

**Performance-Based Contracting  
Evaluation Project**

Prepared by the  
Neighborhood Employment Network

funded by  
**The Minneapolis Employment and Training Program  
and  
Governor's Workforce Development Council**

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## Preface

The Minneapolis Neighborhood Employment Network (NET) has been involved with Minneapolis's version of performance-based contracting for employment and training services since its inception. This preface is intended to act as an introduction to the report and to provide a context for the evaluation that follows.

To begin with, it is important to understand that people's needs for employment assistance are best viewed as a "bell shaped curve". At the extremes, some do not need to work because of family or personal wealth and at the other end, people may never work because of physical or mental disabilities. The rest of us are somewhere in the middle, some needing nothing more than want ads and internet listings, others needing a variety of assistance to address barriers such as lack of education, housing, and behavioral issues. NET believes that performance-based contracting can be an effective management tool for programs to serve people anywhere on the continuum provided that the performance goals are consistent with the capabilities of the people chosen to be served. That is, considerable care must be taken when developing performance goals. Goals must not be unrealistic, such as immediate placement and lengthy retentions for a target group that has limited education and personal behavior issues. Likewise, the goals must challenge both the service vendor as well as the client or the strength of the approach will be lost and the management tool considered ineffectual.

As one looks over the following pages, a number of themes emerge. Certainly, the most important is that, despite some concerns, no organization has turned down an opportunity to participate in performance-based contracted projects. Other themes, such as agreement that the method requires management and staff to stay continually focused on the production goals and outcomes; and that the clients are well served by the necessity for in-depth assessment and retention follow-ups, suggest that the approach is achieving the desired results.

At the end of this report there is a page that lists the identified best practices. Following that, are a series of recommendations, specific to Minneapolis, on improving the current application of the performance-based contracting approach.

As is often the case, the impacts that social service programs have on the lives of people chosen to be served depends greatly on the skills, knowledge, and compassion of the implementing staff. The performance-based contracting approach that the Minneapolis Employment and Training Program uses has proven that highly accountable management tools can, in fact, deliver efficient and effective services.

## **Introduction**

During July of 2003, NET conducted interviews with Minneapolis based nonprofits currently working with Minneapolis Employment and Training Program (METP) performance-based contracts, as well as with staff of METP and the Neighborhood Employment Network (NET). The goal of the interviews and subsequent report is to evaluate the method of performance-based contracts and the use of these types of contracts in employment and training.

Currently, METP funding for the adult programs -- the only employment program at METP that is performance-base contracted -- come from a variety of funding sources including the Workforce Investment Act (WIA), Community Development Block Grants (CDBG), and the Housing and Urban Development (HUD). METP service providers, also known as Job Banks, provide employment services to low-income adults, age 19 and older, and are located in various neighborhoods within Minneapolis. The Job Banks provide services including assessment, referrals to vocational training, and job placement, with follow-ups conducted for up to 365 days after placement. At present, five types of performance-based contracts exist--WIA Adult, CDBG, Mature Worker, Industry Cluster, and Empowerment Zone/HUD, with fourteen agencies providing the services.

While the performance-based contract type composes only a small fraction of METP's various funding types and while the performance-based contracts only compose a small fraction of the Job Banks' funding sources, this type of contract is an important funding source for serving the adult population in Minneapolis. Currently, the performance-based contract is used to provide services for the low- and moderate-income adult worker and/or residents within the Empowerment Zone, not on public assistance, with residence within Minneapolis, who has lost work through no fault of his or her own, and not part of an official dislocated worker program. Income guidelines exist for each program: WIA Adult, family of 3, must make less than \$11,300 per year; CDBG, family of 3, less than \$20,700; and Empowerment Zone, no income limits only residency within specific zones. WIA Adult and CDBG are on sliding scales, so the income guidelines adjust for the number of children in a family.

## **Compensation**

During the period July 1, 2002 through March 31, 2003, the program produced the following results -- 388 people served, 386 placed in employment at an average wage of \$10.07 per hour. Part of the requirements of the agencies operating on performance-based contracts, beyond the placement and hourly wage requirement of \$8.00 per hour, is a retention requirement that involves counselor -client follow-ups at 90, 183, and 365 days. During the period discussed above, the agencies produced 89% retention at 90 days, 84% at 183 days, and 70% at 365 days from placement. Upon completion of the 365 days following placement or the termination of the client's job prior to 365 days, the agency bills METP for the placement cost. At each stage of the process--placement, placement wage, and retention--a monetary value for achieving each goal is assigned; the total billable cost per placement is currently \$2500 per client.

## **Evaluation**

As stated earlier, the intent of this project is to document the impressions of various people associated with the METP performance-based contracting system. The interviewees were asked a set of questions; one set for the staff of agencies working with the contracts and one set for staff

at METP. The interview questions were specific, but kept open-ended as to provide the interviewee the opportunity to add further observations about the methodology, personal feelings, and concerns about the system of contracting. The questions were intended to help NET determine whether there is a methodological problem with the performance-based contract or if monetary issues were most important to the agency. Below are the two lists of questions used during the interviewing process. Following the questions, many of the responses are bullet points. The bullet point approach will allow for the readability of the responses and the efficient condensing of the information gathered.

- Questions for program administrators and Job Bank staff:

1. Please share your feelings about the METP performance-based contract method.
2. How do you think the method has impacted your ability to provide services to the unemployed?
3. Has your organization ever experienced a loss or reduction of funding because of poor performance?
4. If you have lost funding or experienced a decrease in funding, did your organization address the issues and improve on your performance to reapply for funding or increase funding levels?
5. What is the dollar value of the performance-based contracts you currently hold?
6. Do you view the method as competitive? Is it open and transparent?
7. Have you or your organization ever turned down a “Request for Proposal” (RFP) solely because it was a performance-based contract?
8. If you are not satisfied with the performance-based approach, what approach do you prefer?
9. What changes to the performance-based contract method would you make?

- Questions for METP administrators:

1. What were the factors that led to the creation of the current performance-based contracting method of contract management?
2. What year did the method start?
3. Have there ever been any sort of formal “official” complaints filed?
4. Do you think the method has produced the results METP sought? If so, what have been the strengths of the approach? What have been the weaknesses?
5. Have any vendors (Job Banks) been dropped for lack of performance? If so, how did the termination process go?
6. FATHERS project only; why did the performance-based approach fail to work?
7. Why do you think other jurisdictions have not embraced the performance-based contracting approach?
8. Are you satisfied with the current operation? Are there any changes you would like to make?

The interviewees’ comments in this report are considered anonymous and no comments are attributed to specific people or agencies.

## **Responses from Job Bank Agencies**

### **Question 1. Overall reaction to performance-based contracts.**

#### **Pros:**

- Performance-based contracting method is sound and theoretically the approach should work well to produce desired results.
- The contracting method requires agencies to work hard to serve the clientele and produce results.
- Performance can be measured on a monthly, even weekly, basis allowing agencies to focus attentions quickly and efficiently.
- METP is very helpful in providing the necessary assistance when questions arise.
- The method produces quantifiable results, which is easily translatable to foundation granting agencies or other funding sources.
- Performance-based approach keeps agencies and counselors on their toes month-by-month.
- The method disciplines the agency to focus attention and serve the clients needs.
- The outcome-based approach helps agencies perform well internally.
- The role of NET is important and a welcomed mediator of performance-based contracts.
- Long-term goals of job placement and retention leads to needed success. The built in requirements of the contract forces close follow-ups with clients.
- Forces accountability.

#### **Cons:**

- Performance-based contracting is difficult to budget for.
- Agency serves far more clients than paid for, either through failed clients in program or by providing the service without enrollment in program. Services are free to METP, but cost the agency.
- Agency is forced to be selective with clients they enroll in programs because of the need for full payment for placement and retention.
- The system provides no added incentives to work harder or extra; not an advantage to go over and exceed goals.
- It is difficult for nonprofits, working on a small budget, to operate as a business with “pay for results” contracts.
- There is stress on counselors to do more with less, resulting in greater burnout for those involved in performance-based contracts.
- The performance-based contract can run counter to an agency’s philosophy and mission of serving clients no matter what their life situation. Agencies must fit clients into requirements or exclude them from the program.
- Performance-based contracts offer little flexibility in time of economic decline. The agencies must operate with the same expected results in times of economic bust as in times of economic boom.
- Counselors’ caseloads are too large for effective service delivery.
- The method is beneficial to the contracting organization, but difficult for recipients.
- Staffing turnovers make execution of a performance-based contract nearly impossible, as results are needed on a week-to-week basis.
- Hard to keep quality high when working with large caseloads.

## **Question 2. Impact on clients served.**

### **Pros:**

- The client benefits positively from the intensity of the performance-based contract and the follow-up guidelines.
- The method provides for forward thinking that sees the benefit of employment not only in the immediate, but a half-year and a year from now.
- Performance-based contracts force counselors to see that the client is ready to move into long-term work.
- Provides the adult population with services not offered elsewhere in the agency.
- Forces the counselor to work many times harder to get a placement and focus on retention.
- Performance-based contracts provide for more one on one services upfront.

### **Cons:**

- The client is forced to be in contact with agency for 365 days from placement, often reluctantly.
- Many clients are left out of the program enrollment due to cost restraints or goal restraints.
- Some agencies have to turn away clients because staffing and money are not available, often because of budget constraints or goals needed to be met.

NOTE: Many interviewed discussed issues pertaining to the staffing difficulties and the budget restraints with regard to this question, and although it is an important issue, this question dealt specifically with the service provided to the client.

## **Question 3 and 4. Loss or reduction of funding and the agencies' responses.**

Many of the agencies that were interviewed had, in fact, experienced a reduction of dollars in their contract amount from year to year. From the interviews conducted, it became apparent that the METP performance-based contract, although easily terminated, would more likely turn to the reduction of contract amount before termination. The responses below are not easily divided into pros and cons; therefore, the responses will be presented in prose.

- The loss of funding resulted in a 35% reduction from one year to the next. The loss was the outcome of the poor economy and a rash of bad retentions.
- We addressed the problem straightaway, making staff changes and readdressing the goals of the program.
- Often it is difficult to manage everyone on a counselor's caseload, sometimes clients are lost track of, making retention difficult.
- We are forced to make good judgments about the clients we place in performance-based contract placements. It is important to get a lot of client information upfront before placing them for a job. This allows for easier follow-ups in the future.
- When faced with a decrease of funding from one year to the next, it is important to be flexible as a counselor and adjust placement style when times get difficult.
- Cutbacks and decreased funding are inevitable; it serves as a wakeup call to program. Not a big problem to change and become more effective.

- We failed to meet goals in retention, so we experienced a reduction of funding; we were forced to become more competitive between agencies and protect our job leads in order to get the placement and retention.
- Often the external economics and type of clientele entering the agency can hurt grades. We need to be flexible and change the approach to serving the client. However, it is especially difficult when external economic conditions change and we are stuck with consequences.
- Too many people need job services; time is required to work with everyone, which often results in lack of attention to retention and future placement. The result is a loss of funding.

**Question 5. Current dollar value of performance-based contracts held by agency.**

Most of the agencies involved in the project held the four major METP performance-based contracts: WIA Adult, CDBG, Mature Worker, and Empowerment Zone/HUD. The average contract total with METP was around \$100,000, with recent fluctuations in total amount because of fiscal year end. The reality is that even those with contracts that exceed \$100,000 per year, performance-based contracts account for a small percentage of an entire agency's budget. Although this does not change the difficulty of budgeting for a fiscal year when funds are paid out upon completion of placement and retention, it is important to see performance-based contracts as one tool in contracting, not the primary funding method.

**Question 6. Method as competitive and transparent.**

**Pros:**

- The method is very competitive, both internally and externally.
- Performance-based contracts make you, as an agency, work harder to get placements, to get good grades, and to increase funding for next fiscal year.
- Competitive yes, but balanced by NET, allowing external competitiveness, but within an atmosphere of cooperation.
- Very transparent, we know how well we did as an agency and how other agencies did as well.
- We know that when a request for proposal comes out from METP, we have a good shot at getting it because of our grades.
- The grades force METP to judge each agency in the open; we all know who is doing well and why a contract may go to a certain agency.

**Cons:**

- Competition between agencies to get funding, increase placements, and maintain good relationships with businesses, forces us to share less with other agencies.
- Because of the competitive nature of performance-based contracts, the rate of burn out of counselors is high. The stress to produce tangible results is sometimes too high.
- The process is never completely transparent. Everything is political. Sometimes agencies get an increase in funding that does not match with their results.
- Difficult to enter into a performance-based contract without being established. Many agencies vying for the same pot of money, which is not getting bigger.

**Question 7 and 8. Turned down a request for proposal because it is performance-based and what type they would prefer.**

While most of the agencies agreed that performance-based contracts are difficult and challenging financially to manage, they would continue to apply for the contracts. When asked why they would continue, the responses were mixed between, “they are the only contracts that serve specifically the adult population” to “it is well worth the trouble to continue to operate with performance-based contracts”. Some interviewees did mention that if some other source of funding became available that addressed the needs of the adult populations, they would get away from performance-based contracts.

As for the type of contract they would prefer, the answer was unanimous, any type of contract that is either cost reimbursement or lump sum upfront. Both of these types of compensations are believed to truly reflect the cost of serving clients and allow for easier budgeting for the entire agency. Further, because of the fluctuating payments of performance-based contracts, agencies find it hard to staff with adequate numbers. If the placements and retention are going well, it is possible to bring another counselor on, but as soon as retentions and placements fail, the money for the counselor dries up forcing cutbacks in staff. Most agencies felt that through other means of contracting these problems are more easily dealt with.

**Question 9. Changes.**

- The Workforce Investment Board (WIB) should look at lowering the minimum pay standard of \$8.00, or at least raise and lower it according to economic conditions.
- Exemptions need to be given in the pay rate for those with English not as primary language.
- The Workforce Investment Board needs to be flexible to changes in the economy, adjusting the payment schedule as needed. Currently, placement is more difficult than retention, where as during good economic times job retention is difficult. The WIB needs to adjust the weight of dollar amount between the placement and retention functions on a regular basis.
- When a new program is initiated using performance-based contracts, METP needs to give a grace period to get up and running. Often times the first six months of a new program is a period of attracting businesses, training new staff to the rules and regulations, and identifying clients. This makes it difficult to meet placement goals during those months. Perhaps allowing the first six months to be cost reimbursement, then transitioning into performance-based contract at that time would alleviate the problem.
- The performance-based contract payout needs to more clearly reflect the expenses of serving the community. Far more clients are seen and served without enrollment in a program. This leads to cost per client served higher than the \$2,500 per placement and retention.
- As the pot of money continues to be sub-divided to many agencies, small grants make it impossible to serve the clients within a given community. The demand for services far outweighs the money allocated to do the job.



- Professional retreats/training with speakers to bring the agencies and counselor involved in performance-based contracts into contact beyond the NET meeting atmosphere would be valuable.

### **Responses from METP Administrators**

#### **Question 1 and 2. Factors leading to the creation of performance-based contracts.**

Close to 20 years ago the Mayor of Minneapolis and the Workforce Council adopted a method of contracting that was to treat agencies operating on Minneapolis employment contracts as businesses. The basic idea was to pay for services when they are delivered. Because of the decentralized system of community-based agencies and the existence of the Neighborhood Employment Network, the performance-based approach was introduced. The performance-based approach allowed for greater competitiveness amongst agencies and transparency within city government. Further, the decision was made that the performance-based method would only be used for certain contracts and for certain types of clientele, believing that the method is appropriate for specific cases, but not a total solution to funding issues.

#### **Question 3. Formal complaints.**

No formal complaints have been filed yet.

#### **Question 4. Successes and negatives of the program.**

The results have been very positive and the city has benefited from the method. The performance-based contracts have produced a fairer system of contracting, with clear expectations and objectives for the agencies. The program has worked because no agency relies upon this type of contract exclusively or even for the majority of their funding. The performance-based approach produces real results and outcomes and quantifiable grading that agencies can take to other funding sources to show performance.

One of the negatives relates to the relative difficulty for new agencies to produce results, as the learning curve for this type of contract is greater than some contracts. Further, agencies that have been in the system for sometime also suffer from staff changes and internal reorganization. The performance-based approach requires constant attention and review. If this slips because of staff changes, it become difficult to meet goals. The argument of creaming, taking the best candidates from a pool of workers instead of serving all, has been a constant debate within all performance-based contracts.

#### **Question 5. Dropping vendors.**

Vendors have been dropped over the past number of years for various reasons, but all the contracts came with warnings and suggestions for improvement before the termination of the contract. With each contract termination, the agency had notice and no complaints followed. This may speak to the transparency of the METP process and the quantifiable letter grades.

## **Question 6. FATHERS Project.**

The FATHER Project has surfaced as a major exception to the strength of managing employment services by performance-based contracting. The FATHER Project is a fatherhood program created through the collaborative efforts of five governmental and quasi-governmental organizations. Starting the FATHER Project required considerable investment of time and resources from the various partner agencies, significant coordination of efforts, and the development of an infrastructure that supports the mission of the Project. These efforts did not happen overnight, but rather were the result of many months, indeed years, of hard work, listening, and responding. Initial planning meetings were first held in 1997, a planning grant was awarded in 1998, and the actual PFF grant period did not begin until July of 1999.

All of the collaborative partners serve on the FATHER Project Steering Committee and jointly make operational decisions about the Project. Each of the major grants funding the Project was secured through collaborative efforts led by an individual Project partner.

All collaborative partners provide staff resources beyond simply participating on the Steering Committee; there is genuine collaboration. At the start of the project, NET provided employment services to FATHER participants at all Job Bank locations. Services were originally operated under the performance-based system, but two years into the project, all partners agreed that the participants' barriers were so significant that to continue to operate under the performance-based system would cause failure of the employment component of the project. Due to a basic misreading of the participant groups' personal issues and barriers, the performance-based approach was ultimately replaced with the more traditional cost reimbursement approach.

Collaboratives, by their very nature, are often fraught with conflict, chaos, and turf battles. The FATHER Project has had its share of these challenges. Delayed funding, complex rules about sharing data, and conflicting eligibility rules (tied to the funding sources) caused considerable disappointment and frustration. External events such as these do not lend themselves to operating under the performance-based approach. Quality performance contracting assumes that policy makers, administrators, and bureaucrats have there "act together" and can, in fact, set the stage for the delivery of services.

## **Question 7. Other jurisdictions adopting performance-based contracting.**

Resistance to change could be the greatest factor in objecting to adopting performance-based contracting. Resistance comes from both government and agencies that see performance-based approaches as dangerous to the established methods. Agencies fear that they will be unable to operate under this type of contract. Further, the city needs to be structured in a way that allows for competitiveness when using non-government organizations as deliverers of services. In a fully centralized system of employment services, performance-based approach does not work. Minneapolis offers a unique environment for this type of contract working with multiple agencies with similar goals, the Neighborhood Employment Network, and stable staffing at METP providing assistance and guidance to the vending agencies.

**Question 8. Current assessment and future changes.**

- The program has worked well in Minneapolis and continues to serve the clients that are included in the scope of each program. Agencies are required to produce outcomes and to work not just to place people in jobs, but also to help them maintain employment for 365 days.
- Continual evaluation of each program that is performance-based to determine if the clientele base is appropriate for performance-based method.
- Continually adjust for populations served, following trends and population changes in Minneapolis to determine need.

**Conclusion:**

NET has concluded from the many interviews that the performance-based contracting method is working well for the four major programs: WIA Adult, CDBG, Mature Worker, and Empowerment Zone/HUD. The method is not without some problems and difficulties. What this study has found is that the unemployed in the city of Minneapolis are being served well by the performance-based contract method, as placement and retention remain high even through difficult economic times.

## Recommendations

### Best Practices:

- Performance-based contracting requires considerable cash flow management. Exceptions must be provided to allow for start-up and the possibility of sudden and significant loss of staff.
- Policy makers must reevaluate the performance goals and compensations at intervals commensurate with the pace of economic change. Failure to do so will undermine the approach and cause discouragement among the vendors.
- Senior managers must be fully aware of the characteristics of the participants that the policy makers have targeted for services under the performance-based approach. Managers must instruct their staff on methods they can use to provide services to those who do not fit the performance-based profile. Multiple resources must be available to allow the vendor to address the needs of all who walk in the doors.
- Competent record keeping and billing procedures are critical to adequate measurement of staff performance. Discrepancies in either area will adversely affect the performance outcomes.
- Vendors of services under performance-based contracts should be networked. The networking will allow for timely sharing of changes in the economy, new job opportunities, and policy issues that could affect outcomes.
- Quarterly evaluations of performance and outcomes must be provided. Adequate time must be allowed for poorly performing vendors to make improvements. Full acknowledgement must be given to the fact that poor performance will produce low compensation and that ultimately, those that consistently do not perform will be unable to continue to provide services due to their own failings.
- In order to ensure adequate performance, policy makers must understand the fiduciary capacity that the funding source will provide. The vendor groups must not be so numerous as to prevent a reasonable sum of money from being earned. While having a large number of vendors may well be politically sound, no one will be helped if the vendors are unable to provide competent and adequate staff because their contract is only large enough for a half-time equivalent.

### Suggested Refinements for Minneapolis:

- The Workforce Investment Board (WIB) should establish a policy that allows for the periodic review, and if necessary, adjustments to the production goal and vendor compensation schedules.
  - Adult Committee members could attend NET Job Bank meetings at least semi-annually.
  - NET could provide Adult Committee with quarterly reports that highlight feedback from NET Job Bank meetings.
- METP and the WIB should consider limiting the number of vendors participating in the performance-based system. While adequate geographic representation must be insured, the system must allow for an adequate threshold level of funding.
  - Request for proposals could state the number of vendors with whom the WIB will contract. The appropriate number could be determined after an evaluation of WIA budgets and an assessment of optimal funding requirements to adequately staff a placement and retention effort. The WIB should also consider expanding its mandated interests to include all aspects of employment and training that are funded under performance-based contracts.
- Given decreasing levels of funding, the WIB, in conjunction with MEPT and its parent organization the Community Planning and Economic Development Department, should fully explore new ways to build additional capacity for those engaged in employment and training. A model performance-based system is of little good if the numbers of people served are insignificant.
  - The WIB could seek an active part in discussions with Community Planning and Economic Development about capacity building options that could include funding techniques such as development fees, which would be pledged to employment and training.

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