
WELFARE-TO-WORK IN INDIANAPOLIS

A PRELIMINARY EVALUATION

Prepared for

City of Indianapolis

and

Indianapolis Private Industry Council

By

Jack A. Meyer

Nancy S. Bagby

Marilyn E. Klotz

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Economic and Social Research Institute

ESRIJJK

1015 18th Street, NW, Suite 210

Washington, DC 20036

About the Authors

The Economic and Social Research Institute (ESRI) is a nonprofit organization that conducts research and policy analysis in health care and in the reform of social services. ESRI specializes in studies aimed at enhancing the effectiveness of social programs, improving the way health care services are organized and delivered, and making quality health care accessible and affordable.

Jack A. Meyer, Ph.D., is President of the Economic and Social Research Institute. He is an economist who has written widely and conducted extensive policy analysis in the areas of health system reform, welfare reform, and social services. Dr. Meyer is also President of New Directions for Policy, a research and consulting firm located in Washington, DC.

Nancy S. Bagby, B.A., is a health policy consultant involved in the analysis of public and private sector strategies for health care cost containment. An evaluator of HCFA's Medicaid competition demonstrations in the 1980s, she has also analyzed developments in the business sector's purchasing strategies and its movement toward quality measurement.

Marilyn Klotz, B.A., is pursuing a Ph.D. in Public Policy at the School of Public and Environmental Affairs at Indiana University. She formerly served several years as a legislative assistant for economic issues on Capitol Hill. Ms. Klotz's research interests are in domestic social policy, especially welfare and housing issues.

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EXECUTIVE SUMMARY

This report is a preliminary evaluation of the welfare-to-work (IMPACT) program in Indianapolis. Over the past two years, the city, county, and state governments have embarked on an innovative program designed to engage private contractors in an effort to prepare welfare recipients for the world of work, to place them in jobs, and to provide follow-up services to improve the prospects for job retention.

This report is designed to provide early evidence of the impact of the new initiative. It aims to help the government improve the design of the program to enhance its effectiveness. It could also provide guidance to other communities as they embark on similar programs, and set the stage for a more quantitative evaluation in which the labor market experiences of groups of participants are tracked over time and compared to those of a control group.

Our key findings are as follows:

- A little over one of five welfare recipients referred by the state to private contractors is placed into a job.
- A considerable amount of the attrition occurs before the contractors ever get a chance to work with the clients; about half of those referred do not actually enter the contractors' programs.
- Although the training provided by contractors is relatively soft (e.g., preparation of resumes, advice on interviewing) and usually lasts only about a week, there is considerable further attrition at this stage.
- Of those people referred by the state for job readiness and placement services, 7-12 percent get jobs and are still working after six months.
- A substantial portion of job placements (more than half in the case of some contractors) do not meet IMPACT standards (e.g., a wage rate of at least \$6.06 per hour).
- The average wage is in the range of \$6.50 per hour.
- Most of the jobs taken by welfare recipients include some provisions for health insurance, but there is considerable confusion about whether

this means employer-paid health insurance or merely employer-sponsored coverage to which workers contribute a substantial portion (or even all) of the premium.

- While the intent of the program is to negotiate performance-based contracts in which contractors are at risk for both placement and retention, many of the contracts have significant elements of cost-based reimbursement. The contracts include fee-for-service payments geared to specific job readiness services provided by the contractors. A better approach would be to include funding for such services prospectively in a kind of “capitation payment.”
- The management information systems of the contractors are incomplete and confusing. State and city governments have not used RFPs to generate specific data requirements; contractors are not required to make regular, periodic reports providing the type of information needed to track and evaluate the experiences of participating clients.
- Government needs to collect and match data on both program costs and savings to determine the cost-effectiveness of this initiative. The savings would include both reductions in welfare benefits and additional tax revenues associated with working.
- An insufficient effort is being made to acquaint welfare recipients with the transitional benefits to which they will be entitled if they begin working. These benefits include transitional Medicaid, child care, transportation, and the Earned Income Tax Credit. These benefits may also need to be more generous.
- Sanctions for client noncompliance have been strengthened; yet, enforcement still appears to fall short, and some clients seem to be gaming the system.
- The state needs to improve its system of distinguishing clients who are job-ready from those who are not; clear criteria for referring clients to various contractors should be developed and related to contractors’ respective strengths. The program needs more emphasis on correcting deficiencies in clients’ education and training.
- A greater effort to enlist the support of private employers is needed.

Our results show that placing and retaining welfare recipients in jobs will be a formidable challenge even in tight labor markets such as Indianapolis, where the unemployment rate is very low.

INTRODUCTION

The purpose of this report is to conduct a preliminary evaluation of new welfare reform initiatives in Indianapolis in order to help government officials at the city, county, and state levels make improvements. At the same time, we hope to provide some lessons for other communities concerning the ingredients of a successful approach, the problems encountered, and ways to address them.

The Aid to Families With Dependent Children (AFDC) program was enacted in 1935. It was initially intended to assist primarily the children of widows, who were thought of as unlikely to work and deserving of support. Despite the seismic changes that occurred in the nature of social problems, the composition of the welfare caseload, and the proportion of women working, the program remained essentially unchanged for at least half a century.

Many families living in or just above poverty have received various types of in-kind support that supplement welfare checks, and some lower-income people ineligible for cash assistance obtain these targeted benefits. About 36 million people receive Medicaid, and some 26 million get Food Stamps. In addition, about 1.3 million Americans live in public housing while others receive different types of housing assistance. An array of other programs are aimed at helping with heating bills, early childhood and special education, child care, and other needs.

In the past several years, states have received waivers from the federal government to experiment with new approaches to public assistance. Reorienting AFDC from a program providing ongoing income maintenance to one providing temporary cash assistance and help in locating and retaining a job has been the underlying premise of state reforms. States are experimenting with placing time limits on the receipt of cash assistance; denying extra payments for additional children born while the mother is receiving public assistance; making welfare payments for teenagers with children conditional upon living in the household of their parents or staying in school; tougher sanctions for absent parents who fail to make child support payments; and new approaches to administering and coordinating AFDC and Food Stamps. In

addition, some states are reducing cash assistance benefits, either across the board or for people (usually single adults without children) receiving General Assistance payments made exclusively with state dollars.

Many of the strategies comprising state demonstration projects have been incorporated into national welfare reform legislation. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (HR 3734) was passed by Congress on August 1, 1996. This bill would place a five-year limit on cumulative AFDC benefits and a two-year time limit on cash assistance in any one period of eligibility. States would be required to find work for 50 percent of their welfare caseloads in order to receive the full amount of their federal grant. They would receive credit against their requirement for reductions in the welfare caseload. The new law would also strengthen child support enforcement and restrict eligibility for non-citizens.

The debate over welfare in America has centered largely on the behavior of the recipients. Reform plans have featured a combination of positive incentives and negative sanctions designed to turn people away from a life of out-of-wedlock births and long-term welfare dependency and toward a life of work, family responsibility, and self-sufficiency.

Of course, these are important goals. But the onus has been placed almost exclusively on the recipient to correct the problem. Largely lost in the debate over whether individuals or “society at large” are responsible for the cycle of poverty and dependency is the role of *service providers* in assisting people with the transition from welfare to work. How can these providers be motivated to get people off welfare and into successful lifestyles? What perverse incentives do the “helpers” face, and how can new incentives be installed? How can we make the providers accountable for hard results?

These questions introduce a new element into the welfare reform movement. Without diminishing interest in improved incentives for beneficiaries, a new strategy for providers recognizes that *the welfare system itself* has been riddled with structural flaws and poor management. Even the most motivated welfare recipient can be frustrated by a system that has fostered a “warehousing” of “clients.” The traditional delivery system, largely unchanged over six decades of program experience, is not well suited to moving people relatively quickly into jobs. Simply put, it is an income maintenance system, replete with myriad eligibility forms that certify, decertify, and recertify passive clients, who are viewed as “wards of the state.”

The importance of the experiment in Indianapolis is that it tackles the old welfare bureaucracy head-on. The program evaluated in this report tries to substitute a *performance-based* system of job placement and retention for the traditional certification and check-writing model. The new approach recognizes that both lower-income individuals and the wide array of service providers helping them must be held accountable for results. Under a social contract between government and individuals in need of help, both sides must act in a responsible fashion, and both parties must face incentives that reward work, independence, and family responsibility.

Thus, while most of the research on welfare has centered on forces driving the *demand* for welfare services by lower-income people (as an alternative to

work), this report focuses on the *supply* of these services. How can such services be provided more efficiently?

The basic idea behind the new approach in Indianapolis is that the city will contract with organizations to place welfare recipients into jobs, and those contractors will be paid based on their demonstrated success in doing so. Instead of being paid for effort, regardless of outcome, contractors are paid for the outcome. Thus, a key feature of this new approach is that *the contractors are placed at risk by government*. If they succeed, they are to be fairly paid; if they don't, they are *not* paid. Success is defined in terms of both initial placement in a job and retention of that job (e.g., for four or six months).

The government decided to offer multiple contracts to different job placement organizations featuring various strategies for helping people make the transition from welfare to work. An implicit premise of using multiple providers is that there would be a learning curve as different strategies were evaluated. Ultimately, the more promising strategies would be incorporated into a request for proposals that would be used to solicit competing bids. One or more contractors would be selected and held accountable for achieving outcomes.

It is worth noting that this is the way the system is *supposed* to work. This report explores the extent to which contractual arrangements actually incorporated performance-based payments, risk-sharing and competitive bidding. It also presents preliminary evidence about what happens to welfare recipients under the new system. How many get a job? What are they paid? How long do they remain employed? What does it cost to place them?

Constraints of time and budget do not permit the type of full test of these issues that could occur if recipients were randomly assigned to the new program, with a matched control group set up to provide a benchmark comparison. This study lays the groundwork for such a quantitative effort, and provides a qualitative analysis of the challenge facing policy makers as they struggle to revamp the welfare system.

Indianapolis is fortunate to have a very low unemployment rate, slightly over 3 percent citywide, compared to a national average of slightly more than 5 percent. As a result, many businesses are scrambling for employees. During our visit, for instance, we saw an advertisement by a fast food restaurant offering a 401(k) plan for new employees, and some employers are offering signing bonuses or other incentives to attract workers. If welfare-to-work initiatives are to succeed anywhere, the best chance occurs in booming economies such as the one Indianapolis is now experiencing.

The second chapter describes the evolution of the welfare-to-work program in Indianapolis and explains the roles of the city, the state, and the contractors who are helping welfare recipients prepare for and locate jobs. The third chapter presents preliminary findings regarding the proportion of people referred to the new program who actually find jobs, their job retention, the wages they receive, and the program costs. The fourth chapter includes a statement of the key challenges and problems facing the program, along with recommendations for improvement. Appendix A presents descriptions of each of the contractors' programs.

THE WELFARE-TO-WORK INITIATIVE IN INDIANAPOLIS

Under the traditional welfare system, county caseworkers conduct intake assessments, and eligible applicants soon begin receiving monthly assistance checks. Clients may also be referred for additional skills training, job search services, and remedial education. Under the old Indiana welfare model, no penalty is imposed the first time that clients fail to comply with job search requirements, as long as they make a verbal commitment to adhere to program guidelines. Clients who fail to comply a second time are sanctioned for three months, while all subsequent sanctions last six months. In addition, case workers have relatively infrequent contact with their clients, since their caseload typically averages nearly 200 recipients at any given time. Meetings between clients and caseworkers generally occur when welfare recipients need to report changes in family status (though the state recently instituted a new policy that requires clients to contact their caseworker every three months). Thus, under the “business as usual” model, government provides welfare recipients with few if any incentives to seek employment.

City Role in Welfare Reform

Under the leadership of Mayor Stephen Goldsmith, Indianapolis introduced an innovative welfare-to-work program by negotiating performance-based contracts with private sector companies to place recipients into full-time jobs. The city began its welfare reform efforts in 1993, when it negotiated an outcomes-based contract with America Works to help AFDC recipients make the transition from welfare to work (see Appendix A). America Works, a New York-based firm providing job placement services to welfare recipients, agreed to place 142 AFDC recipients into jobs paying at least \$5.50 an hour for six months, and was responsible for some recruiting, though it also received referrals from the county welfare office. Its contract contained two payment points—when a client has been on the job for four and six months—but it also

had to return any four-month payments for clients who did not remain employed for the full six months. Thus, the city contract with America Works placed the contractor “at risk” under a fully performance-based agreement.

In 1994, the city contracted with The Training Institute (TTI) to provide job skills training and placement for the residents of a local enterprise zone (see Appendix A). Though this initiative was financed by federal, state, and local funds, the city administered project operations. TTI, a Los Angeles-based firm, contracted to place 110 unemployed residents of the enterprise zone into jobs during an 18-month period, and was responsible for the recruitment of program participants. The contract contained four payment points: training, initial placement, and job retention for 90 days and six months, but TTI had to return funds it received for clients who did not remain employed for the full six-month period. Thus, under the terms of its performance-based contract, TTI was reimbursed on a pay-as-you-go basis for the delivery of services, but could only retain prior payments if it successfully placed clients into long-term employment.

At the same time, the city contracted with Community Centers of Indianapolis (CCI) (see Appendix A), a local non-profit consortium of social service providers, to recruit, train, and place 125 unemployed or underemployed Marion County residents. Successful placements were defined as meeting the following criteria: full-time employment (or the paid equivalent) lasting no less than six months; weekly wage rates of at least \$220 for the last two months on the job; and, employee health benefits available at a “reasonable” cost. Prior to the Goldsmith administration, CCI had received a contribution to its overhead expenses from the city. The city has worked with CCI to convert in stages from this cost-based arrangement to performance-based contracts. In 1994 the city continued the flat allocations of the past, but held CCI accountable for building the capacity to track results and outcomes. The 1995 contract moved further in the direction of a performance-based agreement, and in 1996 this orientation was taken further, even though CCI still received a sole source contract. Ultimately, the city hopes to put CCI—and other contractors—in a competitive mode for contracts based on demonstrated outcomes related to job placement and retention.

The city signed a second contract with CCI in 1996 to recruit and place another 158 Marion County residents into jobs for at least six months, with program funds administered through the Indianapolis Private Industry Council. CCI assesses each client and is paid a non-refundable fee for providing this service, while reimbursements for placements are tied to clients’ hourly wages at the time they were hired. These wage levels are divided into three categories: \$5.25 to \$6.04; \$6.05 to \$7.99; and \$8.00 or more. CCI can receive 30 percent of the total contract amount for placing 56 clients at the lowest wage rate for three months, 60 percent for placing 87 clients in the medium range, and the remaining 10 percent for placing 12 clients into jobs that pay the highest wage level. In each case, payments are not refundable, and CCI receives an additional payment when clients reach the six-month point in each wage category.

Clearly, the city is willing to experiment with different approaches to welfare reform. The programs and contracts described above contain a variety of

incentives and payment mechanisms that will help lay the groundwork for future analyses of what works best and which models are most effective—both in terms of helping residents find work and saving taxpayer' money.

In addition to laying the groundwork for reform by circumventing the traditional welfare system and introducing performance-based contracting, the city worked with the executive and legislative branches of state government to reform the broader welfare system. For example, Mayor Goldsmith urged the legislature to obtain federal waivers to redesign AFDC and Food Stamps, and to increase child support enforcement. Thus, the city developed a pilot project that led the way to reform, and encouraged the state to obtain the authority to revamp the overall system of public assistance.

The State Enters the Picture

The state has also been active in welfare reform during the past two years. The state experienced a very large increase in the AFDC caseload between 1989 and 1993—from 51,014 people in July 1989 to 69,682 in July 1993. Between July 1993 and June 1996, the AFDC caseload returned to a level of 50,275—approximately the same level as seven years ago. Thus, the caseload rose by 36.6 percent between 1989 and 1993, then fell by 27.9 percent in the ensuing three years. The state's new welfare policies were undoubtedly a factor in bringing the caseload down, while the strong performance of the economy and the associated tightening of the labor market also played a role.

Governor Evan Bayh and the state legislature sought a series of waivers from the federal government to launch an innovative welfare-to-work project known as the Indiana Manpower Placement and Comprehensive Training program (IMPACT) for AFDC and Food Stamp clients. These waivers allow the state to:

- Set a two year limit on welfare assistance for program participants who fail to secure employment.
- Require clients to sign a personal responsibility agreement in which they promise to make efforts toward self-sufficiency;
- Introduce a family cap under which there is no increase in a family's benefits when a child is born 10 months or more after the initial request for public assistance. Under business-as-usual, cash assistance is raised by approximately \$59 to help cover the expense of a new child;
- Require parents to immunize their children and ensure their attendance at school;
- Require a minor parent or pregnant teen to live with a parent or another adult in an acceptable, supervised setting;
- Allow counties to experiment with localized welfare reform rather than following certain state and federal mandates.

The main goal of the IMPACT program is to move categorically eligible recipients into productive employment, not only to reduce social welfare

spending, but also to improve their overall quality of life by helping them become more self-sufficient.

Highlights of the IMPACT Program

IMPACT-certified clients must actively seek work and ultimately secure a full-time job, preferably one that pays at least the equivalent of \$242.40 a week with health benefits.

- Clients either remain “in house” and look for employment through the county welfare offices, or they are referred to outside contractors that offer a wider variety of training and placement services.
- Clients can be sanctioned if they violate program requirements: in the first instance, welfare benefits are reduced by \$90/month for two months and the mother loses Medicaid coverage until she complies; subsequent sanctions are imposed for one year and 36 months, respectively, with an accompanying loss of the mother’s Medicaid benefits. The period of benefit loss for the third instance of noncompliance is six times as great as under the old system (i.e., 36 months compared to six months). Individuals in the placement track who have not found a job after two years will lose the mother’s portion of AFDC, and cannot reapply for benefits during the next three years unless they can show “good cause” for failing to secure employment.
- IMPACT clients are required to actively search for employment at least 20 hours each week (87 hours/month), and cannot reject a job offer without good cause. Clients who are referred to outside contractors must also complete workshop and training classes, and utilize job lab resources in self-directed job search activities.

The state subsidizes transitional supportive services for program participants, which include child care and Medicaid benefits for the first year following IMPACT certification, and transportation vouchers for the first 30 days on the job.

Historically, Food Stamp recipients have also participated in skills training and job placement activities. Under the old model, these clients were encouraged to seek training and employment, but penalties for noncompliance were not strictly enforced. Food Stamp recipients who are enrolled in the IMPACT initiative can lose their subsidy for sixty days if the primary wage earner does not comply with program requirements. Unlike AFDC recipients in the placement track, however, Food Stamp clients do not lose benefits if they fail to secure employment after two years.

State Implementation of the IMPACT Program

Although Mayor Goldsmith and city officials pioneered the welfare-to-work model in Indianapolis, when the state launched its own job placement effort in 1995, it quickly became a dominant force in the city’s welfare reform effort. The state moved away from the city’s emphasis on performance-based

contracting, and signed “front-loaded” provider agreements that paid a substantial portion of the total contract amount in the agreement for services rendered prior to any initial or long-term placements (See Challenges and Recommendations chapter). Since, in most cases, contractors were not required to refund these payments if program participants were unable to secure long-term employment, the program contained weaker incentives for providers to focus on outcomes. The state, like the city, signed contracts with multiple providers, presumably under the theory of “letting 1,000 flowers bloom.”

While the state negotiates provider contracts and sets IMPACT standards, it does not deal directly with clients or oversee daily program operations. Marion County administers the state welfare program in the city of Indianapolis. Thus, we sometimes received a confusing array of information about the design and implementation of the IMPACT initiative during our discussions with public officials. The following sections present our best understanding of how the process works, and the responsibilities assumed by the key players.

The State’s Role in Categorizing Clients and Making Referrals Under the IMPACT System

New applicants for cash assistance receive a comprehensive family assessment to ascertain if they are eligible for the IMPACT program. Clients already receiving benefits are required to attend a redetermination hearing every three months for Food Stamps or six months for AFDC benefits, and eligible recipients are enrolled into IMPACT at this time. In general, able-bodied AFDC clients whose youngest child is at least three years old are classified as “mandatory” participants in the program, and a computer randomly assigns them to either the “experimental” or “control” groups.

Although the state’s original waiver request indicated that the mandatory population would be evenly split between the two groups, in practice, about 95-97 percent of clients are assigned to the experimental track. The very small proportion of mandatory clients assigned to the control group is surprising; when random assignment is used as a part of quantitative evaluations, the normal practice is to randomly assign each person to the control group or experimental group, which results in about half being assigned to each group. Indeed, we were also told that some people assigned to the control group were actually referred to contractors for placement, making them indistinguishable from the experimental group (see Figure 1).

Food Stamp clients are considered mandatory participants in the IMPACT program if the primary wage earner is unemployed or underemployed, able-bodied, and does not have a child under six years old. In Marion County, approximately 7,000 AFDC recipients and 13,000 Food Stamp recipients have been classified as mandatory for the welfare-to-work initiative. In any given month, between 1,800 to 1,900 AFDC clients and 600 to 700 Food Stamp recipients are participating in the IMPACT program.

IMPACT caseworkers are able to work much more closely with their clients because their caseloads are significantly reduced compared with their counterparts under the traditional welfare model (i.e., they generally see about 50 AFDC and 20 Food Stamp clients). We were unable to determine what

proportion of IMPACT clients are placed through the welfare offices—compared to those who are referred to outside contractors—but it appears that the majority remain with the county.

Clients in the control group operate under business-as-usual rules. Conversely, IMPACT participants are assigned a family case coordinator (FCC) who explains the IMPACT program, administers a job readiness test, and reviews their family situation, education and work history. These clients must also sign a personal responsibility agreement in which they pledge, among other things, to work toward self-sufficiency. Based on the results of the job readiness test, clients are assigned to either the basic or placement track:

Basic Track

The basic track is for clients who are not yet ready for full-time employment. The FCC develops an employability plan that outlines what steps a client will need to take in order to prepare for full-time employment, as well as any additional training or education that may be necessary. Clients may be enrolled in remedial classes or placed in interim or Community Work Experience Program (CWEP) positions, which consist of “workfare-type” volunteer jobs that help clients prepare for the rigors of a regular work routine. Participants are reassessed periodically to determine if they are ready to enter the placement group. Recipients can be sanctioned for not complying with program requirements, but they are not subject to the two-year benefit cut-off point. The county reports that 520 individuals are currently in the basic track. It is difficult to determine the actual number, however, owing to constant turnover as people move through the program, and to start-up problems created by the county’s new computer system.

Placement Track

The placement track is supposed to be for clients who are ready to enter the job market. In addition to completing an employability plan, clients must spend at least 20 hours each week actively searching for work, and meet with their FCC several times a week to provide updates on their progress. In theory, clients who fail to comply with program requirements are supposed to receive interim sanctions. As noted earlier, if they do not find work after two years, the mother loses her portion of welfare benefits and cannot reapply for another three years. The program has only been in operation since July 1995, however, so the state has not yet had to confront this issue. According to the county, approximately 1,000 recipients are currently in the placement track, but for the reasons stated above, it is difficult to know the exact number.

According to its request for waivers from the federal government, the state initially planned to create a three-track system: people who were deemed more or less employable would be assigned to the placement track; those needing additional job preparation would be placed in the training track; and clients who needed more intensive assistance or had chronic problems that made them unemployable would enter the basic track. As it turned out, the state collapsed these three tracks into the two described above, though we were unable to ascertain why this decision was made.

The state refers participants from both the basic and placement tracks to outside providers, which has created significant problems for contractors who understood that they would only be working with job-ready clients. Although this situation was partially redressed during contract renegotiations, most providers are not equipped to supply many of the services that individuals

from *both* tracks often require (e.g., vocational training, remedial education, substance abuse counseling).

The state originally envisioned giving employers incentives, such as wage subsidies, tax credits, and welfare grant diversions to hire welfare recipients. It appears that this strategy has not yet been implemented. Such incentives may, however, encourage otherwise reluctant employers to hire IMPACT clients.

It is important to note that although the county places a significant number of IMPACT clients into jobs on its own, it offers relatively limited resources to job seekers. Local welfare offices maintain job boards that list employment opportunities, but they do not provide access to computers, faxes, or phones to assist in job search activities. As a result, according to some public officials, the county often retains those clients it deems more “employable,” and intentionally refers individuals who need additional job preparation and motivation to outside providers. Moreover, the county does not perform follow-up monitoring after initial placements are made (unlike most contractors), so information on retention rates and any obstacles encountered during employment is not readily available for these clients.

The Marion County welfare office must meet an annual placement goal, established by the state, through a combination of its own in-house efforts and referrals to outside contractors. When the state notified county officials in March that they were lagging behind the projected placement rates needed to meet the first year goal, the county increased its internal placement efforts. It is unclear why this problem arose; state officials indicated that many outside providers were cream skimming and not meeting their contract targets, while providers stated that they were not receiving an adequate number of referrals.

The county attempted to rectify the problem by conducting mass orientations to expedite IMPACT certification and client assignments to FCCs and outside contractors. It is interesting to note that although the county asked between 700 and 800 recipients to attend each session, we were told that no more than 150 ever did so. The county stated that it sanctioned all no-shows who could not demonstrate good cause for missing the orientations, but some observers believe if this had indeed happened, participation would have increased over time. Instead, attendance remained low and the mass orientations ended this spring after referral and placement rates were back on track.

The Contractor’s Role in Training, Job Placement and Follow-up

This section of the report will describe how clients typically move through the system after initial referrals have been made, and will outline some of the more standardized services that contractors typically provide to fulfill their contractual obligations under the IMPACT program (see Table 1). It is important to note, however, that few contractors either provide or are paid for all these service components, and some may actually provide services that are not listed here. Information about the programs of all of the contractors is provided in Appendix A.

Table 1
Sample State Contract

Service	State Definition	Description
Job Search	Client completion of workshop with 75% participation	All contractors offer a workshop ranging from four days to three weeks during which they teach “soft skills” such as how to write a resume, answer interview questions and dress professionally. Contractors also try to raise clients’ self-esteem and motivation through exercises designed to identify skills and strengths.
Job Development	Eight job leads or one job offer	Contractors monitor clients’ efforts to actively seek employment. Some contractors schedule half-day sessions during which clients are expected to work on their resumes or cover letters and call prospective employers. Contractors provide computers, fax and phones for client use. Contractors require clients to provide proof of effort and submit weekly reports to the state. The FCCs also monitor clients’ activities.
Job Placement - Initial	Entry into unsubsidized employment meeting IMPACT standards	Client finds job and begins work at IMPACT standard of \$6.06/hr for 40 hour/week with access to health benefits.
Job Placement - Other	Job retention 90 days after placement	Contractor verifies that client has remained employed for three months. Client is not usually required to work for same company for all three months.
Job Placement - Final	Job retention 26 weeks after placement	Contractor verifies that client has remained employed for six months. Client is not usually required to work for same company for entire period and can be employed below IMPACT standards.
Job Placement - Post - Placement Follow-up	Monthly follow-up per client during first 90 days on job.	Contractor may contact client as frequently as every few days to monitor job performance. Some contractors also work with client to overcome any barriers to continued successful placement, and may also contact employer about client’s work performance. Contractors follow clients in all three job categories.
Worksite Placement - CWEP	CWEP placement/ non-profit volunteer position	Client is placed in short-term volunteer position with non-profit or for-profit company in order to learn skills and develop work experience. Contractor may visit client to assess progress toward employability.
Worksite Placement - Interim	Placed in employment below IMPACT standard	Client is placed in paying job that fails to meet IMPACT standards

The welfare-to-work process begins every week when an IMPACT staff member provides each contractor with a list of new referrals. While a few providers recruit participants on their own, all clients must be IMPACT-certified by the county in order to participate in the program. Clients begin with job readiness training, designated as “job search” in the state contracts, which can last from four days to three weeks, depending on the contractor. During this time, clients receive instruction on job seeking skills and appropriate office behavior. The contractors refer to this phase of the program as “soft skills training,” and services provided range from self-esteem building exercises to resume writing and mock interviews. The ultimate goal, however, is to prepare clients for job search and full-time employment. The 1995-96 contracts stipulated that clients must attend at least 90 percent of these classes, while the second-year contracts only require a 75 percent participation rate.

After a week or more of job readiness training, clients begin seeking employment, which is referred to as “job development” in the state contracts. At this point, clients are expected to spend at least 20 hours a week looking for work, which may entail utilizing resources available through the contractor, responding to newspaper classified ads, reviewing openings posted at iNET’s Job Center, and making “cold calls” to prospective employers. All contractors offer access to phones, computers and faxes for self-directed job search, and maintain bulletin boards that list job leads. In addition, some contractors offer half-day workshops in which clients review lessons learned during soft skills training, practice interviewing for jobs, and continue developing work-related skills that will improve their chances of finding employment. The state requires clients to document their job search efforts, and contractors must track and report client compliance during all phases of the program.

Participants can spend up to eight weeks searching for work, at which time they will either be sanctioned or assigned to another contractor. Yet, many contractors mentioned that the enforcement of sanctions has been spotty and inconsistent, since it is based on the subjective judgment of individual caseworkers who too often accept barely plausible excuses for non-compliance. In many cases, clients are just recycled through the system and referred to multiple contractors to start the process all over again. According to public officials and several contractors, however, the county has begun to enforce IMPACT sanctions more rigorously in the past few months.

IMPACT contracts and billable job placement categories vary by provider. Overall, the program will reimburse contractors for placing clients into three types of employment: 1) IMPACT-standard jobs, which must pay at least \$6.06 an hour for full-time positions that offer health benefits at a “reasonable” cost, though contractors differ in how they interpret this term; 2) interim jobs, which about half the contractors believe are full-time positions that offer health benefits but pay below the IMPACT wage standard, while the rest define these positions as not meeting any one or more of the employment criteria, and; 3) volunteer positions (primarily CWEP jobs) that enable clients to retain welfare assistance while they gain needed work experience

After a client is placed in a job, all contractors follow up at least once a month for the first 90 days to verify employment status and wage rate. Most providers will also work with employers and clients to identify and resolve existing

problem areas. Contractors are only paid to follow up with AFDC clients, although they will generally provide this service for Food Stamp clients as well. The nature and amount of contact generally depends on the needs of the employee (e.g., monthly phone calls, or working with supervisors on-site to address substandard job performance). It also varies according to the incentives contained in each provider contract; companies such as America Works that assume more financial risk for long-term outcomes through “back-loaded” payment structures are much more likely to stay in close contact with employees to ensure that they remain on the job. Conversely, several providers receive relatively more of their contract payments for services provided up front—conceivably before any initial or six-month placements are even made—and it is not surprising that these contractors do not invest as much effort in follow-up activities.

The 1996-97 IMPACT contracts have added an optional 40 hours of “soft skills” training for clients who need more intensive assistance to prepare for full-time employment. In addition, some second-year contracts contain a “training completion” option for small numbers of clients, which provides more rigorous job skills training in such areas as typing and desktop publishing. This relatively limited service component may need to be expanded as the proportion of “hard core” cases continues to increase in relation to number of employable clients who are already being placed into jobs. Unfortunately, it will be difficult for the state to balance the growing need for subsidizing remedial services with the overall goal of introducing performance-based incentives into the welfare system. Modifications in the second-year contracts already foreshadow a return to the business-as-usual approach, where payments are made for discrete services that are not tied to long-term outcomes.

PRELIMINARY RESULTS

This section presents our preliminary findings with regard to the impact of the program. It is important to reiterate a qualification stated in the introduction to this study. Our preliminary results about the experiences of people participating in the IMPACT program cannot be placed in the context of a comparison to similarly situated people who remain in a “business-as-usual” pattern. Ultimately, we would need to know if clients working with the various contractors did better than those who remained in the “in-house” and “business-as-usual” systems. This, of course, requires establishing a reliable control group. As noted earlier in this report, it appears that the state has not yet established a control group comparable in size and characteristics to those participating in the program.

With this caveat in mind, we present findings on the labor market experiences of Marion County AFDC and Food Stamp recipients who have participated in the welfare-to-work program. The data give us some early clues about the impact of the initiative.

Attrition and Retention Rates

We were particularly interested in finding out how many people get jobs and keep them. *Our first finding is that attrition is a very serious problem.* Attrition occurs at various points along the way from the time a welfare recipient is referred to a contractor until the point at which the person is considered to have “kept a job.” We use six months to signify retention because that is the longest period for which we have data.

Points at which attrition occurs are:

- Prior to starting the program (a client is referred by the state, but does not enter a program)
- Prior to completing soft skills training
- Prior to job placement

- Prior to remaining on the job for three months
- Prior to remaining on the job for six months

We requested data from all the contractors to help us determine how many people “drop out” of the program at each of these junctures. While the contractors were cooperative and tried to give us what we needed, the actual data received were incomplete and fragmented. Moreover, the data may not be fully comparable because of somewhat different methods of collecting information employed by the various contractors. In addition, some contractors simply do not collect certain items that would be helpful (see recommendations regarding management information systems in the Challenges and Recommendations chapter).

We present data from three contractors that illustrate the extent of attrition, job placement, and job retention. Table 2 shows that 1,003 people were referred by the state to Curtis & Associates (see Appendix A) in the 1995-96 contract period. The first thing to note is that only 538 of these people ever showed up at Curtis’ door, which means that the “Level I” attrition rate was 46 percent. In other words, nearly half of the referrals were lost before Curtis could even welcome them to the program.

Table 2
Job Placement and Retention Rates, Curtis & Associates

	Number of Clients	Percent of Those Referred
Clients referred by state	1003	100
Entered training program	538	54
Completed training	384	38
Placed in a job	259	26
Placed in IMPACT-standard jobs	81	8
Remain employed after 3 months	158	16
Remain employed after 6 months	135	13

Source: ESRI calculations based on data submitted by contractor.

Of course, some of the people who failed to show up may have obtained jobs. In fact, the referral process itself, and the new program rules, may be stimulating some “quick hits” in the job market. Others just may not be complying with—or gaming—the system. Of the 538 people who entered initial soft skills training, only 384 completed this phase of the program. Thus, 154 people failed to complete the week or so of activities at the front end of

the program. Some 259 people ultimately secured employment. *This means that 26 percent of the people who were referred to Curtis by the state were placed in a job.* Yet, it is very important to note that 178 of these people were placed in jobs that did not meet IMPACT standards (e.g., \$6.06 hourly wage). *Only 81 people—8 percent of the total referred originally—were placed in jobs that met IMPACT standards.*

Of those placed in *any* job, a little over 61 percent (158) were still working after three months, and 135 people were still working after six months. We were not able to obtain a breakdown of how many of those still working at three and six months were in jobs meeting IMPACT standards. If this proportion were the same as the proportion of initial placements meeting such standards, then only 42 people would be working at IMPACT-approved jobs after six months—or about 4 percent of those who were originally referred to the Curtis program.

Moreover, a number of these people have already experienced one or more spells of unemployment within the six-month period. We were only able to obtain data showing the employment status of the person after three and six months, but not on whether they were working at the same jobs. In our interviews with contractors, we learned that a number of people were on their second or third job at the end of six months. Some contractors considered the person as having “retained a job” if the intervening spells of unemployment did not last longer than one month.

The bottom line is that only 13 percent—or about one of eight people—who were referred to the Curtis program were still employed after six months, and many of these were working at jobs that did not meet the wage/benefit requirements established by the IMPACT program.

Table 3 shows similar results for Goodwill (see Appendix A) during the 1995-96 contract year. Some 42 percent of the people who were referred by the state actually came through the door and entered the soft skills training program, reflecting a huge amount of attrition at the front end of the IMPACT program. Of the 307 people who began the program, 198 completed it, and 151—or 21 percent of those originally referred—were placed in jobs. Again, only 32 percent of these placements met IMPACT standards (48 people), or 7 percent of the group originally referred to Goodwill.

At the end of six months, 54 people were still employed, or 7 percent of those who were referred originally. An encouraging note is that 40 of these 54 jobs met IMPACT standards. This indicates either that people in IMPACT-standard jobs were more likely to retain employment, or that clients getting sub-standard jobs were able to upgrade their situations during the six-month time frame.

Table 4 shows that 125 clients—or 23 percent of the 534 people who were referred to TTI in the 1995-96 contract year—found employment, and 80 of these jobs met IMPACT standards. Of this group, 71 remained on the job for three months, and 42 people (or 8 percent of the original group) were still working after six months. A sizable majority of TTI placements qualified as IMPACT-standard jobs (88 percent of those still employed after six months).

Table 3
Job Placement and Retention Rates, Goodwill, 1995-96 Contract Year

	Number of Clients	Percent of Those Referred
Clients referred by state	736	100
Entered training program	307	42
Completed training	198	27
Placed in a job	151	21
Placed in IMPACT-standard jobs	48	7
Remain employed after 3 months	N.A.	N.A.
Remain employed after 6 months	54	7

Source: ESRI calculations based on data submitted by contractor

Table 4, Job Placement and Retention Rates, TTI, 1995-96 Contract Year

	Number of Clients	Percent of Those Referred
Clients referred by state	534	100
Entered training program	N.A.	N.A.
Completed training	276	52
Placed in a job	125	23
Placed in IMPACT-standard jobs	80	15
Remain employed after 3 months	71	13
Remain employed after 6 months	42	8

Source: ESRI calculations based on data submitted by contractor

In general, the placement and retention results are very similar from one contractor to another. Each of the three contractors placed a little more than one of five referred into jobs. The proportion of people referred by the state who were still working after six months ranged from 7 to 12 percent. These results are sobering when one considers that they emerged in a very tight job market where many employers are desperate for workers.

The state anticipates at least a certain amount of attrition and allows for it in the contracts. In fact, in most contracts, the number of clients expected to complete job search is at least four times greater than the number expected to remain employed for six months. Figure 2 shows the percentage of clients who successfully complete the job search component, and are expected to

remain employed for six months based on contract numbers. TTI contracted to place the highest percentage of clients into long-term jobs (63.1 percent), while iNET (see Appendix A) placed the least (2.3 percent). Figure 3 shows the same information for the 1996-97 contract year. In this case, Curtis and Goodwill each have an anticipated retention rate of about 28 percent, and IPIC contracted to place 42.6 percent of clients who complete job search into long-term employment. TTI contracted for the greatest percentage, 65.7 percent.

Figure 2
Percent of Original Cohort Expected to Remain on Job Long-Term, 1995-96

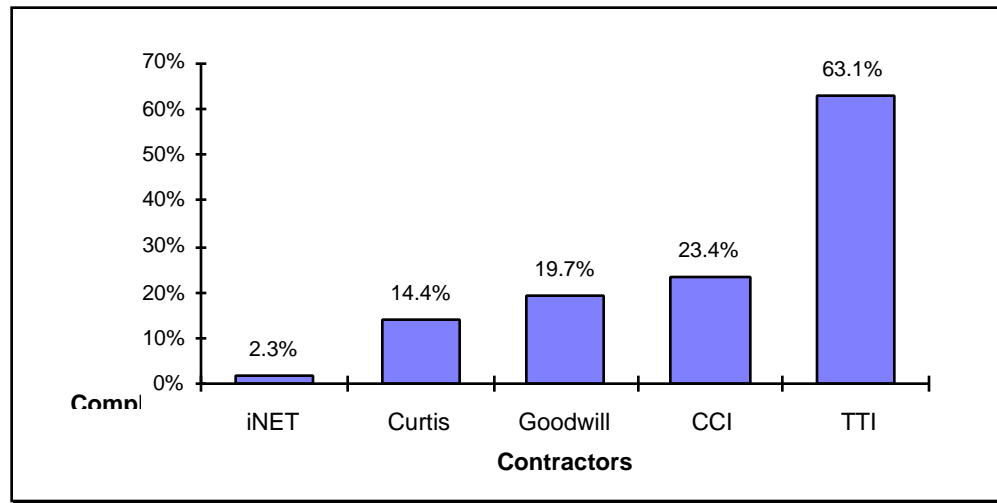
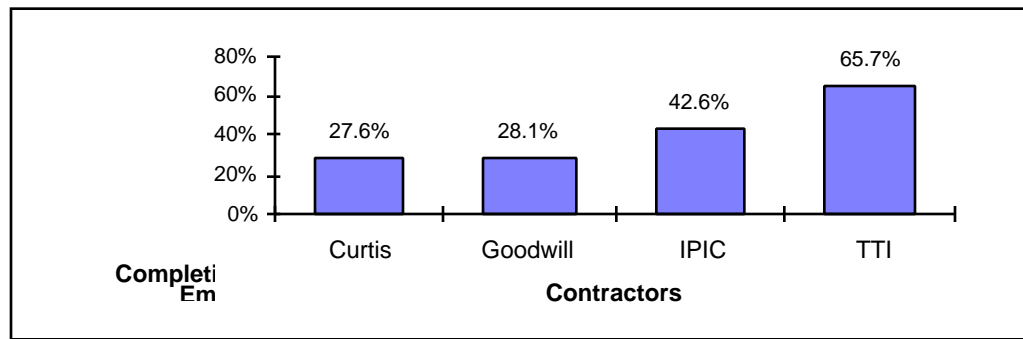


Figure 3
Percent of Original Cohort Expected to Remain on Job Long-Term, 1996-97



In summary, attrition at the front-end of the program (“no shows”) is the most glaring and serious problem revealed by the data. These contractors cannot be held responsible for placing people who never show up. Substantial attrition also occurs during the brief training and job development period. Finally, half or more of the people placed in jobs are not employed after six months. Most contracts reflect these facts with built-in attrition rates.

Wage Rates and Health Benefits

Table 5 shows the wage rates for people who got jobs through the Indianapolis welfare-to-work initiative. Generally speaking, wages ranged from \$6 to \$7 an hour for IMPACT-standard jobs. There was considerable variation in the extent to which jobs included health benefits. Some contractors reported that all placements included health coverage; some provided figures showing that a majority were covered; and some did not keep track. As will be explained in the next section, however, some contractors interpreted the health benefit requirement as ensuring *access to insurance*, with or without a substantial contribution by the employer. Average weekly hours worked ranged from 35 to 40 across the various contractors, reflecting placements in full-time jobs.

Table 5
Average Wage Rates Received by Welfare Recipients, 1995-96 Contract Year

Provider	Average Wage Rate
Curtis & Associates	\$6.75
Goodwill	\$6.48
TTI	\$7.05
CCI *	\$6.39
iNET **	\$6.43
America Works	\$6.55

* Calendar Year 1995

** Food Stamp-only clients placed in jobs received \$6.75

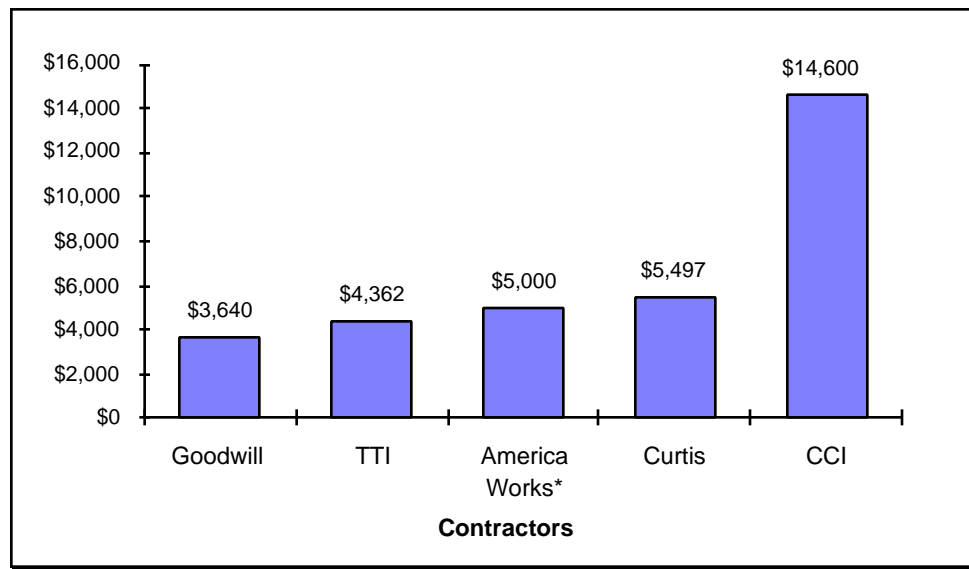
Source: Contractor data

Unit Costs

The amount that providers charged per successful six-month placement varied considerably during the 1995-96 contract year. To calculate unit cost, the total value of the contract was divided by the number of six-month placements in the contract. For example, the total value of the 1995-96 Curtis contract is \$1,462,340; the company contracted to place 266 people into IMPACT-standard jobs for six months. Thus, the unit cost per placement is \$5,497 (see Figure 4). It is worth noting that using this method provides comparative information on the cost-effectiveness of long-term outcomes, but there are other ways to calculate unit costs as well; dividing the total contract amount by the number of initial IMPACT-standard placements, for example, would yield substantially lower unit costs (e.g., CCI's unit costs would fall from \$14,600 to \$4,203 per placement).

The six-month placement point was selected because the welfare-to-work initiative originally emphasized long-term job retention. Figure 4 shows that Goodwill had the lowest unit cost per long-term placement (\$3,640) and CCI has the highest cost shown on the graph (\$14,600). iNET (see Appendix A) actually had the highest unit cost (\$145,564) primarily because it contracted to place only five clients in long-term jobs for six months. It should also be noted that America Works' unit cost of \$5,000 per placement includes only the amount of funds the company receives through its contract with state or local government. America Works differs from other contractors because it derives income not only from the state contract, but also from employers and welfare grant diversions. IMPACT clients are initially placed with a company on a "trial basis" (generally the first four months on the job), during which time they remain on AFDC rolls and receive transitional benefits. Their welfare payments and job earnings, however, are paid directly to America Works, which then pays the minimum wage to its clients for the first four months on the job and covers certain job-related costs (e.g., workers compensation). This arrangement enables both the employee and employer to assess whether a placement is mutually satisfactory before hiring clients.

Figure 4
Cost per Long-Term Placement, 1995-96
(Not Necessarily at IMPACT Standards)**



*Does not include grant diversion funding.

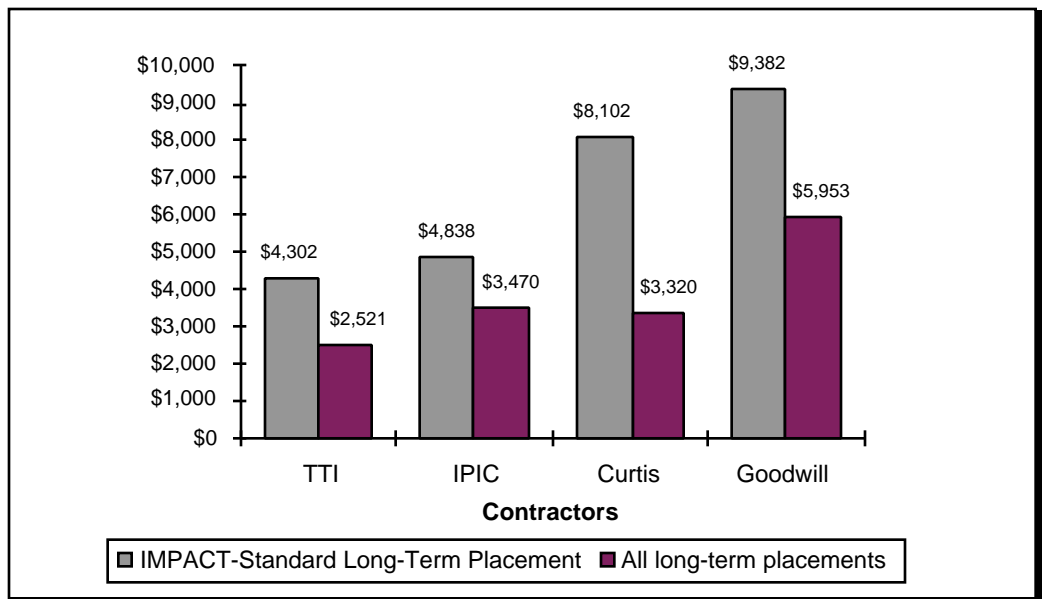
**iNET unit cost is \$145,564.

In the 1996-97 contract year, unit costs are more clustered. For all long-term placements (both IMPACT-standard and below), for example, the unit cost ranges from \$2,521 for TTI to \$5,953 for Goodwill, a range of over \$3,000 (see Figure 5). Again, the total value of the contract was divided by the total number of six-month placements (both interim and IMPACT-standard) in the contract. If only IMPACT-standard, long-term placements are considered, the unit cost ranges from \$4,302 for TTI to \$9,382 for Goodwill, or slightly more

than \$5,000. In this case, the total value of the contract is divided by the number of IMPACT-standard jobs only, yielding a higher per unit cost.

While a unit cost assessment indicates the amount of money the government is *spending* for successful placements, it does not show how much the government is *saving* by removing families from the welfare rolls. Clients who find jobs will see their welfare benefits and other subsidies decrease, thereby saving the government money. They will also be paying taxes, which increases government revenue. Thus, data must be collected on *both* program costs and related savings in order to more accurately assess the initiative's overall cost-effectiveness.

Figure 5
Cost per Long-Term Placement, 1996-97



CHALLENGES AND RECOMMENDATIONS

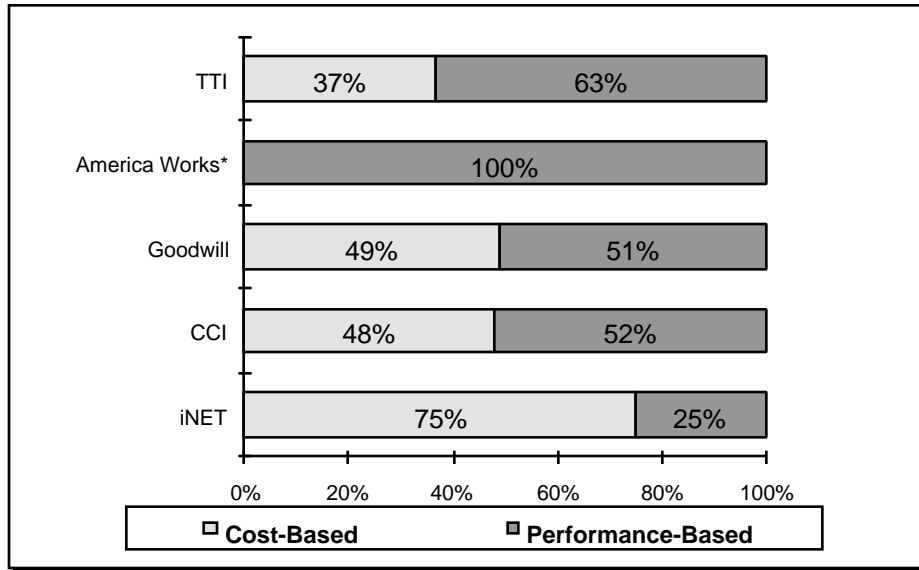
This section presents an analysis of the problems and challenges facing the city and the state as they strive to develop a performance-based system of contracting to place welfare recipients into full-time jobs. It also lays out a series of recommendations to meet these challenges. Over the last two years, the state, county, city, and providers have been trying to address the pitfalls inherent in any major departure from a traditional social service delivery system. Together, they have identified and addressed many of the largest roadblocks, but much more work remains.

Contracts Are Not Fully Performance-Based

One of the most serious problems facing the welfare-to-work program involves the failure to structure the contracts so that they really are performance-based. Simply stated, there is a gap between the rhetoric and the reality. The rhetoric stresses risk-based contracts with payments based on demonstrated success in placing and retaining people in jobs. The reality is that most contracts pay the contractors substantial amounts of the ultimate fee along the way, with most of the money paid before placement and significant retention have occurred. While the goal is performance-based contracting, in fact, the program still has a strong element of cost-based reimbursement.

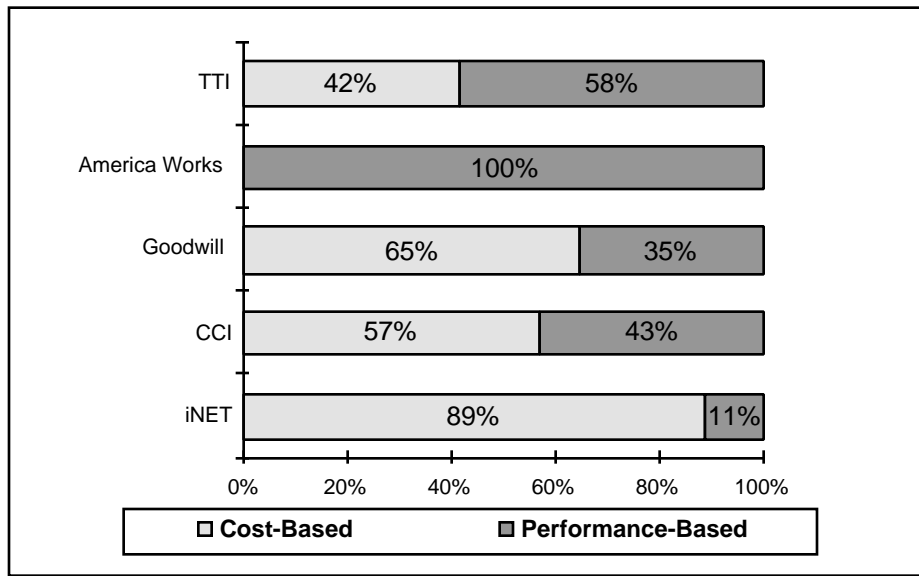
Figure 6 shows, for each contractor in 1995-96, the division between cost-based payment (that is, payment for services rendered prior to job placement, such as program development and job search) and performance-based payment (that is, payment for clients who secure and retain either IMPACT, interim, or CWEP positions). Figure 7 shows similar information except that any payments that contractors received for placing clients in non-IMPACT-standard jobs are excluded. Figure 8 and 9 show the same information for the 1996-97 period.

Figure 6
 Division Between Cost-Based and Performance-Based Contract Payments,
 Including IMPACT, Interim and CWEP Placements, 1995-96



*Does not include monies received through welfare grant diversions and the portion of employee wages retained by America Works.

Figure 7
 Division Between Cost-Based and Performance-Based Contract Payments,
 Including IMPACT-Standard Placements Only, 1995-96



*Does not include monies received through welfare grant diversions and the portion of employee wages retained by America Works.

Figure 8
Division Between Cost-Based and Performance-Based Contract Payments, Including IMPACT, Interim and CWEP Placements, 1996-97

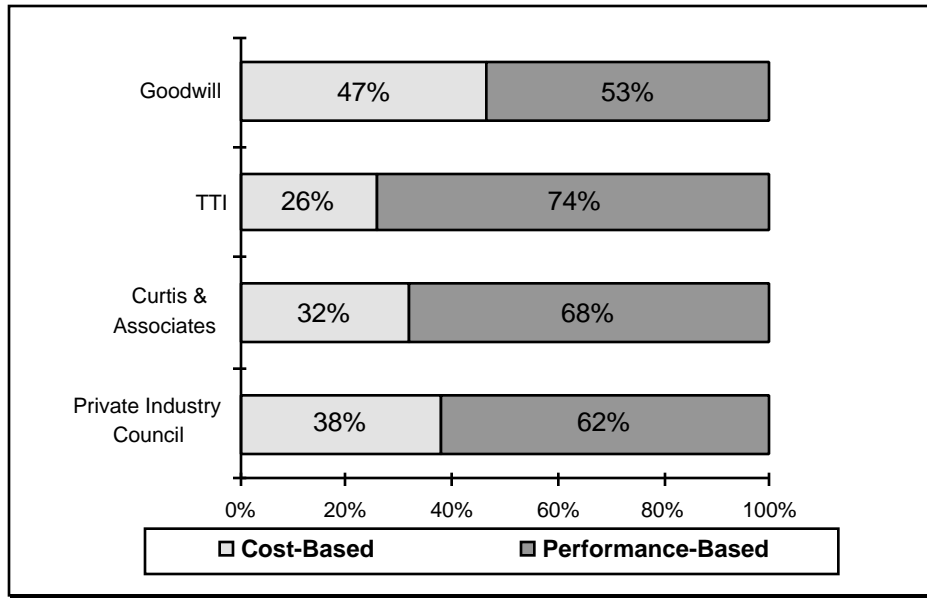
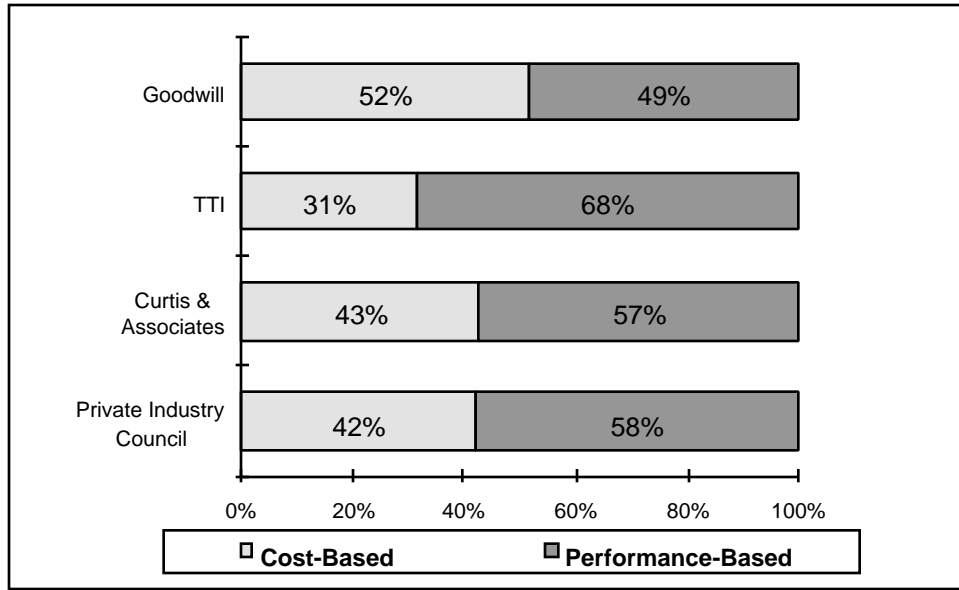


Figure 9
Division Between Cost-Based and Performance-Based Contract Payments, Including IMPACT-Standard Placements Only, 1996-97



Some of the state contracts are structured in such a way that providers could conceivably receive more than half their funding before making any initial placements, and more than 80 percent of the total contract amount prior to six-month job retention period. Under the terms of the 1995-96 contract, for example, CCI could have been reimbursed for up to 48 percent of its costs before placing even one client in a job. Goodwill could receive about half of

its money (49 percent) for job search and program development, monies received irrespective of job placement and retention. Only 13.9 percent of the funding in this contract is linked to either three-month or six-month retention.

At the other end of the spectrum, America Works is fully at risk. This contractor cannot receive any of its fee until a client has remained on the job for four months; the company can, however, retain certain monies associated with grant diversions and a portion of employee wages.

What seems to have occurred is that most of the contractors convinced government, through a series of negotiations, to pay them for a variety of services on a fee-for-service basis. Clearly, some of this preparation is often necessary for successful placement and retention. Yet, paying contractors on a per-service basis seems contrary to the spirit of the new approach. (See Appendix B for a more detailed breakdown of the service components in each provider contract.)

The basic concept behind performance-based contracting is that the “global fee” to contractors should be high enough to enable them to conduct some job readiness activities. Instead of pre-specifying such activities, the idea is to pay contractors a lump-sum amount and let them decide which services to provide. Presumably, different contractors would employ different strategies, and there would be an opportunity to evaluate the comparative effectiveness of alternative approaches.

About halfway through the first year of the program, contractors realized that they were not getting a sufficient number of job-ready referrals to meet contract quotas. Consequently, the state agreed to renegotiate some contracts both to lower the number of required placements—without changing the total contract amount—and to convert a portion of the fee from an “outcomes-based” to a “fee-for-service” payment.

Contractors claim that the first-year contracts swept up many of the more employable welfare recipients, leaving a caseload comprised of people less prepared for work, in terms of education, training, and job experience. They also assert that second-year clients were more likely to have a history of substance abuse and similar types of problems. As a result, they pushed for assured funding for job preparation in their contracts.

The state responded to these concerns by renegotiating 1995-96 contracts in December 1995, as well as by including money in the second year of the program for work preparation. A problem is that much of this preparation takes the form of “soft skills” training such as personal hygiene, domestic financial management, maintaining a good appearance, etc. While all of these skills and habits are important on some level, they do not get at the biggest problem of all—the lack of basic education and basic work skills. Thus, government finds itself paying up-front for a lot of what critics might call “feel good about yourself” training while neglecting deficiencies in areas that are absolutely critical to employers.

Another concern is that many contractors seem to be able to pressure the government to ensure their financial viability (“if we don’t get relief on this point, we will go out of business”). Of course, it is understandable that these

arguments would get a hearing, and government cannot run a program if it bankrupts the providers. But there is a big difference between putting all the contractors in jeopardy and running a truly competitive system in which some thrive, some get by, and others must withdraw from the market. That, after all, is what competition is all about.

All of this means that the program has veered away from the original concept of risk sharing and performance-based contracting. There are still elements of these concepts in the program, but they are decidedly weaker. One contractor told us that “We get paid only for performance, but anything we do is considered performing something. We are considered to have performed a task even if we just have someone complete the orientation session.”

Recommendations

- The state and the city should use an RFP process and take competing bids from contractors; this RFP should lay out performance targets and ask contractors to tell the government how they would meet them.
- Government should structure contracts to make them truly performance-based, with payments tied to both placement and retention.
- State and city governments should be cautious about paying for selective services using cost-based reimbursement, particularly in the case of softer services not directly related to education, work experience, and training.
- Education and skill deficiencies of many recipients, along with special problems such as substance abuse and mental illness, should be dealt with by factoring into per case payments an amount of funding that enables contractors to address these problems; contractors could then be fairly and fully placed at risk for outcomes.
- Government has to be prepared to have “winners and losers” as competition unfolds; it should pay a fair price that includes appropriate readiness services, and then let market forces work.

The Management Information System Is Deficient

The previous discussion has highlighted issues related to the goals and design of the welfare reform system. We now turn to another key ingredient of a good system—a reliable management information system.

In order for a performance-based contracting system to work, the payer must have reliable and timely information on results. In other words, if performance is to be the basis for payment, it must be measured accurately. Moreover, this information cannot be buried somewhere in a contractor’s files, but must be readily accessible to the government.

Indeed, a performance-based system requires a standardized system through which contractors regularly report to the government in a consistent format. Ideally, it should be electronically transferred and stored.

While the contractors do submit regular reports to the county welfare office, the information is not standardized and is not organized in a fashion conducive to analysis. Our study found that:

- Each contractor collects data in a different way.
- Much of the data is incomplete, fragmented, and in some cases, internally inconsistent.
- Contractors are not keeping separate records on AFDC clients; in most cases, such information is buried in aggregates that also include Food Stamp-only clients, as well as others receiving services.
- Contractors often cannot separate records on placements that meet IMPACT standards (e.g., \$6.06 per hour wage) and those that do not (e.g., interim and CWEP jobs).
- Contractors are not keeping records on fundamental demographic and program enrollment characteristics that would permit the city and the state to draw some basic conclusions about the types of clients for whom the services are most helpful.
- There is not enough information on welfare history, educational attainment, domestic problems, and other variables that could be helpful in arranging appropriate interventions.
- Most contractors are not keeping complete records showing when clients drop out of their programs or leave jobs; this greatly complicates any attempt to evaluate the degree of success achieved by the various contractors.
- The tracking system is set up more to collect what is needed to bill government than to facilitate assessments of performance.

Recommendations

- The city and the state should work with the contractors to develop consistent, timely, and reliable data systems.
- The government should establish a more standardized reporting system, preferably on a monthly basis, and build this requirement into RFPs.
- The data system should contain a variety of important process and outcome variables. It should also contain characteristics of clients such as previous work history, family status, educational attainment, and previous time spent on welfare. Outcome variables include wage rates, retention rates, employee benefits, change in welfare payments, job changes, and reasons for changing jobs.

Insufficient Effort to Make Work Attractive

Government has not made a sufficient effort to make work attractive to welfare recipients. First, contractors are not being held accountable for educating welfare recipients about the transitional benefits associated with

employment. This is particularly important because, in general, a disturbingly high proportion of people on welfare are simply unaware of the transitional health, transportation, and child care benefits for which they are eligible when they take a job, and they often do not know about the Earned Income Tax Credit (EITC).

For example, a recent study of North Carolina welfare recipients, conducted by the Southern Institute on Children and Families, found that 82 percent did not understand that EITC funds make up for a significant portion of lost AFDC cash assistance when a person takes a job; 39 percent were unaware of transitional Medicaid benefits for their children; and 63 percent did not know that they could retain their Medicaid coverage for a year.

Second, transitional benefits are not as generous as they could be. Indiana's waiver requests included one provision clearly designed to make work more attractive. The state sought the ability to extend transitional child care benefits from 12 to 18 months following the loss of AFDC benefits, but we were unable to determine why this has not yet occurred. Indiana is in the process of increasing the time period for subsidized transportation allowances (i.e., providing vouchers for various means of transportation) from 30 days to 90 days. More than a year into their program, however, this change is still in the works.

Moreover, the state has not extended the one-year transitional Medicaid benefit for those leaving AFDC for work. A number of states have increased this benefit to two years. Two states—Vermont and Virginia—have raised it to three years, and the new Wisconsin Works (W-2) program extends Medicaid assistance indefinitely for people leaving welfare for work, as long as their incomes remain below 165 percent of the federal poverty line.

As noted above, the real problem in the effort to make work attractive lies not so much in the rules of the game (which up until now have relied mainly on federal government decisions), but in the lack of knowledge and emphasis of these rules among both recipients and contractors. Our interviews with contractors revealed that in general, knowledge of transitional and permanent work-related benefits was slim, and the subject was not one that they emphasized. In most cases, no serious effort was made to walk clients through the basic economics of working, showing them how they can get ahead over time. It should be noted that America Works is an exception to this conclusion. Their counselors do, in fact, stress the financial advantages of working, and they make a point of explaining how the key federal and state programs treat people leaving welfare for work.

Moreover, government is not really delivering on its pledge to ensure transitional child care assistance and IMPACT jobs that provide access to affordable health care. Our interviews revealed that many of the jobs that contractors helped clients find did not, in fact, provide company-sponsored health coverage to which the employers made a substantial contribution. In some cases, businesses made coverage available by establishing a group plan, but they made no contribution toward the cost of the plan's premiums. This gives employees the substantial advantage of purchasing coverage at group rates rather than buying more expensive coverage on their own. Yet, former

AFDC recipients are going to require family coverage, and this is likely to cost them at least \$300 to \$400 per month, even at group rates. This is not a realistic expense for someone whose gross earnings are likely to be \$1,000 to \$1,200 per month.

In other cases, employees were offered health coverage for themselves, but no coverage for their dependents. When comparing this kind of offer to the very comprehensive coverage under Medicaid, many AFDC recipients are going to be very nervous about taking a job.

Second, while transitional child care benefits are offered for a year, our interviews uncovered consistent reports that child care payments were both inadequate and late. We were told that some child care centers would not accept AFDC recipients because the payments from transitional child care benefits were simply too low to cover their costs. But the biggest problem seemed to be the lateness of payments.

Third, transportation remains a serious problem in job placement since state subsidies are very short-lived. More important, affordability is only part of the problem—the other part is access. The bus system simply does not extend far enough to link up with many job opportunities located in the suburbs. Its cross-town routes also leave some locations within the city inaccessible. In addition, the bus system’s “9 to 5” type hours do not match well with some of the jobs that require people working certain shifts to use public transportation at odd hours. The job placement contractors have responded to this problem by putting together a private van pool system designed to extend and supplement the public transportation network. This is a step in the right direction.

Recommendations
<ul style="list-style-type: none">• Contractors should be charged with finding jobs that live up to the program goal of including affordable health coverage, as well as with educating all clients about the prospective benefits associated with working.• The state should clearly define its expectations for placement, including what constitutes satisfactory health benefits.• The state, for its part, must make timely and adequate payments to child care centers.• Consideration should be given to extending transitional Medicaid and child care benefits beyond one year.• The city needs to improve the bus routes to facilitate the movement from lower-income neighborhoods, where people coming off welfare reside, to the edges of the city and suburban locations, where many of the jobs are located.

Sanctions Are Improving but Still Not Fully Effective

The discussion to this point has centered on making work attractive, and acquainting people with how appealing it can be. The other side of the coin is to make idleness unattractive, and this requires the effective use of sanctions.

All parties told us that sanctioning prior to this new initiative amounted to little more than a paper tiger. Generally speaking, sanctions were not only weak, but they were also not enforced. Consequently, welfare recipients could refuse to pursue jobs or training with little consequence.

As noted earlier, the state deserves credit for increasing the sanctions so that they have some bite, and for doing a better job of enforcement. Nevertheless, some problems still remain. First, we were told that the sanctions are relatively easy to appeal successfully, so many people who were initially sanctioned never lost any benefits. Apparently, it is not too difficult to prove hardship. There should be an appeals process; the problem is the virtual automatic granting of requests, as opposed to honoring appeals in truly exceptional cases.

Second, when recipients lose AFDC benefits, certain other benefits increase to offset some of the loss of cash assistance (e.g., Food Stamps, public housing subsidies). These offsets are supposed to be partial, not total. Yet, both public officials and the contractors consistently reported to us that the program was plagued by a foul-up in the Food Stamp offset, whereby benefit increases in this program alone fully offset any reduction in AFDC payments. This particular problem should be remedied soon. The state has obtained agreement from the U.S. Department of Agriculture to stop raising Food Stamp benefits for sanctioned IMPACT clients. Eliminating the Food Stamp offset entirely may be somewhat excessive. It may be worth providing a more modest offset (called for under current law) to help assure that children are fed, even while allowing the state to reduce, though not eliminate, assistance to uncooperative parents.

Despite some helpful reforms, it appears that many clients who should be sanctioned are being “protected” by sympathetic caseworkers. Providers also reported that some clients are gaming the system by moving from one contractor to another, but not completing any of the programs or taking the job search process seriously. Others are no-shows in the referral process. The effective enforcement of sanctions remains a formidable challenge despite some real progress over the past year in improving the rules of the game.

Recommendation

- The state should build on its recent progress to make the enforcement of sanctions consistent and real, while still maintaining basic fairness.

Confusion on Tracks and Insufficient Referrals

The IMPACT program has been plagued by an insufficient level of referrals to providers. Contractors consistently reported that they did not have a large

enough pool of clients with whom to work. One reason for this was the difficulties the county experienced when its new computer system was installed, which delayed proper implementation of the program. A major stumbling block was that the computer system wrongly assigned large numbers of clients a score of zero on the job readiness test. The result was that many placement track clients were erroneously assigned to the basic track. Only in the Spring of 1996 did the county begin to take remedial action by auditing all existing files. The county should complete the audit by August 1996.

The state reported that it was able to place many clients on its own and did not need as much contractor assistance as originally anticipated. In addition, the state complained that contractors were cream-skimming, accepting only those clients who were easily “employable.” In response to contractor concerns, however, the county initiated mass orientations to increase the pool of clients. As mentioned earlier, though, these orientations were poorly attended, with little consequence.

Recommendations

- The state should keep continuously updated and verified information on the job readiness of all welfare recipients.
- The state should develop clear criteria for deciding which recipients go into the placement track and which ones enter the basic track to engage in job readiness activities.
- The state should not assign people from the basic track to contractors.
- The state should develop clear criteria for determining which clients from the placement track are assigned to the contractors—both in terms of deciding which program participants are referred to any contractor (versus being placed by the state itself), and when matching clients with specific providers.
- The state should assure an adequate flow of referrals to the contractors.

The Need for a Training Track

In its original waiver proposal, the state described a training track for clients who could benefit from additional skills training before entering the labor market. It is unclear why the state chose not to create this track in practice, but it appears that many clients would benefit from more applied skills training before entering the workforce. Initially, the contractors were under the impression that they were to receive only placement track clients, and they were dismayed when clients who were not work-ready arrived for training and job placement.

Some providers still believe that they should only work with placement-ready clients, although most are resigned to the fact that they will receive clients from both basic and placement tracks. Many people referred to contractors

also need help with personal problems in order to find a job. For example, some clients present mental health problems, others are wrestling with substance abuse, and some are experiencing both problems. Still others lack a high school diploma or a GED, and many have never worked before. Clients in these categories with the greatest problems should be sent to the basic track. The state may wish to consider reinstating an intermediary track for clients with less severe barriers to employment.

Recommendations

- The state should return to its original plan of creating a three-track system, with an intermediate track for people needing job skills training.
- Within the context of a “work-first” strategy, a greater effort to augment the education and job skills of welfare recipients can be helpful. Teaching good work habits and job search skills is important, but this cannot, per se, make up for serious deficiencies in education and skills.

Insufficient Employer Involvement

In the original waiver proposal, the state envisioned greater employer involvement. Especially in an area such as Indianapolis where employers are scrambling for workers, greater cooperation between business and the welfare office seems logical. Employers should clarify what skills they expect from job applicants, and might even make suggestions for specific training programs.

In addition, business subsidies and tax credits along with grant diversion (under which welfare checks are diverted to employers) may encourage employers to increase the number of companies that are willing to hire welfare recipients. America Works uses grant diversion, but it receives the grant instead of the employer.

There is considerable debate about whether wage subsidies are cost-effective. This debate hinges in part on the ability of the government to avoid providing windfall gains to employers who would already be hiring low-income people without subsidies. The state may want to consider a pilot project to test the effectiveness of subsidizing employers who are willing to hire welfare recipients. Since some of these recipients are unprepared for work, employers would have to provide on-the-job training that would otherwise be unavailable to program participants.

Government should publicize these employer incentives so that business is aware of them. While some contractors have reached out to businesses on their own, a more concerted effort would expand the impact of the program and probably improve clients’ access to jobs.

Recommendations

- The state, county and city should work with private employers to bridge the gap between job requirements and welfare recipients’ actual job skills. The Private Industry Council provides a good forum for linking people leaving public assistance to the world of work.
- The state may want to consider experimenting with employer subsidies or grant diversion on a pilot basis.
- Government should develop an effective outreach program to enlist the cooperation of business in hiring program participants.