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Outcomes-Oriented Contracting

Unlocking Economic Opportunity for Low-Income Communities

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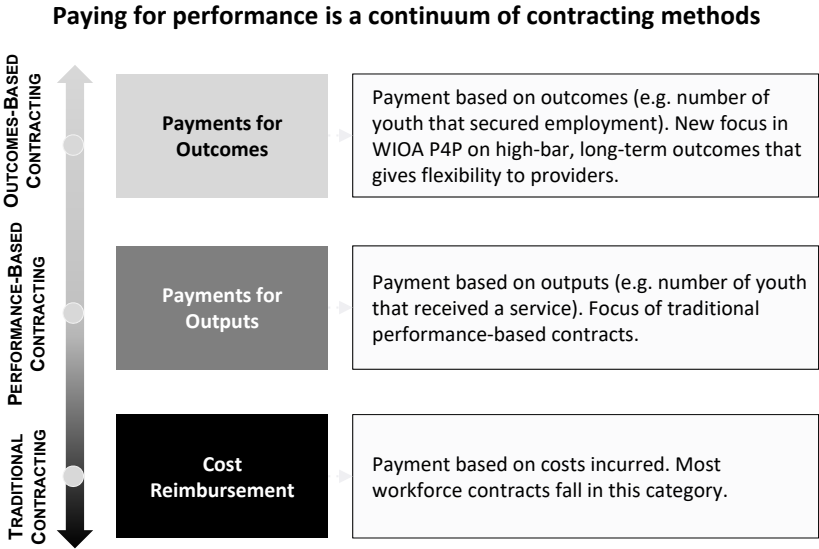
The \$13 billion public workforce system limits innovation by relying mostly on cost-reimbursement contracts. These contracts often prescribe services and prohibit providers from adapting to population needs. The federal government pours dollars into disconnected services that focus on short-term results that incentivize serving individuals who face fewer barriers to employment. Outcomes contracting is key in transforming the federal agencies that fund workforce programs into engines for economic opportunity by reinventing a vital but widely overlooked link in the workforce funding system—public sector contracts.

At the community level, this directly affects who has access to economic opportunities. In Northern Virginia’s Fairfax, Loudoun, and Prince William Counties, for example, the Workforce Investment Act and Workforce Innovation and Opportunity Act (WIOA) Youth programming has enrolled an average of only nine youth each year since 2011 who are involved in the foster care or juvenile justice systems.¹ We know that these youth populations face increased barriers to educational attainment and access to good-paying jobs, so why haven’t workforce services prioritized them?

How can we change the system to focus services on those who need it most? This is exactly the question that Northern Virginia is asking—and answering—using the recent Pay-for-Performance (P4P) provisions in WIOA. These counties are using outcomes-based contracts to prioritize youth previously not served by the workforce system. By offering bonus payments linked to achieving workforce outcomes for foster care– and juvenile justice–involved youth, Northern Virginia has aligned contract incentives to ensure that these youths are not left out.

While demand has increased for evidence-based programs that are proven to more effectively achieve outcomes such as wage growth over time and educational attainment, focusing on specific programs does not address the system failure of the current cost-reimbursement status quo. Emphasizing impacts, not specific programs, outcomes-based contracts embed data to provide feedback to improve services and reward providers that achieve results (see Figure 4.1). To enable payments linked to outcomes, these contracts necessitate the linking, sharing, and analyzing of administrative and program data. By changing what government pays for and how, we unlock innovation by enabling workforce organizations to experiment, scale what works, and deliver sustained results. Outcomes-based contracts are making measurable differences in communities from Northern Virginia to San Diego, to Austin, Texas, and it can happen across the country.

Figure 4.1 Continuum of Contracting Methods



SOURCE: Third Sector Capital Partners.

COMPONENTS NECESSARY FOR SUCCESS

Policy

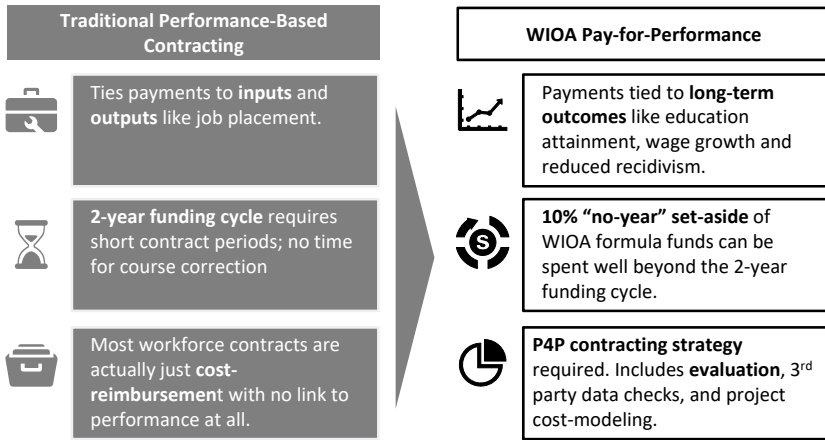
Important changes in the 2014 WIOA, including P4P, represent both a new iteration in the long history of performance-based contracting, as well as an evolution in Pay for Success. While the workforce system has benefited from decades of performance-based contracts, those attempts to pay for results tended to define results as inputs, like program enrollment, and outputs, like job placement. Certainly, some outcome measures were tracked, but given the short two-year funding cycle, it was not possible to develop contracts that would link payment directly to high-bar, long-term outcomes for participants, such as wage growth over time or advanced degree attainment. And while some contracts are performance-based, the majority of workforce contracts are still cost-reimbursement.

By contrast, as seen in Figure 4.2, funding made available through the WIOA P4P differs from traditional performance-based contracts in the following ways:

- Focus on long-term outcomes. WIOA performance measures track participant outcomes further out than the Workforce Investment Act did, assessing outcomes at four quarters after the end of a program in addition to the previously required two quarters. With WIOA P4P, jurisdictions can structure contracts in new ways that allow for longer timelines for interventions and payments based on even longer-term outcomes.
- 10 percent set-aside “no-year” funds. By putting payment points well beyond the normal two-year WIOA funding cycle, funders can offer sites the flexibility to focus on long-term outcomes. Local areas can now link payment to long-term success for young people, incentivizing providers to address the needs of participants holistically with comprehensive services, in addition to linking to other resources and programs, such as TANF, SNAP, and career and technical education.
- Additional rigor. The use of P4P requires the development of a contracting strategy that includes third-party data validation, population analysis, and cost modeling.

Figure 4.2 Comparing Performance-Based Contracting to WIOA Pay-for-Performance

WIOA incentivizes workforce agencies to structure outcomes-oriented Pay-for-Performance contracts to achieve longer-term, high-bar outcomes



SOURCE: Third Sector Capital Partners.

Local Buy-In and Cooperation

P4P has provided a rallying point for governments, employers, providers, and funders to come together and strategize on how to better serve communities. WIOA allows states to develop combined plans that link funding and services across workforce programs, including TANF, Perkins CTE, and SNAP E&T. Combined plans enable more seamless implementation of systems of services while efficiently using shrinking funds across the many federal workforce programs.

Data Integration and Accessibility

Because outcomes-based contracting requires government agencies to integrate administrative data systems and share data across programs and agencies, these agencies are then better able to target their services to those most in need, correctly price their outcomes of interest, track performance, and develop an ongoing performance feedback loop that

allows both government and providers to adjust and improve. This leads to better understanding of population needs, moving toward a seamless experience for the individual service recipient.

THREE CASE STUDIES

In 2016, as part of the Social Innovation Fund grant from the Corporation for National and Community Service, Third Sector partnered with workforce boards in Austin, Boston, Denver, San Diego, and Northern Virginia to leverage outcomes-based contracting models to strengthen youth programming in their communities. The three jurisdictions moving to contract launch in 2017 each developed unique approaches, demonstrating the power of P4P and outcomes-based contracting in a diverse range of communities. Northern Virginia used a model that incentivized stretch goals for serving a new population, leveraging data that was already being collected. San Diego developed a contract that blended output and outcome payments requiring data sharing across workforce and justice systems, as well as access to long-term wage data. Austin leveraged private sector data to develop cost models for employer outcome payments that will allow them to grow their youth employment program.

Northern Virginia

Northern Virginia's use of P4P is a great example of how a simplified outcomes contract, using available data, can bring a focus on equity, serving a high-need population that was previously ignored (see Figure 4.3). With their new P4P contract, Northern Virginia aims to serve 100 youth, about one-third of the total number served, aged 18–24, who have been involved in foster care or juvenile justice. Northern Virginia Team Independence, a new mobile unit, will meet these young adults at nontraditional locations. Their goal is to exceed WIOA Youth Program Measures for this harder-to-reach population, including helping more of these young people get into and stay in school, get and keep jobs, earn more, and learn real skills.

Figure 4.3 Overview of Northern Virginia’s Pay-for-Performance Project

The SkillSource Group, Inc. is focused on justice and foster care involved youth


| | |
|--|---|
| Objective: Improve education and employment outcomes for youth involved in justice system or aging out of foster care system by leveraging WIOA P4P funding | |
| Service Population | <ul style="list-style-type: none"> • 100 youth (18-24 years old). About 1/3 of total youth served. • Not in school or working • Involved in juvenile justice and/or foster care systems |
| Intervention & Provider | <ul style="list-style-type: none"> • Northern Virginia Team Independence • Fairfax Department of Family Services |
| Improved Outcomes | <ul style="list-style-type: none"> • Increased rate of educational placement and attainment • Increased employment placement / retention rate • Increased earnings • Measurable skills gain |

SOURCE: Third Sector Capital Partners.

Aside from reaching a new population of youth, this project is unique in that it was framed as a learning opportunity for all the stakeholders. The government partners have the opportunity to learn more about this service population and develop their ability to coordinate services and embed data within a contract. Because the outcomes payments were piloted as bonuses, providers are able to take a risk in serving a new population and increasing their own capacity to use data to adjust programming to meet the ambitious goals. As seen in Figure 4.4, the provider can earn a bonus payment of approximately \$712 per youth per outcome for a total bonus payment of \$2,848 per youth. These bonuses will be part of a three-year contract addendum with Fairfax Department of Family Services, with \$50,000 reserved each year for a total of \$150,000 in bonuses. Because the bonus payments are being incorporated by addendum, these provisions will be renewed with the rest of the contract.

Additionally, Northern Virginia stands as an example that helps to dispel the myth that outcomes contracting is inherently complex. First, there is only one data source involved for their initial contract, because they are leveraging WIOA performance data that are already being collected. Second, there is no money loss on the line, thanks to the use of WIOA P4P bonus payments. Providers have the chance to earn more by

Figure 4.4 Northern Virginia’s Pay-for-Performance Contracting Strategy Design

| Northern Virginia P4P Contracting Strategy Design | |
|---|---|
|  | <ul style="list-style-type: none"> • 3-year contract addendum with Fairfax DFS to include contingent WIOA outcome bonus payments • Bonus payments payable upon achievement of 4 WIOA performance measures • \$50K reserved each year for bonus payments (\$150K total) |
| WIOA Outcomes | Bonus Payment (Per Youth, Per Outcome) |
| Measurable Skills Gain During Programming | \$712 |
| Youth Placed in Employment, Training or Education (2Q After Exit) | \$712 |
| Youth Placed in Employment, Training or Education (4Q After Exit) | \$712 |
| Attainment of Degree or Certificate (Within 4Q After Exit) | \$712 |
| TOTAL: | \$2,848 |

SOURCE: Third Sector Capital Partners.

servicing a harder to reach population but won’t lose cost coverage for their services. Northern Virginia was able to take advantage of the fact that they have funds rolling over year to year to set up the bonus payment structure. The next phase of work aims to include justice data and outcomes, advancing the sophistication of the contract model over time as both government and providers learn and respond to data.

San Diego

The San Diego Workforce Partnership (SDWP) is using P4P to measurably improve outcomes for youth involved in the justice system in San Diego County. By combining the P4P provisions with evaluation and performance-driven service provision, SDWP aims to improve employment, education, and recidivism outcomes for these youth (see Figure 4.5).

San Diego’s P4P contract will serve up to 300 youth, aged 16–24, who are not in school or working and who have just served a court sentence. The provider, Second Chance, will work with youth to achieve increased rates of educational placement and attainment, increased

Figure 4.5 Overview of San Diego’s Pay-for-Performance Project

| | |
|---|--|
| Objective: Improve education, employment, and recidivism outcomes for justice-involved out-of-school youth | |
| Service Population | <ul style="list-style-type: none">• Up to 300 youth, ages 16-24• Not in school or working• Post adjudication + true finding + commitment• In Field Services or re-entry from Institutional Services |
| Provider | <ul style="list-style-type: none">• Second Chance |
| Improved Outcomes | <ul style="list-style-type: none">• Increased rate of educational placement and attainment• Increased wages• Increased rate of employment placement and retention• Reduced recidivism rate |

SOURCE: Third Sector Capital Partners.

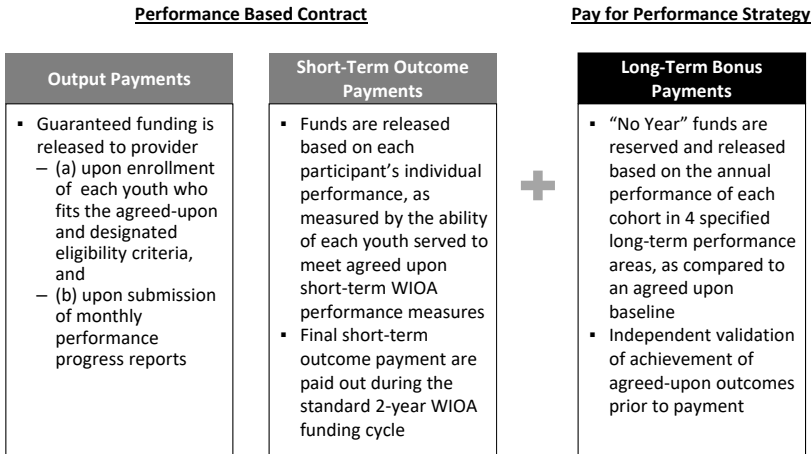
wages, increased rates of employment placement and retention, and reduced recidivism rates.

SDWP will be allocating \$1–\$2 million of its WIOA youth funds over four years to an outcomes-based contract that will include payments linked to specific short- and long-term outcomes. By using a combination of traditional performance-based contracting and P4P contracting methods, San Diego is able to develop an outcomes orientation focused on long-term impacts while meeting the cash flow needs of the provider through shorter-term output payments (see Figure 4.6).

By including reduced recidivism as a payment point, San Diego could partner with the justice system, working toward shared priorities. Synchronized services across justice and workforce allows for a more seamless and well-coordinated experience for the youth participants. Previously, providers were required to give youth the same types of training in the residential justice facilities and then repeat that training once the youth was being served through WIOA. Now, participants can get the training they need based on their own specific situation, not sitting through mandatory classes on repeat. Providers are freed up from overly prescriptive, compliance-focused contracts, and can use the data feedback loop embedded within the contract to improve services, customizing based on individual needs.

Figure 4.6 Overview of San Diego’s Pay-for-Performance Contract

San Diego’s payment plan combines performance-based contracting with P4P



SOURCE: Third Sector Capital Partners.

Austin

The exploration of P4P contracting in Austin began with a few unique and competing forces. On one hand, Workforce Solutions Capital Area (WSCA) was extremely satisfied with their youth workforce providers and the outcomes they were able to achieve. On the other hand, only a small fraction of Austin’s Opportunity Youth, youth who are not in school and not working, were being served by these high-quality programs. At the same time, the city of Austin is trying to fill 60,000 new jobs in the next few years, which will be challenging if there is a shortage of talented entry-level employees.

The main questions for Austin became how to leverage outside funding to expand the Youth Employment Program (YEP). Working with providers from Goodwill, Lifeworks, American Youthworks, and Communities in Schools, WSCA began to deepen their relationships with private employers to see how an outcomes-based contract might meet the needs of Austin’s opportunity youth population and its growing businesses (see Figure 4.7).

Figure 4.7 Overview of Austin’s Pay-for-Performance Project

| | |
|---|---|
| Objective: Improve education and employment outcomes for Opportunity Youth by using P4P concepts to secure more performance-based funding. | |
| Service Population | <ul style="list-style-type: none">• Austin’s Opportunity Youth<ul style="list-style-type: none">• 16-24-year-olds• Not in school or working |
| Providers | <ul style="list-style-type: none">• Youth Employment Partnership (YEP)<ul style="list-style-type: none">• Goodwill• LifeWorks• American Youthworks• Communities in Schools |
| Improved Outcomes | <ul style="list-style-type: none">• Placement of YEP youth into employment• Retention of YEP youth [at 6 months]• Advancement of YEP youth [at 1 year] |

SOURCE: Third Sector Capital Partners.

With employers as the end payers, the hypothesis is that youth who have gone through the program will be better workers and will have a positive impact on company culture. We know from more than a decade of data from Gap Inc.’s This Way Ahead program, which targets similar opportunity youth with employment training and work experience, that participants stay with the company twice as long as their coworkers in the same cities and show greater enthusiasm and company loyalty than their peers.²

Using employer data by industry, we developed sample cost models for outcomes payments linked to the placement of YEP youth into employment, retention of YEP youth (at least six months), and advancement of YEP youth (at one year). The cost model in Figure 4.8 shows proposed outcomes payments based on employer costs for a certified nurse’s aide. The sample payment structure can be refined using employer specific data, and as the value of YEP trained employees is proven, additional outcomes payments may be negotiated.

Austin’s approach defies the common assumption that outside investors must provide upfront funding for P4P or PFS contracts. Here, YEP will cycle the employer outcomes payments back into the program to scale services in future years.

Figure 4.8 Austin’s Employee Turnover Costing Tool

Employee Turnover Costing Tool
Sample Occupation: Certified Nurses Aide

| | | <u>Employer Costs</u> | <u>Outcome Payments</u> |
|----------|-------------------------------|---|--|
| A | Estimated Cost of Placement | <ul style="list-style-type: none"> • Cost of recruitment (development and management of job vacancy) • Cost of talent acquisition (including screening and selection process) | <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;">\$2,666</div> → <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;">\$1,333</div> |
| B | Estimated Cost of Retention | <ul style="list-style-type: none"> • Cost of new hire development • Cost of separation (including facilitation) | <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;">\$5,488</div> → <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;">\$2,744</div> |
| C | Estimated Cost of Advancement | <ul style="list-style-type: none"> • Cost of recruitment • Cost of talent acquisition • Cost of new hire development • Cost of lost productivity during job vacancy for advancement pathway | <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;">\$7,908</div> → <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;">\$3,954</div> |

SOURCE: Third Sector Capital Partners.

Any state or local government can adapt outcomes contracting and P4P models for their own needs and constraints. There is not a one-size-fits-all framework, and the diversity of the above examples is evidence of how different circumstances can lead to different solutions. P4P at first glance might seem too complicated, but each of these sites took a different approach based on the realities of data access, internal and provider capacity, partnerships in the community, and the needs of the service population. It takes effort and commitment to shift to an outcomes orientation for social services, but there is nothing standing in the way of taking that first step.

SUCSESSES AND CHALLENGES

Across these sites, we see benefits and challenges of using P4P to improve workforce outcomes. They can be categorized as follows:

Data, Outcomes, and Evaluation

Just getting individuals around the table to talk about data and outcomes was a huge benefit. For some localities, incorporating evaluators into the discussion was new, as was developing data sharing agreements. Sites need access to justice, tax record, academic, and employment data, which will help improve programs and direct funding where it is most needed. Not all sites were able to access their ideal data sources, and data access continues to be a time-consuming step in developing outcomes-based contracts. Workforce boards should look to state longitudinal data systems as potential partners in creating enhanced data access to support outcomes orientations.

Partnerships and Processes

Each site has also successfully formed new partnerships. Whether it was brain trusts, working groups, or formal collaboratives, getting folks from inside and outside government to collaborate in developing an outcomes-based approach has yielded wins across many topics. However, because P4P is new and runs up against current practices and protocols, some agencies and partners have pushed back against the changes out of risk aversion. Having a strong government champion can help to reassure and motivate partners to stay involved.

Service Provision and Population Served

The partnerships formed through this work have enabled in-depth assessments of target populations, resulting in a deeper understanding of the needs and challenges of typically underserved groups. Through these assessments, locations were able to reach consensus on a very specific target population focus and also prioritize where and how to deliver services to achieve the greatest impact. The ability to focus on populations most in need of service but previously left out, as in Northern Virginia, or the ability to customize services to the individual needs of the youth, as in San Diego, has allowed jurisdictions to enhance the equity of their services while deploying funds effectively and efficiently.





HOW TO GET STARTED?

Every government, provider, funder, or community can begin the journey toward an outcomes orientation, no matter their starting point. First, examine current contracts and procurement opportunities. Every procurement is an opportunity to align resources with results, and outcomes payments can be incorporated into a larger contracting strategy. Starting small is a great way to build outcomes orientation muscles, allowing all parties to learn and grow.

Second, get to know your service population, the interventions in your community, and the data that tell you how they are doing. Partnerships with local community colleges can help with access to outside data and potentially folks who are willing and able to do some initial analysis. Third, turn your data into actionable information by embedding it in contracts, building in governance policies that link data, and sharing it with providers to enable learning over time. Sharing data before linking it directly to payments may be one way to get reluctant partners to the table by reducing the risk while emphasizing the benefit. Finally, seek support and increase your capacity by partnering with intermediary organizations or requesting technical assistance from the Department of Labor (see Figure 4.9).

Figure 4.9 Considerations in Developing an Outcomes Orientation

Developing an Outcomes Orientation

| | |
|---|--|
|  | PROCUREMENT POWER: Every procurement is an opportunity to align resources with results – use it! Outcomes payments can be part of a larger contracting strategy, and it is ok to start small. |
|  | INVESTIGATE: Get to know your service population, the interventions in your community and the data that tells you how they are doing. |
|  | LINK DATA: Turn your data into actionable information by embedding it in contracts. Start small, building in governance policies that link data and share it with providers to enable learning over time. |
|  | SEEK SUPPORT: Increase your capacity and the time dedicated to outcomes-oriented contracting by partnering with experts and requesting TA from the Department of Labor. |

SOURCE: Third Sector Capital Partners.

In reinventing a vital but widely overlooked link in the workforce funding system—public sector contracts—we can shift government’s focus from delivering specific services to achieving measurable outcomes. By holding service providers accountable for results without prescribing interventions, outcomes contracts offer much-needed flexibility to experiment with new approaches and technologies. If workforce systems are contracting for outcomes, evidence-based practices no longer need to advocate for political will—agencies are incentivized to use them through the contracting process. Changing how and what government pays for becomes a systemic way to scale what works and deliver sustained results for communities.

Notes

1. SkillSource participant data.
2. See Gap Inc. <https://www.bewhatspossible.com/thiswayahead> (accessed April 13, 2018).