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Barriers to Outcomes-Oriented Contracting in Workforce Development

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Barriers to Outcomes-Oriented Contracting in Workforce Development

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EXECUTIVE SUMMARY

There is a growing gap between the supply of and demand for skilled labor in the United States. Potential workers are challenged to find employment for which they are qualified, and firms are challenged to find workers with the skills necessary to fill their job openings. Indeed, some estimates conclude the skills gap could cost the U.S. economy up to $160 billion annually in terms of unfilled jobs, reduced productivity, and reduced earnings.[1] Addressing this skills gap requires an outcomes-oriented workforce development system that equips American workers with the skills necessary to succeed in high-demand industries. Workforce development, whether in the form of on-the-job training or formal education and training programs, is essential for increasing economic mobility and enabling U.S. firms to remain globally competitive.

The current workforce development system in the United States, however, is not prepared to meet this challenge. The system is dramatically underfunded relative to international peers, and, on the whole, does not generate the types of gains in human capital that translate to stable career pathways and meaningful earnings gains. To maximize the public value created by the dollars that are invested in workforce development, the United States must develop an accurate picture of where the system is performing well, and where it is not. Embedding robust performance management standards and processes in the workforce development system enables a data-driven understanding of how program structure and delivery may be improved to achieve better outcomes for job-seekers and employers.

Third Sector is uniquely positioned to help state and local governments transition to a workforce system that is more oriented around meaningful outcomes. Such a system focuses on medium to long-term outcomes such as measurable skills gains, earnings gains, and stable employment, and uses data and evidence to drive continuous improvement processes. This report assesses why workforce development is such a uniquely difficult policy problem, identifies the major barriers that are standing in the way of state workforce development systems being more outcomes oriented, and offers examples of how these challenges might be overcome.

What makes workforce development so difficult?

In theory, a perfectly-functioning market for workforce development matches individuals with particular skills seeking employment with employers seeking to hire individuals with particular skills. Labor faces no barriers to mobility, and all training is employer-funded. In reality, however, the market for workforce development does not function perfectly, largely due to four factors: Uncertainty and capital constraints, the transferability of skills, imperfect information, and inequality. These market failures necessitate public sector involvement to ensure an adequate level of investment and direction in workforce development. Recognizing this need, the United States provides nearly $3 billion annually for workforce development through the Workforce Innovation and Opportunity Act.[2]

But publicly-funded workforce development systems face challenges of their own. Responsibility for various aspects of workforce development such as education, employment, training, and related support services is spread across multiple federal agencies. Setting policy at a federal level also requires a delicate

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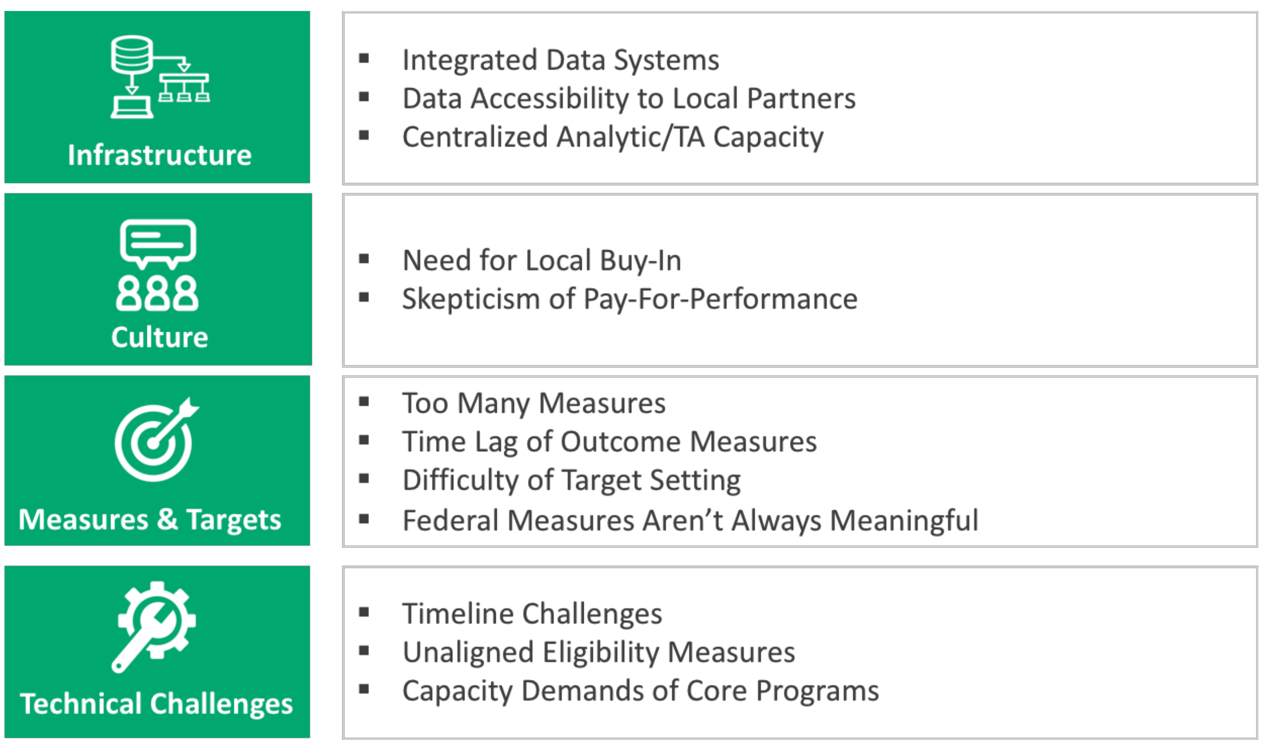
[1] Bauman and Christensen, "Improving Skills Through America's Workforce Development System."
[2] Counts, "Federal Funding for State Employment and Training Programs Covered by the WIOA."

balance between accommodating local heterogeneity and maintaining universal standards. Achieving this balance is particularly challenging in developing effective performance management, a crucial element of any workforce development system. Without effective performance management oriented around outcomes, governments have little visibility into whether their programs are serving the right people, providing relevant services, and developing the right skill sets.

General barriers to outcomes-oriented workforce development

Given the varying structures of their workforce development systems, extant data infrastructure, and region-specific needs of job-seekers and employers, there are considerable differences across states in the challenges they face to becoming more outcomes-oriented. Despite this heterogeneity, we have identified a set of general barriers that most states will encounter in some form. In identifying these barriers, we considered what management, data infrastructure, and regulatory challenges might arise as states try to move their workforce development systems towards the ideal of being efficiently targeted both economically and socially, robust against game-playing, simple to administer, and politically appealing. These barriers were identified through interviews with state and local workforce officials in Washington, Texas, and Colorado, three states with particularly unique workforce development systems, as well as through a review of the broader literature on the subject. These barriers are summarized in Figure 1.

FIGURE 1. SUMMARY OF GENERAL BARRIERS



Full explanations of these barriers are included in the full report below. Here we highlight one barrier in each category as an illustration of the types of challenges facing states.

Integrated Data Systems (Infrastructure)

A well-functioning integrated data system (IDS) is critical for giving local officials and training providers necessary and timely information to adjust their operations and tailor their service delivery. It is also essential to allow the type of data tracking, analysis, and reporting that underpin a truly evidence-based approach focused on outcomes. Without an IDS, officials lack access to real-time data, must dedicate time to duplicative data collection, and miss opportunities for closer coordination with other relevant government programs. However, these systems are challenging to develop due to technical difficulties integrating outdated legacy systems, as well as legitimate data security and privacy concerns that must be carefully balanced against the value an IDS can provide.

Skepticism over Pay-for-Performance (Culture)

Despite considerable progress in both the design of outcomes-oriented contracts, and the data and analytic capabilities needed to support them, many state and local officials are hesitant to pursue any type of performance contracting due to mixed experience with these models in the past. One local board in Texas, for example, established pay-for-performance contracts premised on particular employers hiring program graduates. Though employers expressed enthusiasm during the development of the contract, they did not follow through with hiring program graduates once the contract was implemented. However, this skepticism can generally be overcome by grounding the discussion in the realities of the specific use-case and emphasizing the progress in data collection and analysis to support such a contracting model.

Federal measures are not always meaningful (Measures & Targets)

State and local officials are required to report on a variety of measures by the federal government, creating a significant burden on staff time and resources. Additionally, in the case of the Temporary Assistance for Needy Families (TANF) Work Participation Rate (WPR), meeting federal targets can actually be *counterproductive* to improving long-term outcomes. The WPR credits activities that are time-consuming to document but fail to drive meaningful human capital creation such as community service and light-touch job searching. Additionally, it only counts training for up to 12 months despite the fact that many high-demand credentials take 18 to 24 months to obtain. This presents state and local officials with a dilemma of risking financial penalties or investing in meeting a target that does not always best serve their job-seekers.

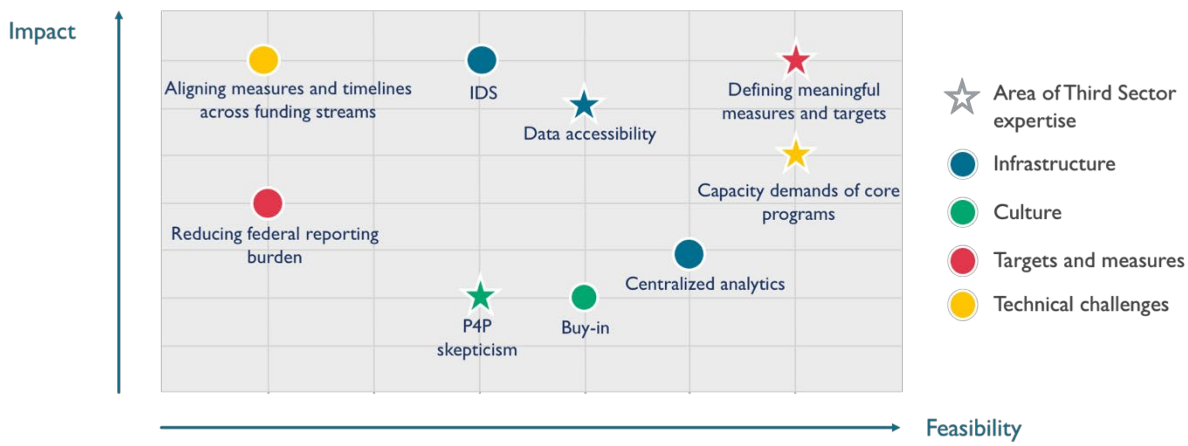
Unaligned eligibility measures (Technical challenges)

Various federal funding streams often have different requirements for determining who may access programming. These differences pose challenges for state and local boards attempting to optimize how funds are spent across their populations, and also can distort performance evaluation when states proceed with co-enrollment across programs. For example, in a population where all individuals are eligible for one program but only half are eligible for another complementary program, the denominator used in evaluating the performance of the combined program will be twice as large as the denominator that would have been used in evaluating the performance of the second complementary program, even though the same number of people are using those services. By co-enrolling participants in a package program, workforce boards take a hit to their performance, as they are being evaluated on outcomes for the services only half their population is receiving. This automatic downgrade against performance metrics discourages many state and local areas from combining funding streams that otherwise complement each other. Some of these differences in eligibility requirements are necessary given the different target populations and goals of the programs, but others are the result of lack of coordination among federal agencies. Rewarding local boards for combining programs despite any negative effect on measured performance could encourage officials to optimize how federal funding is spent in their jurisdictions.

Where should Third Sector focus?

Figure 2 shows our analysis of how difficult it is for states to address the barriers we have identified, how impactful making progress on these challenges would be, and the areas where Third Sector is uniquely positioned to drive progress. Third Sector is best positioned to help states overcome skepticism of outcomes-oriented contracting, improve their data sharing governance, and define meaningful measures and set appropriate targets. Critically, Third Sector adds much-needed capacity to states who might not otherwise be able to dedicate significant resources to considering how to move to a more outcomes-oriented system.

FIGURE 2. RECOMMENDED AREAS OF FOCUS FOR THIRD SECTOR

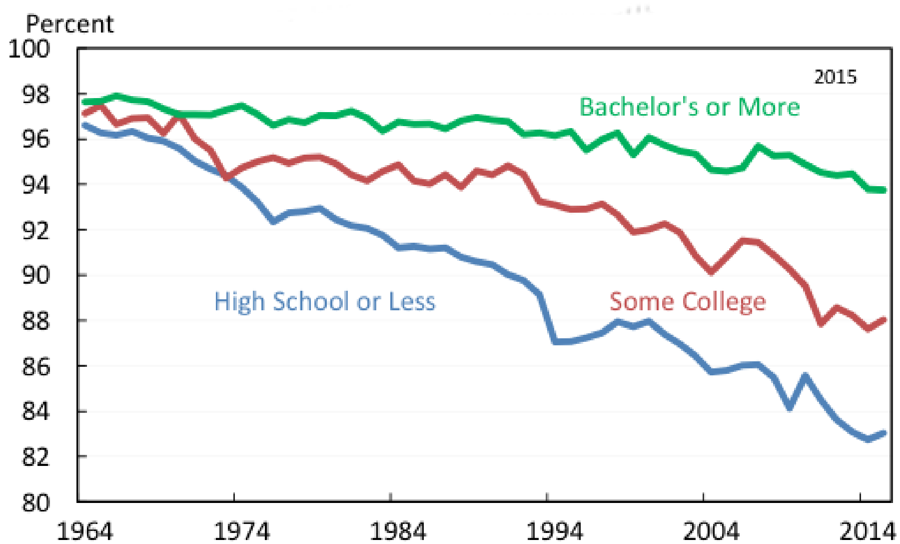


INTRODUCTION

What is the urgency behind workforce development efforts in the United States?

Though the U.S. unemployment rate dropped below 4 percent in 2018, its lowest point in nearly 50 years, the labor force participation rate fell more sharply between 1990 and 2014 than in all but one other country in the OECD.[3] The decline in participation has been most acute for Americans without a college degree: between 1964 and 2015, the rate for college-educated men fell from 98 percent to 94 percent, while the rate for men with a high school degree or less fell from 97 percent to 83 percent.[4] This decline also captures fundamental differences between the male population with a high school degree or less in the 1960s versus today such as the greater relative importance of a college degree today as a signaling device for obtaining high-paying employment. Even so, in the last 20 years alone, the labor force participation rate for this group has fallen by nearly 4 percentage points.[5] In all, some seven million prime-working-age men (25-54) are no longer even looking for work.[6]

FIGURE 3. PRIME-AGE MALE LABOR FORCE PARTICIPATION BY EDUCATIONAL ATTAINMENT



Source: Bureau of Labor Statistics, Current Population Survey (Annual Social and Economic Supplement); CEA calculations.

The United States has also seen dramatic growth in the wage premium associated with higher education. Over the past three decades, the earnings gap between college and high school graduates has more than doubled.[7] Increasing returns to education have played an important role in the growing earnings inequality in the United States, with some estimates attributing as much as 70 percent of the rise in wage

[3] Fleming, "US Low-Skill Males Drop out of Jobs Market"; Schneider, "U.S. Unemployment Rate Drops To 3.7 Percent, Lowest In Nearly 50 Years."
[4] Fleming, "US Low-Skill Males Drop out of Jobs Market."
[5] Black et al., "The Long-Term Decline in US Prime-Age Male Labour Force Participation."
[6] Eberstadt, "Where Did All The Men Go?"
[7] Autor, "Skills, Education, and the Rise of Earnings Inequality among the 'Other 99 Percent.'"

dispersion between 1980 and 2005 to the education premium.[8] In absolute numbers, the median college-educated man earns approximately $17,000 to $35,000 more than the median man with a high school degree or less.[9] Workers' earnings are largely based on their productivity, which, in turn, depends on their capabilities (supply of skills) and their scarcity (employers' demand for their skills).

On the demand side, much of the decrease in labor force participation and increase in earnings inequality is related to the declining availability of high-wage, low-skill jobs. Increased international competition and productivity gains have led lower-skill jobs to be outsourced to nations with a lower cost of labor. Technological change has eliminated many other low and middle-skill jobs and increased the returns to investment in education. Employment in manufacturing, for example, has declined by over 30 percent since its 1979 peak.[10] Even among employed low-skill workers, the statistics are grim: Inflation-adjusted median earnings for men with a high school degree or less were lower in 2010 than they were in 1970.[11]

At the same time, on the supply side, many businesses in the United States are unable to find workers with the necessary skills to fill openings. A 2018 Burning Glass report found that in aggregate, there are 5 percent more job openings than workers. The shortage of workers is particularly acute in occupations requiring specialized training, including healthcare (nearly 1.5 openings per available worker) and computer/data scientists (1.2 openings per available worker). In fields such as construction/extraction and food preparation and service, however, there is a surplus of workers, with as few as 0.8 openings per available worker.[12] The geographic concentration of particular occupations (e.g., manufacturing) and the relative immobility of labor only exacerbates this problem.

These figures suggest that there is a gap between the supply of and demand for skilled labor in the United States. Potential workers are challenged to find employment that matches their skill level and firms are challenged to find workers with the skills necessary to fill their job openings. Indeed, some estimates conclude the skills gap could cost the U.S. economy up to $160 billion annually in terms of unfilled jobs, reduced productivity, and reduced earnings.[13] Bridging the divide between individuals in need of jobs and higher earnings and employers in need of skilled workers requires investment in training and education for roles that are in high demand and require specialization. Workforce development, which refers to on-the-job training as well as formal education and training programs, is important for elevating economic mobility and for equipping U.S. firms to remain globally competitive. Re-skilling America's workforce has been a priority under both the Obama and Trump administrations, both of which called for greater investment in and coordination among government, employers, and educational institutions.[14]

The current U.S. workforce development system is not up to the challenge of supporting workers through the types of rapid transitions that automation, predictive analytics, and other disruptive technologies could bring in the near future. In 2016, the U.S. ranked 21st among OECD countries in terms of percentage

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[8] Autor.
[9] Autor.
[10] Desliver, "Most Americans Unaware That as U.S. Manufacturing Jobs Have Disappeared, Output Has Grown."
[11] Greenstone and Looney, "What Is Happening to America's Less-Skilled Workers?"
[12] Restuccia, Taska, and Bittle, "Different Skills, Different Gaps: Measuring & Closing the Skills Gap."
[13] Bauman and Christensen, "Improving Skills Through America's Workforce Development System."
[14] "The Long-Term Decline in Prime-Age Male Labor Force Participation"; "Addressing America's Reskilling Challenge."

of GDP spent on job training programs.[15] The world leader, Denmark, spends 17 times as much on job training per capita as the United States.[16] Not only is the total level of funding low relative to peer countries, but the amount spent on workforce development in the U.S. has been declining in real dollars at the same time that demand for services has increased, putting severe strains on the system.[17] While there are certainly examples of high performing workforce development efforts at the local and even state level, performance is uneven across the country, and as a whole, the United States system does not generate the types of gains in human capital that translate to stable career pathways and meaningful earnings growth.

Clearly, there is an urgent need to improve the performance of the workforce development system in the United States. As we describe in greater detail, this is a uniquely difficult policy problem due to the overlapping and sometimes conflicting interests of the workers who use the system, public officials and contractors who provide services, the employers who benefit, and the taxpayers who fund the system. The multiplicity of federal programs and associated funding streams dedicated to some aspect of workforce development further complicates the issue. Making the system more outcomes oriented at all levels has the potential to help more Americans achieve economic self-sufficiency. The federal government has taken major steps towards a system that is less focused on process measures and inputs and instead emphasizes delivering key outcomes with the passage of the Workforce Innovation and Opportunity Act (WIOA) in 2016, as well as the Strengthening Career and Technical Education for the 21st Century Act (Perkins V) in 2018.

Despite longstanding efforts to orient the workforce development system around outcomes, the skills gap persists. Much discussion has focused on federal-level challenges to solving the workforce puzzle. While federal workforce reform is important, there is greater room for impact and greater appetite for experimentation at the state and local level. Implementation of some of the most ambitious performance-related provisions of WIOA and other federal legislation and regulation has been uneven, and most states and local workforce entities have yet to realize the full potential of an integrated, outcomes-oriented workforce development system. This project identifies what common barriers states are facing in creating workforce development systems with robust performance management and continuous improvement programs that successfully blend and braid the various federal funding streams to create an integrated, impactful experience for job seekers.

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[15] "Public Spending on Labor Markets (Indicator)."
[16] "Public Spending on Labor Markets (Indicator)."
[17] Cielenski, "Federal Investment in Employment and Job Training Services Has Declined Over the Last 40 Years."

The barriers we identified fall into four categories, summarized below in Figure 4.

FIGURE 4. SUMMARY OF GENERAL BARRIERS

Infrastructure	▪ Integrated Data Systems ▪ Data Accessibility to Local Partners ▪ Centralized Analytic/TA Capacity
Culture	▪ Need for Local Buy-In ▪ Skepticism of Pay-For-Performance
Measures & Targets	▪ Too Many Measures ▪ Time Lag of Outcome Measures ▪ Difficulty of Target Setting ▪ Federal Measures Aren't Always Meaningful
Technical Challenges	▪ Timeline Challenges ▪ Unaligned Eligibility Measures ▪ Capacity Demands of Core Programs

Infrastructure refers to the institutions, data systems, and staff needed to support an effective outcomes orientation. **Culture** covers the norms and processes that embed a performance mindset into everyday operations. **Measures and Targets** includes challenges related to deciding what to measure, how to hold actors accountable for those measures, and how to shift these targets over time. Finally, **Technical Challenges** refers to regulatory barriers such as conflicting definitions of eligibility across funding streams that complicate the braiding and blending process.

ROAD MAP

After a brief discussion of the methodology used in the creation of this report, we present the theoretical and historical background that underpins our analysis of the current barriers to a more effective workforce development system. This section begins with an examination of the economic theory necessary to understand the tradeoffs and challenges inherent in workforce development policy. This discussion investigates why workforce development is uniquely complicated as a policy area, and why it is so easy for well-intentioned efforts to fail to produce true public value. The following section includes our criteria for what a high-performing workforce development system should look like.

Next, we lay out the common barriers that states might face to making their workforce development systems better integrated and more outcomes-oriented, regardless of the specific administrative structure of their system.

Finally, we tie together these insights by considering how Third Sector can best help states overcome these barriers given the firm's expertise and which challenges would be most impactful to overcome.

In Appendix I, we highlight key provisions of WIOA that are aimed at encouraging states to make their workforce development systems better integrated and more outcomes-oriented. A fairly detailed understanding of these provisions can provide helpful context for our recommendations.

In Appendices II-IV, we examine the workforce development systems and efforts at integration of federal funding streams and performance management in Texas, Colorado, and Washington, three states that have made substantial progress toward embedding outcomes in their workforce development systems. Our intent with these case studies is to provide a sampling of the types of state-specific barriers to more outcomes-oriented workforce development efforts that might arise, a key consideration for our client given that the heterogeneity of state workforce systems' structure, data infrastructure, analytic capacity, and strategies. These case studies also provide greater detail and context for the examples given in our discussion of general barriers of ways that these states have attempted to overcome these challenges.

METHODOLOGY

Our approach to this project integrates a theoretical perspective on workforce development, an analysis of the federal legislative environment, and an investigation of the actual state of implementation of various efforts to make workforce development systems more outcomes oriented.

To develop the theoretical grounding of our paper we sought to first understand the fundamental economic issues involved in workforce development, beginning with various conceptions of "human capital" and why the private market fails to produce a socially optimal distribution of skills and education. We then considered the incentives of various parties involved in workforce development including job seekers, employers, training providers, local, state and federal public officials, and the taxpayers who fund these programs. This lens helps to illuminate why workforce development policy is uniquely difficult to get right.

Our investigation of general barriers to making workforce development systems more outcomes oriented was two-fold. First, we surveyed available literature and contacted field experts to gather information about difficulties in implementing performance-focused provisions of WIOA and other relevant federal legislation. This provided initial hypotheses for general barriers which we then applied to the three states that we investigated in depth (Texas, Colorado, and Washington) to understand whether these states encountered these barriers, and how they have addressed them.

We selected these states due to their advanced progress along the outcomes-oriented spectrum relative to other states. By virtue of the progress they have already made, the experience of these states has the potential to illuminate not only barriers at the beginning of the process, but also strategies for how to overcome these barriers, as well as identify challenges and impediments that arise at more advanced stages of embedding an outcomes orientation.

Our investigation of the past and present state-level barriers was informed by two sources. First, we compiled publicly available information on each state such as reports from think-tanks and the governments themselves, as well as public-facing elements of their performance management systems. We also interviewed two national experts on this topic and 10 public officials across the three states, including officials responsible for both TANF and WIOA administration in each state as well as several local workforce officials. To encourage candor from these officials about the challenges facing their states' workforce development system, we agreed to not identify them directly in our report. When reporting interview findings, we only refer to a comment as coming from "state officials" or other plural identifiers if the comment was made by more than one interviewee. Comments from a single interviewee will be indicated as such.

THEORY

What are the economic challenges to providing workforce development?

Despite the widely recognized benefits of investing in training and education for American workers, the economics of workforce development suggest it is an underprovided public good. Human capital theory posits that in a perfectly functioning labor market, individuals and firms would achieve the optimum amount of investment in human capital.[18] Rational individuals with full information on their opportunities are willing and able to pay to develop skills that are transferable from one company to another when they can expect to recoup the cost of training through increased future earnings. Firms will bear the cost of developing employees' non-transferrable skills, or those that are specific to the enterprise. In practice, however, multiple market failures prevent the market for education and training from functioning according to theory, and, without public intervention, individuals and employers will underinvest in human capital formation. In particular, four characteristics of the market for workforce development result in the under-provision and under-consumption of training: uncertainty and capital constraints, the transferability of skills, imperfect information, and inequality.[19]

Uncertainty, risk aversion, and capital constraints

In theory, individuals should be willing and able to invest in skill development as a means to achieving higher future earnings. But in practice, constraints on resources and uncertainty around the return to education and training mean that individuals are perhaps unable and unwilling to invest at a socially optimal level. Several studies on automation and displacement find that the workers most likely to be displaced are those who already have fewer years of education and lower income levels.[20] Thus the very workers in need of re-training are those who are least able to invest in upfront tuition costs of reskilling programs and least able to sustain a loss of labor income for the duration of their training. These individuals also face uncertainty around the private return on investment in retraining programs. They may foresee challenges completing the requirements as a result of their vulnerable socioeconomic status, perhaps related to transportation, health, or childcare, or question whether they will find a job that uses and rewards their skills upon completion of the course. Due to these constraints and this uncertainty, individuals in need of re-skilling may be more risk-averse than would be optimal from a societal perspective when it comes to individual investment in training and education.

[18] Finegold, "Workforce Development in the United States: Creating a More Effective Training Market."
[19] Finegold.
[20] "Addressing America's Reskilling Challenge."

Transferrable skills

The problem of transferable skills raises questions around public and private incentives for investing in workforce development. Workplace skills fall along a spectrum according to their specificity. On one end are purely general skills, such as flexibility and critical thinking, that can be applied in a number of different jobs across industries. On the other end are firm-specific skills, such as how to use a proprietary ticketing system, that are only relevant to a particular employer. In between may be skills that are of use to only a small subset of employers in a given labor market such as hazardous waste technicians. On the one hand, firms are reluctant to invest in general, transferrable skills due to uncertainty over the outcomes of the training investment. For example, employees may, after developing general skills, move to another firm, meaning the firm that provided training would effectively be subsidizing its competitors. The benefit to society of each dollar spent on developing general skills is thus greater than the benefit to firms, especially when there is high competition for employees among firms. This positive externality indicates a systematic underinvestment in general skill development. Employers will only supply training for general skills if they do not have to absorb the cost.[21] On the other hand, individuals are generally reluctant to invest in firm-specific skills, especially when they run a high risk of displacement in fields that require specific skills. Both factors together lead to underinvestment in skill development, both general and specific.

Imperfect information

Workers and employers both face informational barriers in their decisions to invest in training and education programs, either by participating in them (workers), paying for them (workers and employers), or hiring program graduates (employers). For workers not attending four-year colleges, it is often difficult to identify clear education and training pathways that lead to secure employment.[22] Beyond choosing a career path, it is also difficult to assess the quality of different education and training providers. Employers also may also struggle to assess the job-readiness of candidates emerging from training and education programs. If there is no standardized set of skills for a particular career path, as is the case with many occupations and industries in the United States, it is difficult to develop certifications that allow employers to easily evaluate potential employees. Today, employers may "up-credential" their job openings, requiring a college degree as a way to screen applicants even if a college education is not necessary to fulfill the job duties.

Inequality

In a privately-funded workforce development marketplace, training programs, especially those internal to employers, will disproportionately serve better-educated and more highly-skilled workers. The American Society for Training and Development estimated in 2006 that as much as 75 percent of employer spending on training is for formal internal purposes.[23] Other studies have found that the provision of training by private firms increases with workers' education and the skill-intensity of the job.[24] Employer-provided training is thus likely to be targeted at workers who already have the training needed to secure employment in a high-skill economy and to focus on specific, non-transferable skills. Low-skill Americans

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[21] Becker, *Human Capital*.

[22] Finegold, "Workforce Development in the United States: Creating a More Effective Training Market."

[23] Rivera and Paradise, *2006 State of the Industry in Leading Enterprises*.

[24] Bassanini et al., "Workplace Training in Europe (Chapters 8 - 13)."

face an access problem in privately-funded training markets, a problem that necessitates government intervention.

What is the landscape of workforce development in the United States?

Adult education and training in the United States has traditionally been highly decentralized and market-based. According to a 2004 estimate, nearly 90 percent of spending on job training and education occurs in the private sector.[25] The fraction of workforce development spending that is publicly-funded represents about 0.5 percent of U.S. GDP, a share nearly 10 times less than what is spent in most Western European countries.[26] Much of this public funding flows through the federal Department of Labor and is authorized under the Workforce Innovation and Opportunity Act of 2014.[27] Other sources of federal funding for workforce development include the Department of Education, the Department of Housing and Urban Development, and the Department of Health and Human Services (see Figure 5).[28]

[25] Mikelson and Smith Nightingale, "Estimating Public and Private Expenditures on Occupational Training in the United States."
[26] Heinrich, "Workforce Development in the United States: Changing Public and Private Roles and Program Effectiveness."
[27] "Fiscal Year 2017 Budget Analysis: Key Federal Workforce and Education Programs."
[28] Counts, "Federal Funding for State Employment and Training Programs Covered by the WIOA."

Figure 5. Selected Sources of Federal Workforce Development Spending

Training and Employment Service	Allocation in Program Year 2016
Department of Labor	
WIOA Adult Services	$785.2 million
WIOA Dislocated Workers	$990.5 million
WIOA Youth	$832.6 million
Wagner-Peyser/Employment Service Grants	$669.6 million
Apprenticeship Grants	$90 million*
Native American Programs	$49.5 million
Rehabilitation Services	$3 billion
Migrant and Seasonal Farmworkers	$72.9 million
Youth Build	$79.2 million
Department of Education	
Perkins Career and Technical Education State Grants	$1.1 billion
Adult Education and Family Literacy State Grants	$569.4 million
Health and Human Services	
Temporary Assistance for Needy Families (work, education, and training activities)	$2.1 billion

* Omnibus FY 2016 Appropriation Levels

Within the publicly-funded workforce development system, programming is generally left to state and local officials under a model often described as “federally-funded, state-administered, and locally-run.”

The logic behind such a system is that local agents are in the best position to identify their communities' business and training needs given the economic and political context of their regions. The result is a high degree of variation in how workforce systems are structured, what services are offered, and how services are delivered beyond a core set of federal requirements.

These federal requirements are tied to the various federal funding streams for workforce development, chief among which is WIOA. Signed into law in 2014, WIOA provides approximately $3 billion annually for workforce development activities under Title I.[29] These Title I activities include Adult, Dislocated Worker, and Youth formula programs, all of which are administered by the Department of Labor (DOL). Funding for these programs is allocated across states based on each state's share of total unemployment, each state's share of excess unemployment (greater than 4.5 percent), and each state's share of economically disadvantaged individuals.[30] WIOA also provides funding for Adult Education and Literacy Act programs (administered by the Department of Education under WIOA Title II), Wagner-Peyser Act employment services (administered by DOL under WIOA Title III), and Rehabilitation Act services for job seekers with disabilities (administered by the Department of Education under WIOA Title IV).

In addition to its six core programs, WIOA calls for improved access to comprehensive services for job seekers through a nationwide system of One-Stop centers. These One-Stop centers, run at the local level, are intended to bring together the services of WIOA's core and partner programs in one physical location. These partner programs, which are legally required to be accessible through WIOA's One-Stop centers, include Career and Technical Education (Perkins), Community Services Block Grant, Indian and Native American Programs, HUD Employment and Training Programs, Job Corps, Local Veterans' Employment Representatives and Disabled Veterans' Outreach Program, National Farmworker Jobs Program, Senior Community Service Employment Program, Temporary Assistance for Needy Families (TANF), Trade Adjustment Assistance Programs, Unemployment Compensation Programs, and YouthBuild.[31]

WIOA builds on nearly a century of public sector efforts to develop the U.S. workforce, beginning with the New Deal during the Great Depression. The first federal workforce act was the Manpower Development and Training Act of 1962. Subsequent legislation has moved the U.S. workforce development system toward the decentralized administrative structure it exhibits today. In particular, the Job Training Partnership Act of 1982 enlarged the role of the private sector in delivering publicly-funded training services while reducing the role of the public sector in directly creating employment opportunities.[32] The 1998 Workforce Investment Act (WIA) introduced of Workforce Investment Boards at the state and local level as well as the local One-Stop Career Centers that are key features of the U.S. public workforce development system today. These "American Jobs Centers" were meant to coordinate federally-funded programs in education, workforce, and worker support.

A key challenge under WIA was that it did not require partnerships with other funding sources. Low-income workers and public assistance recipients were largely screened out of WIA job training. Welfare-to-work programs under TANF were kept largely separate from workforce centers despite providing many

[29] "FY 2018 Workforce Appropriations: Proposed Levels for Key Federal Workforce and Education Programs."
[30] Counts, "Federal Funding for State Employment and Training Programs Covered by the WIOA."
[31] "The Workforce Innovation and Opportunity Act - Fact Sheet: One Stop-Career Centers."
[32] Heinrich, "Workforce Development in the United States: Changing Public and Private Roles and Program Effectiveness."

of the same services: In Program Year 2013, for example, only 3.7 percent of people receiving WIA training services were TANF recipients.[33]

Recognizing the advantages to aligning programs, such as leveraging combined resources, connections, and expertise, as well as avoiding the duplication of services, the 2014 WIOA legislation raises the expectations for coordination among programs. Under WIOA, certain partnerships are mandatory, and employment services must be co-located with Wagner-Peyser Employment Services, TANF services, and Department of Education Programs at the American Jobs Centers.

What challenges does the public sector face in providing workforce development?

Though WIOA represented a step forward in terms of aligning federal programming, the public workforce development system in the United States continues to face challenges in meeting the challenge of remedying the national skills gap. From the perspective of the federal government, there are two broad challenges: streamlining a complex network of public assistance programs with multiple constituencies and balancing coordination with local heterogeneity across geographies.

Programmatic coordination

Funding and associated requirements for employment, education, and training are scattered across the federal government. The Departments of Housing and Urban Development, Labor, Health and Human Services, Veterans' Affairs, and Education, for example, each have a hand in some form of education and training programming. These multiple programs and funding streams come with different performance measures, eligibility requirements, and data reporting requirements, though many of them serve the same population. While the One-Stop Career Center partnerships were meant to enhance coordination among programs serving job-seekers and workers, they did little to enhance program compatibility. For example, WIOA and TANF use different measures in determining countable work hours (e.g., vocational education is limited to 12 months under TANF, but under WIOA training make take up to two years). Scattering workforce initiatives and funding across multiple agencies also raises challenges around setting coordinated goals and strategies, which feed into the determination of appropriate performance measures. Coordinating strategy and target setting can be especially important given the different needs of target populations. For example, WIOA providers may be reluctant to serve TANF recipients, who are perceived to be more difficult to assist, unless targets are adjusted to account for additional challenges that the TANF population faces finding employment.

Geographic coordination

An additional challenge to workforce development at the federal level is coordinating across geographies while enabling flexibility around local and regional workforce needs. The United States is not one job market but rather is comprised of many local and regional job markets each with different in-demand jobs and labor pools. The workforce system as it currently exists is state-administered and locally-run, enabling for a high degree of heterogeneity, but making it more difficult to provide for any nationally-recognized credentials, certifications or career pathways. Without clear national credentials or certifications, there is the potential for great regional variation in the quality of training and services provided. At the same time, broadly-defined performance measures at the federal level create burdensome reporting that many state

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[33] Cielenski, "Coordinating TANF & WIOA: High Interest, Slow Progress During Early Days of WIOA."

and local boards do not find to be meaningful in their particular circumstances. The federal government thus faces the challenge of allowing locally meaningful training decisions and performance metrics while ensuring that programs achieve a threshold level of quality that can be nationally-recognized.

What would an ideal system look like?

Understanding and addressing barriers to effective program coordination and performance management at the state level requires a vision of the characteristics to which an ideal workforce development system should aspire. The primary criteria by which to evaluate a workforce development system include efficient economic targeting, efficient social targeting, robustness against game-playing, administrative simplicity, and political appeal. Establishing this theoretical foundation makes it easier to identify the key barriers across states by highlighting the regulatory, financial, and management challenges that hold state workforce systems back from achieving this ideal.

Efficient economic targeting

An ideal workforce development system is one that will create human capital that will increase productive capability and earning power. The system should provide the education and skills for Americans to succeed in high-demand occupations with clear paths for advancement. Additionally, the system should take into account national and regional employment needs while also recognizing that labor is not perfectly mobile. The significant amount of local discretion built into the workforce development system is meant to give each area the flexibility to tailor its service delivery to its specific economic conditions as well as the particular needs of residents and employers.

Designing and administering such a system may also require industry expertise and credibility in order to identify specific workforce development needs by area and to understand career pathways and education requirements associated with a region's available employment. Administrators should rely on local labor market research to understand what jobs will provide better stability, more full-time and/or year-round work, and better opportunities for advancement. On the supply side, designing and administering such a system would also require deep knowledge of a local area's labor pool, including the barriers that prevent people from participating in training programs or transitioning to work. Examples of these barriers could be limited public transportation or negative views of manufacturing work among young people.[34]

Efficient social targeting

An ideal workforce system should focus on building skills for people who would not otherwise be able to do so. These individuals may include economically-disadvantaged individuals, individuals with physical or mental disabilities, or individuals facing difficulties in the labor market due to poor credit or a criminal record. The goal of such a workforce system should be to specifically address these market failures and provide opportunities to individuals who otherwise do not have ready access to means of increasing their human capital.

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[34] Conway, "Where Labor Supply Meets Labor Demand: Connecting Workforce Development in Local Labor Markets."

Robustness against game-playing

Due to the complexity of benefits across often disjointed funding streams, it is possible for program officials to create results that are not valuable, either because they do not increase human capital development, or they do not increase human capital development among the right people. There are two major types of game-playing that poorly designed performance systems could create. The first is "cream skimming", whereby providers adjust their recruitment and intake to serve only individuals who are most likely to succeed. Such an approach can lead to impressive performance on metrics such as the percentage of individuals placed into employment, but clearly severely undermines the goal of efficient social targeting. Systems that either adjust provider targets based on the population they recruit or hold providers accountable for the outcomes of all eligible individuals in a geographic catchment area can mitigate this risk and incentivize providers to recruit and serve all individuals.

The second major game-playing concern is that, if measures are not carefully selected, providers will design their service delivery approach to optimize performance on specific metrics, which can come at the detriment of the more holistic set of outcomes that the workforce system is trying to achieve. Selecting measures that focus on medium and long-term outcomes, and avoiding "overpowered" financial incentives in favor or a more comprehensive evaluation of performance can mitigate against this risk. While it is difficult to design a system that is abuse-proof, the ideal workforce development system would be resistant to abuse.

Administrative simplicity

There are costs associated with administering a highly-complex program, both in terms of actual financial cost to the government as well as the cost of not serving individuals who are deterred by the program's complexity. An ideal workforce development system would be comprehensive, but simple enough to enable transparent and meaningful performance tracking and coordination. This characteristic of an ideal system serves as a constraint dictating how a government should seek to achieve the above goals. Any new eligibility criteria meant to improve social targeting, or new metric designed to better align incentives across stakeholders in the system needs to be considered in light of how much burden it adds to participants, providers, and local and state governments.

Political appeal

An ideal workforce system would also need to be a politically feasible one, or one that can garner sustainable buy-in from state and local officials as well as federal officials who make decisions on funding levels and allocations.

Where does performance management enter the equation?

Progressing toward a better-functioning workforce development system that achieves lasting results for participants and employers first requires understanding how the system is functioning at present. By gathering data on who is being served and how programs may be affecting participants' employment status, governments can better identify areas for improvement in the system. This data can provide insight into whether programs are targeting the right populations, training for the right industries, and effectively preparing participants for employment in those industries. Robust performance management thus must be a central component of any workforce development system.

The first step to embedding performance management in a system is defining outcomes of interest. In the workforce development space, these outcomes may be related to job placement, job retention, earnings increases, and measurable skill improvements. The next step is determining what metrics may be used to track these outcomes, followed by setting a baseline and performance targets for each metric. Finally, performance management involves a process for evaluating progress against each outcome and determining how service structure and delivery may be adjusted to improve outcomes (continuous improvement).

GENERAL BARRIERS TO OUTCOMES-ORIENTED WORKFORCE DEVELOPMENT

While WIOA has emphasized performance management by establishing performance indicators and targets (see Appendix I) and by including a “pay-for-performance” provision, many states face challenges in orienting their workforce development systems around outcomes. These challenges are often highly-specific to individual states, or even particular local areas. Clearly, different states would need to pursue very different paths to improve the performance of their workforce development systems given differences in how workforce programs are administered, key local industries, and a host of other factors. There can also be considerable heterogeneity within a single state. For example, in Washington, King County, where Seattle is located, has a different set of opportunities and challenges than Whitman County in the Eastern part of the state which shares a border with Idaho.

Despite this considerable heterogeneity, we have identified a set of barriers to becoming more outcomes-oriented that most states will face in some form, regardless of the governance structure of their workforce development system or their current location on the outcomes-orientation spectrum. The exact nature of these challenges will differ, as will the steps states need to take to overcome them, but identifying these challenges provides a high-level roadmap for how states may begin to break down barriers to outcomes orientation in their workforce systems.

The barriers we have identified fall into four categories:

- **Infrastructure** focuses on the institutions, data systems, and capabilities that states need to successfully make their workforce development systems more outcomes oriented.
- **Culture** focuses on the norms and processes required to successfully implement an outcomes-oriented approach in a way that encourages collaboration and buy-in among local officials.
- **Measures and Targets** focuses on challenges related to selecting what should be measured, how targets should be set for those measures, and what the consequences should be for meeting or failing to meet those targets. While many of these challenges apply to performance management systems more broadly, the examples and descriptions provided illustrate the unique issues around setting targets and measuring performance in workforce development systems.
- **Technical Challenges** focuses on differences in eligibility criteria, funding timelines, and other regulatory details of funding streams that get in the way of states delivering fully integrated and coordinated experience to job-seekers across the relevant federal programs.

NOTE: The descriptions of barriers and potential avenues to overcoming them below will make reference to the practices of Texas, Colorado, and Washington. More detail on the specifics of these states’ *approaches can be found in the case studies of these states' workforce development system in Appendices II – IV.*

Infrastructure

Integrated data systems

Perhaps the most important element needed to enable an outcomes-oriented workforce development system is a well-functioning integrated data system (IDS). An IDS is critical for giving local officials and training providers the information they need to adjust their operations and tailor their service delivery. It is also essential to allow the type of data tracking, analysis, and reporting that underpin a truly evidence-based approach that is focused on outcomes. An ideal IDS would provide timely access to relevant data for each partner and stakeholder throughout the system, in addition to a robust reporting feature that would make it easy for actors at different levels of the system to identify and respond to relevant trends.

States that do not have a well-developed IDS face several barriers to becoming more outcomes-oriented:

- First, **resources and staff time must be dedicated to duplicative data collection**. Even if the state collects information on individuals' employment status or wages, this administrative data is not always readily available to local officials or training providers, who then must follow up individually with participants to collect this information.
- Second, when aggregate data can be compiled, it often requires time-intensive data cleaning steps such as extensive de-duplication of records before it can be used to assess performance. As a result, i**t is not practical to collect and report some types of performance data more than once or twice per year.** This deprives actors in the workforce development system of more real-time data that is critical for making operational decisions.
- Finally, t**he lack of an IDS creates missed opportunities for closer integration among funding streams.** When real-time data about co-enrollments in other programs, or eligibility for those programs, is not available, it makes coordination among workforce development programs much more difficult. It also prevents the development of automatic processes and workflows that support case managers in making sure their customers are matched to the right services at the right time.

There are three principal challenges to creating an IDS that would overcome the above barriers, although each state will face unique difficulties depending on the legislative environment and current state of their data infrastructure.

- **Upgrading legacy systems is notoriously difficult and expensive**. This is true not only in other policy areas but also in the private sector. Integrating legacy data systems, often programmed with outdated coding languages with low degrees of interoperability can be extremely technically complex. Building new systems can be prohibitively expensive for states, especially since the federal government does not currently provide any dedicated funding for this purpose to workforce development systems. The amount of money provided to local boards through the workforce development system often does not justify the intensive work involved in migrating to a new system or establishing common intake.
- **Legitimate data privacy concerns can also make integration more complex to establish.** States must also navigate data privacy laws and regulations. Especially for vulnerable subpopulations or youth who are enrolled in workforce development programs, it may not be appropriate for all actors to have access to all available data. These concerns can be mitigated by establishing

systems and processes that restrict what data is available to which users, or allowing certain users to view only aggregated data. While technically feasible, such features add considerable complexity and often require a robust process of establishing a data governance system that usually requires high-level staff time and authorization.

- **Implementing a new IDS does not happen overnight, and data integrity can be compromised during the transition process.** Transitioning multiple state agencies and local entities to a new system can take multiple years if done correctly. This estimate may not even include enough time for a learning period during which officials must learn to use the new system and identify any bugs. During this time, data collection around participant intake and outcomes will need to be done in parallel across two systems, the legacy and the new system, in order to ensure the continuity of the data. Depending on how the data collection and storage processes change across the two systems, the integrity of the data could be compromised during the transition period.

While creating an ideal IDS for workforce development is a daunting task for state governments, the experience of Texas and The Workforce Information System of Texas (TWIST) shows the impact of investing in these capabilities. State and local workforce officials cited TWIST as a major enabler of the state's successes in becoming more performance driven due to both its reporting features that support system-wide analyses as well as the types of information it makes available to local actors to support their decision making.

In addition to looking to emulate TWIST and other existing examples of successful workforce development IDS, states should investigate other options for improving their data infrastructure. Two encouraging prospects for progress in this area include:

- Organizations such as the University of Pennsylvania's Actionable Intelligence for Social Policy (AISP) and BrightHive are working to help states develop and use integrated data systems. By leveraging the expertise of these partners or similar organizations that are dedicated to the problem of data integration in social services, states can accelerate the development of their data infrastructure.
- Senator Kamala Harris recently introduced legislation that would create an annual pool of $15 million to help states digitize their service delivery.[35] While this program may never come to fruition, and it is unclear whether funds would cover more foundational work such as developing an IDS, it is another signal that the federal government may be more willing to deploy resources to help states invest in their technological infrastructure. A dedicated funding source to support IDS development would help states realize the goal of more tightly integrated and outcomes-oriented workforce development systems.

Making data accessible to local partners

Many of the aspects of this barrier are closely related to the broader points regarding integrated data systems made above. However, it is worth emphasizing that states should not neglect the issue of data access for local workforce boards and training providers when making improvements to their data infrastructure. This is particularly important because so much decision making is devolved to local actors

[35] "Harris Introduces Legislation to Jumpstart Digital Innovation in Government | U.S. Senator Kamala Harris of California."

in the workforce development system. In order to move beyond reporting and dashboards and actually use data for operational improvements, this data needs to be accessible in a timely fashion to the level of government empowered to make decisions.

There are two key dimensions of data access:

- **Information from other workforce development programs** can help local workforce boards and training providers ensure that services are coordinated across funding streams. Comprehensive information across programs is necessary to deliver a true "one-stop-shop" experience, and can empower case managers to make sure that customers are receiving the right mix of supports that they are eligible for at the right time.
- **Information from other state-administered programs** can also be highly impactful for local workforce boards. Many participants in the workforce development system may also interact with a variety of other state-administered programs such as subsidized housing or childcare or other benefits. Integrating data from these disparate programs is a more challenging task in terms of both technical systems development and the creation of data governance processes, but would enable local workforce boards to play a more impactful role in the coordinated delivery of "wrap-around" services.

Centralized analytic / TA capacity

Having a robust analytic capacity is critical to ensuring that investments in data collection and reporting capabilities actually create public value. Some degree of analytic capabilities is usually needed to move beyond dashboards and summary statistics to create useful metrics, set meaningful targets, and draw out key trends in the data. The states profiled in our case studies show that there are two complementary paths to developing strong analytical skills throughout the workforce development system.

- If the administration of the workforce development system is sufficiently integrated at the state level, as it is in Texas under the Texas Workforce Commission (TWC), **investing in centralized analytic capacity** can catalyze performance improvements. Establishing an office or team dedicated to such a function, potentially funded through WIOA Governor's Reserve allocations or other flexible funds, can enable the state to both perform system-wide analyses, and to support individual local areas' evaluation needs. TWC's Division of Operational Insight is one such example of a centralized team. This division and other similar teams at TWC prepare quarterly performance briefings for the Workforce Commission, handle federal reporting responsibilities, conduct ad-hoc analyses and support capacity building in local workforce boards.
- While not mutually exclusive with centralized analytic capacity, **states can also develop robust technical assistance operations to help local actors improve their own ability to use data to drive decision-making**. This is especially necessary in more decentralized systems. Empowering local officials and training providers to use performance data can also encourage these entities to invest more resources into collecting high-quality data that will also improve system-wide analyses.

Colorado, which has a far more decentralized workforce development system compared to Texas, shows how these two approaches can be blended. The C-Stat program, administered by the Department of Health and Human Services, performs centralized performance management but also closely involves counties and supports local and regional continuous improvement efforts (see Appendix III for more information).

Institutions and culture

Need for local buy-in

For reasons discussed in the theory section above, there is a strong tradition of local discretion in workforce development policy. Local workforce boards and counties are often best positioned to understand the unique needs of area employers as well as the existing skills of the workforce. Due to the emphasis on local decision making, a successful state-wide effort to make the workforce development system more outcomes oriented requires the buy-in of local administrative units.

Local areas must already comply with extensive reporting requirements attached to federal funding streams. There is a significant risk that, if not properly designed, any additional metrics that the state government requires could be seen by local boards as merely adding additional burden without creating commensurate value. Furthermore, even if these metrics are helping improve performance at the system level, local boards may be reluctant to invest significant resources into collecting and reporting high-quality data unless this value is clearly demonstrated.

States can develop this culture of local boards working together with state agencies to improve performance in the workforce development system in several ways.

- Colorado's Performance & Partnerships Exchange provides one model for states by elevating local best practices and providing counties a forum with which to share performance lessons with one another. This culture is reinforced by the state's C-Stat program which emphasizes a collaborative, problem-solving approach as opposed to a "gotcha" method of strict accountability.
- Texas provides another avenue for taking the goals and resource constraints of local boards into account. The state directly holds counties accountable for only a slimmed down list of 19 core metrics, reducing the need to monitor and manage for a wide range of indicators. The Texas Workforce Commission (TWC) also periodically adds a small set of additional metrics attached to monetary rewards for performance if the state is trying to spur improvement in a particular area.
- Washington convenes a monthly learning community in which local workforce board directors are encouraged to share best practices with one another, with the state board serving as a coordinating body. Additionally, the state uses the data it collects to set targets for local areas based on the composition of their population, acknowledging the high degree of local heterogeneity.

Skepticism over Pay-for-Performance

As states and local areas begin to make greater use of the Pay-For-Performance (P4P) it is likely they will encounter skepticism of outcomes-oriented contracting among both government officials and the provider community. Mixed experiences with previous models of performance-based contracting have created hesitation around using performance incentives among the officials we interviewed. Specifically, there was concern that such an approach could lead to game-playing behavior such as cream skimming or distorting service delivery to maximize narrow metrics.

It is worth noting that this hesitation was generally vague and not necessarily grounded in the particulars of the government's past experience. To overcome this baseline skepticism, states should continually question the source of hesitation. Often, once the conversation is grounded in current realities rather than concerns about past initiatives, officials will feel more comfortable with outcomes-oriented contracting.

Specifically, the data collection and analysis capabilities that today's technology enables is often able to overcome many of the barriers that stalled previous performance contracting efforts. Also, the Pay-For-Performance provisions in WIOA reflect many of the lessons learned from previous attempts. Finally, bringing in outside expertise through organizations such as Third Sector can help allay concerns and avoid some of the potential pitfalls of outcomes-oriented contracting. Properly designing incentive structures and contract mechanisms is difficult work and governments can benefit from partners who have deep experience in this area.

Measures and targets

Too many measures

Standing in the way of devoting time to operationalizing the data collected in the workforce development system is the sheer number of measures that stakeholders at each level of the system are required to collect and report. There is a risk that, over time, metrics will accumulate without a commensurate paring back of outdated indicators. This risk is particularly acute when different levels of government do not coordinate when establishing what measures are required. State agencies, through well-intentioned efforts, can end up burdening local boards with indicators that are not relevant to their operational decision making in addition to the federal measures that they are already required to report.

When measures proliferate, collecting and reporting all of these indicators takes time away from not only higher value data-related activities such as analysis and program evaluation, but also from the delivery of services itself. The Texas Workforce Commission strives to automate as much of federal reporting as possible to free up staff time for more impactful activities, and is intentional about constraining the data collection and reporting burden the state places on local workforce boards.

Additionally, a dense set of metrics represents a significant missed opportunity to better align measures as part of an outcomes orientation that stakeholders at all levels are bought into. As emphasized above, local boards and training providers are more likely to invest in collecting high-quality data if they can see the value that this data generates.

Time lag of outcomes measures

A major shift under WIOA was to focus more attention on outcome measures such as employment status and earnings two and four quarters after exiting workforce development programming. This shift is commendable as it is aligned with an outcomes-oriented approach that encourages local boards and training providers to deliver services that produce lasting human capital gains and set-up job seekers for a stable career path. However, current constraints on administrative data collection mean there is a significant lag before data on these outcome measures is available.

Clearly, some lag is unavoidable with medium- and long-term outcome measures, as it is necessary to wait to see how participants' earnings and employment are impacted over time. There is also additional lag, sometimes up to 6 months, created by the time it takes for the collection and cleaning of wage and employment data from unemployment insurance (UI) databases. In the case of employment and earnings four quarters after exit, by the time 18 months have elapsed since a job-seeker has exited programming, it is possible that a provider has already graduated another cohort from a credentialing program before seeing the data from their initial cohort. When this lag is combined with the reality that variables such as available funding, employer needs, and regional economic conditions are constantly changing, it is clear that it can be difficult for providers to know what lessons to draw and what operational changes to make in response to the feedback they are receiving from the long-term outcome measures.

In theory, one potential approach to overcoming this barrier is for programs to conduct their own data collection on earnings and employment status in order to reduce the lag time inherent in using UI data. While some providers do in fact attempt this, substantial resources and time are needed to follow up with individuals a year after they exit the program. These resource demands are exacerbated if local boards or providers attempt to achieve the same level of verification present in UI data by requesting pay stubs. In summary, by attempting to circumvent the lag-time associated with administrative data, one also loses the potential to collect trustworthy data at scale.

It is worth highlighting that this barrier is particularly salient in regards to measures that are regression-adjusted or otherwise try to account for the characteristics of the population served. Adjusting the targets that a local board or provider is expected to meet based on how difficult their customers are to serve helps to mitigate the risk of cream skimming by removing the disincentive to serve individuals with serious barriers to employment. However, in practice, it is often the case that such regression adjustments are run infrequently, sometimes only annually, once the full population of customers served during that year is known. This approach means that during the year, local boards and providers often are unaware of how they are performing relative to the target, limiting the usefulness for making real-time changes to their service delivery.

Long term outcome measures are critical to demonstrate how workforce development systems are delivering on their goals of placing job-seekers into high-demand, stable career paths and aligning incentives across the system. However, the challenges associated with using this information due to the lag are significant. Local boards and providers may want to supplement these measures with leading indicators that can be measured more frequently and closer to the time of service delivery in order to inform changes to the program model. However, the benefits of such an approach need to be weighed against the risks of creating an overwhelming set of measures described above.

Federal measures are not always meaningful for state and local officials

Some of the measures that state and local officials are held accountable for by the federal government detract from efforts to make the workforce development system more outcomes-oriented. Some of these measures were described as not useful because they were not aligned with other programs or with state priorities. In these instances, the primary cost of requiring state and local officials to document and report these metrics is taking staff time away from more valuable activities.

The TANF Work Participation Rate (WPR) was consistently cited by state and local officials as a measure that not only was time-consuming for staff to document and track, but actually was opposed to the types of services that states believe lead to better outcomes. States are held accountable by the federal government for meeting certain WPR targets, or else risk significant fines. There are three primary issues that states raised with the WPR, which are also echoed by think tanks such as CLASP and the Urban Institute.[36]

- The **WPR counts activities that have not been shown to lead to stable employment or lasting wage gains** such as light-touch job search activities (attending a job fair) and community service.[37] While these activities certainly have some value, weighting them equally to hours spent in a training program for a high-need credential, or even hours spent in unsubsidized employment distorts incentives. States that want to emphasize activities that they believe lead more directly to meaningful earnings and employment outcomes are compared against a target that gives credit for much easier to complete activities.
- Even if states decide to encourage local workforce boards to pursue using community service or job searching to reach the WPR target, **these activities are extremely time-consuming to satisfactorily document** compared to checking a pay stub from an employer or verifying enrollment in a credential program. This takes staff time away from higher value activities.
- Finally, **participation in a training program only counts for WPR for one year**, despite the fact that many high-demand credentials take 18 to 24 months to complete. This cap forces states to decide between encouraging TANF recipients to only pursue credentials that can be completed in less than a year, or having these individuals count against their WPR for the balance of their training program.

As described in the case studies, this is a serious challenge for states, especially those that do not have extensive caseload reduction credits that lower the target WPR they are required to meet. Colorado has demonstrated that even states with higher WPR targets can still focus on higher value activities by giving local workforce boards the flexibility to deliver the services that make the most sense for the customer, and then document these steps if they align with the WPR. Striking this balance of meeting the target while emphasizing activities that drive better earnings and employment outcomes remains a difficult challenge for states.

Difficulty of target setting

The below issues apply to target setting and performance management in many areas of the public sector, although the diversity of needs of customers as well as services delivered makes them particularly challenging in the case of workforce development. There are two major concerns related to setting targets:

- **Statewide targets must deal with significant local heterogeneity.** The baseline education level of the workforce, the prevailing unemployment rate, and the opportunities available differ substantially between Seattle and areas in Eastern Washington. It is thus difficult to compare how well local areas are performing based on the raw measures alone, and would be inefficient to hold every area accountable to the same target. Measures and targets should reflect this reality, but any attempts to adjust measures via a regression model or other means leads to these measures becoming more difficult to communicate and harder to track in real-time.
- **How to adjust targets over time is another significant challenge.** Targets that continually ratchet upwards, especially if they are attached to financial incentives, can frustrate local

[36] Lower-Basch, "TANF 101: Work Participation Rate"; Hahn and Loprest, "Improving State TANF Performance Measures."
[37] Lower-Basch, "TANF 101: Work Participation Rate."

workforce boards who may feel that the state is moving the goalposts. However, static targets that are too easily met over time don't sufficiently incentivize continued improvement. This issue is complicated further by the lag time in reporting medium and long-term outcome measures. Texas has addressed this challenge through more ad-hoc achievement recognition. Each year, commissioners select a set of standards, some of which are not formally contracted, against which to offer special awards and recognition. Winning contractors are announced at an annual conference and receive rewards of up to $50k.

Technical challenges to integrating funding

Timeline challenges

Different events and thresholds trigger job seeker's eligibility for various programs, and the funding streams that support these offerings often have different time limits attached. In combination, this can make it difficult for local workforce boards to deliver a seamless, coordinated experience for customers, even if they have the requisite data systems to manage co-enrollments in real-time. The timing challenges to integrating funding are twofold.

- **Differences in the length of funding** that individuals are eligible for can make it difficult to properly align services in pursuit of the most important outcomes. For example, TANF Choices funds 12 months of vocational education, but many certification programs for well-paying jobs take longer than one year. This leaves local workforce boards with a difficult challenge of finding supplementary funding that will allow participants to continue pursuing their credential. If this is not possible, local boards may end up encouraging individuals to pursue sub-optimal credentials because they can be completed within a year.
- Secondly, **differences in eligibility criteria** mean that individuals may become eligible for different funding streams at different times, complicating the administrative task of ensuring a smooth experience of job seekers.

Unaligned eligibility measures

Different federal funding streams often have slightly different eligibility requirements that both amplify the reporting burden and create challenges in evaluating performance across programs. Some of these definitional differences are necessary given the different populations and goals of the programs, but others are the result of lack of coordination among federal agencies. WIOA and subsequent legislation has taken significant steps towards standardizing eligibility, but there are still situations where different requirements complicate the workforce development systems.

For example, in Washington, all job-seekers are eligible for WIOA Title III, or Wagner-Peyser job training and job search assistance. Only about 50 percent of these people, however, are eligible for WIOA Title I programming for adults, youth, and dislocated workers. When participants are co-enrolled in WIOA Title I and Title III programming, the WIOA Title I population appears twice as big as it is in reality, which will cause an apparent reduction in performance (larger denominator with the same numerator). Washington to date has addressed this challenge by creating a culture in which local boards are not sanctioned for poor performance, particularly those that are actively co-enrolling participants.

Lack of spare capacity

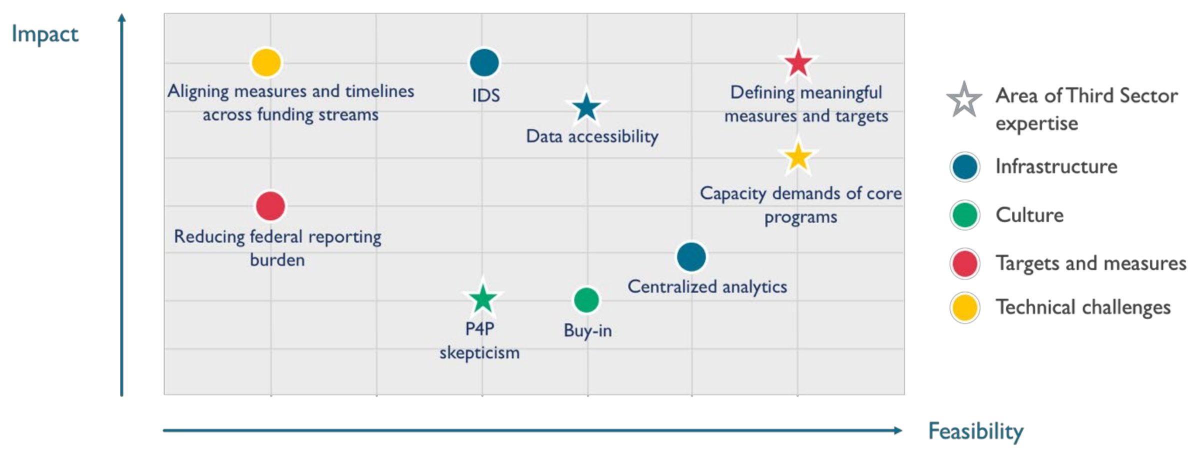
Officials we spoke with were generally intrigued by the idea of using the Pay-For-Performance contracting provisions in WIOA. However, they also related that they did not feel like they have sufficient capacity at this time to focus on this opportunity. Given the perception that Pay-For-Performance contracts would initially touch only a small percentage of the dollars and participants in the system, state officials did not think they could divert resources away from the core responsibilities of the system. Several officials noted that responding to WIOA and integrating previously separate programs has taken significant time and resources.

This is clearly an area where Third Sector and other partners with specific expertise in outcomes-oriented contracting or the necessary data systems and data governance agreements can add significant value by assessing how outcomes-oriented contracting could benefit a state workforce development system and adding capacity to reach this goal.

CONCLUSION

A variety of actors and approaches will be needed to address the full set of barriers identified above. In some cases, state or even federal legislative changes might be necessary. To conclude this analysis, we consider which of these challenges Third Sector should prioritize given the firm's core capabilities and the potential for impact, summarized in Figure 6 below.

FIGURE 6. RECOMMENDED AREAS OF FOCUS FOR THIRD SECTOR



Third Sector is best positioned to help states overcome skepticism of outcomes-oriented contracting, improve their data sharing governance, and define meaningful measures and set appropriate targets. Critically, the firm can also add much-needed capacity to states that might not otherwise be able to dedicate significant resources to considering how to move to a more outcomes-oriented system. Taking each of these in turn:

- Third Sector has worked with the state of Massachusetts and other jurisdictions on **improving data accessibility** across levels of government. This expertise will be critical to states as they work to balance data security concerns and complying with privacy regulations with the benefits produced by more comprehensive data sharing between government actors as well as between government and service providers. Customers of the workforce development system are likely to have had interactions with other state agencies, and effective data sharing can allow local workforce boards and training providers to best tailor their service delivery.
- The firm has developed considerable experience in **defining measures and creating incentive structures that improve outcomes** while mitigating the risk of gameplaying. For example, in King County, Washington, Third Sector developed a unique incentive structure to provide bonus payments to behavioral health providers based on the timeliness of intake and referral to care. These bonus payments, developed in close consultation with service providers, balanced setting targets that providers could meet with encouraging sustained improvement over time. Eventually, all providers voluntarily signed on to a contract amendment including the new incentive structure. Drawing on such experience, Third Sector can lead states and local workforce boards in defining measures that are valuable to all stakeholders as well as putting in

place incentive structures and continuous improvement processes that will raise the level of performance over time.

- Third Sector can also **address public officials' and providers' skepticism of Pay-For-Performance** and outcomes-oriented contracting more broadly. As described above, much of this skepticism is rooted in institutional memory of past experiences rather than in a consideration of the current state of outcomes-oriented contracting. Third Sector can show states how new data collection and analysis tools can overcome many of the barriers that earlier attempts faced, and draw on a wealth of examples from the firm's work with other jurisdictions to demonstrate the feasibility of designing measures and incentives that reward better outcomes without creating unproductive behavior.

Finally, there is a clear opportunity presented by the fact that many states have expressed interest in making their approach to workforce development more outcomes-oriented, but haven't yet been able to dedicate the resources to make this a reality. By bringing much-needed capacity and expertise, Third Sector can catalyze states' progress in this area.

Additionally, Third Sector should consider making investments in designing new tools and processes targeted at helping states make more rapid progress on the barriers identified. The transaction costs remain high for comprehensive data sharing agreements between units of state government as well as for designing measures and incentive structures that best promote continuous improvement on meaningful outcomes such as earnings gains and stable employment. To some degree, this high level of effort required is inevitable given the high degree of heterogeneity in states' data security laws, the structure of their workforce development system, and their extant data and analysis infrastructure. However, to the extent that Third Sector can lower the barrier to achieving these goals, the firm will be able to have a more widespread impact on workforce development in the United States.

Workforce development will likely become increasingly important in the coming years as globalization and technological change continue to accelerate the pace of worker displacement while also creating opportunities that require new skills. Even so, there is no sign that the severe resource constraints that the workforce development system faces will be meaningfully addressed. Strategies such as outcomes-oriented contracting that seek to maximize the public value created by taxpayer dollars will, therefore, be critical to allowing state workforce development systems to meet the challenges of the coming years. Third Sector is well positioned to play a major role in leading states towards a more performance-driven approach. We hope this report can serve as a useful guide to the challenges that states will face as the firm continues to refine its strategy in this area.

APPENDICES

Appendix I – Performance management under WIOA

WIOA overview

The 2014 Workforce Innovation and Opportunity Act has five broad goals:

1. Increase Americans' access to opportunities for employment, education training, and support services;
2. Align workforce investment, education, and economic development systems;
3. Improve quality and labor market relevance of workforce investment, education, and economic development efforts;
4. Promote improvement in the structure and delivery of services; and
5. Provide workforce investment activities through state and local systems to increase employment retention, earnings, and attainment of recognized postsecondary credentials.

Goals 4 and 5 are particularly interesting from a performance management standpoint, as they establish an expectation that state and local workforce systems will orient their structure and service delivery around employment- and education-related outcomes. Indeed, WIOA allows local workforce boards to reserve up to 10 percent of their funding to support pay-for-performance contracts.[38]

The 2014 legislation outlines six core programs:

[38] "10 Greatest Hits from the Workforce Innovation and Opportunity Act."

FIGURE 7. WIOA CORE PROGRAMS

WIOA Title	Program	Administering department
Title I	1. Employment and training services for adults	Administered by the Department of Labor's Employment and Training Administration through formula grants to states
	2. Employment and training services for youth	
	3. Employment and training services for dislocated workers	
Title III	4. Wagner-Peyser employment services	
Title II	5. Adult education and literacy	Administered by the Department of Education
Title IV	6. Vocational Rehabilitation programs to assist individuals with disabilities in obtaining employment	

State and local workforce development boards are expected to deliver services through One-Stop Career Centers, of which there are nearly 3,000 nationwide.[39] These centers are also meant to coordinate other employment-related services ancillary to WIOA, such as those required under TANF and SNAP.

[39] Bradley, "The Workforce Innovation and Opportunity Act and the One-Stop Delivery System."

Performance management indicators

WIOA establishes six primary indicators of performance that apply across core programs:

FIGURE 8. WIOA PERFORMANCE MEASURES

Performance indicator	Detail
A. Employment Rate – 2nd Quarter After Exit	Percentage of participants who are in unsubsidized employment during the second quarter after exit from the program
A-1. Title I Youth Education and Employment Rate – 2nd Quarter After Exit	Percentage of title I Youth program participants who are in education or training activities, or in unsubsidized employment, during the second quarter after exit from the program
B. Employment Rate – 4th Quarter After Exit	Percentage of participants who are in unsubsidized employment during the fourth quarter after exit from the program
B-1. Title I Youth Education and Employment Rate – 4th Quarter After Exit	Percentage of program participants who are in education or training activities, or in unsubsidized employment, during the fourth quarter after exit from the program
C. Median Earnings – 2nd Quarter After Exit	Median earnings of participants who are in unsubsidized employment during the second quarter after exit from the program
D. Credential Attainment	Percentage of participants enrolled in an education or training program who attain a recognized postsecondary credential or a secondary school diploma within one year after exit from the program

Performance indicator (continued)	Detail (continued)
E. Measurable Skill Gains	Percentage of program participants who, during a program year, are in an education or training program that leads to a recognized postsecondary credential or employment who are achieving measurable skill gains, defined as documented academic, technical, occupational, or other forms of progress, toward such a credential or employment
F. Effectiveness in Serving Employers	Three piloted approaches: 1. Retention with the same employer 2. Repeat business customers 3. Employer penetration rate

States may identify additional performance indicators relevant to their goals as well as their local labor market conditions in their state implementation plans.

Target setting

States are evaluated on the above primary indicators against regression-adjusted performance targets. These targets result from negotiations between each state and the Secretaries of Labor and Education. Negotiated performance levels take into account the relative baselines across states, local economic conditions, and characteristics of program participants, the impact of agreed-upon levels on promoting continuous improvement, and the extent to which the adjusted performance levels assist states in meeting states' performance goals.[40] States set goals at the beginning of each program year based on their baselines relative to other states and then revise performance levels at the end of the program year based on actual economic conditions and participant characteristics.

The statistical model used to adjust performance levels includes both demographic characteristics of participants and statewide economic conditions. Explanatory variables based on participant characteristics include age distribution, race, ethnicity, education levels, employment history, disability status, veteran status, English language proficiency, income, criminal history, and other support services received among others. Explanatory variables based on economic conditions include the percentage of

[40] Bradley.

total employment in various sectors (e.g., natural resources and mining, construction, manufacturing) and the quarterly unemployment rate.[41]

Sanctions under WIOA

States that fail to meet their regression-adjusted performance targets receive technical assistance from the Secretaries of Labor and Education, including assistance in developing a plan for performance improvement. If a state misses its targets for a second consecutive year or fails to submit a report, that state's pool of Governor's Discretionary Funds is reduced by 5 percentage points for the succeeding program year.

When a local area fails to meet performance accountability targets, the Governor must provide technical assistance, including assistance in modifying the local or regional development plan. If a local area misses its targets for three consecutive years, the Governor of the state is required to take corrective actions, such as requiring the appointment and certification of a new board or prohibiting the use of poorly-performing partners.

[41] "WIOA State Negotiated Performance Planning, Guidance and Agreed Upon Goals."

Appendix II – Texas case study

In contrast to other states where different federal workforce programs are coordinated by a variety of agencies, Texas is unusual in the extent to which they have embraced integrated administration of all workforce development activities. This is reflected both in terms of the organizational structure that Texas has adopted as well as in the significant resources invested in developing common measures of success and an integrated data system that serves as a central resource for state and local officials and contracted service providers. This high degree of integration and alignment allows Texas to pursue performance management strategies that would not be feasible in states with more fragmented administration, and is frequently cited as a driver of the system's performance. However, barriers to effectively adopting an outcomes-orientation throughout the system are still apparent even in this highly integrated system.

Overall structure

In 1995, the Texas legislature established a new incarnation of the Texas Workforce Commission (TWC), consolidating 28 job training, employment, and employment-related education programs that formerly had been implemented by ten different state agencies.[42] Currently, this includes programs funded by WIOA, TANF Choices, and SNAP E&T among others.

TWC's mission is "to promote and support a workforce development system that creates value, and offers employers, individuals, and communities the opportunity to achieve and sustain economic prosperity."[43] Specifically, the enabling legislation charged the agency with helping to develop a highly skilled and productive workforce for businesses, providing workers with the education, skills training, and labor market information they need to enhance employability, earnings, and standard of living, and other goals related to effective workforce development.[44]

Integrating administration of these key workforce development programs has helped Texas to reduce silos, and also allows the state to invest in shared capacity building across programs. Including pass-throughs of federal funds, TWC has a non-capital operating budget of over $1.8 billion in FY2019 which supports roughly 4,900 Full-Time Equivalents (FTEs).[45] A state workforce official relayed to us that this substantial budget means that there is room to invest in analytic capacity and technical assistance to support performance, and that leadership has been willing to devote significant resources to these areas "in a way no other state has."[46]

Reflecting this investment, TWC has established a Division of Operational Insight (DOI) that reports directly to the Executive Director. DOI is charged with producing, analyzing and reporting performance data.[47] The division goes beyond regular performance reports, also holding open meetings each quarter to discuss performance issues with TWC's Commissioners, and conducts evaluations of the workforce system.

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[42] "Texas Workforce Commission."
[43] "About Texas Workforce | Texas Workforce Commission."
[44] "Texas Workforce Commission."
[45] "Texas Workforce Commission 2019 Itemized Operating Budget."
[46] Interview with state workforce official January 2019

[47] Texas Workforce Commission, "Texas Workforce Commission 2017-2021 Strategic Plan."

In addition to investing in analytic and performance management capacity, the state has also devoted significant resources to the creation of The Workforce Information System of Texas (TWIST). TWIST provides “an automated statewide system, with a single point of data entry and a central repository for customer information,” which allows various stakeholders in the workforce development system to use a common intake system and share data between programs.[48] Local workforce officials relayed to us the importance of the TWIST database due to its ability to capture data from multiple sources including contractors and state UI wage data and the capacity to produce ad-hoc reports. Contractors are also able to access the TWIST system and can pull their own Monthly Performance Reports and other queries. Characteristic of TWC’s culture of continuous improvement, state officials believe there is still work to be done to make the data systems even more integrated to allow for easier access and analysis by stakeholders throughout the system.

Outcomes-oriented infrastructure

Texas stands out among other states due to their already highly developed infrastructure that supports the use of data and evidence to improve operations throughout the workforce development system. In addition to the TWIST data system and investment in centralized analytic capacity described above, Texas is also notable for using integrated performance measures across all TWC programs. In 2003, TWC had twenty different measures of “Entered Employment” across the workforce development system with slightly different definitions.[49] This not only made it impossible to compare outcomes across programs but also served as a barrier to integration as different programs were targeting different timelines for placing participants in jobs. This frustration eventually led the state to successfully seek a waiver from the Department of Labor to report performance using “only the federal Common Measures” in order to “limit duplication of the overwhelming data reporting requirements currently in effect” and to “promote integration, improve consistency and reliability of data, and foster greater flexibility when contracting performance measures with the Boards.”[50] The current iteration of TWC’s integrated measures is closely aligned with the new federal performance measures established under WIOA, particularly the measures for employment, education and credentialing.[51] TWC’s goal with these measures is to ensure that they “are meaningful and aligned with mission, do not create perverse incentives, are understandable by stakeholders, do not serve as barriers to service or accountability, are focused on customer needs, tell our story, help identify both successes and misses.”[52]

In addition to the 19 performance measures that the state contracts with local boards, each year TWC commissioners select an additional set of five of six standards and offer special awards and recognition for meeting those goals. Using money from the WIOA governor’s reserve or flexible TANF dollars for rewarding best practices, TWC provides small awards to local boards and contractors who excel on these

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[48] “The State of Texas Has Effectively Implemented the One-Stop Seamless Service Concept.”

[49] DOI Staff Member Presentation to the Bush School of Government and Public Service at Texas A&M (not publicly available)

[50] “Texas Workforce Commission Waiver Plan.”

[51] Hahn, Derrick-Mills, and Spaulding, “Measuring Employment Outcomes in TANF.”

[52] DOI Staff Member Presentation to the Bush School of Government and Public Service at Texas A&M (not publicly available)

measures. As an example, TWC has used these additional performance measures to encourage more meaningful engagement with employers.

While TWC is still responsible for meeting a large number of measures in their reporting to their federal partners, TWC focuses on holding boards accountable for the narrower set of 19 measures in the belief that performing well on those criteria will be sufficient to meet the statewide performance targets for the broader set of federal measures. TWC reserves the right to add additional measures for all local boards or for specific boards if the ability to meet statewide targets for federal funding is negatively impacted.

In another example of how the state modifies federal performance requirements in an effort to achieve better outcomes, TWC does not count anything other than employment (or school in the case of youth) for the TANF WPR.[53] A state workforce official expressed that this change was made both in an effort to track more meaningful activities (i.e. job placement vs time spent searching for a job) and to reduce the documentation burden on boards as employment is easier to verify than other activities that are counted in the federal WPR calculation. It should be noted that TWC's ability to restrict the set of activities it counts for WPR is supported by the significant caseload reduction credits that the state has received for non-eligibility related reductions to the TANF caseload since 2005 which reduces the state's WPR target.[54] For example, in FY2017, Texas accrued sufficient caseload reduction credits to reduce their All Families WPR target to 0 percent.[55] Thus, the state was able to meet their federally required target despite only achieving a WPR of 20.5 percent, well below the national average of 53 percent.[56]

Critically, the state not only has a set of integrated performance measures across programs that focus on outcomes such as employment two or four quarters after exit but also invests in making sure that this data is put to use to make operational changes to improve performance at the state and local level. The aforementioned Division of Operational Insight (DOI) is critical to ensuring that data is not just collected for the sake of creating dashboards. The inclusion of the DOI Director in the senior leadership team ensures that any data and evaluation related impacts of policy and programmatic changes are discussed upfront, rather than as an afterthought. TWC also emphasizes a ground-up approach to developing a culture of continuous improvement, offering individuals throughout the workforce development system a week-long course on TWC's unique philosophy of Rapid Process Improvement. This approach is a blend of Lean, Six Sigma and Theory of Constraints methodology. TWC also offers other trainings and technical assistance to local boards and contractors to make the most of their performance data.

TWC does not have extensive experience with Pay-for-Performance (P4P) contracts at the state level, although some local boards have used variations of performance contracting in the past. When asked why the state has not yet made greater use of the P4P provisions in WIOA, officials cited three concerns. First, as a practical matter, TWC has not been able to devote significant resources to exploring P4P because the passage of WIOA necessitated other pressing changes to the system. Specifically, TWC absorbed the Vocational Rehabilitation (VR) program. Additionally, there is concern about the lag inherent in workforce

[53] Derr and Brown, "Improving Program Engagement of TANF Families: Understanding Participation and Those with Reported Zero Hours of Participation in Work Activities."

[54] Schott and Pavetti, "Changes in TANF Work Requirements Could Make Them More Effective in Promoting Employment."

[55] "Table 2: Caseload Reduction Credits Fiscal Year 2017."

[56] "Table 1A: Combined TANF and SSP-MOE Work Participation Rates Fiscal Year 2017."

outcomes measures, and whether it would really be possible to come to an agreement with a provider where some of their payment was dependent on long term outcomes such as Q4 employment after exit, the data for which is still not fully mature for five to six additional months. Beyond this implementation concern, officials worried that use cases for P4P would be confined to a very small portion of the workforce development systems funding and activities. More enthusiasm was expressed for using P4P to improve outcomes for specific subgroups.

State-specific challenges

Texas has already made significant progress on many of the general barriers we identified. TWC's investment in the TWIST data system, centralized analytic capacity, and tightly aligned measures across the workforce development system have been critical building blocks for the state's efforts to focus on key outcomes and improve performance.

TWC would like to continue to move further in this direction by continuing to upgrade and more tightly integrate its data systems across the workforce development system. As part of this process, TWC hopes to free up staff capacity for more meaningful work by automating standard reporting responsibilities to the greatest extent possible. This effort has been complicated by continued tweaks to federal reporting standards, as well as the sheer volume of data elements requested by federal funding partners.

Appendix III – Colorado case study

Colorado's workforce development system is spread across more agencies than in Texas, but the state has taken significant steps towards a more integrated and outcomes-oriented system in the past decade. The state is particularly notable for the C-Stat performance management program which has worked with state leadership and local officials over the past eight years to create a collaborative culture of continuous improvement. Colorado's challenges with continuing to meet the TANF WPR measure while also focusing on more meaningful outcomes is also instructive for states that do not have the low TANF caseloads and large caseload reduction credits that allow Texas to essentially ignore this measure.

Overall structure

The Colorado Workforce Development Council is the governing body charged with oversight of WIOA programs and the continuous improvement of the workforce system. The council is made up of the Governor, the Executive Director of the Department of Labor and Employment, the Commissioner of Education, other state officials and prominent business leaders. At the local level, 10 local workforce areas with their own boards customize workforce development activities to meet local needs. The state's TANF program, Colorado Works, is administered by the Colorado Department of Human Services at the state level and county departments of human/social services at the local level.

While TANF and WIOA programs are administered by different state agencies, both are included in the state's combined state plan initially submitted in 2016. Additionally, Colorado Workforce Centers, overseen by the state Department of Labor and Education, offer fully integrated WIOA, Wagner-Peyser, Jobs for Veterans State Grants, and Trade Adjust Assistance Programs.[57] Partnerships and integration with TANF, SNAP E&T, and VR also exist in some local areas.[58]

A key feature of Colorado's workforce development system is its focus on decentralization. It is one of only three states to operate Wagner-Peyser programs on a local basis, and, more broadly, emphasizes the ability for local areas to choose the industries and programming that they focus on. Colorado leans on this as an advantage, with one state workforce official highlighting that many local areas piloting new approaches, combined with a statewide culture of collaboration and flexibility, helps the state continue to improve the outcomes produced by the workforce system.

Outcomes-oriented infrastructure

Colorado Workforce Centers use the "Connecting Colorado" integrated case management, data collection and reporting system. However, state officials relayed that more work is needed to create a truly integrated data system that would facilitate tighter integration between workforce funding streams. This sentiment is also documented in the state plan which cites data sharing as a weakness, elaborating "[Connecting Colorado] does not function as the data management system across the board for all core, non-core, and system program partners. Additionally, not all labor market information, asset mapping, and other data is available statewide."[59] A particular difficulty cited by state officials is that the current data system makes it difficult to get an accurate picture of which customers are being served by multiple

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[57] "Colorado State Plan."
[58] "Colorado State Plan."
[59] "Colorado State Plan."

programs within the system. Because of the manual effort required to merge and clean data sources, co-enrollment data is only compiled once per year, which is clearly not frequently enough for local boards to use this data to adjust their service delivery approach in real-time. The barriers that have prevented Colorado from establishing a broader IDS are described in greater detail in the "state-specific challenges" section below.

A major piece of Colorado's outcomes-orientation infrastructure is the C-Stat program within the Department of Human Services, which seeks to move the department "to an outcomes-oriented and collaborative approach to affect change at every level… in support of continuous quality improvement."[60] Colorado Works (the state's TANF program) falls under C-Stat's purview, which reports quarterly on the WPR as well as what percentage of TANF recipients are entering employment in addition to tracking more granular measures. One official credited C-Stat's success improving performance in the Colorado Works program to very supportive top leadership at the state level. State-level officials have made a conscious effort to create a culture that focused on collaborative problem solving, not "gotcha" accountability. C-Stat plans to layer in the WIOA measures into the performance management of the state's TANF program to complement the set of employment measures the state has already developed in partnership with local boards.

Because the Colorado workforce development system places so much emphasis on local discretion, it is also important to highlight the state's efforts to engage counties and local actors in the continuous improvement process. The Department of Human Services also sponsors the Performance & Partnerships Exchange, which the state describes as "a county peer-to-peer exchange focused on improving performance on county-facing C-Stat measures. Its purpose is to create an opportunity for counties to learn from one another and to highlight successful practices that may work in other counties."[61] As part of this program, the state studies a particular practice at a high-performing county, identifies keys to success and interactions with other factors, and then has the county highlight this strong performance on a state-wide webinar. The Colorado Workforce Development Council also emphasizes helping local areas engage in the performance management process. The council does this by providing regular data reports to counties on their current performance, and offering technical assistance to areas that are in danger of missing a target.

State-specific challenges

The two major challenges that Colorado has encountered as the state has made the workforce development system more outcomes-oriented are the lack of a true IDS as well as the requirement to continue to meet federal WPR targets.

As described above, while Colorado has made strides towards a more integrated statewide data system, the current system is still an impediment to delivering services that are more tightly coordinated across federal funding streams. The limitations of the system have been made particularly acute as state and local officials have worked to implement WIOA. While the state is still in the early stages of gathering information to consider a major upgrade to the existing data system, officials are cognizant of the other challenges they will face. Perhaps most importantly, there is no dedicated funding stream that states can

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[60] "C-Stat | Department of Human Services."
[61] "Performance & Partnerships Exchange."

draw on to make critical data system upgrades, which may force the state to pursue a lower cost but lower impact solution. Secondly, beyond the technical demands of a new system, there are important questions around the proper level of data sharing given the sensitive nature of some of the information collected by various partners in the workforce development system. This issue of creating a framework that protects individuals' privacy while also supporting impactful service delivery is one that all states must grapple with, but Colorado must address the specific constraint of the state's particularly strict privacy laws around minors which restrict data sharing within programs targeting youth.

The state is also working with BrightHive, a data technology company "using data trusts to transform the way social services providers share data, make decisions, and affect the behavioral outcomes of beneficiaries."[62] BrightHive's "data trusts" combine both technical integration of data systems as well as new unifying legal frameworks and governance structures for secure and impactful data sharing.[63] In Colorado, the organization is helping the state with "a groundbreaking multi-agency project that envisions a sustainable, modern, and personalized web-based service that securely organizes education, training, and career planning information for both individual user portfolios and professional case management."[64] The success of this initiative remains to be seen, but BrightHive's approach has potential to significantly improve over the status quo of vendor-driven enterprise system procurement that is expensive, has lengthy timelines, and often fails to deliver the hoped-for impact on beneficiaries lives.

Colorado has also faced challenges meeting the federal WPR targets for the TANF program. Like Texas, the state has made a decision that many of the activities that are credited for the WPR are not meaningful drivers of employment and earnings outcomes, and thus has deprioritized these activities even though it makes it more difficult to meet the WPR. Also, the state has decided to support individuals receiving credentials that take longer than 12 months, even though these individuals no longer count positively towards the WPR after this time period. Unlike Texas, Colorado's WPR target is sufficiently high that it has not always been possible for the state to meet this target after deprioritizing it. In fact, in 2015, the federal government sanctioned Colorado $4.8 million for failing to meet the WPR.[65] Since this sanction, Colorado has pursued a strategy of encouraging and documenting activities that count towards the WPR when it makes sense for the customer, but giving local areas permission to deliver the right supports and thereby hurt their performance on this measure when it is not in line with what the individual needs. This approach has allowed the state to meet its WPR target for the last 18 months.

Colorado also encountered frustrations with the federal government not supporting the state's efforts to achieve better integration across WIOA programs or across local areas. First, despite the six core WIOA programs all being held accountable to the same targets, and that performance deficits in one program could impact funding for other programs, the federal government did not permit Colorado to pursue a shared negotiation approach across the WIOA programs. Also, early interpretations of the legislation seemed to suggest that local workforce units could form "regional planning areas", and align targets across the region. However, the final regulations prohibited such an approach. Finally, Colorado has experienced difficulty trying to blend and braid funding streams as it is at times difficult to identify which

[62] Bloomberg, "Bloomberg, BrightHive, And Data For Democracy Launch Initiative To Develop Data Science Code Of Ethics."
[63] "BrightHive – The Data Collaborative Company."
[64] "Improving Pathways to Opportunity with a Statewide Data Trust in Colorado."
[65] Frank, "Colorado Missed Key Welfare Target, Faces $4.8 Million Sanction." (Sanction may have later been reduced)

funding stream can be the first mover, given that legislation often specifies that other funds should be exhausted before a particular funding stream can be applied to some purposes. Greater clarity and flexibility would enable more coordinated use of federal funds.

Appendix IV – Washington case study

Washington's workforce system exhibits a unique hub-and-spoke structure in that programming is highly decentralized, but is coordinated and evaluated by a central governing body. Though federal funding tagged for distinct purposes flows into multiple agencies, a central state workforce board sets strategy and conducts performance evaluation for all activities concerning education, training, and apprenticeships. Performance management is a core tenet of the board's operations. In addition to publishing results on workforce outcomes and return on investment through a publicly accessible online dashboard, Washington's workforce board works with local boards to set regression-adjusted performance targets based on economic conditions and demographic characteristics of the regions.

This hub-and-spoke structure and emphasis on performance tracking and analysis have fostered a culture of local experimentation and continuous improvement in Washington. The state workforce board is able to marshal federal and state resources on behalf of program participants with diverse education and training needs. Despite the system's high level of coordination, the state faces barriers around integrating data across agencies and tailoring performance targets to the needs of local areas.

Overall structure

Washington's workforce development system comprises 16 programs administered by seven state agencies. Central among these seven agencies is the Workforce Training and Education Coordinating Board, which develops a state strategic plan every four years for managing roughly $1.5 billion in annual state and federal expenditures.[66] At the local level, 12 Workforce Development Councils are responsible for directing WIOA Title I activities (workforce investment activities for adults, youth, and dislocated workers), providing employer outreach, and overseeing the state's WorkSource employment centers.

The Workforce Training and Education Coordinating Board consists of nine voting members from business, labor, and the public sector, all of whom are appointed by the Governor. The centralized board structure was established in 1991 in an effort to consolidate four state boards that supervised a highly decentralized workforce system. Though the Employment Security Department administers WIOA Title I programs (nearly $40 million annually in federal expenditures), the Workforce Training and Education Coordinating Board serves as the central point at which WIOA programs are coordinated with other workforce programs receiving federal and state funding. These programs include employment and training programs such as TANF WorkFirst, as well as occupational skills training programs, job search assistance (Wagner-Peyser), basic skills instruction, employer matched current worker training, and income support for dislocated workers.

Centralizing oversight for WIOA, Perkins, education, vocational training, and private career training programs enables the Workforce and Education Coordinating Board to operate from the presumption that the system is linked together. Other states often must actively decide if secondary and post-secondary education funding should link with workforce development funding. Connecting the system allows for synergies around administrative tasks like data collection. For example, Washington's state

[66] "Washington's Workforce Development System."

board is considering investing Perkins V reserve funding into collecting demographic data in school districts that can inform WIOA investments as well.

Washington's Workforce Training and Education Coordinating Board maintains a culture of openness and transparency, and all 12 local workforce board directors are typically in attendance at the state board's eight annual meetings. A state official described the board chair as being particularly "gung-ho" about opening channels of discussion to all stakeholders. The state board also acknowledges a high degree of local control of workforce programming and views its role as a hub through which to disseminate innovative local practices. For example, the state board convened a monthly learning community among the 12 local boards after receiving discretionary funds for an incumbent worker backfill program.

Outcomes-oriented infrastructure

Performance management is central to the operations of Washington's workforce system. In addition to ensuring the state's workforce services and programs are coordinated in service of a unified strategy, the Workforce Training and Education Coordinating Board is also responsible for evaluating the performance of Washington's workforce programs. The board tracks and publishes results for 12 of the state's largest workforce programs. Performance tracking focuses on outcomes such as job attainment and earnings increases, as well as the return on investment to taxpayers and participants. Unlike many states, Washington also tracks the type of job participants ultimately attained. This information enables officials to know whether programs are placing people in the types of jobs for which they are being trained. For WIOA Title I programs, metrics of interest include the employment rate or further education, annual earnings, earnings net impact, participant return on investment, and taxpayer return on investment. These metrics are tracked using a performance CMS tool called Earnings to Outcomes (ETO). Results are published on an interactive online dashboard that is open and accessible to the public.[67]

In addition to tracking and publishing outcomes-oriented results, the state board employs statistical analysis to set regression-adjusted targets for local areas and to evaluate net impact against a control group. The process attempts to address the heterogeneity of Washington's various localities by adjusting targets to account for the particular challenges facing the population served. Equipped with these targets and a strong understanding of predicted outcomes, Washington is better able to negotiate with the federal government in setting federal targets.

State-specific challenges

Washington State workforce officials cite restrictive federal standards around target-setting and enrollment, garnering buy-in from local partners, and technical difficulties in implementing an IDS as the key challenges toward achieving a more outcomes-oriented workforce development system.

Washington officials have encountered challenges related to federal standards, particularly those providing guidance on whom should be enrolled in programs. For example, local boards are mandated to use 75 percent of WIOA youth funds on out-of-school youth, leaving 25 percent to local discretion. As a result, in Washington, many local workforce boards have divested out of using any WIOA funds on in-school youth. This divestiture has created a gulf between the workforce development system and the K-

[67] "Workforce Training Results Programs and Outcomes 2009-2016."

12 system, as funds have moved away from in-school youth. Additionally, misaligned federal eligibility standards have created disincentives to co-enrolling participants in multiple programs. Five local workforce boards in Washington are attempting to co-enroll job-seekers in WIOA Title I and Title III (job training and job search under Wagner-Peyser) programming. While everyone is eligible for Title III, only about 50 percent of this population is eligible for Title I. When participants are co-enrolled, the Title I population appears massive, and outcomes as a raw percentage drop markedly. Though these boards are able to serve more people under co-enrollment, their performance on workforce-related outcomes drops by as much as 20 percentage points. Regression-adjusted targets also mean that local boards do not know their targets until the end of the year (i.e., only after they retroactively understand the characteristics of the people they served). The state workforce board has recognized this challenge and has deprioritized raw percentages in evaluation in favor of creating a culture of more holistic evaluation through bodies such as the learning community.

Washington's extensive data collection also creates an administrative burden that is difficult to sell to local partners when they are not receiving much funding specifically for this purpose. In particular, there is reticence around collecting data on eligibility criteria, as the process of collecting this information can be "intensely invasive" and involve requesting information that at-risk students are unwilling or uncomfortable providing. Businesses are often hesitant to provide information on incumbent workers, and thus do not want to complete enrollment. Additionally, local officials often feel that they are not in control of outcomes (e.g., who gets jobs and where), and are thus reluctant to accept the administrative work associated with performance management and continuous improvement.

Launching an integrated data system has also posed challenges for Washington's state workforce board. The process of importing data from the old systems into the new system required a year of staff time. Officials spent an additional two years working out the kinks in the new system. This process created concerns about the validity of data from this three-year period. Fortunately, Washington was granted a grace period from the federal government. Installing an IDS requires massive resources and raises issues around data security, which causes concerns for many local partners. Beyond collecting data in an integrated fashion, there are cultural challenges around sharing data, especially in Washington's decentralized workforce system. Some agencies (e.g., DSHS) collect nationality and citizenship data that is considered too sensitive to share across all agencies. Additionally, federal standards around using funding on non-citizens mean some partners can serve one person, but cannot hand them off to another organization.

Appendix V – Abbreviations used

AISP: Actionable Information for Social Policy

DOI: Division of Operational Insight

DOL: Department of Labor

ETO: Earnings to Outcomes

FTE: Full Time Equivalent

IDS: Integrated Data System

P4P: Pay-For-Performance

Perkins V: Strengthening Career and Technical Education for the 21st Century Act

TANF: Temporary Assistance for Needy Families

TWC: Texas Workforce Commission

TWIST: The Workforce Information System of Texas

UI: Unemployment Insurance

VR: Vocational Rehab

WIA: Workforce Investment Act

WIOA: Workforce Innovation and Opportunity Act

WPR: Work Participation Rate

Appendix VI – Bibliography

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