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Performance-Based Contracts in New York City

Lessons Learned from Welfare-to-Work

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Since the TANF program changed the focus of the welfare system from mere cash delivery to the more complex and demanding participation in work and work-related activities, New York City's Human Resources Administration (HRA) has used contracting-out to expand employment service capacity and to restructure the service delivery system to be more flexible. This paper describes the use of payment milestones within these contracts, the effectiveness of these milestones, and significance of the changes in the structure of these contracts over several iterations from 1999 to the present. The paper presents four key lessons learned by HRA that will be helpful to the state and local governments in successfully designing, implementing, and managing their welfare-to-work contracts to achieve desired results.

Introduction

In 2011, the nation saw the fifteenth anniversary of the enactment of the Personal Responsibility and Work Opportunities Reconciliation Act (PRWORA). Following the promise of President Clinton to end "welfare as we know it," nearly every aspect of the system has been transformed over the last decade and a half. PRWORA provided significant freedom to states and localities to implement services. As the largest social service district in the nation and early adopter of landmark welfare reform strategies, the New York City experience in implementing PRWORA was especially unique. The City's need for a transformation of the large scale service delivery system presented numerous challenges, but also provided opportunities to improve the well-being of New Yorkers in generational poverty.

A key element of PRWORA was its use of performance measures and incentives to enforce its goals of employment and self-sufficiency. The federal government required states to engage a large share of the heads of households receiving welfare in work-related activities — or reduce the number of cases on assistance by an equivalent proportion. To meet these requirements, many states imposed performance requirements in turn on their own local welfare offices or on private agencies contracting with states to provide services. New York City has been one of the most innovative local governments in using performance measures and financial incentives to shape the implementation of their welfare reforms.

This paper shares the key lessons learned from over a decade of implementing performance-based welfare-to-work employment contracts at New York City's Human Resources Administration (HRA)/Department of Social Services. It describes the changes in the contract model since the late 1990s. This evolutionary process of adaptation is part of a continual process of learning and improving performance, keeping services aligned with the ever changing needs of poor New Yorkers.

HRA's development of these contract models has resulted in four key lessons. First, the design of the contract payment milestones can be a powerful engine for influencing what service providers do. Second, a strong technology and management infrastructure is an essential prerequisite for managing relationships with contractors. Third, managing a portfolio of contracted vendors requires careful attention to each vendor's unique capacity and performance as well as the effectiveness of its strategies. Finally, on-going adaptation and flexibility are necessary to improve system performance; performance-based systems cannot remain effective without frequent monitoring and adjustment.

Welfare Reform and Welfare-to-Work Contracts in New York City

Onset of Welfare Reform

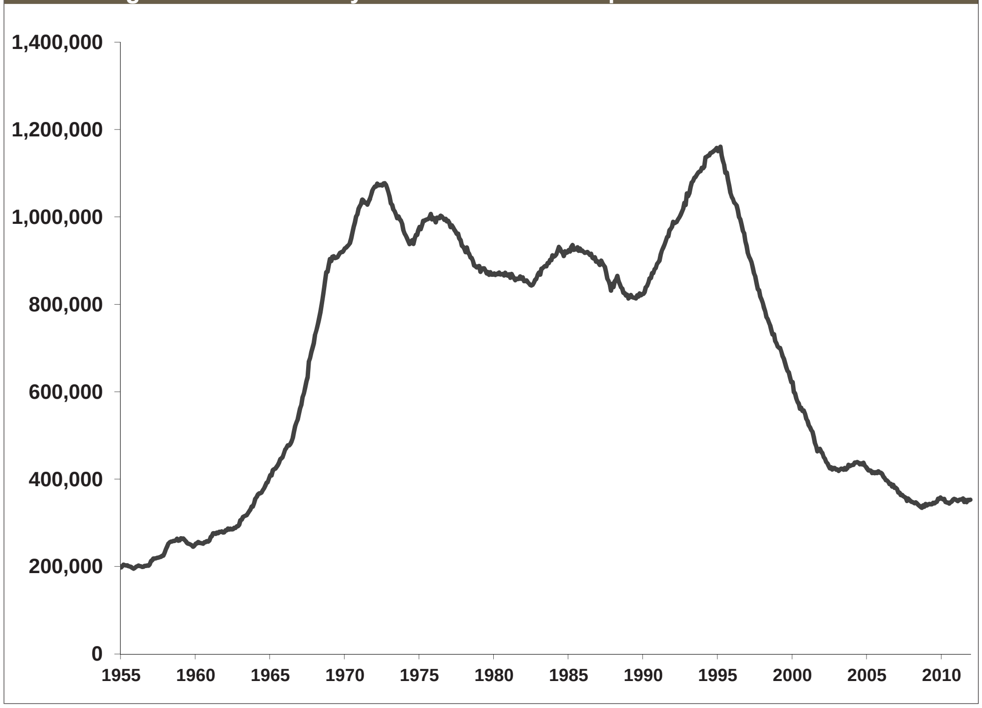
The enactment of The Personal Responsibility and Work Opportunities Reconciliation Act (PRWORA) by Congress in 1996 replaced the federal entitlement program, Aid to Families with Dependent Children (AFDC), with a new federal program, Temporary Aid to Needy Families (TANF). PRWORA brought about many changes in programs for low-income families in the U.S. For instance, a new work requirement for benefit recipients shifted the emphasis of cash assistance programs from income maintenance to finding employment.[1] The work requirement, along with the time limit and the caseload reduction credit, were partly responsible for reducing the size of the cash assistance caseload and increasing client participation in work activities.

Under PRWORA, states were given greater discretion over how to utilize the funds they received. This gave states freedom to develop innovative strategies for moving cash assistance recipients into jobs. In this new environment some states and localities began to change their core approach to delivering services, and utilized nongovernmental contractors to supply services that had long been provided by the public sector. While some states contracted-out core operations such as determining eligibility for benefits, a more common practice was to contract for welfare-to-work services, where vendors worked with welfare recipients to prepare for jobs and to find employment.[2] New York City embraced this strategy, becoming a large-scale, high-profile example of this new model.

Welfare Reform in NYC

Reforming welfare programs in New York City had gained attention as early as 1993 with the election of Mayor Rudolph Giuliani, whose campaign platform included reducing the City's welfare population. With over one million individuals receiving welfare in a city with a total of eight million residents, his campaign highlighted this as a significant social and financial concern. When the election was held, one out of every eighteen cash

Figure 1. New York City Cash Assistance Recipients from 1955 to 2011



Source: New York City Human Resources Administration.

recipients in the nation lived in New York City.[3]

In 1995, when the caseload peaked at over 1.1 million, the Giuliani administration's initial set of efforts to reduce the cash assistance caseload focused on reducing fraud. The City soon began to see a significant and sustained decrease in the size of the cash assistance caseload for the first time in years (Figure 1). Following this early caseload decline, the passage of PRWORA in 1996 provided the City with the additional tools to increase the scale and depth of services needed to move recipients from welfare into work.

Like many other state and local government welfare agencies, New York City's HRA did not have strong employment components in its programs in the mid-1990s. But the City began to make large structural changes in the delivery of employment services for welfare recipients with the 1998 appointment of Jason Turner as commissioner of HRA. Turner believed that all welfare recipients could and should find jobs or participate in activities leading to employment as paths to individual self-sufficiency.

Under the Turner administration, the agency implemented strategies to engage the entire caseload in appropriate employment-related activities. Those with barriers that limited their ability to fully participate in employment programs were engaged through alternative activities. This strategy, also known as "full engagement," required that HRA develop a wide range of programs to meet the diverse needs of the entire cash assistance caseload. To simulate an employment work week, the City established a requirement that individuals receiving assistance participate in 35 hours of activities each week, a threshold above the federal benchmark of 30 hours. To accompany this new strategy, HRA also increased its focus on sanctions and sanction-related program components for those who failed to comply with required activities.

Commissioner Turner's philosophy was that the nongovernmental sector would be most effective at providing the services needed to move welfare recipients into employment. He strongly believed that contracting out would enable NYC to expand capacity and restructure the employment service delivery system quickly and with flexibility. According to his first Deputy Commissioner Mark Hoover, "Government is best at setting outcomes, designing policy and overseeing and supervising performance. It is not great at operational activities and service delivery. There are simply too many processes and inefficiencies. Contracting out is better, cheaper and more flexible, allowing you to add and subtract when needed."[4]

1999-2002

New York City implemented this new vision for employment services in 1999 through two new programs. The Skills Assessment and Job Placement (SAJP) program focused on servicing cash assistance applicants when their application for assistance was pending. The Employment Services and Placement (ESP) program focused on services for individuals who were receiving cash assistance.[5] Services for both programs were delivered by nongovernmental contractors, and consolidated what had been a network of approximately 100 relationships funded through the Job Training Partnership Act into five contracts for SAJP and twelve contracts for ESP. In procuring the contracts, HRA sought contractors who could operate at the large scale demanded by the new program design. Service providers that lacked experience operating at a large scale or that did not possess a robust network of employment opportunities were encouraged to partner with other larger organizations. Similarly, organizations that had special strengths in training or case management, but lacked job placement expertise, could work with larger organizations that would be responsible to HRA for overall contractual performance.[6]

The new contracts employed a 100 percent performance-based payment structure; all payments to the contractor were based on the contractor's ability to achieve employment outcomes for the clients they served.

The organizations that were awarded contracts included a wide range of service providers. They included nonprofit organizations, for-profit companies, and community colleges. The vendors included a mix of large and small organizations, as well as both national and local contractors. Some of these contractors, often referred to as primary or prime contractors, then entered into subcontractual relationships with other organizations to provide some of the services, while the prime contractor retained overall responsibility for performance and management of the contract.

The new contracts employed a 100 percent performance-based payment structure; all payments to the contractor were based on the contractor's ability to achieve employment outcomes for the clients they served. For each outcome milestone, contractors received a set amount. If they did not achieve the negotiated outcomes, they were paid nothing. Vendors that performed better could receive more of their contract value.

Contract design and milestone development went hand-in-hand. As described by Commissioner Turner,

> [A]s HRA wanted applicants to get jobs quickly, the higher proportion of unit price was allocated to job placement in both SAJP and ESP. Also SAJP allowed for a lower per client performance payment because the vendor had access to all new

> applicants, not just long term recipients who are presumably harder to place. We wanted to "cream" the easy to serve cheaply, leaving larger performance payments for ESP for those needing more help. The result would be that overall costs to HRA would be lower and that the higher payments reserved for ESP would permit more intensive service, as opposed to a standard lower blended rate for both applicants and recipients. Also SAJP had access to referrals for a fixed period, four to six weeks, after which they were referred to an ESP. Therefore SAPs had every incentive to work with all referrals to the max.[7]

Using this strategy, HRA could more efficiently fund services for both groups of clients than could be achieved under a single rate for both applicants and recipients. In 1999, when the initial contracts were awarded, the annual value of SAJP contracts was $29.9 million and the value of the ESP contracts was $78.5 million.[8] (See Appendix A.)

Since the SAJP program was focused exclusively on cash assistance applicants, the service model was molded around the short four- to six-week window of time as mentioned earlier by Commissioner Turner, while the participant's application was under review by the agency. While engagement of individuals in activities once they were receiving assistance was part of the new TANF legislation nationwide, the City's decision to operate the applicant-only SAJP program was part of an optional strategy, aimed at replacing the need for cash assistance with new employment earnings.

Given the brief application period, the SAJP service model focused on quickly achieving success with participants prior to the determination on their cash assistance application. This rapid employment philosophy was embodied through a range of short-term services by the vendor, which could include job interviews, résumé preparation, and brief workshops. The fast-paced program model required a close working relationship with the HRA's job centers.[9] Referrals were made from the job center to the vendor on a daily basis, and vendors were co-located within the centers to begin the process of orienting, assessing, and engaging applicants immediately. The client would continue with SAJP services offsite at the vendor location, where they engaged in the mandated 35-hour simulated work week with the vendor.

A vendor could earn a total of $2,500 per client in SAJP, compared to up to $5,500 under ESP. The individual payment milestones in both contracts included payments for placement and at least three months of job retention. Despite the lower payment amount to SAJP vendors, they had every incentive to quickly place all individuals they received since their participants could only be with them during the application phase (4-6 weeks).

The ESP program picked up the employment services continuum for clients at the point where the SAJP program ended. The program provided services for employable cash recipients, both those newly receiving assistance as well as those receiving assistance for a period of months or years. In 1999, when soliciting for

HRA's new commissioner was more focused on job retention than the prior administration, emphasizing long-term labor force attachment as the alternative to benefit receipt. Therefore, in the renewed contracts HRA redistributed the contract milestone payments amounts to emphasize retention outcomes.

the ESP contract, HRA estimated that the population would be over 70 percent female, 20 percent would be 24 years old or younger, 26 percent would be over 45, and the remaining 54 percent would be between 25 and 44. HRA also estimated that nearly 60 percent would have been on cash assistance for five years or more. Given that such a large proportion of individuals were expected to be long-term recipients, it was assumed that overall the group would have more significant barriers to employment than the pool of applicants served through the SAJP program. These barriers could include substance abuse, homelessness, low educational attainment, or a lack of work history.[10]

In contrast to the accelerated pace of the SAJP program, the ESP program was designed to provide more in-depth services targeted to a less prepared pool of job seekers. Rather than the rapid, daily referral system used for applicants, the ESP program started a new cohort of job seekers every two weeks. After an initial two-week orientation period where participants participated full time with the vendor, participants moved into a schedule that blended two days of job search at the ESP vendor with three days per week at a Work Experience Program (WEP) site.[11] In addition to the job connections, résumé creation, and interview preparation services provided by the SAJP program, ESP services were more likely to employ strategies that included short-term training, such as computer instruction or training in specific occupational fields such as home health care, security, or food service.

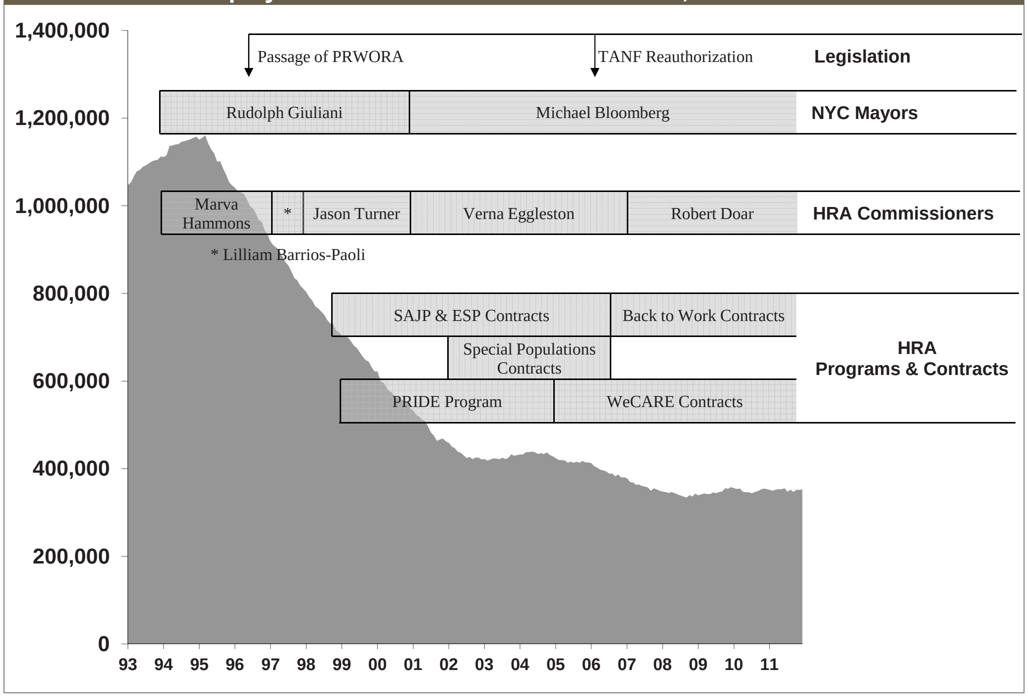
2002-2006

In 2002, the contracts for both programs were renewed. Data from the first three years of the contract showed that across both programs vendors had failed to meet performance expectations for job retention even though placement milestones were achieved. This was also the year Mayor Michael Bloomberg took office and Verna Eggleston was appointed as commissioner of HRA. HRA's new commissioner was more focused on job retention than the prior administration, emphasizing long-term labor force attachment as the alternative to benefit receipt.

Therefore, in the renewed contracts HRA redistributed the contract milestone payments amounts to emphasize retention outcomes (see Appendix A). The overall value of renewed contracts declined from $108.4 million to $87.7 million. Over the course of the contract, the continued focus on full engagement, job placements, and a stronger emphasis on retention led to additional declines in the caseload (Figure 2).

Another development during this period was the addition of a new program focused on serving clients with high levels of service needs who were also deemed to be employable. The program, known as the Special Populations program, included services for individuals with housing, ex-offender, substance abuse, or language barriers. As with SAJP and ESP, the program services were provided by nongovernmental providers.

Figure 2. Timeline of NYC Human Resources Administration Employment Contracts and Related Events, 1993 to 2011



Source: New York City Human Resources Administration.

Additionally, the PRIDE (Personal Roads to Individual Development and Employment) program, which focused on people with mental and physical barriers, was converted into the more comprehensive WeCARE (Wellness, Comprehensive Assessment, Rehabilitation and Employment) program. The WeCARE contracts combined medical and employment services and were a mixture of output and outcome milestone payments, not a pure performance-based contract. The goal of this contract was to stabilize medical conditions for participants so that they could engage in work activities and seek employment or obtain Social Security awards for those deemed disabled.

2006 to Present

A new generation of employment programs began in mid-2006 to replace the SAJP and ESP programs (see Appendix A). The new program, Back To Work (BTW), merged the services of SAJP and ESP together into a single, unified program. The model for the new program strengthened the continuity of services for participants by having a single vendor seamlessly handle employment services for each participant. This service time frame started at the point that clients first applied for assistance, continued through the length of time they received assistance, and included at least six months of retention after a client had found employment and left assistance. If a client returned to HRA after having lost a job, the same vendor remained responsible for helping the client secure new employment. Under this new program model, vendor accountability for the long-term success of the client was increased. Additionally, the relationship between HRA and the individual vendors was strengthened by having services for each job center provided exclusively by a single BTW vendor, creating a more robust long-term relationship.

The BTW contract model kept in place one of the core strategies used in the SAJP and ESP contracts by retaining a 100 percent performance-based payment structure. Individual payment milestones to vendors for client outcomes were similar to the prior generation of contracts, and remained focused on helping participants to find and retain employment. As part of a continuing emphasis on improving long-term outcomes for clients, the BTW program only paid vendors for job placements if they could demonstrate that the client had retained the job for at least thirty days. If a client kept their job for less than a month, then the vendor did not earn any payment.

In 2007, Robert Doar became the commissioner of HRA and maintained the performance-based, employment-focused model. In 2011, HRA issued a new Request for Proposal, which built on the basic features of the previous contracts while incentivizing improved performance and a greater focus on certain populations.

Lessons Learned From Performance-Based Contracting

From their inception in 1999 through the end of 2011, these multiple generations of welfare-to-work contracts have provided employment services for New Yorkers receiving or applying for Cash Assistance. Over the past decade, HRA has achieved over 800,000 job placements, while the cash assistance caseload has dropped dramatically. There have been wide swings in economic cycles, and the New York City labor market continues to change with constant adaptation by employers to new local, national, and global contexts. For HRA the experience of delivering services through these contracts has demonstrated the adaptability of performance-based employment services contracts to a continually evolving situation.

Through the ongoing administration of these contracts, HRA has learned what works in the design and management of performance-based welfare-to-work contracts. This section highlights some of these lessons, based on over a decade of practical experience and institutional knowledge. In particular, all of the lessons shared here underscore how contract design and management decisions significantly affect performance.

- *Lesson one: the design of the contact payment milestones is critical for success.* In an era where the public sector is focused more intensely than ever on performance, the best leverage points for achieving high performance are embedded in the details of how milestone payments are constructed. There are two fundamental aspects in designing an optimal milestone structure. First is how the overall program goals are translated into contract payments that create incentives for vendors that produce the most effective and efficient results. The second is how milestones payments are weighted and balanced within the contract in order to encourage contractors to successfully achieve multiple goals.
- *Lesson two: technology and performance management systems are essential to managing contracts successfully.* The use of performance-based contracts shifts the public sector into the

role of contract manager as opposed to service provider. This transition creates the need for smart and effective systems that give public managers the tools to effectively monitor outcomes and performance.

- *Lesson three: individual contractors do not behave the same way, and contract design and management decisions must anticipate a variety of vendor responses.* Different strengths and program strategies among contractors are an important component of a high-performing system that fosters diversity and competition. This can also present significant challenges for management and performance known as "principal-agent" problem.[12] Since a performance-based contract gives vendors the ability to make decisions about the process of service delivery, government managers must adapt their management strategies to the way that different contractors actually behave.
- *Lesson four: ensure there is flexibility in the contract, and learn from past performance.* In the social services arena, the need and context for services continually evolves, putting demand on programs for new and more effective solutions to difficult problems. Ensuring that there is adaptability within the contract structure can help services stay synchronized with changing needs of local welfare populations. Building strong programs requires continual evaluation of the program and contract models to determine what works and what can be improved.

Lesson One: The Design of Payment Milestones Is Critical for Success

A well-designed performance-based contract for social services creates payments to contractors that are aligned with overall program goals. The payments drive contracted vendors to achieve the desired outcomes since their revenue is tied to their ability to achieve specific outcomes. Thus, contractors assume the financial risk or reward attached to their performance. Vendors that can meet goals and achieve outcomes will earn the revenue needed to sustain and also invest in their programs, while low-performing vendors will earn less. Low performance could also mean that vendors cannot meet their financial bottom line. The payment framework creates a climate that will propel vendors to find the most effective and efficient ways to deliver services so that they can maximize their revenue.[13]

This puts enormous leverage in the hands of the contracting agency. There is a delicate balance in designing the payment points that incentivize optimal performance. There is seeming simplicity in the adage "you get what you pay for," but the complex reality of a social service contract quickly reveals that *what* to pay for and *how much* to pay are crucial and delicate questions that can determine the overall success of the contracted program.

At a practical level, there are many different leverage points in the hands of the contracting agency when designing a payment structure. How should the agency's goals be translated into achievable and trackable outcomes that can be converted into payments? How can multiple goals be balanced within a single contract? Given the high stakes regarding the quality of services for clients and fiscal stewardship considerations, finding the right payment structure is critical. Finding the answers to these two questions has been important in HRA's effort to manage performance.[14]

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Uncovering Assumptions About Performance

The financial models for performance-based contracts are based on assumptions about behavior and service needs. For example, the models for the contracts discussed in this paper include premises about how welfare applicants and recipients will respond to the program model and how effective the program will be. They include expectations about how the contractors respond to increasing or decreasing numbers of clients, and how the needs of clients change over time.

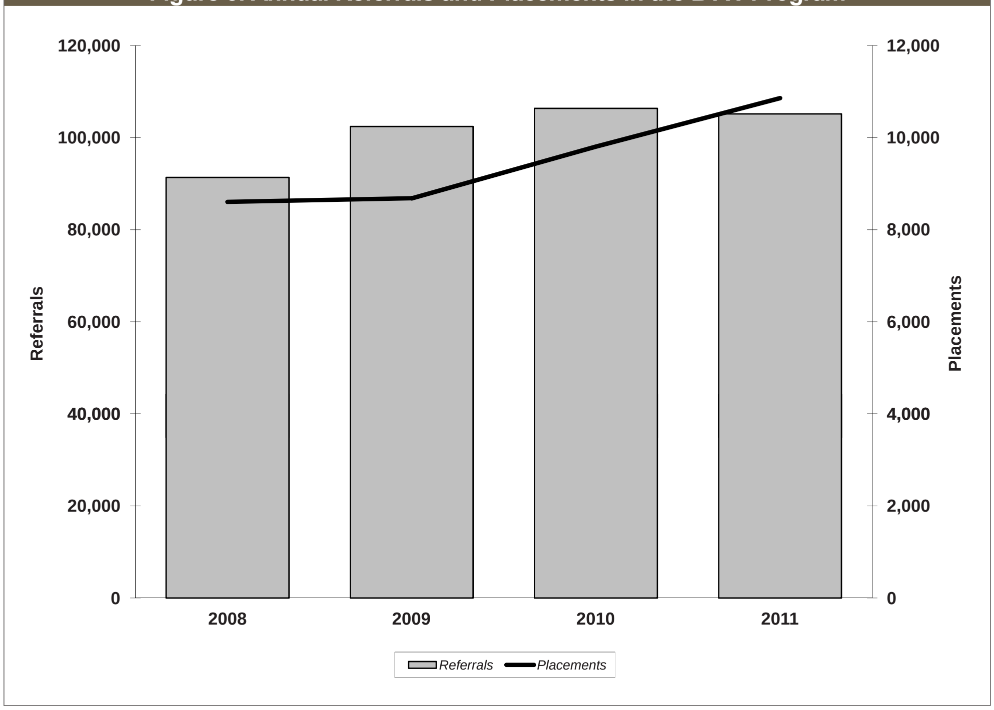
The model also incorporates assumptions about how contractors will respond to incentives in the payment structure when they design their programs. Contractors must build financial models and budgets of their own. These include the details of their service model, the level of services they provide under the contract, and how their performance translates into the revenue necessary to keep their business operating. Given the different perspectives from either side of the contract relationship, there is likely to be divergence in the core assumptions between the two parties.

Divergent assumptions can be seen in something as basic as the volume of referrals in a contract. While other social service contracts may involve a guarantee or cap on the volume of referrals, HRA's employment program model requires vendors to provide services to *all* participants in need of employment services. Since demand fluctuates, neither HRA nor the vendors can predict the future volume of referrals with certainty.

How the current BTW contracts have responded to increasing volume is shown in Figure 3. From 2008 through 2010 the volume of *referrals* to the BTW program grew by around 15,000 per year, leveling off in 2011 with a fourth quarter drop in volume. Comparatively, from 2008 to 2009 the number of *placements* made by BTW vendors was stagnant. Placements rose in 2010, driven primarily by performance in the later half of the year, and continued trending up throughout 2011. The data show that the BTW program was slow to increase job placements in proportion to the growth in referrals.

The slow response by vendors in expanding placements appears to run counter to the incentives in the contract model. With payments per placement, a larger pool of referrals should offer

Figure 3. Annual Referrals and Placements in the BTW Program



Source: New York City Human Resources Administration — NYCWAY and PaCS.

more placement opportunities and more revenues for vendors.

A potential explanation for this slow response is how vendors view the risks involved with scaling their programs. Vendors were initially hesitant to increase the size of their program, not knowing if the increasing number of clients would be sustained. In order for a vendor to achieve more placements, they would need to invest funds to grow the size of their program. Increasing staff and acquiring additional space to service a larger volume of clients require significant financial investment from a vendor. While a vendor may have some ability to scale down their staff, a multiyear lease in New York City can be a significant financial investment. Without a guarantee of a sustained trend in the volume, vendors would shoulder the financial risk. Given that risk, vendors might be satisfied with their performance and payment levels and choose not to expand. From the agency perspective, this lack of expansion represents a decrease in performance, since the rate of job placement achievement drops if the job placements stagnate while the number of participants increases.

HRA has explored different approaches to counteract this divergence in viewpoints. One strategy involved aggressive contract management that emphasized increasing performance. Starting in mid-2010 the program put a renewed focus on the placement *rate*, measuring the number of placements relative to the volume of participants in the program. By emphasizing the rate, HRA reiterated the necessity of ensuring that placements increase as the program grows.

A second strategy employed by HRA was adopted in 2011, when the agency set specific numerical placement goals for each contracted vendor. All vendors were required to increase the number of placements. This new goal became a consistent focus in contract management, and helped drive the total number of placements up over the course of the year, even as the referrals leveled off. This increase can be seen in Figure 3, which shows the increase in job placements relative to referrals. Given the success of the approach, HRA has included a formalized version of this goal-based system in the proposed BTW 2 contract design. The new model proposes that vendors continue to earn payments for each job outcome, but they can also earn a bonus payment for meeting the agency's expectation regarding the total number of placements. This payment will help provide additional incentives for vendors to quickly scale their services and respond to changes in program volume.

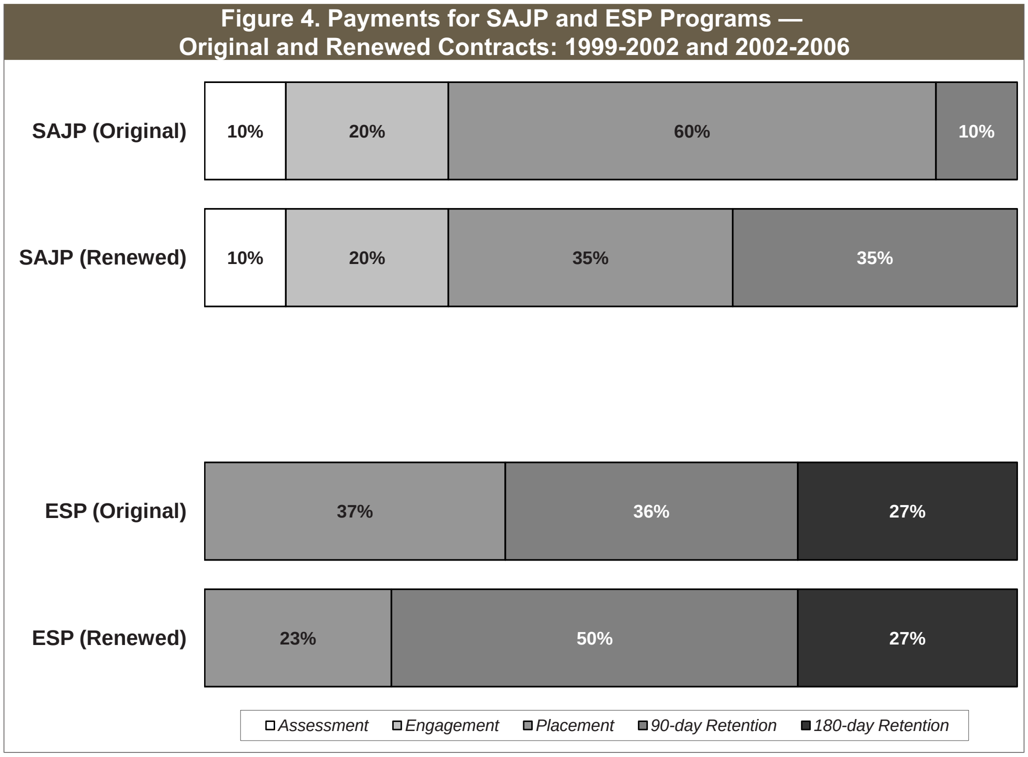
Redistributing Payments to Improve Performance

Given the complexity of delivering social services, programs can rarely be summed up in a single goal. Instead, programs assist participants in meeting multiple objectives over time. Once the program goals have been translated into payment milestones, the distribution of the payment amounts sends a powerful message to vendors about which goals should be given the highest priority.

In HRA's employment programs, vendors work with participants on meeting both placement and job retention goals. HRA expects the vendors to balance these objectives and achieve high performance for both. With finite resources, vendors must adjust their services, since the types of assistance that helps participants find employment are often different from the services that help them retain their jobs. How the balance of contract payments affects performance between these two areas is illustrated by changes that HRA made to payments milestone amounts in the SAJP and ESP programs. In this case, HRA used the opportunity of a contract renewal to rebalance payments in order to improve retention rates.

The original payment structure for performance milestones in the SAJP and ESP programs reflected the approach of Commissioner Turner, with a strong emphasis on placements. Through the SAJP contracts, a vendor would earn 60 percent, or $1,500, of their maximum payment per client through the achievement of placements, compared to 37 percent, or $2,000, per client under the ESP contract.[15] In both contracts, the agency was placing significant emphasis on helping participants connect to the labor market. Figure 4 shows the distribution of payment amounts across the milestones.

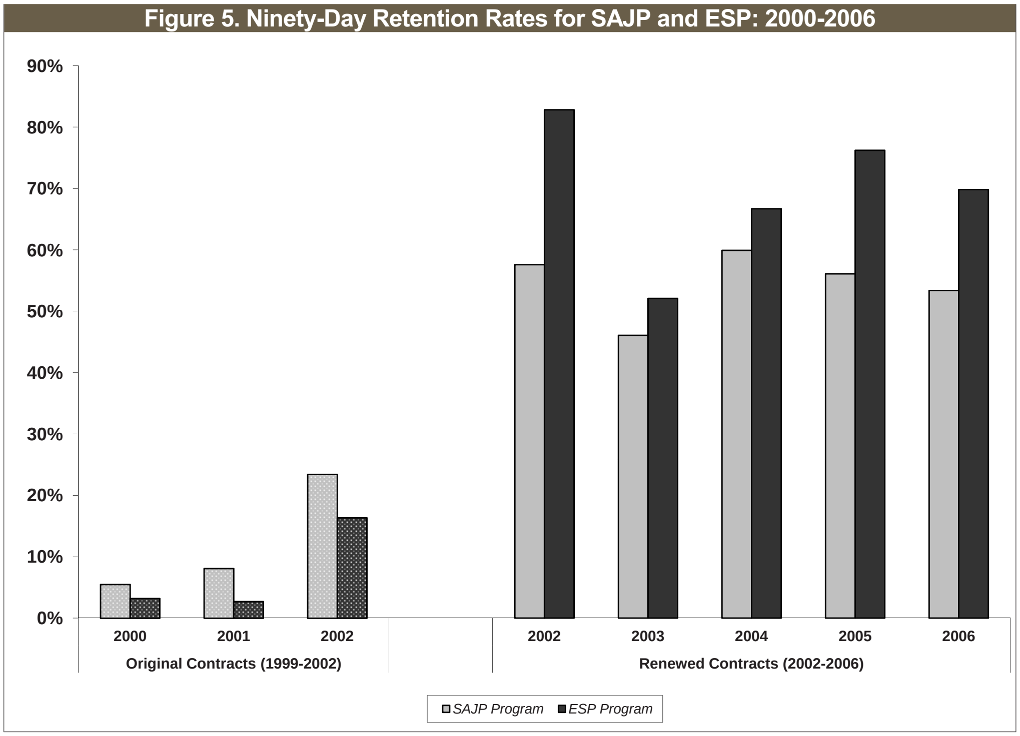
As the programs rolled out, it was clear that while the employment focus of the contracts was succeeding, the retention rates for the program were not meeting HRA's expectations. In 2001, retention rates for both programs were below 10 percent, as shown in Figure 5. Since the initial three-year contract period was waning, HRA had the opportunity to restructure the amount paid for each specific milestone when renewing the contract. For both contracts, HRA increased the value paid for 90 days of job retention while decreasing the amount paid for placements. What the contract paid for remained the same, as did the maximum amount that a vendor could earn per person; the alteration only affected the balance between the payment points. In the SAJP contracts, the amount paid for the 90-day job



Source: New York City Human Resources Administration.

retention increased from 10 percent of the per person amount that contractor could earn to 35 percent. With the ESP renewal contracts, the 90-day job retention payment increased from 36 percent to 50 percent as shown in Figure 4. This shift in how vendors earned their payment helped to drive the retention performance for the system upwards. For the SAJP program, the average retention rates rose to 54 percent and the ESP rose even higher to 67 percent, as shown in Figure 5.

This rebalancing of payment amounts between placements and retention was effective because three important things occurred:



Source: New York City Human Resources Administration — NYCWAY and PaCS.

1. HRA recognized that the payment milestones were not producing the desired outcome; contractors were making placements, but the retention efforts were flagging. This meant that vendors were responding to the incentives created by payments in their contract but the balance of payments was not encouraging vendors to meet all the goals of the program.
2. HRA changed how vendors earned their revenue. The new distribution of payments placed a much greater emphasis on achieving retention milestones. In order to increase retention and earn retention milestones, vendors still had to focus on placements. But since the amount of revenue that vendors could earn from placing clients was reduced, they were driven to seek new ways to achieve better retention performance in order to meet their fiscal bottom line.
3. The change in payments was accompanied by clearly communicated new expectations to the vendors. HRA renewed its nonfiscal management efforts to improve retention. Vendor performance management reports were revised to place an increased emphasis on job retention. Likewise, contract management meetings began to include more emphasis on retention outcomes and the strategies that vendors employed to improve their performance.

Operating together, these changes helped to drive retention rates upwards.

A large payment could swing performance in unintended ways. … A bonus that is too small might not influence the behavior of contracted vendors. Finding the optimal balance is critical.

Finding the Right Size for Incentives to Work

Some of HRA's performance-based contracts have utilized supplemental payments to promote high-quality performance and achieve additional goals. These incentives are usually bonus payments. HRA has used this type of payment to encourage full-time employment over part-time, to focus on jobs that pay above minimum wage, to promote job advancement, and to encourage placements for a targeted population. The bonus payments become part of a balancing act for the contracting agency; they should support additional goals without sacrificing the core performance of the program. A large payment could swing performance in unintended ways; for example, by encouraging vendors to delay placing a participant in a job because the wage is not high enough to earn the vendor the bonus. A bonus that is too small might not influence the behavior of contracted vendors. Finding the optimal balance is critical.

An example of working to find the right size for this type of payment is illustrated through HRA's use of a bonus payment to encourage placements for individuals with a long history of receiving cash assistance. In 2005, around 30 percent of referrals to the ESP program were for long-term cash assistance recipients, but placements for this group were below that of the rest of the ESP program. Typically long-term cash assistance clients have more significant barriers to finding employment, given the amount of time they have been disconnected from the labor market. The bonus was introduced in the BTW contract, and represented a renewed focus by the agency to make sure that employment programs were focused on all employable populations, including those who may have more barriers.[16] With the average placement value of $1,140 across the BTW contracts, the value of the bonus represented an additional 31 percent, or $350.

But there was no evidence of an upward change in performance with the implementation of the bonus. Over time, the placement rate for long-term cash assistance recipients actually fell. While it is possible that the placements for this group would have been lower in the absence of this bonus, the declining placement rate suggests that there is a growing gap in placements for this group. The original design of the payment milestone did not appear to have its intended effect.

Two potential answers may explain why the milestone design did not achieve the intended results. Since the framework of performance-based contracts assumes that vendors will try to maximize their revenue while minimizing costs, the $350 payment may not have matched the investment required of vendors to achieve the desired performance. From the vendor's standpoint, if the placement of a long-term recipient required resources greater than the amount of the bonus payment, it may not make the investment in the additional services needed for this population outside of its regular program model.

Similarly, it is also possible that this bonus payment may have been eclipsed in the overall payment structure. The value of the bonus represented 8 percent of the maximum amount that a vendor could earn per participant. This is only slightly more than the amount that vendors could earn by completing an assessment for the same participant. The value of the milestone was significantly lower than some of the major milestones; for example, it was around a quarter of what the vendor could earn for a ninety-day retention milestone. It is possible that given the other contract goals, the bonus amount was too small to encourage vendors to prioritize services for this group.

As a solution to this issue, HRA's next contract, BTW 2, adjusts the payment incentives for this group. HRA is creating a specialized services component within the new program for those that the agency has identified as having some of the greatest barriers to employment, including long-term cash assistance recipients. In the new model, retention payments to vendors for this group could be twice as much as those offered to vendors for achieving retention among other program participants. In BTW the incentive for working with these clients was worth 8 percent of the maximum a vendor could earn per participant. In the new contract it could be as much as 40 percent of the per-participant maximum. By increasing the size of the payment and simultaneously requiring that contractors develop specific program services, HRA is making sure that the services for this group are appropriately incentivized.

Lesson Two: The Importance of Technology and Management

Technology is an integral tool for improving efficiency and effectiveness of large-scale social service programs that involve service delivery to tens of thousands of individuals each month. While performance-based contracting shifts the public sector into the role of contract manager as opposed to service provider, this shift emphasizes the need for a technology and management infrastructure that works across a whole portfolio of contracts to ensure accurate exchange of data, financial claims, and performance information. This framework provides the necessary solutions for understanding if the program is meeting its goals, and for giving public contract managers the tools to direct performance with the scale, accuracy, and timeliness also expected of vendors.

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New York City Work, Accountability and You (NYCWAY)

While planning the SAJP and ESP contracts, HRA knew that, in order to manage contracts with such a large volume of participant activity, the information flow between the agency and contractors would need to be seamless and automated. The agency had the beginnings of this infrastructure in place with a system called New York City Work, Accountability and You (NYCWAY). This system was first developed in 1995 as a subsystem to New York State's benefit eligibility system, the Welfare Management System (WMS), to track clients' employment activities.

In 1999, NYCWAY was enhanced to include participant referral, assignment, compliance, and outcome activity for the SAJP and ESP contracts. While NYCWAY was not designed as a comprehensive case management system, these new features made the system a management tool useful both for contractors and HRA. NYCWAY brought both parties onto the same page regarding such questions as how many participants were referred to a contractor at any given time, how many showed up, how long they stayed, and how many got jobs. The ability to closely monitor contractors' performance in real time was a foundation for integrating vendor services into HRA's monitoring of each program participant's case. Without the management information system utilized by both parties, according to Barnow and Trutko, "HRA would have a very difficult — if not impossible — time in implementing performance-based contracts."[17]

Payment and Claiming System (PaCS)

Performance-based contracts, especially those that are 100 percent performance-based, need to be supported by a timely and accurate payment processing system. In 1999 when the ESP and SAJP contracts started, this model was so new in New York City that HRA did not have a financial system in place to handle this type of payment activity.

The time delay between delivery of services and receipt of payment posed a hurdle for contractors that struggled under a payment model that required demonstrated performance before receiving any revenue. In response, HRA advanced some start-up funds under the agreement that money would be recouped once milestones were achieved. In 2000, one year after the start of the contracts, HRA built a new computerized Payment and Claiming System (PaCS), which automated the entire billing and payment process for these contracts. PaCS could identify milestones achieved in real-time from NYCWAY, reconcile necessary documentation needed for verification of milestone achievement, and process payments to the vendor. The creation of PaCS tightened the connection between attainment of the contract goals and payment for performance.

VendorStat

Leveraging the automated data from NYCWAY, PaCS, and other HRA data systems, in 2000 HRA developed a performance measurement system called VendorStat, which used up-to-date data to monitor contractor performance. Using the basic principals of a performance management system, the VendorStat model consists of three parts:

1. A monthly report compares each vendor site and vendor to itself and to all other vendors over time, based on several key performance measures (see Appendix B).
2. HRA conducts weekly meetings with a vendor, during which performance data are reviewed.
3. A follow-up action item tracking system documents issues, assigns issues to responsible parties, and tracks resolutions.

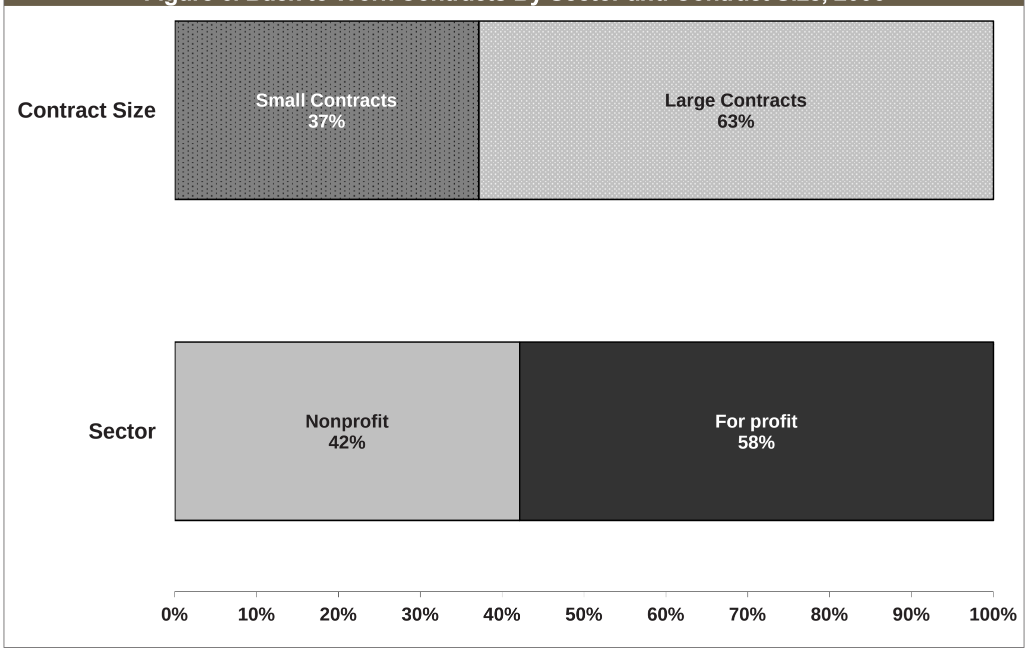
These three tools provide a platform for HRA and the employment vendors to track and manage performance in a timely manner.

HRA had long been committed to managing with data, and VendorStat is a prime example of it. According to Seth Diamond, former executive deputy commissioner at HRA, "VendorStat is a statement of agency priorities. The items contained in the tool should be the most important to the agency and should tell the contractors which areas should be their heaviest focus." Contractors seemed to concur. According to one senior executive, "We find it to be a good management tool for us. It allows for full transparency of the information. At the end of year/contract there are 'no surprises.'"[18]

Lesson Three: Tailor Management Strategies to Vendors

One of the strengths of the welfare-to-work programs in New York City has been the diverse community of vendors that have provided these services. While theories and models of contracting are often based on the assumption that contractors' decisions about service delivery are driven by financial calculus, the everyday reality in the human services sphere is more complex than

Figure 6. Back to Work Contracts By Sector and Contract Size, 2006



Source: New York City Human Resources Administration.[19]

financial considerations alone. Implementing management strategies that acknowledge these considerations and help recognize vendor differences are an important component of managing a performance-based contract. Organizational resources, philosophy, service delivery options, and management practices are all unique to a vendor and influence the performance they are able to achieve. The public sector's management strategy must consider how individual contractors behave and perform.

Figure 6 shows how the contracts for HRA's BTW program break down by two different factors. The BTW portfolio includes three contracts in excess of $10 million per year that make up 63 percent of the total portfolio, while the remaining five contracts make up 37 percent. Four contracts held by for-profit vendors comprise 58 percent of the portfolio, while nonprofits make up 42 percent.

Vendor differences do not imply that expectations for performance should be adjusted, but they may suggest differences in *how* vendors achieve the goals of the contract. For government administrators, effectively managing this diversity can allow cross-pollination of ideas and innovations while creating a laboratory for figuring out what works in the delivery of program services in the local context.

With regards to contract size, a notable pattern has emerged at HRA in the BTW contracts, where the placement rates for the small contracts (annual value of contract is less than $10 million) have averaged higher than those for large contracts (annual value of the contract is greater than $10 million). On average, vendors with small contracts achieved a 23 percent placement rate over the five-year period of 2006-2011, compared to a 21 percent rate for vendors with large contracts. To put this rate difference in perspective, if the performance by the larger vendors increased by the same rate as the smaller vendors, the BTW program would generate over 1,000 additional placements per year.

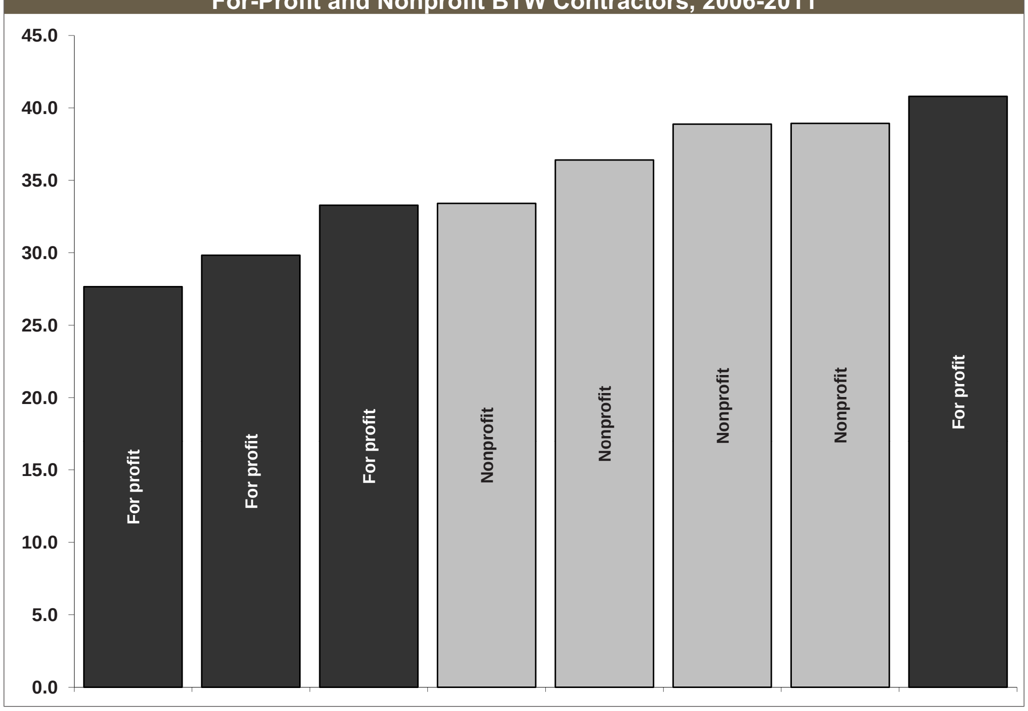
The size of the contract is only one structural characteristic that differentiates contractors. Contractors' strategies may also relate to differences in performance. For example, the speed of placements can indicate how focused a vendor is on a rapid attachment strategy. Another illustration is that higher paying starting wages may indicate greater selectivity regarding the initial labor market connection as part of a strategy that aims for tighter job matches.

The difference between nonprofits and for-profits highlights some of the ways that these vendor strategies can be seen in administrative data.[20] In the BTW program there has not been a significant overall difference in the placement and retention rates of for-profits versus nonprofits. Yet different service strategies show up in other data measures. With regards to initial wage for job placements from 2006 to 2011, for-profit vendors averaged $9.18, compared to the $9.45 achieved by nonprofit vendors. In terms of placement speed, the three vendors with the fastest placement timing are for-profit vendors, with averages from 28 days to 33 days, compared to 33 days to 39 days for the four nonprofit vendors. Figure 7 shows the full distribution of the average days to placement.[21]

Management of for-profit vendors has therefore stressed the importance of making quick placements while still meeting the retention milestones at 30, 90 and 180 days. Management of nonprofit vendors has focused on the need to ensure that service strategies still produce a high volume of placements despite the longer time it takes to find a job for clients. However, the differences between for-profit and nonrofit vendors are not perfect. One for-profit vendor averaged 40 days, the longest average period between referral and placement among the eight vendors. Vendor behavior is thus not easy to predict; similar vendors may perform in very different ways.

Given the complexities of human service program delivery, these factors provide a rough map for understanding how vendors are operating. These examples point to the need for a management strategy that looks at differences and similarities across the portfolio, and that focuses on ensuring that vendor strategies

Figure 7. Average Days From Referral to Placement of For-Profit and Nonprofit BTW Contractors, 2006-2011



Source: New York City Human Resources Administration, Back to Work VendorStat Report.[22]

are aligned with agency goals.

Lesson Four: Ensure Flexibility and Learn From Experience

Over time, the context for programs changes. Internal contexts, such as the characteristics of cash assistance recipients, can change. External contexts, including the economy, local job markets, and governmental policy, can all change as well. For programs to stay relevant, the agency needs to learn from its experience with contracts, and continually adapt to these changing contexts. In performance-based contracts, making sure that the contracts adapt is essential.

An example of the need for flexibility in a contract was discussed in an earlier example, where HRA used a contract renewal to rebalance payment milestone amounts in 2002. While changing what the contract paid for was not possible without a new round of procurement, how much the contract paid for each payment point could be adjusted. Since the overall amount that HRA was paying per participant was unchanged, the adjustment was possible. Without this flexibility, HRA's strategy for improving job retention would not have been possible.

For programs to stay relevant, the agency needs to learn from its experience with contracts, and continually adapt to these changing contexts. In performance-based contracts, making sure that the contracts adapt is essential.

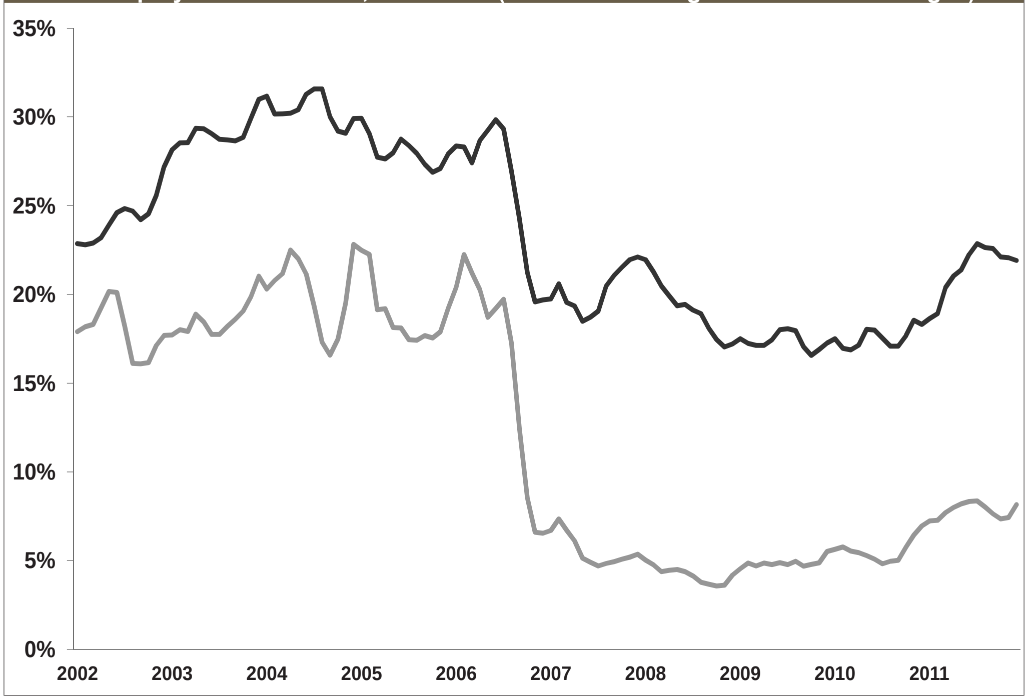
Changing the Service Delivery Model

HRA's first generation of performance-based employment programs split participants between two different contracts, one focused on *applicants* for cash assistance and the other on cash assistance *recipients*. In the early stages of the program, HRA found value in this model. It was the first time many of these participants had ever been engaged in an employment program, and the vendors successfully connected thousands of clients to jobs and self-sufficiency. Over time, as the most job-ready participants left the program for work, it was clear that the participants who were now entering the program needed more in terms of time and services.

When designing the BTW program, HRA re-evaluated the service model, with an eye on how to keep participants seamlessly engaged with their vendor. A lack of this relationship was reflected in high no-show rates by participants referred by the job center to the vendor for employment services. Under the ESP program, if a participant did not report to the assigned vendor, they were eventually assigned to a different vendor, allowing them to cycle through different vendors and limiting the accountability between vendors and job centers. The BTW program design addressed this issue by requiring the contractors to serve both cash assistance applicants and recipients and linking each job center to only one vendor. The goal was to build better relationships between job centers and contracted vendors, and between clients and vendors.

Figure 8 shows that this change led to the desired result and improved the overall front-end efficiency of the employment system. Between 2002 and 2006, the first generation of contracts had

Figure 8. Failure to Report to Initial Appointment Rates For Employment Contracts, 2002-2011 (Based on Rolling Three-Month Averages)



Source: New York City Human Resources Administration.

"failure to report" (FTR) rates of between 25 percent and 30 percent. Starting with the new BTW contract at the end of 2006, the FTR rates dropped dramatically from 30 percent to around 15 percent, and remained stable at that level. The sudden drop came from a renewed management focus by job centers and the structural changes in the contract to create more efficient program operations.

The Perspectives of Contracted Vendors

A performance-based contract requires a nimble vendor that can operate within the constraints of performance payments, survive with back-end payments, handle a large flow of clients, and adapt as HRA's needs change.[23] Since some may not be able to operate under these conditions, they may struggle under performance-based contracts.

When TANF was first implemented in the late 1990s, the for-profit service delivery sector began to play a larger role in providing employment services under government contracts. For-profit contractors felt that they could provide these services more efficiently and at a lower cost than nonprofit organizations and governments. A number of for-profit organizations operated nationally and they brought their experience and management expertise in setting up and running programs in NYC. If necessary, they subcontracted with local community-based organizations (CBOs) to provide services in which they did not have expertise.

Recent interviews with for-profit vendors revealed that they have been pleased with performance-based contracts from the beginning to the present.[24] These findings echo those reported by Barnow and Trutko in a 2003 article, which showed, that in comparison to other types of contractors, for-profit contractors were much more enthusiastic about performance-based contracts.[25] In an interview with Barnow and Trutko, one of the for-profit contractors, enthusiastic about the private sector spirit, said that "with performance-based contract you get paid for results, not process."[26]

This changing profile of service providers appeared during the renewal of SAJP and ESP contracts. Of the original 15 SAJP and ESP contracts, nine were nonprofits and six were for-profits.[27] All but two nonprofit organizations, and half of the for-profits, were based in New York City. Two of the ESP nonprofit contractors could not perform under these conditions and withdrew. But the number of BTW contracts fell quickly. Eight of the original 15 contractors, four for-profit and four nonprofit, were awarded BTW contracts in 2006.

Interviews with contractors show that vendors are mostly happy with the contract arrangement. According to one contractor, "We want to get paid for our results and will do well under this system. If you are good, competition is useful."[28] In a 2011 interview, an executive of a large nonprofit, who has participated in HRA's performance-based contracts from the beginning, expressed a similar sentiment; "A performance-based contract gives us autonomy and allows us to be creative. It also allows us to change the program and incorporate the best-practices from what we have learned."[29]

Recent interviews with two for-profit organizations show that they too continue to be satisfied with performance-based contracts. According to one vendor, "performance-based contracts create a level playing field." They feel that contractors who can deliver services with innovative strategies and respond to changes in clients will be competitive.[30] At the same time, a small for-profit contractor felt that the burden of paperwork in the Back to Work contracts has increased, especially after TANF reauthorization when states and localities were required to track attendance. According to this vendor, the contract should be hybrid, a line item for extra paperwork and a performance payment for outcomes such as placement and retention.

Agency Outcomes

HRA implemented performance-based contracts for welfare-to-work employment services as part of a strategy to increase the employment and job retention for New Yorkers in the cash assistance system. Since the early 1990s, HRA has seen large declines in the caseload, increases in placements, and a steady upward trend in job retention. HRA's performance-based employment contracts have contributed to these outcomes, even across ups and downs in economic cycles.

Sustained Declines in the Caseload Coupled With Continued Strong Employment

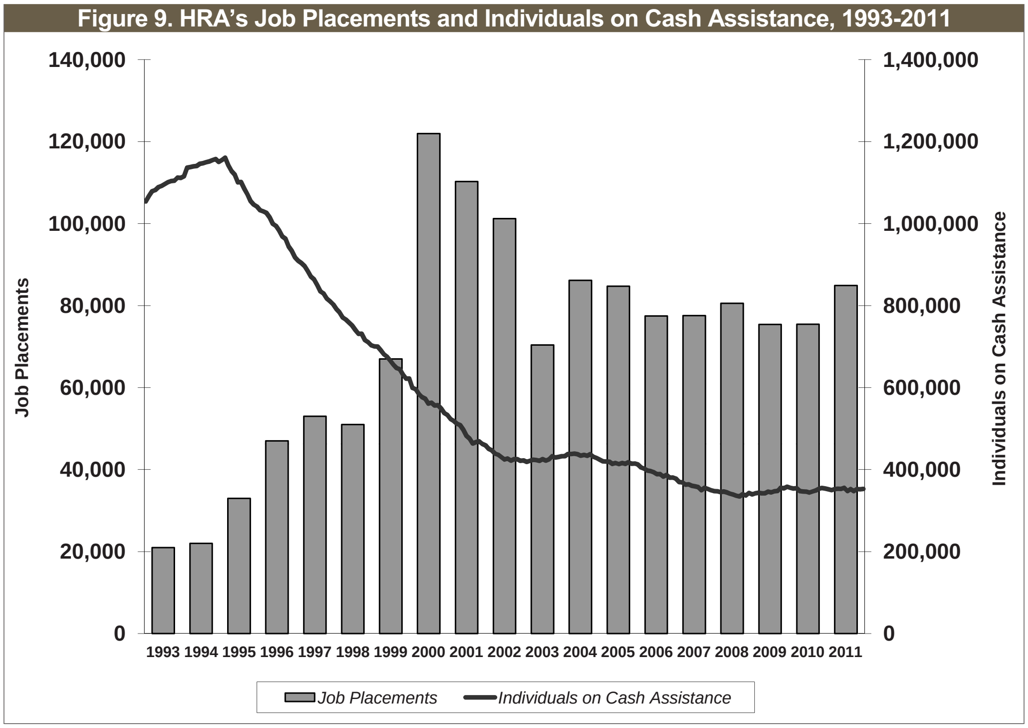
From the caseload peak in 1995 at 1.1 million, the number of individuals receiving cash assistance in New York City fell nearly 70 percent as of the end of 2011. Following steady declines through the 1990s, the caseload has resumed its general downward trend over the past decade despite several periods of temporary increases. The caseload remains at low levels last seen in the 1960s (see Figure 1).

Prior to HRA's adoption of full engagement and the employment-focused strategies discussed earlier, the agency had achieved annual placements in the range of 20,000 to 30,000. The focus on full engagement in the late 1990s coincided with an upward push in placements. When the new employment contracts began operating partway through 1999, the number of placements rose to around 65,000. During the initial full year of contracted operations, HRA achieved over 120,000 placements, a 300 percent increase over 1995 (see Figure 9).

HRA's employment contracts have had both a direct and an indirect effect on the improved agency placements. Table 1 shows the total agency placements, and the percentage of placements that were directly attributed to vendor reported placements. This measure of the direct effect shows that between 8 percent and 17 percent of placements are reported by vendors. This underreports the vendor contributions, since some vendor placements may not get attributed through this method unless the job is immediately reported by the vendor before it is captured at an HRA job center. The overall role of vendors on outcomes is larger than what is captured in Table 1.

Part of the continuing success of HRA's approach has been that the strategy has helped motivate some participants to search for and find jobs on their own. Those who have needed the services provided through the employment programs have been able to work with a vendor to successfully connect to a job, while others have used other resources or new found motivation to find employment. Had there not been a focus on full engagement and mandated vendor participation, fewer participants may have searched for jobs on their own, as shown in Figure 9 by the lower placements prior to the implementation of these strategies. This significant portion of indirect placements has made HRA's overall high volume of

Figure 9. HRA's Job Placements and Individuals on Cash Assistance, 1993-2011



Source: New York City Human Resources Administration.[31]

Table 1. HRA's Job Placements and Percentage of Placements From Vendors 2000-2010

Year	HRA Placements	Percent of Placements Directly Reported by Vendors
2000	121,971	8%
2001	110,261	10%
2002	101,212	11%
2003	70,410	14%
2004	86,152	17%
2005	84,729	12%
2006	77,482	17%
2007	77,568	12%
2008	80,559	12%
2009	75,398	13%
2010	75,438	14%

Source: New York City Human Resources Administration – NYCWAY and PaCS.[32]

placements possible. While the agency pays for the direct placements achieved by the vendors, the entire system benefits from the indirectly achieved placements.

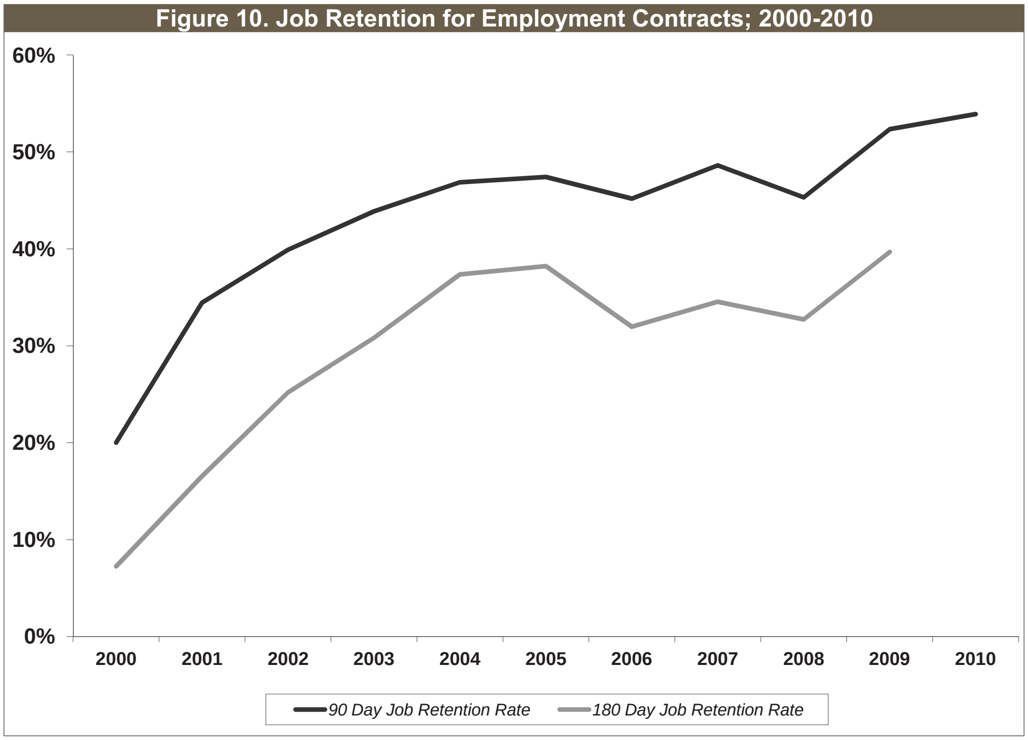
Additionally, throughout the past decade, as the caseload has remained low, the high volume of placements for the agency has been sustained. Since 2004, the agency has achieved over 75,000 placement each year, showing that HRA's employment strategy remains a relevant approach to achieving the agency's overall mission of self-sufficiency for New Yorkers.

Retention Increased and Remained Stable

The agency's inclusion of retention payment milestones has focused vendors on ensuring not only job placement but also continued employment and advancement as a path to self-sufficiency. As shown below in Figure 10, the employment program retention rates have increased significantly over the past decade.

Vendors have continued to improve and expand their retention strategies — from giving clients transportation vouchers, to providing access to professional business attire, to giving them a financial bonus for employment retention milestones. The sustained retention numbers demonstrate that vendors work with participants to stay connected to the labor market and to navigate the potential hurdles in the early stages of their new-found employment.

Figure 10. Job Retention for Employment Contracts; 2000-2010



Source: New York City Human Resources Administration — NYCWAY and PaCS.[33]

Conclusion

The primary reason to rely on performance-based contracting is to align the vendors' interests with those of the party that issued the contract, commonly referred to as the "principal-agent" problem. A well designed and managed performance-based contract can provide strong incentives for the contractor (agent) to adopt not only the objectives of those who contracted (principal) but also adapt to changing circumstances over time.

The lessons articulated here have emerged over the years as HRA has used performance-based contracts to improve the delivery of employment services for tens of thousands of job seekers each year. HRA has used data-based management and continuous monitoring to improve the performance of the employment system. Such improvements allowed contractors to respond quickly to changes in policy and labor market environments and meet the needs of job seekers referred by HRA. These data-driven illustrations describe some of the strategies that HRA used to harness the power of performance-based contracts. The results and lessons learned also support the findings summarized in Heinrich and Marschke.[34] The contract dynamics explored here show the concrete ways management choices can drive contractors' performances.

HRA's use of performance-based contracts for welfare-to-work employment programs has demonstrated the adaptability of this strategy for helping participants find and retain employment. This paper has shared a number of lessons about the design, implementation, and management of these types of contracts, detailing how decisions by public managers can affect contract performance.

Endnotes

1 Personal Responsibility and Work Opportunity Reconciliation Act of 1996. 1996. Pub. L. No. 104-193.

2 M. Bryna Sanger, *The Welfare Marketplace: Privatization and Welfare Reform* (Washington, DC: Brookings Institution Press, 2003), chapter 1.

3 U.S. Department of Health and Human Services. In 1993, there were 14,205,484 Aid for Families with Dependent Children (AFDC) recipients nationwide, and 816,589 in New York City according to NYC HRA data. The AFDC program was the assistance program that was replaced by TANF. This calculation does not include cases from New York State's Home Relief (HR) program, which largely covered single adults not eligible for assistance under AFDC guidelines.

4 Sanger 2003, 12.

5 Initially, the contracts also provided services for individuals not applying for or receiving cash assistance, but who received services through the Job Training Partnership Act, which was later replaced by the Workforce Investment Act. These funds for adult programs were administered by the New York City Department of Employment, which was merged with HRA in 1999. Responsibility was later transitioned to New York City's Department of Small Business Services in 2002. For more information about this transition see Ester R. Fuchs, Rachel Hare, and Hannah Nudell, "Innovations in City Government: The Case of New York City's Workforce Development System." Columbia University School of International and Public Affairs: Case Study Series in Global Public Policy: 2008, Volume 1, Case 1.

6 Internal document, New York City Human Resources Administration, 1999.

7 Jason Turner, comments on earlier draft of the paper, 2011.

8 ESP dollar amount listed here includes WIA funds.

9 An account of the conversion of welfare offices, previously known as Income Support Centers, into Job Centers, is covered in Demetra Smith Nightingale et al., *Work and Welfare Reform in New York City During the Giuliani Administration: A Study of Program Implementation* (Washington, DC: The Urban Institute Labor and Social Policy Center, 2002).

10 Data prepared for program solicitation, New York City Human Resources Administration, 1999.

11 Work Experience Program (WEP), sometime also known as workfare, required that cash assistance recipients not employed in the regular labor market to report to WEP jobs mainly in public agencies as a condition of their grant. For more about New York City's use of WEP as an engagement strategy see Nightingale et al., 2002.

12 For a discussion of the principal-agent model applied to employment and training programs, see Gerald Marschke, "The Economics of Performance Incentives in Government with Evidence from a Federal Job Training Program," in *Quicker, Better, Cheaper? Managing Performance in American Government,* ed. Dall W. Forsythe (Albany, NY; Rockefeller Institute Press, 2001), 61-97; and Burt S. Barnow, "Exploring the relationship between performance management and program impact: A case study of the job training partnership act," *Journal of Policy Analysis and Management* 19, 1 (Winter 2000): 118-41.

13 An important piece of the performance-based contracting experience also involves the procurement process, which is not covered in this paper.

14 HRA has largely employed a milestone-based approach when structuring the welfare-to-work contracts discussed in this paper, and consequently the analysis presented here focuses on how to make this approach work. There are, however, many other approaches to designing payments for performance-based contracts not encompassed in HRA's approach. For a more thorough list of design approach see Lawrence L. Martin, "Approaches to Performance-based Contracting (PBC) for Social Services" (Lexington, KY: University of Kentucky, Quality Improvement Center on the Privatization of Child Welfare Services, 2007).

15 Based on a maximum payment of $5,500. For details about variations in payment among vendors in ESP, see Appendix B.

16 This bonus was paid for individuals who had reached their five year limit on federal TANF assistance. New York State statutes require that those remaining on assistance after five years continue to receive benefits, so these cases are converted to a separate program funded exclusively by New York State and individual localities. Given the timing of welfare reform, the first group of recipients that had reached their five year time limit on federal assistance began in 2001.

17 Burt S. Barnow and John W. Trutko. "Placing Welfare Applicants and Recipients in Jobs through Performance-based Contracting," in *Managing Welfare Reform in New York City* , ed. Emanuel S. Savas (Lanham, MD: Rowman and Littlefield Publishers, Inc., 2005), 235.

18 Virgina Cruckshank, senior vice president, F.E.G.S.

19 All calculations are based on original contract values, and do not consider adjustments made over time to the contract values. Large contracts as depicted here include contracts with annual values above $10 million. These calculations do not consider the overall size of the organization.

20 For additional discussion, see Andrew R. Feldman, *What Works in Work-First Welfare: Designing and Managing Employment Programs in New York City* (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2011), 44.

21 While the fastest placement timings are all held by for-profit vendors, it is notable that the highest days to placement is the fourth for-profit vendor, who is at the opposite end of the distribution compared to its other for-profit counterparts.

22 Since some recipients have been referred multiple times to the program, the average number of days is calculated from the most recent referral prior to the date that the vendor reports a placement. Placements only include placements as defined by the contract payment milestone; reported placements that are not verified are not included in the calculation.

23 HRA did provide start-up funding to the contractors. This funding was recouped from the performance-based payments.

24 Interviews conducted by Dr. Swati Desai with Dr. Lee Bowes of America Works and Dr. Susan Melacarro of CEC.

25 Barnow and Trutko 2005, 244.

26 Ibid.

27 Of the original 17 contracts, one contract was cancelled due to technicalities and three vendors had both SAJP and ESP contracts.

28 Sanger 2003, 53.

29 Linda Scarce-Turner, Goodwill Industries of Greater New York and New Jersey, interview by Swati Desai, May 2011.

30 Lee Bowes and Susan Melocarro, interviews by Swati Desai, May 2011.

31 The data in the chart reflects only placements for Cash Assistance recipients and applicants. It does not include placements for other populations served by the agency, which are included in the regularly published HRA placement counts.

32 Ibid

33 Retention as discussed here only includes retention outcomes that were verified and paid for through the employment programs, out of all vendor placements. Since the Back To Work contract shifted the placement verification and placement process to 30 days of employment, the rates depicted here use reported placements for the Back to Work contract, and paid placements for SAJP and ESP. Retention rates for 180 days only include ESP and BTW contracts, since the SAJP retention period only extended to 90 days.

34 Carolyn J. Heinrich and Gerald Marschke. "Incentives and Their Dynamics in Public Sector Performance Management Systems." *Journal of Policy Analysis and Management* 29, 1 (Winter 2010): 183-208.

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About The Nelson A. Rockefeller Institute of Government

The Nelson A. Rockefeller Institute of Government, at the University at Albany, is the public policy research arm of the State University of New York. The Institute was established in 1982 to bring the resources of the 64-campus SUNY system to bear on public policy issues. The Institute is active nationally in research and special projects on the role of state governments in American federalism and the management and finances of both state and local governments in major areas of domestic public affairs. Thomas Gais is director of the Institute. Swati Desai is a senior fellow with the Rockefeller Institute and an affiliated scholar with the Urban Institute. Lisa Garabedian is the assistant deputy commissioner and Karl Snyder is a senior project manager at the Office of Data Reporting and Analysis, New York City Human Resources Administration. Michael Cooper, the Institute's director of publications, was responsible for production of this report.

Appendix A. Employment Contracts 1999-2011

	Skill Assessment & Placement Contracts (SAP)		Employment Services & Placement Contracts (ESP)		Back-To-Work Contracts (BTW)
	Original	Renewed	Original	Renewed	Original and Renewed
Dates	1999-2002	2003-2006	1999-2002	2003-2006	2006-Present (will expire in 2012)
Annual value	$29,900,000	$42,000,000	$78,500,000	$45,700,000	$53,200,000
Acquisition	Negotiated acquisition		Negotiated acquisition		Competitive RFP process
Number of prime contractors	5	4	12	10	7
Primary target population	Cash assistance applicants		Cash assistance recipients (Also included WIA eligible populations through 2002)		Cash assistance applicants & recipients
Vendor Assignment	Each center is served by one vendor		Random assignment of participants based on geography		Each center is served by one vendor
Service duration	Up to six weeks		Up to six months with a single vendor		Vendor works with participant as long as the Agency assigns them to job search
Max payment per participant	$2,500		$5,350 average ($4,600 - $5,500)		$3,800 average ($2,700 - $5,500)
Contract structure	*Individual milestones:* • Assessment • Engagement • Full-time job placement -or- Part-time job placement • 90-day job retention *Bonus milestones:* • Case closure due to earnings (at 90 days)		*Individual milestones:* • Job placement • 90-day job retention • 180-day job retention *Bonus milestones:* • High wage (at 90 days) • Case closure due to earnings (at 180 days)		*Aggregate population milestones:* • Engagement • Participation (discontinued 2010) *Individual milestones:* • Assessment • 30-day job placement • Job retention & career plan (discontinued 2011) • 90-day job retention • 180-day job retention *Bonus milestones:* • Job placement for sanctioned or time-limited participants • Case closure (at 90 days) • Wage gain (at 180 days)
Distribution*					
Assessment	10%	10%	-	-	5%
Engagement	20%	20%	-	-	-
Placement	60%	35%	37%	23%	35%
Job retention plan	-	-	-	-	5%
90 day retention	10%	35%	36%	50%	29%
180 day retention	-	-	27%	27%	25%

* Percentages based on weighted averages. Distribution does not include aggregate milestones. Payment point distribution includes associated bonus payments. May not add to 100% due to rounding.

Appendix B. Sample Back To Work VendorStat Report v2.0

HUMAN RESOURCES ADMINISTRATION
BTW Vendor
Back to Work VendorStat
September, 2011

A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	V	W	X	Y
		Center/Site									**Vendor**									**All Vendors**				
	Month	Denom	**Sep-11**	Rk	**3 Mo.**	Rk	**YTD**	Rk	**Prog TD**	Rk	Denom	**Sep-11**	Rk	**3 Mo.**	Rk	**YTD**	Rk	**Prog TD**	Rk	Denom	**Sep-11**	**3 Mo.**	**YTD**	**Prog TD**
Assessment & Compliance																								
1 Paid EP Completion Rate-NonFTR	Aug-11																							
2 Unpaid EP Rate	May-11																							
4 Failure to Comply (Applicants)																								
5 Failure to Comply (Undercare)																								
Placements																								
6 Paid 30 Day Placement Rate	May-11																							
7 % of 160 F/P paid	Jun-11																							
8 % of 160 D paid	Jun-11																							
9 Mean Wage																								
10 Median Wage																								
11 JRCP Paid Rate	Jul-11																							
Retention																								
12 90 Day Paid Retention	Apr-11																							
13 90 Day Returned to CA(Unbilled)	Apr-11																							
14 90 Day Unbilled	Apr-11																							
15 180 Day Paid Retention	Jan-11																							
16 180 Day Returned to CA(Unbilled)	Jan-11																							
17 180 Day Unbilled	Jan-11																							
Other																								
18 % of Previously Seen Referrals																								
19 % of Good Cause Granted	Aug-11																							

Director:
Sr.Manager:
Contract Term:
Centers Served:

Demographics	Sep-11
Avg Age	
% of Cases with Child < 13	
% Female	
% Male	

% TANF	
% SNET	
% CONV	

Language Spoken	
English	
Spanish	
Chinese	
Russian	
Other	

No. of Months on CA	Sep-11	3 Mo.	YTD
No. of Months on CA			

Contract Expenditure Rate	CTD
% of Contract Amount Spent	
% of Contract Elapsed	

	2011												**YTD Avg**			
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**2011**	**2010**	**2009**	**2008**
Referrals																
Applicants																
Undercare (Rollover)																
Undercare (Return 90 days)																
Undercare (New 90 days)																
Open Cases																
Applicant																
Undercare																
160F/Ps Entered																
Applicant																
Undercare																
Full Time																
Part Time																
Paid Milestones																
Employment Plan																
30 Day Placement																
160F/P Paid																
160D Paid																
160G Paid																
JRCP																
90 Day Retention																
180 Day Retention																

Employ Svcs Referrals	Sep-11	Aug-11	Jul-11
BEGIN			
TAG			
Business Link appts.			

ITA Training	Sep-11	Aug-11	Jul-11
Part-time Training			
Full-time Training			

Back-to-Work Vendorstat
Office of Data Reporting and Analysis
6/13/2012