ ESP vendors also serve substantial numbers of non-public assistance cases. Vendors receive walk-ins and conduct their own recruitment efforts to attract these non-PA individuals. These individuals – covered under Workforce Investment Act (WIA) – are typically served alongside with PA recipients and receive typically the same blend of services.

²² Our understanding is that access to vocational training through the use of individual training accounts (ITAs) funded through the Workforce Investment Act (WIA) and other sources increased over time.

²³ “Job Dollars: In New York it’s wait and switch.” *City Limits*, February 25, 2002.

²⁴ Buttenwieser, S. Ed. (2000). “Focus on Contracting.” *City Project Bulletin*. December.

²⁵ McGowan, K. “The Welfare Estate.” (1999). *City Limits*. June. Much of the article is not relevant to the subject of this report.

²⁶ *Center for an Urban Future* (2001). Spring.

²⁷ On the other hand, critics argue that the more capable organizations will survive and thrive while others will not.

²⁸ A skeptical reviewer noted that government already has such a program; it’s called elementary and secondary education.

²⁹ We discussed the cash flow issue with HRA officials and vendors. There was agreement that although there were initially cash flow problems for vendors, HRA responded by making cash advances when needed and by improving the participant tracking system so that payments could be accelerated. Thus, none of the people we interviewed saw a need for a new organization to improve cash flow.

³⁰ Sanger, M.B. (2001). “When the Private Sector Competes.” Washington, DC: The Brookings Institution, Reform Watch no. 3.

³¹ We are grateful to E.S. Savas for pointing this out to us.

³² There is still an incentive to avoid long-term training, however, because the vendor does not get paid until after the client is placed.

³³ Savas points out that this can be said of practically any organization.

³⁴ Several of the SAP/ESP vendors interviewed for this project were also interviewed as part of another HRA-sponsored study (documenting employment services provided under welfare reform in New York City) conducted by the Urban Institute.

³⁵ It can be argued that subcontractors should not try to bypass the prime contractor and negotiate directly with the agency, and they *should* withdraw if they find the prime contractor unsatisfactory and beyond redemption.

³⁶ Before being appointed HRA Commissioner, Jason Turner was head of welfare in Wisconsin where the idea of “full engagement” was a key component of welfare reform.

³⁷ In New York, the State Department of Labor is responsible for overseeing work activity programs administered by the counties for welfare recipients.

³⁸ Sanger, M.B. (2001). “When the Private Sector Competes.” Washington, DC: The Brookings Institution, Reform Watch no. 3.