



Innovations in Performance-Based Contracting

A Report Commissioned by:
The Southern Area Consortium of Human Services (SACHS)

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BACKGROUND

The purpose of this study, commissioned by the Southern Area Consortium of Human Services (SACHS), was to respond to SACHS directors' request for information on performance-based contracting (PBC).

METHOD

Methodology included a literature review, key informant interviews, and a survey that was disseminated to all SACHS counties. Data was collected in the following areas: the extent to which counties have implemented performance-based contracts, the types of PBC contracts that have been implemented, background and qualifications of contract monitors, major barriers, critical success factors, results, and lessons learned from agencies' experiences with performance-based contracting.

SUMMARY OF FINDINGS

Implementation

- ▶ Eight of the nine SACHS county agencies have implemented performance-based contracting to some extent.
- ▶ PBC has most frequently been implemented in the CalWORKs program (six counties).
- ▶ The most common type of performance-based contract utilized among SACHS counties is "milestone-based," where reimbursement payments are tied to distinct and critical achievements that form a set of collaboratively defined service outcomes (six counties).

Success Factors

- ▶ A planning process characterized by sequential steps:
 1. Establish the contracting team.
 2. Identify scope and anticipated end outcomes.
 3. Examine private-sector and public sector solutions.
 4. Select performance measures (intermediate outcomes, outputs and work processes).
 5. Develop a Performance-Based Statement of Work or Statement of Objective.
 6. Select contractor.
 7. Monitor and manage performance.

- ▶ Develop clear work statements and measurable performance objectives
- ▶ Describe requirements in terms of results required rather than the methods of work performance;
- ▶ Establish realistic “pay points” and reward milestones
- ▶ Use incentives

Major Barriers

The top three barriers reported by SACHS counties include:

- ▶ Lack of knowledge about performance-based contracting
- ▶ Selling vendors on the concept of PBC
- ▶ Identifying meaningful measurable performance standards

Results

The following results were most frequently cited by SACHS counties:

- ▶ Program goals have been met
- ▶ Contracts are more easily monitored for compliance
- ▶ Payments authorized and contracts renewed based on performance

Lessons Learned

- ▶ Anticipate cultural resistance to an “outcome-focus”
- ▶ Privatization requires a political champion
- ▶ Efforts must be guided by an implementation structure with clear policy and support
- ▶ Employee involvement and training strategies are needed to manage workforce transition
- ▶ Enhanced monitoring and oversight are critical
- ▶ PBC differs considerably at the local, state and federal levels; What works at one level may not work at another
- ▶ Share “best practices” for achieving outcomes

“What gets measured, gets done.”
- Peter Drucker

NEXT STEPS

Following a brief facilitated discussion with SACHS directors at the August 2004 meeting, SACHS staff will identify additional interest in the topic as well as check with directors on inviting a guest speaker(s) to a future meeting. The following speakers were suggested:

- ▶ Jack Pellegrino, Deputy Director, Agency Contract Support, San Diego County Health and Human Services Agency
- ▶ Carl De Maio, President and Founder, The Performance Institute (www.performanceweb.org)
- ▶ Jacob Klerman (Rand, Inc.) NOTE: San Diego HHS is awaiting the results of Rand's CalWORKs Statewide Evaluation Report (due 9/04).

Special thanks to SACHS Directors, Contract Services Staff, and key informants for their input and consultation.

A full copy of this report can be downloaded at:
http://pcwta.sdsu.edu/sachs_research.html

I. PROJECT AIMS

This report was prepared in response to SACHS directors' request for information on performance-based contracting (PBC). In addition to presenting findings from a survey of SACHS counties and key informant interviews, the report includes literature review summaries. Business, human services, and government journals were used.

II. BACKGROUND

Human services contracting has evolved significantly over the past three decades. Throughout the 1970's accountability was mainly viewed in terms of "input." For instance, contractors were monitored in relation to resources acquired (qualified staff hired, facilities and equipment procured, and maximum number of clients served). In the 1980's accountability was viewed in "process" terms - standardization resulted in the use of service definitions as well as work statements. In the late 80's the focus turned to "output" terms - accountability regarding specific amounts of service or "outputs." There was also a shift from cost reimbursement to unit cost contracts. The 1990's, known as the "performance years," ushered in an era of equating accountability with performance. (Martin, 2000)

III. METHOD

Literature Review. Staff reviewed journal articles, reports and presentations using key words such as *performance-based contracting*, *performance-based service acquisition* and *outcome management*. (Refer to Appendix D for bibliography and article summaries).

Key Informant Interviews. Staff interviewed the following persons:

- ▶ Benjamin Neumann, Director, State & Local Affairs, The Performance Institute (6/28/04)
- ▶ Jack Pellegrino, Deputy Director of San Diego County Health & Human Services Agency Contract Support (8/2/04)
- ▶ Joan Zinser, Deputy Director of San Diego County Health & Human Services Agency Strategy & Planning Division (8/2/04)
- ▶ Leslie Hine-Rabichow, Executive Director, The San Diego Association of Non-Profits

Survey. Staff surveyed SACHS county contract staff to determine the extent to which counties have implemented performance-based contracts, the types of PBC contracts that have been implemented, background and qualifications of contract monitors, major barriers, and results. (See Appendix A for survey instrument and Appendix B for survey results.)

IV. COMMON DEFINITIONS

There is widespread agreement regarding the language used to describe the key concepts in PBC. For purposes of this report we will refer to the following commonly accepted definitions:

- ▶ Performance Contracting - focuses on outputs and outcomes of service provision and may tie the contractor payment and contract extension to their achievement; (Martin, 2000)
- ▶ Output (as applied to human service programs) - measure of service volume - the amount of service or product produced by a program and the number of clients that complete treatment or receive a full complement of services; (Martin, 2000)
- ▶ Outcome (as applied to human service programs) - results, accomplishments or impacts of a human service program; (Martin, 2000)
- ▶ Fixed Price Contracting - Contractors are paid on the basis of a fixed unit rate for a specific number of units. (McConnell, Burwick, Perez-Johnson & Winston, 2003)
- ▶ Cost Reimbursed Contracting - Contractors are paid for the expenses they incur during service. Some contracts specify that payments only be reimbursed up to a maximum per client amount. (McConnell, Burwick, Perez-Johnson & Winston, 2003)
- ▶ Milestone-Based Contracting - Reimbursement payments are tied to distinct and critical achievements that form a set of collaboratively defined service outcomes. (Frumkin, 2001)

For illustrative purposes Martin (2000) proposes the following systems based model with performance measures and standards as they specifically apply to human services agencies:

Figure 1.

The Systems Model and Performance Measures/Standards Applied to Human Service Programs

| INPUTS | PROCESS | OUTPUTS | OUTCOMES |
|--|--|---|--|
| Input Measures & Standards | Process Measures & Standards | Output Performance Measures & Standards | Outcome Performance Measures & Standards |
| <ul style="list-style-type: none"> - staff - facilities - equipment - funding - clients | <ul style="list-style-type: none"> - service definitions - work statements | <ul style="list-style-type: none"> - service volume (units of service) - service (client) completions | <ul style="list-style-type: none"> - numeric counts - standardized measures - LOF scales - client satisfaction |

Numeric counts = simple counts of the number of clients that achieve a successful outcome.

Standardized measures = validated and normed scales used in pre-post test fashion.

Level of functioning (LOF) scales = agency specific, and frequently unnormed, measures of client/family functioning used in a pre-post test fashion (also called rapid assessment instruments).

Client satisfaction = the use of client satisfaction surveys.

Adapted from: Elkin and Molitor (1985/86); Kuchler, Velasquez, and White (1988); Martin and Kettner (1996); United Way of America (1996).

V. FINDINGS

SURVEY RESULTS

Staff surveyed SACHS counties to identify the extent and type of PBC implementation as well as the background and qualifications of contract monitors. Additionally, the survey explored challenges to implementation and success factors. Survey results, in their entirety, are attached as Appendix B.

Extent of Implementation Among SACHS Counties

Eight of the nine SACHS counties have implemented performance-based contracting to some extent. The one county that has not yet implemented PBC plans to do so in the future.

Table 1.
Implementation of Performance-Based Contracting

| County | Currently Using PBC | Plan to Use PBC |
|------------------|---------------------|-----------------|
| Imperial | | X |
| Los Angeles DFCS | X | |
| Los Angeles DPSS | X | |
| Orange | X | |
| Riverside | X | |
| San Bernardino | X | |
| San Diego | X | |
| Santa Barbara | X | |
| Ventura | X | |
| TOTAL | 8 | 1 |

Key Implementation Areas

Program Areas: Six counties who have implemented performance-based contracting indicated they have done so in the area of CalWORKs, four have done so in Child Welfare, two in Aging and Adult Services, and seven in “other” service areas including Information Technology, Juvenile Diversion, Workforce Investment Act Youth, Families and Communities Together (FACT), and Foster/Group Home Placement.

Contract Type: Six of the eight counties who have implemented performance-based contracting reported that they have implemented “Milestone-Based” contracts; five have implemented “Fixed Price” contracts; and four have implemented other types of contracts, including “Fixed Core and Incentive Payments,” “Performance” or “Performance Goals” contracts, and “State set placement rates.”

Contract Monitor Background and Qualifications

Contract monitoring is a critical and essential element in the success of performance-based contracting. Absent contract monitoring, the performance of contractors and the success of services cannot be assessed. While the contracts are developed to include performance measures that will quantify whether or not the outcome goals are being met, and data is established to measure the success of the programs/services, monitoring the contractors will ensure: 1) services are being provided; 2) participants are being served; 3) payments are being made for services rendered; and 4) outcomes are being met.

The following qualifications were reported by the majority of SACHS counties that have implemented performance-based contracting: (refer to Appendix B for a detailed listing of individual county responses).

- ▶ Mostly Bachelors level staff, some Masters level
- ▶ Staff Analysts (One county uses Program Specialist II’s and Accountant II’s in addition to Staff Analyst II’s, for purposes of monitoring program and fiscal compliance.)
- ▶ Experience in government contracting
- ▶ Knowledge of State and County contract regulations and policies, as well as program policies and procedures
- ▶ Experience writing reports, investigating problem areas, and evaluating effectiveness of services to cost

Although the educational level of contract monitors and supporting staff are important, the ability of contract monitors to accurately assess the services provided, detect fraud and ensure that the billings are commensurate with the services rendered, will determine the success of the program and the appropriate expenditure of tax-payer money.

***“If a welfare department is going to successfully manage contract,
you’ve got to have trained staff to do it.”***
- SACHS Director

Of particular note San Diego County contract administrators are required to attend a “Contracts Training Academy,” a 40-hour program instructed by County functional experts (e.g., County Counsel, Purchasing and Contracting, and other senior executives). The National Association of Counties recently recognized this program for its innovation in improving government services. A copy of the curriculum topics is available upon request.

Major Barriers

The following barriers were commonly reported by the SACHS counties who have implemented performance-based contracting: (refer to Appendix B for a detailed listing of individual county responses).

- ▶ Lack of knowledge about performance-based contracting. It brings with it new terminology and a new contracting approach that county staff and contractors are not familiar with.
- ▶ Selling vendors on the concept of PBC (most have no experience with it)
- ▶ Reluctance on the part of contractors to engage in a “Performance-Based Contract” due to the risk factor of non-performance leading to non-payment of expenses incurred
- ▶ Identifying meaningful measurable performance standards (that are applicable to each type of unique vendor)
- ▶ Few examples of how to structure RFP and contract
- ▶ Developing a payment structure that is performance based (e.g., fiscal penalties based on non-compliance)
- ▶ State regulations that do not allow flexibility to execute performance-based contracts

Results

The following results were frequently cited by SACHS counties who have implemented performance-based contracting: (refer to Appendix B for a detailed listing of individual county responses).

- ▶ Program goals have been met
- ▶ Contracts are more easily monitored for compliance
- ▶ A process that is more quality results-oriented
- ▶ Payments authorized and contracts renewed based on performance

NOTE: In April 2004, San Diego County's CalWORKs Welfare-to-Work and Child Assessment Network-North (CANN) were recognized by The Performance Institute for innovative management practices in their approach and implementation of performance-based contracting.

*"What gets measured, gets done."
- Peter Drucker*

KEY INFORMANT INTERVIEWS

Key informants offered the following perspectives regarding the challenges, success factors and lessons learned as they pertain to performance-based contracting.

Neumann (2004) noted the importance of following a step-by-step process, establishing realistic "pay points" and rewarding milestones, as well as the importance of creating measurable objectives and writing clear work statements. The focus of PBC is on "best value" rather than selecting the least expensive vendor. He also shared many excellent leads on innovative contracts such as Oklahoma Rehabilitative Services Department, North Carolina's Health & Human Services Adoptions Program, and San Diego County's CalWORKs to name a few (see Innovative Approaches section of report for further details).

The interview with San Diego County Health and Human Services Agency (HHS) staff highlighted the following critical lessons (Pellegrino & Zinser, 2004):

- ▶ Assess Organizational Culture (Is the internal culture supportive of moving in the direction of PBC? It is critical to have political support of Board of Supervisors (BOS) and CAO before engaging in PBC)
- ▶ Contractors are typically resistant to change (and may approach BOS w/resistance)

- ▶ Start with a contract that is sure to be a winner - something that you know you can make work w/PBC model - regardless of how small
- ▶ Use consultants (e.g. MDRC, Rand, Columbia University, other states that are models - see below)) for ideas on how to structure contracts (SD county consulted with the following states: WI, FL, TX, IN)
- ▶ Talk to contractors who are already operating in this mode (e.g., some large scale national not-for-profits have made great headway in this area)

Hine-Rabichow (2004) provided the non-profit sector's perspective on PBC with specific reference to the San Diego County HHSA experience. Among the most salient lesson learned is the "change effort" involved. This effort mandates a systems approach whereby PBC is a component of a larger system and includes mutual learning models as well as political understanding and support. Additionally, PBC redefines and molds the relationship between public/private contract partners in a powerful way. She also notes that "pay for performance" and "pay for results" can differ and highlights the importance of the co-learning process.

From the non-profit perspective the greatest challenges to PBC include the following (Hine-Rabichow, 2004):

- ▶ Public sector contracting requires a great degree of sophistication and small non-profits can get "naturally selected" out
- ▶ Using pay points makes sense as long as the "points" are well connected to results
- ▶ Currently governments are extraordinarily oriented toward regulations and compliance - an environment focused on fraud detection/resolution is not conducive to risk-taking and risk taking is a part of PBC

Several common themes emerged during the literature review process with the focus on three central areas: planning characterized by sequential steps; success factors and benefits; and lessons learned.

Sequential Steps

Most sources on PBC recommend a planning process with a variation on the sequential steps. The Performance Institute recommends the following seven steps:

Figure 2.



Source: <http://www.arnet.gov/Library/OFPP/BestPractices/pbsc/home.html>

The Office of Federal Procurement Policy (OFPP) offers the following seven steps:

1. Establish an integrated solutions team (ensure top/down involvement, assess stakeholders and clearly define roles & responsibilities)
2. Describe the problem that needs solving
3. Examine private-sector & public-sector solutions (take a team approach that considers private-sector input)
4. Develop a performance work statement or statement of objectives
5. Decide how to measure & manage performance (use commercial quality standards and incentives; recognize motivation of profit power; most important, consider the relationship)
6. Select the right contractor (utilize “down-selection” to limit competitor pool; encourage competitors’ “due diligence” - time & effort to become knowledgeable about an agency’s needs to identify the best solutions)
7. Manage performance (monitor, adjust as needed, and assign accountability).

Some minor variations are seen in the planning steps as Lampkin, et. al. (2003) focuses on five key planning areas. However, all research underscores the importance of introducing the effort, creating a team, deciding what and how to measure, analyzing outcomes and utilizing results. For detailed information on the sequential steps refer to the “Seven Steps” web site (<http://www.arnet.gov/Library/OFPP/BestPractices/pbsc/index.html>) and the “Key Steps” guidebook (http://www.urban.org/UploadedPDF/310776_KeySteps.pdf)

Success Factors

| Study | Success Factors |
|--|--|
| Performance Institute (date not specified) | <p><i>Design factors</i></p> <ul style="list-style-type: none"> ▶ clear scope of work and performance measures ▶ close alignment between strategic plan and performance plan ▶ defining baseline and expectations, flexibility ▶ built-in incentives ▶ system for revisions and reconciling deviations <p><i>Management factors</i></p> <ul style="list-style-type: none"> ▶ regular monitoring and reporting ▶ provisions for adjustment with corrective action plans as needed ▶ share performance data with contractors ▶ communicate and reward success |
| Mathematica Policy Research (2003) | <ul style="list-style-type: none"> ▶ employing performance measures that are outcome-based and process-oriented ▶ using incentives such as “pure pay for performance” contracts ▶ anticipating operational challenges ▶ selecting the right contract duration based on advantages |
| Urban Institute (Nightingale & Pindus, 1997) | <ul style="list-style-type: none"> ▶ incentives ▶ clear accountability for results ▶ clear criteria for performance ▶ clear public objectives |
| General Accounting Office (2002) | <ul style="list-style-type: none"> ▶ requirements are described in terms of results required rather than the methods of work performance ▶ measurable performance standards are set ▶ contractor performance is evaluated in a quality assurance plan ▶ both positive and negative incentives are used as appropriate <p>NOTE: Based on a review of 25 contracts from major government agencies, the GAO’s conclusion was that there is a growing need for consultation and technical assistance with regard to PBC, including clarification of what constitutes “performance-based.”</p> |
| Goldsmith (1997) | <ul style="list-style-type: none"> ▶ encourage private sector to assist governments in identifying business units and costs ▶ cultivate a collaborative relationship ▶ encourage business sector to offer new ideas to public sector RFP process ▶ challenge government to think in terms of “outputs” rather than “inputs” ▶ seek untapped sources of non-tax revenue ▶ manage the political hurdles of public/private partnerships ▶ address the fate of “downsized” staff |

Lessons Learned

| Study | Lessons Learned |
|--|---|
| Performance Institute (2004) | <ul style="list-style-type: none"> ▶ utilize a realistic number of measures ▶ use a clearly defined “logic model” ▶ measure strategically important results as well as the things you can count ▶ understand that there may be cultural resistance to an “outcome-focus” ▶ importance of being accountable for delivering outputs, justifying strategies used, and being responsible for end outcomes |
| Mathematica Policy Research (2003) | <ul style="list-style-type: none"> ▶ well-coordinated preparatory work ▶ a fair and transparent procurement process ▶ clear contract design ▶ targeted performance measures ▶ added incentives ▶ dedicated resources to monitor work |
| General Accounting Office (1997) | <ul style="list-style-type: none"> ▶ Privatization requires a political champion ▶ Efforts must be guided by an implementation structure with clear policy and support ▶ Legislation and resource changes may be needed ▶ Reliable and complete cost information is essential ▶ Employee involvement and training strategies are needed to manage workforce transition ▶ Enhanced monitoring and oversight are critical |
| Martin (2002) | <ul style="list-style-type: none"> ▶ PBC differs considerably at the local, state and federal levels; What works at one level may not work at another |
| DeMaio (date not specified) | <ul style="list-style-type: none"> ▶ employing too many measures ▶ employing the wrong measures (i.e. too process oriented; no clearly defined logic model; no measures of strategy; and few measures of end outcome) ▶ “dumbing down” measures ▶ cultural resistance to an “outcome focus” (lack of accountability and responsibility) |
| San Diego County Health and Human Services Agency “A Story of Continuing Competition” (date not specified) | <ul style="list-style-type: none"> ▶ political leadership and legislature ▶ workforce transition plan (county/contractor teambuilding; clear expectations included risk mitigation plans); ▶ utilizing cost data that includes: 1) a combination of core payments plus pay for performance and incentives, and 2) fixed cost for some deliverables/variable for others) ▶ performance monitoring that features an automated systems design for “pay now” or “pay later” and high expectations as well as inspections ▶ gaining support of the “public trust” |
| Pricewaterhouse Coopers Endowment for the Business of Government (2001) | <ul style="list-style-type: none"> ▶ collaboration ▶ use of a small number of milestones with simple reporting tools and realistic incentives ▶ non-profits need assistance in transitioning from fee-for-service to outcomes ▶ flexibility and revisiting milestones ▶ sharing “best practices” for achieving outcomes |

Innovative Strategies

The literature is replete with models of innovative contracting strategies. Martin (2000) provides examples of three state human services agencies: [Florida Department of Children & Families](#); [Maine Department of Human Services](#); and [Kansas Department of Social & Rehabilitative Services](#). These agencies were highlighted because they are beginning to institutionalize PBC. They began on small scales and incrementally established policy that all new contracts would contain measurable and objective performance standards by which contractor performance is evaluated.

Frumppin (2001) notes the [Oklahoma Milestone Payment System](#), in the State's Department of Rehabilitation Services as an innovative approach could be a model to other agencies. Their report includes statistics showing improvement and which success factors contributed to them such as easily observed milestones, use of higher fees for "highly challenged" areas, and a creative negotiation process.

The [State of Delaware](#), [Hennepin County, Minnesota](#), the [Lower Rio Grande Valley Workforce Development Board](#), [Palm Beach County Workforce Development Board](#), the [State of Wisconsin](#), and [San Diego County](#) are among six sites that have significant experience and diverse approaches to contracting out TANF services (McConnell, et. al. 2003).

A recent Press Release from Florida entitled "Governor's Center for Efficient Government Introduces New Process to Manage State Procurement & Contracting" presents a process for ensuring that all government contracts are now performance-based. The "Gate Process" was designed to provide a more transparent and deliberate review of state contracts with private entities (www.myflorida.com).

Martin (2002) provides several case examples of innovative approaches to PBC. Among them are the [Illinois Department of Children and Families](#) (PBC using workload manipulation to increase contractor performance); [Oklahoma Rehabilitative Services](#) (employing individual client milestones); and the [Metropolitan Government of Nashville and Davidson County, Tennessee](#) (PBC for change management services that uses "share-in-savings" and partnering that enables both the contractor and public employees to share in the cost savings).

V. NEXT STEPS

Following a brief facilitated discussion with SACHS directors at the August 2004 meeting, SACHS staff will identify additional interest in the topic as well as check with directors on inviting a guest speaker(s) to a future meeting. The following speakers were suggested:

- ▶ Jack Pellegrino, Deputy Director, Agency Contract Support, San Diego County Health and Human Services Agency
- ▶ Carl De Maio, President and Founder, The Performance Institute (www.performanceweb.org)
- ▶ Jacob Klerman (Rand, Inc.) NOTE: San Diego HHSA is awaiting the results of Rand's CalWORKs Statewide Evaluation Report (due 9/04).

Performance-Based Contracting Survey
July 2004

| | | |
|---|--|--|
| Respondent: _____ <small align="center">Name</small> | / _____ <small align="center">Title</small> | / _____ <small align="center">County Agency</small> |
|---|--|--|

1. Has your county implemented Performance Based Contracting (PBC)? Yes No
 a) If no, do you plan to implement PBC in the future? Yes No

2. Who is your agency's point of contact for Performance Based Contracting? *If you have multiple contact persons (e.g., for various program areas), please include contact information for each of those individuals.*

| | |
|--------------|--------------|
| Name: _____ | Title: _____ |
| Phone: _____ | Email: _____ |

3. Which program areas do you currently have Performance-Based Contracts in place? *(check all that apply)*
- CalWORKs
 - Child Welfare
 - Aging/Adult Services
 - Mental Health
 - Other: _____
(please specify)

4. What type of Performance Based Contracts have you implemented? *(check all that apply)*
- Fixed Price
 - Milestones Based
 - Other: _____
(please specify)

5. What background and qualifications do your contract monitors possess?
- _____
- _____

6. What have been the **major barriers** to implementing PBC in your county:
- _____
- _____

7. What have been the **results** of implementing PBC in your county:
- _____
- _____

8. Do you have any documents providing examples of how PBC has been implemented in your county that you are willing to share with other SACHS counties? (e.g., contracts, contract monitoring guides) Yes No *If yes, please mail them in along with your completed survey.*

Please send completed survey by Friday, July 16th, 2004 to Carrie Gibson at:
cgibson@projects.sdsu.edu / fax: (619) 594-1118
6505 Alvarado Road, Ste. 107, San Diego, CA 92120
Thank you for your time!

Performance-Based Contracting Survey Results

Table 1.
Implementation of Performance-Based Contracting

| County | Currently Using PBC | Plan to Use PBC |
|------------------|---------------------|-----------------|
| Imperial | | X |
| Los Angeles DFCS | X | |
| Los Angeles DPSS | X | |
| Orange | X | |
| Riverside | X | |
| San Bernardino | X | |
| San Diego | X | |
| Santa Barbara | X | |
| Ventura | X | |
| TOTAL | 8 | 1 |

Table 2.
Program Areas where Performance-Based Contracts have been Implemented

| | CalWORKs | Child Welfare | Aging/Adult Svs | Mental Health | Other |
|------------------|----------|---------------|-----------------|---------------|-----------------------------------|
| Imperial | | | | | |
| Los Angeles DPSS | X | | | | IT Deliverable Contracts |
| Los Angeles DCFS | | X | | | Foster/Group Home Placement |
| Orange | X | X | X | | Families and Communities Together |
| Riverside | | | | | IT Deliverable Contracts |
| San Bernardino | X | | | | |
| San Diego | X | X | | | Juvenile Diversion |
| Santa Barbara | X | | | | Workforce Investment Act Youth |
| Ventura | X | X | X | | Workforce Investment Act Youth |
| TOTAL* | 6 | 4 | 2 | 0 | 7 |

*of N=8 (only the agencies that use performance-based contracting)

Performance-Based Contracting Survey Results

Table 3.
Types of Performance-Based Contracts Implemented

| County | Fixed Price | Milestone-Based | Other |
|------------------|-------------|-----------------|-----------------------------------|
| Imperial | | | |
| Los Angeles DFCS | X | | State set placement rates |
| Los Angeles DPSS | X | X | |
| Orange | X | X | |
| Riverside | | X | |
| San Bernardino | | X | |
| San Diego | X | X | Fixed Core and Incentive Payments |
| Santa Barbara | X | X | Performance |
| Ventura | | | Performance Goals |
| TOTAL* | 5 | 6 | 4 |

*of N=8 (only the agencies that use performance-based contracting)

Performance-Based Contracting Survey Results

Table 4.
Background and Qualifications of Contract Monitors

| County | Response |
|----------------|---|
| LA DCFS | The Los Angeles County DCFS Children Services Administrator have significant experience in government contracting, most with Bachelors degree's, some with Masters. In addition most have previous experience in Contract monitoring. The Children Services Administrator work directly with the contractor as a consultant. This makes the relationship with the contractor seem more like a partnership. |
| LA DPSS | The Los Angeles County DPSS Contract Administrators (CA) have experience in government contracting, some with Bachelors degree's, some with Masters, although a degree is not required. In most instances, the CA manages the contract and conducts monitoring activities. This requires not only knowledge of State and County contract regulations/policies, but also, program policy and procedures which are required to monitor the contractors' performance. The CA must be experienced in writing reports, investigating problem areas, and evaluating effectiveness of services to cost. The CA has direct contact with the contractors to inform them of deficiencies discovered at monitoring visits and works collaboratively with the contractor to resolve contracting issues. |
| Orange | See supplemental documents. |
| Riverside | The Riverside County DPSS Contract Staff Analysts have significant experience in government contracting, most with Bachelors degree's, some with Masters. In addition most have previous experience in Contract monitoring. The Staff Analysts work directly with the contractor as a business consultant. This makes the relationship with the contractor seem more like a partnership. |
| San Bernardino | Contracts are monitored for program, fiscal, and contract compliance. Staff from the Transitional Assistance Department (Program Specialist II) monitor for program compliance. Staff from HSS Auditing (Accountant II) monitor for fiscal compliance Staff from the HSS Contracts Unit (Staff Analyst II) monitor for contract compliance. Please see attached job classifications. |
| San Diego | Contract Monitors are generally analysts with an average of five to ten years experience in contracts, service programs, finance or general administration. The majority possess bachelors degrees and some with master degrees. Over the past three years, considerable in-house and external training in contracting has been offered. All contract administrators are required to attend the County's Contracts Training Academy, which is a 40 hour program instructed by County functional experts [e.g. County Counsel, Purchasing & Contracting, and other senior executives]. This program was recently recognized by the National Association of County's for its innovation in improving government services. |
| Santa Barbara | Program knowledge and fiscal basics; typically a Department Analyst monitors contracts. |
| Ventura | All staff have either a Bachelor's or Master's degree with cumulative several years experience in writing and/or monitoring contracts. |

Performance-Based Contracting Survey Results

Table 5.
Major Implementation Barriers

| County | Response |
|----------------|--|
| LA DCFS | 1) Obtaining from the vendor acceptance on being measured on performance outcomes. 2) Establishing baseline. |
| LA DPSS | 1) Identifying performance measures for each contract. 2) Establishing a baseline for measuring, since each vendor/service is different. 3) How to measure performance for each type of unique vendors. 4) Getting vendors to understand and accept the PBC concept 5) Developing a payment structure that is performance-based. 6) Creating fiscal penalties based on non-compliance of contract requirements and not meeting performance standards. 7) State regulations do not allow flexibility to execute performance-based contracts and some of the services provided cannot be assessed by tangible measures. |
| Orange | The implementation of true performance-based contracting can be very labor intensive in assuring that case specific goals and outcomes are achieved in human services contracting over designated periods of time. For example, if in-home based services outcomes were to be tracked one (1) year after the case terminated, the likelihood of locating a transient population is extremely difficult. In addition, in order for community-based agencies to maintain the type and quantity of staffing needed to meet every day client service needs, which can be unpredictable, it is necessary to have cost reimbursement contracts. Incentives or other fixed fee payments would need to supplement the costs of the every day staff needs to allow services to commence within a very narrow window of time. The majority of clients served in human services programs have specific immediate needs. Many of these needs must be addressed immediately due to mandates. The majority of our human services contracts are cost reimbursement, with some fixed fee, and one with incentive provisions. |
| Riverside | 1) Selling the vendors on the concept of PBC, when most have no experience in this type of contracting. 2) How to deal with non-compliance based on PBC. (i.e., withholding payment). 3) How to measure performance for each type of unique vendors. 4) Establishing a baseline for measuring, since each vendor is different. 5) Resolving internal issues regarding the process on who will be approving the invoicing. |
| San Bernardino | Identifying meaningful measurable performance standards. It is not enough to include a deliverable of contacting 100 eligible clients. There has to be some measurable human gain. For instance, in TAD's education contracts there is a benchmark of having the ability to pass a proficiency test for the each topic. There are also benchmarks for obtaining and sustaining employment in a related field. |
| San Diego | 1) Lack of knowledge about PBSC. New terminology and contracting approach for contractors & county staff. Few examples of how to structure and RFP and contract 2) Anxiety that performance based contracting would favor only bigger or for profit organizations and negatively impact smaller Community Based Organizations [CBO's] 3) Concerns that a focus on cost effectiveness might reduce attention to quality services 4) Contractors not fully understanding their cost of doing business and being unable to establish what there costs are for specific programs |

Performance-Based Contracting Survey Results

- 5) Apprehension about whether the County will be really be able to operate in this new manner - contracting for results/outcomes verses process
 6) More effort up-front by all parties to learn and establish contracts in this new manner

| | |
|---------------|--|
| Santa Barbara | Board of Supervisors adopted a Privatization Criteria, which inhibits our ability to contract out services. There have been no major barriers. |
| Ventura | In the past there has been reluctance on the part of contractors, especially the public sector institutions, to engage in a “Performance-Based Contract” due to the risk factor of non-performance leading to non-payment of expenses incurred. In addition, other contractors, especially non-profit groups have expressed concern over the monitoring and accounting process that draws resources away from the direct delivery of services. One minor barrier, subsequently resolved was getting agreement from all parties on the specific quantifiable measurement goals to include in the contract reflective of performance objectives. |

Table 6.
Results

| County | Response |
|----------------|--|
| LA DCFS | In the process of developing data collection tools to monitor actual performance. |
| LA DPSS | 1) Goals of the program are met. 2) Payments are authorized for services provided/deliverables achieved 3) Contractors are held to the performance standards established in the contract. |
| Orange | We have developed workload standards, budget tracking tools, and other case review documents that will yield qualitative and quantitative information on contractor performance. This allows program and contract staff to review service delivery issues and develop appropriate strategies. (See supplemental documents for: an in-office counseling stat form for Olive Crest Treatment Center that allows tracking of contract workload standards; CFS (Children & Family Services) Utilization Review for FY03-04 form used to gather qualitative information on service delivery; and Family Self-Sufficiency invoice assignments and charges forms used to track expenditures compared to actual allocation (both blank and filled-in forms provided as samples). |
| Riverside | N/A. Projected results; getting more for budgeted dollars and ultimately reducing cost. |
| San Bernardino | Contracts are more easily monitored for compliance. Contractors are more aware of performance measures. Less confusion between what services are needed by the Department and what is required of the Contractor. |
| San Diego | CalWORKs Welfare-to-Work contracts have demonstrated that these complex services can be effectively contracted and managed under a performance-based methodology. Contractors have achieved most goals and have been compensated for the achievements through milestones and incentive payments. Also, preliminary results from both the Child Assessment Network- North (CANN) and the Juvenile Diversion Programs indicate that PBSC contracts is a workable model for these programs. |

Performance-Based Contracting Survey Results

In April 2004, CalWORKs Welfare-to-Work and Child Assessment Network-North (CANN) were recognized by The Performance Institute for innovative management practices in their approach and implementation of performance-based contracting.

- Santa Barbara The results have been very good, and have allowed contractors to receive bonuses. Also, pertaining to renewals, contracts have either been renewed or not renewed as a result of meeting performance measures. In cases of a 10% holdback clause, the funds have either been forfeited or released.
- Ventura Both Contractor and agency staff responsible for the utilization of the service are developing a better appreciation of the objective and focus of the contracted activities as a result of the use of measurable performance expectations in the contracts. Program staff from each division have been identified to be a “Contract liaison” to provide ongoing feedback to monitors and fiscal staff on specific issues affecting program operation, including approval of invoices. The result is a process that is more quality results-oriented.

Performance-Based Contracting Supplemental Documents

The following supplemental documents were submitted by SACHS counties and are available upon request:

Los Angeles County Department of Children and Family Services

- ▶ Group Home Foster Care Services Request for Statement of Qualifications (available online at: <http://camisvr.co.la.ca.us/lacobids/BidLookUp/BidLookUpFrm.asp> (Search by BID #: CMS-04-003))

Los Angeles County Department of Public Social Services

- ▶ Family Self-Sufficiency Contract (including Statement of Work, Performance Requirements Summary Chart, and Monthly Management Report)
- ▶ Contract Monitoring Policy and Procedures
- ▶ Sample Contract Monitoring Reports (fiscal, administrative, and services monitoring)
- ▶ Contract Monitoring Information Form
- ▶ Quality Assurance Monitoring Plan (Contract Between DPSS and Child and Family Guidance Center) (including Performance Requirements Summary Chart)

Orange County Social Services Agency

- ▶ Job Descriptions for Contract Monitors
- ▶ Contract Services Report (In-Office Counseling Services)
- ▶ Utilization Review
- ▶ Family Self-Sufficiency Contracts: Invoice Assignments and Charges, Cumulative Monthly Expenditures Compared to Cumulative Monthly Budget Amount
- ▶ Privatization Services Budget versus Actual Expenditures Invoiced by Contractor

Riverside County Department of Public Social Services

- ▶ Contract Monitoring Procedures including:
 - Sample DPSS IT Professional Services Contracts
 - Contractor Payment Request Form
 - Work Order Form
 - Board Letters regarding Information Technology Contracts
- ▶ Program Monitoring Guidelines including:
 - Program Monitoring Review Form
 - Contract Monitoring Checklist
 - Sample Monitoring Report
 - Monitoring Report Log

San Bernardino County Human Services System

- ▶ FAS Standard Contract with Chaffey Adult School (for ABE, ESL, & GED Training)
- ▶ Job Descriptions for Contract Monitors (Program Specialist II, Accountant II, Staff Analyst II)

San Diego County Health and Human Services Agency

- ▶ CalWORKs Welfare-to-Work Program Monthly Progress Report (including objectives and pay points)
- ▶ Contract Agreement with New Alternatives, Inc. for The Child Assessment Network - North including
 - Fiscal Terms and Conditions (pay points, performance outcome incentive payments)

Performance-Based Contracting Supplemental Documents

- Performance Work Statement (objective, scope of work, performance/outcome requirements, incentive payments)
- ▶ Contract Training Academy (topics, objectives and schedule)

Bibliography and Article Summaries

Note: Click on article name to view article summary (attached) or click on web address to view full article online.

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- United States General Accounting Office. (March 1997). [Privatization: Lessons Learned by State and Local Governments](#). <http://frwebgate.access.gpo.gov/cgi-bin/useftp.cgi?IPAddress=162.140.64.21&filename=gg97048.pdf&directory=/diskb/wais/da/ta/gao>

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Designing a Performance-Based Competitive Sourcing Process for the Federal Government

DeMaio, C., Moore, A., and Badolato, V. (October 2002). Designing a Performance-Based Competitive Sourcing Process for the Federal Government. Reason Foundation and Performance Institute. <http://www.performanceweb.org/pi/research/ps299.htm>

- A. In 2002, The Reason Foundation and the Performance Institute solicited ideas for changing the process for competing and outsourcing commercial activities in the federal government. They sought input from:
- a. government contracting officials from defense and civilian agencies
 - b. federal labor unions
 - c. private industry
 - d. good-government groups and organizations
- B. This report presents 37 of the most feasible and often-suggested ideas generated throughout the project. The Executive Summary includes these 10 as examples:
1. Create Three Paths to Competition, One Using a New Vehicle for Competition through an Employee Conversion Organization (ECO):
 2. Focus on Managing Competitions by Function
 3. Provide Transparent and Accurate Data for Cost and Performance Achievement of Contract Winners
 4. Create a Competition Corps
 5. Allow Agencies to Keep Savings from Competitions
 6. Provide for Transition of Benefits for Outsourced Employees
 7. Require Measurable Outcomes of Competitive Sourcing
 8. Expand Accessibility of Information on Agency Commercial Activities
 9. Rename A-76 to Communicate Change
 10. Communicate the Purposes of the Administration's and Each Agency's Competitive Sourcing Program

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Performance-based Contracting in Government

DeMaio, C. (Date not specified). Performance-based Contracting in Government. Performance Institute. http://www.performanceweb.org/contracting/presentations/03-12_demaio.ppt

- I. What makes a contract performance-based
 - a. Soliciting bids based on the results you want achieved rather than activities conducted.
 - b. Defining clear performance expectations and measures.
 - c. Clearly defines due dates and milestones.
 - d. Providing incentives for performance.
 - e. Granting flexibility in exchange for accountability in results.
 - f. Monitored to ensure performance is being achieved.

- II. Different uses of measures in contracts and grants
 - a. Statement of Work/Request for Proposals- Measures that clarify what is expected of the contractor or grantee
 - b. Basis for benchmark and comparison- Compare different contractors and grantees to share best practices and create a race to the top
 - c. Incentive structure for improved results- Tying payments to milestones

- III. Lessons Learned: Pitfalls
 - a. Too many measures
 - b. Wrong kinds of measures
 - i. Too process oriented
 - ii. No clearly defined logic model
 - iii. No measures of strategy
 - iv. Few measures of end outcome
 - c. “Dumbing-down” of Measures (measuring only things you can count rather than things that are strategically important)
 - d. Cultural resistance to outcome focus- we need to be accountably and responsible for outcomes

- IV. Performance Measure Criteria
 - a. SMART
 - i. Specific
 - ii. Measurable
 - iii. Accountable
 - iv. Results-Oriented
 - v. Time-Bound

- V. Seven Steps to using the Performance-Based logic model
 - a. Establish the contracting team
 - b. Identify the scope and anticipated end outcomes
 - c. Examine private-sector and public sector solutions
 - d. Select performance measures
 - e. Develop a PWS or SOO
 - f. Select Contractor
 - g. Monitor and Manage performance

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- VI. Benefits of Performance-Based Contracting
 - a. OFPP 1998 study of PBSCs:
 - i. Reduced costs by 18%
 - ii. Increased customer satisfaction scores by 15%
 - b. Specific Case studies
 - i. CA Earthquake repair
 - ii. Jersey water system
 - iii. OK Rehabilitative Services
 - iv. NC Adoption Program
 - v. IL Foster Care Management

- VII. Critical Success Factors for designing a performance-based contract
 - a. Strategic and Program logic for the agency is clear
 - b. Clearly define the scope of work and what performance measures will be used
 - c. Canvass providers/contractors
 - i. What measures will they propose?
 - ii. What incentives would they want? How?
 - iii. How would they want to report performance data?
 - d. Define your baseline and what level of performance is expected
 - e. Include provisions for flexibility and incentives- and make sure you can afford the incentives
 - f. THEN: Craft a performance-based statement of work and begin contractor selection
 - g. Include mechanisms for measurement, reporting, monitoring and contractor feedback
 - h. Define a system for revisions and reconciling deviations in expected performance
 - i. Consider a transition period “hold harmless” clause

- VIII. Critical success factors for managing a performance-based contract
 - a. Monitor performance with regular reporting
 - b. Adjust!
 - i. Identify changes in external factors that will impact performance
 - ii. Devise corrective action plans for deviations
 - iii. Benchmark and compare, Analyze for next steps
 - iv. Revise performance targets to continue the push for gains
 - c. Provide comparative performance data to contractors: create a race to the top culture
 - d. Communicate and reward success

- IX. Developing a Statement of Objective (SOO)
 - a. Propose work to be performed in technical proposal and submit cost proposal, along with key performance indicators for contract management

Bibliography and Article Summaries

Managing for Outcomes: Milestone Contracting in Oklahoma

Frumkin, P. (January 2001). Managing for Outcomes: Milestone Contracting in Oklahoma. The PricewaterhouseCoopers Endowment for the Business of Government. <http://www.businessofgovernment.com/pdfs/FrumkinReport.pdf>.

- I. Background and Problem Statement
 - a. A tension exists between:
 - i. Nonprofit Autonomy (having the freedom to experiment with new programs and service models)
 - ii. Public Accountability (having the need for a certain level of uniformity and consistency in the program it funds).
 - b. The tension is often resolved in one of these three ways:
 - i. The government refuse compromise to given decision making processes, fearing loss of accountability, uniformity and fairness
 - ii. The nonprofit either does not comply with mandates or foregoes funding
 - iii. They reach a compromise that results in less accountability and less autonomy and neither is satisfied
 - c. The challenge is to find an alternative that both to maximize both accountability and autonomy dimensions
 - i. One answer is to move away from process measures and towards outcomes
 - d. Under standard fee-for-service contracts, organizations are paid regardless of outcomes. Outcomes are rarely tracked and as a result, there are rarely positive results.
 - e. Pressure for greater efficiency led to Performance Based Contracting (PBC), a system that tracks the use of inputs, measures the outputs produced, and tracks the final outcomes.
 - f. The Government Performance and Results Act of 1993 standardized this approach and required organizations receiving federal money to create specific goals and then post their advancement towards these ends.
 - g. This places importance on accurate assessment and performance measurement
 - h. Outcomes measurement procedures are seen as a means of eliciting better accountability and more effective program evaluation, doubts about the approach persist:
 - i. Managers have seen the system not work. (ex. Organizations may avoid clients most in need of assistance and still receive payments)
 - ii. "Gaming"- taking actions that increase payouts from incentive contracts without actually improving performance
 - iii. For some organizations, moving to outcome funding requires a major change in program and logistics and can be stressful. Also the culture and mission (often rooted in values and beliefs) of an organization may be too far removed from the chosen performance measures
 - iv. Cost, not quality, may become the deciding factor
 - v. Outcome funding can plan personnel and human resource demands on nonprofits
 - i. An experiment in Oklahoma is an example of what a well-functioning , outcome-based system might look like
- II. The Oklahoma Milestone Payment System (MPS)

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- a. Reimburses nonprofits when clients reach a series of steps along the way to getting a job.
 - b. Easily observed milestones include indicators such as:
 - i. Job retention
 - ii. Wages
 - iii. Employer and client satisfaction
 - c. Nonprofits are reimbursed for average cost of providing the outcome of service rather than actual cost of staff time. Roughly:
 - i. Determination of Need (10%)
 - ii. Vocational preparation (10%)
 - iii. Placement (10%)
 - iv. Four-week job training (10%)
 - v. Ten-week job retention (15%)
 - vi. Stabilization (20%)
 - vii. 26 Closure- employment for 17 weeks plus 90 days (25%)
 - d. Only paid once for each milestone to encourage good matches
 - e. Paid higher fees for those designated as “highly challenged”
 - f. Nonprofits’ process of developing a bid proposal
 - i. Develop a budget that includes estimates of number clients they will serve and number of staff they will need
 - ii. Formula= average cost per closure from previous year X estimated number of closures for contract year
 - g. DRS evaluates bids, then negotiates with nonprofit to arrive at a reasonable bid
 - h. MPS has been a success by these three measures (report contains specific examples and statistics):
 - i. Increased achievement of the core outcome- to place disabled people into stable jobs in their community
 - ii. Satisfaction of clients, employers, counselors and job coaches
 - iii. Reduction in the need for regulation and oversight
 - i. Concerns and how MPS addressed them
 - i. Emphasis on outcomes may force nonprofits to provide lesser quality
 - 1. MPS made nonprofits responsible for the outcomes (not the agency) thus demanding they provide quality services or be penalized
 - ii. Outcomes will lead nonprofits to screen clients more carefully for those who are most likely to succeed, “creaming”.
 - 1. MPS created a two-tiered structure of reimbursements that gave nonprofits a monetary incentive not to discriminate against hard-to-serve clients
 - j. Organizations that succeeded in the MPS had strong managers and effective job coaches
- III. Lessons Learned
- a. Design Stage
 - i. Collaborate with nonprofits in the initial design of milestones
 - ii. Use a small number of milestones and use simple reporting forms
 - iii. Shape incentives to avoid creaming
 - b. Implementation Stage
 - i. Help nonprofits make the shift from fee-for-service systems to outcomes
 - ii. Be flexible and revisit milestones once a system is in operation
 - iii. Study effective programs and disseminate best practices for achieving outcomes

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Can Business Really do Business with Government?

Goldsmith, S. (May 1997). Can Business Really do Business with Government? Harvard Business Review.
http://harvardbusinessonline.hbsp.harvard.edu/b01/en/common/item_detail.jhtml?id=97303.

- I. Indianapolis, Indiana has been at the forefront in government efficiency.
 - a. More than 70 services opened to competitive bidding since 1992
 - b. Reduced operating budget by 7%
 - c. Cut taxes twice
 - d. Reduced non-public-safety workforce by 40%
 - e. Increased public safety budget by 20%, even as total budget decreased

- II. The mayor of Indianapolis (author of article) offers seven guidelines for success:
 - a. How the private sector can create a climate for innovation within local governments
 - i. Help government identify its business units and their costs
 1. Indianapolis hired an accounting firm to assist in moving to activity-based costing and to train government staff how to do it.
 2. Entrepreneurial members of the business community were recruited to identify every business that city government was in and find opportunities to open up services to competition.
 3. Once costs are known, the private sector can demonstrate their ability to provide services at savings to the municipality.
 - ii. Tear down the wall between public and private
 1. Though public services can have a private counterpart, an artificial barrier exists in the way both sides think of it. This barrier inhibits innovation and opportunity.
 2. Don't benchmark public activities against only other public activities. This may not be a true picture of efficiency.
 3. Many consulting firms perpetuate this barrier because they too think about public and private services differently.
 - b. Types of opportunities to improve government services and suggestions on how to make the sale
 - i. Question Government RFPs
 1. The best results have occurred when businesses used their expertise to offer new ideas rather than to perform the same old tasks with marginally improved efficiency.
 - ii. "Sell the Hamburger, not the Cow"
 1. Government managers tend to think of things in terms of inputs.
 2. Both parties benefit when government purchases outputs instead of inputs. Government can purchase the private sector's creativity and management experience.
 3. Example of the city of Indianapolis' social service providers: they were told that the city would pay for performance instead of giving bulk funds. America Works (a for-profit company) accepted the challenge and tailored its services according to each client's needs. Now the company reports increased revenues, showing that their focus on outputs (in this case lasting jobs secured for people on welfare) is successful.
 - iii. Seek out untapped sources of nontax revenue

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1. The skills of the private sector can help this effort, including expertise in billing, collections, and customer service.
 2. The private sector can identify revenues where the government may see only expenses.
 3. Creative businesses can share in the earnings if they help the government provide more attractive services.
- c. Political hurdles of public/private partnerships
- i. Reduce the political risk for your customer
 1. The private sector should take time to understand the political environment and phrase proposals for business in a manner that's attractive to the government (i.e. "Cost savings from our service will keep 20 extra police officers on the street").
 2. If a company wants to win over the voters, and therefore have a better shot at doing business with the government, it should guarantee results.
 - ii. Address the fate of "downsized" employees
 1. Public employees can do similar jobs in the private sector.
 2. Private companies can bargain with public-employee unions.
 3. Questions for business to ask and address publicly when considering privatization
 - a. Can we hire the displaced workers to continue doing some of the jobs?
 - b. Can we offer them positions in another part of our company?
 - c. Can we fund job-placement and job-training services for them?
 - d. Can we and the local government fund a temporary job bank that uses displaced workers in a constructive way until attrition creates openings in other government agencies or in our company?

Bibliography and Article Summaries

Key Steps in Outcome Management

Lampkin L. & Hatry, H. (May 2003). Key Steps in Outcome Management. The Urban Institute.
http://www.urban.org/UploadedPDF/310776_KeySteps.pdf.

This is the first of a series of guidebooks covering the steps for nonprofits that wish to implement outcome management.

- I. Introduction
 - a. Characteristics of a nonprofit who can successfully implement an outcome management process:
 - i. Leadership support
 - ii. Commitment of time and staff resources
 - iii. Program stability
 - iv. Computer capability

- II. Setting Up
 - a. Step 1: Select programs to include
 - i. each different program will need its own outcome indicators and measurement procedures
 - ii. An incremental approach could make implementation easier
 - b. Step 2: Determine who will be involved in developing the process and how
 - i. Establish a working group to work out details and oversee implementation
 - c. Step 3: Establish an Overall Schedule for development

- III. Deciding what and how to measure
 - a. Step 4: Identify the Program's mission, objectives and clients
 - b. Step 5: Identify the Outcomes of the Program
 - i. Should be as specific as possible
 - ii. Examine outcomes used by similar programs
 - iii. Talk to program staff
 - iv. Hold focus groups with current and former clients
 - v. Use outcome sequence charts ("logic models") which diagram the steps: inputs→activities→outputs→outcomes
 - c. Step 6: Select specific indicators to measure the outcomes
 - i. Criteria are feasibility and cost of measurement
 - ii. Consider the source of data and the likely data collection procedure
 - d. Step 7: Select data sources and data collection procedures for each indicator
 - i. Soliciting advice from local faculty/consultants is helpful
 - ii. Data sources should include:
 1. Organizational records or records from other similar organizations
 2. Client or customer surveys obtaining information such as:
 - a. info on clients' behavior/condition, clients' perception on degree of improvement since entering program
 - b. ratings of service timeliness, accessibility of service staff and facility, condition and safety of facilities
 - c. ratings of staff competency and courtesy
 - d. overall satisfaction with services
 - e. reasons for any poor ratings
 - f. suggestions for improvement
 3. Ratings by trained observers (ex. Clients' ability to perform activities of daily living)

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4. Test of clients (usually of knowledge)
 5. observations using equipment, such as chemical tests to track quality of water and air
- e. Step 8: Identify key client and service characteristics to link outcome information
 - i. Gender
 - ii. Age
 - iii. Ethnicity
 - iv. Income
 - v. Type of disability
 - vi. Education
 - vii. Housing
 - viii. Specific office/facility
 - ix. Caseworker
 - x. Characteristics of service, such as type and amount
 - f. Step 9: Pilot test the procedures, make needed modifications, and implement
- IV. Analyzing the Outcome Information
- a. Step 10: Examine the outcome data
 - i. Use breakout groups and aggregate data
 - ii. Compare to benchmarks such as:
 1. most recent data to those of previous time period
 2. targets established for each outcome indicator for the time period
 3. outcomes by characteristics of each group (i.e. males to females)
 4. outcomes for different facilities, if appropriate
 5. outcomes by individual caseworkers
 6. outcomes by service delivery
 - iii. Use data to set outcome targets for the future (and modify as the program gains experience). Consider:
 1. outcome data from previous reporting periods
 2. expected budget and staffing levels
 3. the range of recent outcome values reported among the various customer groups, offices and caseworkers
 4. external factors (i.e. predicted changes to economy or demographics)
 5. changes in the program's procedures
 - b. Step 11: Report the Findings
 - c. Step 12: Seek Explanations for Unusual or Unexpected Findings
 - i. Those that seem unusually negative or positive
 - ii. Ask staff for their interpretation on unexpected outcomes
 - iii. Form a small working group to investigate
 - iv. Convene a client focus group
 - v. Recruit an outside organization to study the outcomes
- V. Using the Results
- a. Step 13: Use the Outcome Information to Improve Services
 - i. Identify where improvements are needed
 - ii. Determine how effectively program modifications improved services
 - iii. Motivate staff to strive for service improvements
 - iv. Identify offices and staff that have performed well
 - v. Encourage innovation
 - vi. Improve fundraising and community relations by including outcome information in communications

Bibliography and Article Summaries

Performance Contracting in the Human Services: An Analysis of Selected State Practices

Martin, L. (2000). Performance contracting in the human services: an analysis of selected state practices. *Administration in Social Work*. 24(2), 29-44.

- I. A consensus definition of performance contracting:
 - a. Focuses on the outputs and outcomes of service provision and may tie contractor payment and contract extension to their achievement
 - i. Output- activity, effort and physical quantity of service provided
 - ii. Outcome measure- the results of a program as compared to its intended purposes
 - b. Applied to human service programs:
 - i. Output- a measure of service volume (the amount of service or product produced by a program and the number of clients that complete treatment or receive a full complement of services)
 - ii. Outcome- the results, accomplishments or impacts of a human service program
 - c. Performance contracting should be distinguished from "incentive contracting": Incentive contract attempts to minimize costs by the use of incentives and penalties.
 - i. Some incentive contracts attempt to reduce costs by reducing inputs (e.g. decreasing the number of staff or clients served) or by altering the service delivery process (e.g. redefining the service, or reducing service quality) without considering performance.

The Systems Model and Performance Measures/Standards Applied to Human Service Programs
Figure 1.

The Systems Model and Performance Measures/Standards Applied to Human Service Programs

| INPUTS | PROCESS | OUTPUTS | OUTCOMES |
|--|--|---|--|
| Input Measures & Standards | Process Measures & Standards | Output Performance Measures & Standards | Outcome Performance Measures & Standards |
| <ul style="list-style-type: none"> - staff - facilities - equipment - funding - clients | <ul style="list-style-type: none"> - service definitions - work statements | <ul style="list-style-type: none"> - service volume (units of service) - service (client) completions | <ul style="list-style-type: none"> - numeric counts - standardized measures - LOF scales - client satisfaction |

Numeric counts = simple counts of the number of clients that achieve a successful outcome.

Standardized measures = validated and normed scales used in pre-post test fashion.

Level of functioning (LOF) scales = agency specific, and frequently unnormed, measures of client/family functioning used in a pre-post test fashion (also called rapid assessment instruments).

Client satisfaction = the use of client satisfaction surveys.

Adapted from: Elkin and Molitor (1985/86); Kuchler, Velasquez, and White (1988); Martin and Kettner (1996); United Way of America (1996).

Bibliography and Article Summaries

- I. Inputs
 - a. Input Measures & Standards
 - i. Staff
 - ii. Facilities
 - iii. Equipment
 - iv. Funding
 - v. Clients
 - II. Process
 - a. Process Measures & Standards
 - i. Service definitions
 - ii. Work statements
 - III. Outputs
 - a. Output Performance Measures & Standards
 - i. Service volume (units of service)
 - ii. Service (client) completions
 - IV. Outcomes
 - a. Outcome performance measures & standards
 - i. Numeric counts (number of clients that achieve a successful outcome)
 - ii. Standardized measure (validated and normed scales used in a pre-post test fashion)
 - iii. LOF scales (level of functioning scales= agency specific, frequently unnormed measures of client/family functioning used in a pre-post test fashion). Also called rapid assessment instruments.
 - iv. Client satisfaction (use of client satisfaction surveys)
- II. Current Interest in Performance Contracting= a result of changes in the view of accountability in human services contracting that have occurred over last three decades. Brief view of the history of human services contracting:
- a. During the formulative years of human services contracting (1968-79), accountability was seen primarily in input terms. I.e. contractors were monitored to ensure that qualified staff were hired, necessary facilities/equipment were acquired and as many eligible clients as possible were served.
 - b. 1980's "maturing years", accountability was seen initially in:
 - i. process terms (refer to model in figure 1). Human services agencies began standardizing the process of contract service delivery. Service definitions and work statements were developed and state monitoring was primarily concerned with ensuring that contractors provided services accordingly.
 - ii. Was later seen in output terms. The concern with standardization was extended to service "outputs". Contractors became accountable for providing specific amounts of service (measured in terms of "units of service"). Human service agencies transitioned from cost reimbursement contracts to unit cost contracts..
 - c. 1990's "the performance years", various initiatives all combined to force state human service agencies to view accountability in terms of performance.
- III. Examples of State Human Service Agency Performance Contracting. These examples were chosen because they moved beyond the experimental stage and are beginning to institutionalize performance contracting. Note: See article for listing for each state of some of the actual performance measures/standards used (i.e. "At least 90% of adoptive placements shall be finalized within 12 months of the placement date")

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- a. Florida Department of Children and Families (Florida DCF)
 - i. Has established the policy that “all contracts entered into by the department shall contain a set of measurable and objective performance standards by which the contract provider’s performance will be evaluated”.
 - ii. Intends to assess the extent to which contract services contribute to the achievement of desired departmental outcomes and promote the efficient use of departmental funds.
 - iii. Placed all its contractors on notice that failure to accomplish agreed upon performance standards may lead to contract termination.
 - iv. Spent several years preparing for the change to performance contracting (officially occurred in 1997): trained staff and tried/refined various performance measures
 - b. Maine Department of Human Services (Maine DHS)
 - i. Maine DHS changed to performance contracting as a result of a 1994 legislature and didn’t have much time to train staff, etc.
 - ii. In 1997, Maine converted 18 department programs to performance contracting, with the rest transferring in 1998.
 - iii. The first two years, current contractors were “held harmless”, meaning that no contracts were canceled due to failure
 - c. Kansas Department of Social & Rehabilitative Services (Kansas SRS)
 - i. In an attempt to reach a settlement to a law suit, Kansas SRS contracted family preservation, adoption and foster care services statewide to non-profit community based organizations.
 - ii. Uses performance contracting with a “capitated” payment approach: contractors are paid a one time flat fee for each child served.
 - iii. Contractors must meet stringent performance measures/standards. These standards were piloted in 1997, then revised in 1998.
- IV. Observations/Speculations
- a. More agreement exists today in terms of what constitutes performance contracting.
 - b. Performance contracting is alive and well in at least the above three states.
 - c. Contractors are being held financially accountable for their performance.
 - d. Using the terms of Figure 1 “Systems Model” above, mostly outcome measures/standards are being used and not output measures/standards. Also, in terms of outcome measures/standards, “numeric counts” and “client satisfaction” are preferred.
 - e. More state agencies are likely to move towards performance contracting if the performance of these three states proves successful.

Bibliography and Article Summaries

Making Performance-based Contracting Perform: What the Federal Government Can Learn from State and Local Governments

Martin, L. (2). (2002). Making Performance-Based Contracting Perform: What the Federal Government Can Learn from State and Local Governments. The IBM Endowment for the Business of Government. <http://www.businessofgovernment.com/pdfs/Martin2Report.pdf>.

- I. Key Characteristics of the Federal Procurement Environment
 - a. General acceptance of privatization and contracting out
 - i. It has become less of a challenge *to* public administration and more of a challenge *for* them.
 - b. Increasing importance of service contracting- due to growth in contracting of services primarily in:
 - i. IT services
 - ii. Professional, administrative and management support services
 - c. Human capital crisis in federal procurement
 - i. There's a skill imbalance between the current federal workforce and the needed skills of the future federal workforce
 - ii. Will lose skills and knowledge with the retirement of baby-boomers
 - d. The Government Performance and Results Act (GPRA)
 - i. Agencies must annually report performance in all programs
 - ii. Required to establish performance indicators to measure outputs and outcomes
 - iii. This act hasn't yet permeated all aspects of federal administration and the GPRA must provide the foundation and framework for everyday business of the federal government
 - e. Federal performance-based contracting initiatives
 - i. OFPP had a successful experiment with PBC and the OMB has now established a goal of making 20% of federal service contract dollars over \$25K performance based during 2002.
 - ii. The Procurement Executives Council has established a goal of making 50% of all service contract dollars performance based by 2005.

- II. PBC: The Federal Perspective
 - a. PBC objective is to change the behavior of contractors to focus more on performance
 - b. Essential elements of PBC:
 - i. Performance requirements
 - ii. Performance standards
 - iii. Quality assurance plan
 - iv. Positive and Negative incentives
 - c. Problems:
 - i. Definitional Confusion
 - ii. Failure to link PBC more closely with GPRA
 - iii. "One size fits all" approach
 - iv. Preference for design considerations over performance considerations

- III. PBC: The State and Local Perspective
 - a. The Service Efforts and Accomplishments Reporting Initiative (SEA) has created a system of performance accountability.

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- i. A multidimensional concept focusing on outputs, quality and outcomes.
 - b. States and localities have greater freedom to experiment and innovate with PBC due to fewer policies, procedures and guidelines.
- IV. Case Examples of Agencies with innovative approaches to PBC
 - a. Metropolitan Government of Nashville and Davidson County, Tennessee: PBC for change management services using share-in-savings and partnering whereby the contractor and public employees share in the cost savings.
 - b. Washington State Lottery: PBC for advertising services with the contractor's fee tied to lottery sales.
 - c. Arizona Dept of Economic Security: PBC for job training and placement services with indefinite performance where the contractor's compensation and performance standards are tied to the performance benchmarks of another provider.
 - d. DeKalb Co, Georgia: PBC with independent third party performance requirements and monitoring.
 - e. Charlotte, NC: PBC with step-up/step-down incentives and penalties.
 - f. Oklahoma Rehab Services: PBC for individual client milestones.
 - g. Pinellas County, Florida: PBC with penalties for incomplete service data.
 - h. Metro (Portland, Oregon) Exposition-Recreation Commission: PBC using goals and an incremental/development approach.
 - i. Illinois Dept of Children and Families: PBC using workload manipulation to increase contractor performance.
 - j. Ontario, Canada Realty Corporation: PBC with floating incentives and penalties.
- V. Lessons Learned
 - a. PBC at the state and local government levels differs considerably from the federal level.
 - b. PBC at the state and local government level defines performance as consisting of outputs, quality outcomes or any combinations thereof.
 - c. PBC at the state and local government level involves varying degrees of being performance-based.
 - d. PBC at the state and local government level challenges the notion that there is one best way to do PBC.
 - e. PBC at the state and local government level includes share-in-savings contracting , revenue enhancement contracting, and milestone contracting.
 - f. PBC at the state and local government level makes frequent use of incentives and penalties regardless of mission criticality or the dollar values of the contract.
 - g. The manipulation of workload can change the behavior of contractors to focus more on performance, exclusive of other PBC considerations.
 - h. The adoption of "floating" incentives and penalties is a useful approach when a performance-based contract contains numerous important performance requirements.
 - i. Third party certification is a low-cost and highly reliable approach to quality assurance and monitoring.
 - j. The step-up/step-down method is a useful approach to structuring incentives and penalties.
 - k. Contracting for non-specific performance is a creative approach to structuring PBC that may be useful in at least some situations.
- VI. Recommendations to the OFPP to revise guidance for federal governments

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- a. Make federal PBC more compatible with framework/language of GPRA and the SEA.
- b. Operationally define performance as including outputs, quality, outcomes or any combination thereof.
- c. Recognize that varying degrees of being performance based can exist.
- d. Include share-in-savings, revenue enhancement and milestone contracting as recognized forms of PBC.
- e. Adopt third-party certification as an acceptable optional approach to quality assurance and monitoring.
- f. Promote the use of step-up/step-down method for structuring incentives and penalties in PBC.

Bibliography and Article Summaries

Privatization in Practice: Case Studies of Contracting for TANF Case Management

McConnell, S., Burwick, A., Perez-Johnson, I., Winston, P. (March 2003). Privatization in Practice: Case Studies of Contracting for TANF Case Management. Mathematica Policy Research, Inc. <http://www.mathematica-mpr.com/publications/PDFs/privatize.pdf>.

- I. Introduction
 - a. Study Goals:
 - i. To describe key decisions and activities undertaken in privatizing TANF case management
 - ii. To document the lessons learned in the study sites from their experiences privatizing TANF case management
 - b. Six sites that have considerable experience and varied approaches to contracting out TANF services were studied. Site and type of contract:
 - i. State of Delaware- pure pay-for-performance
 - ii. Hennepin County, Minnesota- cost reimbursement
 - iii. Lower Rio Grande Valley Workforce Development Board- hybrid of cost reimbursement and pay-for-performance
 - iv. Palm Beach County Workforce Development Board- one contract pure pay-for-performance and one fixed price
 - v. San Diego County, California- hybrid of fixed price and pay-for-performance
 - vi. State of Wisconsin- hybrid of cost reimbursement and pay-for-performance
- II. Rationale for privatization
 - a. Belief that it will lead to better and/or more efficient services because:
 - i. Competition may motivate
 - ii. Private agencies may be more flexible and motivated by performance standards
 - iii. Client choice may increase the likelihood of a good match between client and provider
 - b. Pragmatic and political factors:
 - i. add capacity to add new services quickly in response to welfare reform, without increasing size of government workforce
 - ii. existing public agency staff may lack necessary skills and mindset
 - c. Some sites already had a history of contracting out related services, so it seemed natural
- III. Deciding Size and Scope of Contracts
 - a. Two Models
 - i. Privatizing all TANF case management and processing functions including eligibility determination (Palm Beach County and certain counties in Wisconsin)
 - ii. Privatized only employment-related case management functions (Delaware, Hennepin County, Lower Rio Grande Valley, San Diego County)
- IV. Types of Contractors
 - a. National For-Profits (ex. MAXIMUS)
 - b. Affiliates of National Nonprofits (ex. Salvation Army Delaware Region)
 - c. Local and Regional Nonprofits (ex. Church of St. Stephen in Hennepin County)

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- V. Four factors that may increase competition
 - a. Using competitive rather than sole-source procurement
 - b. Reducing the advantage of the incumbent contractor
 - c. Increasing the pool of qualified potential bidders
 - d. Giving clients a choice of provider

- VI. Three basic steps of effective and fair procurements
 - a. Developing requests for proposals
 - b. Providing information and assistance to potential bidders
 - c. Evaluating proposals and selecting contractors

- VII. Designing Contracts that Work
 - a. Performance Measures
 - i. Outcome-based (i.e. employment, job retention, wages)
 - ii. Process oriented (i.e. number of enrollments, accuracy of referrals)
 - b. Payment Structure
 - i. Study sites used four different types:
 - 1. Pure pay-for-performance
 - 2. Cost-reimbursement
 - 3. Fixed-price
 - 4. Hybrids
 - ii. Incentives- pure pay-for-performance contracts offer the greatest incentives and motivation to contractors
 - c. Distribution of financial risk
 - i. Pure pay-for-performance- least risky for public agencies and most risky for service providers
 - ii. Cost-reimbursement- public agency has most of the risk
 - iii. Fixed-price- both share the risk
 - d. Cash flow- contractors can experience problems, especially with pure pay-for-performance contracts
 - e. Operational Challenges
 - i. Pay-for-performance and hybrid contracts require sophisticated data mgt. System
 - ii. Setting performance targets at an appropriate level that's high enough to motivate contractors and allow them to cover their costs, but not so high that the public agency pays more than the cost of service provision
 - f. Contract Duration- most study sites had 1-2 year contracts with chance for renewal.
 - i. Longer contracts- reduce potential for turnover, conserve resources, gives time to establish program model, improve service provision
 - ii. Shorter contracts- increase competition, allow public agencies to change the scope of work, give more chances to remove unsatisfactory providers

- VIII. Monitoring of basic standards:
 - a. Service quality and effectiveness- determining performance or measures
 - b. Policy Compliance- collecting documentation from clients, meeting standards for timeliness and justifying sanction decisions
 - c. Financial Integrity- focus on whether contractors bill for appropriate services and properly administer funding for subcontractors or client supportive service payments

- IX. Service Provision Management Issues
 - a. Coordinating eligibility determination when it is conducted by two different agencies

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- b. Aligning goals of public and private agencies
 - c. Ensuring a seamless transfer of clients so no one “falls through the cracks”
 - d. Promoting good working relationships between the staff at different agencies
- X. Lessons Learned
- a. Agencies must prepare to address the challenges of privatization
 - b. The procurement process must be fair and transparent
 - c. Contract design affects the level of competition
 - d. Performance Measures should be targeted, yet comprehensive enough to avoid unintended consequences
 - e. It is possible to design contracts that include performance incentives, but limit risk to contractors
 - f. Public agencies must dedicate resources to monitor the work of contractors effectively
 - g. Public and private agencies must find effective ways to coordinate services

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Privatization of Public Social Services: A Background Paper

Nightingale, D. & Pindus, N. (October 1997). Privatization of Public Social Services: A Background Paper. Urban Institute.
<http://www.urban.org/template.cfm?Template=/TaggedContent/ViewPublication.cfm&PublicationID=6213&NavMenuID=95>.

- I. Introduction: purposes of the paper are to provide a general overview of the extent of privatization of public services in the areas of social services, welfare, and employment; rationales for privatizing service delivery, and evidence of effectiveness or problems.
 - a. Key points drawn from a review of literature:
 - i. There is no single definition of privatization: for the purposes of this paper, privatization refers to the provision of publicly-funded services and activities by non-governmental entities
 - ii. Privatization is not a new concept
 - iii. The real issue is not so much public vs. private--it is monopoly vs. competition
 - iv. Privatization is not inherently good or bad--the performance or effectiveness depends on implementation
 - v. Privatization does reduce the number of public employees if services formerly performed in the public sector are shifted to the private sector
 - vi. It is still too soon to know whether the most recent and highly-publicized privatization efforts will be effective or not

- II. Current State of Privatization
 - a. There is an increased emphasis on competition and performance contracting and a focus on efficiency and customer service.
 - b. Organizations (i.e. the Reason Foundation) have been promoting privatization and providing advice and guidance on how to do it.
 - c. Welfare reform and other federal initiatives are encouraging more privatization.
 - i. One-Stop Career centers- encourages expanded use of vouchers and competitive selection of administrative entities.
 - ii. Child Support Enforcement- legislation encourages states to consider contracts with private companies
 - iii. Welfare Reform- increased requirements have led states to more seriously consider outside service contractors
 - iv. Employment and Training- has been a common model for delivering services
 - v. Child Welfare- privatization in this area expanded greatly in the 1970s and 1980s.

- III. Models of Privatization- one way to think about it is in two separate but related dimensions:
 - a. degree of market competition--ranging, for example, from open competition for all or public services, to government contracting for specific services
 - b. role of the public sector *vis a vis* other sectors--for example, government oversight of private services versus separate systems of services operated by government, for-profit and/or non-profit entities, versus public-private partnerships.

- IV. Effectiveness and Potential of Privatization
 - a. Arguments for Privatization:

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- i. Increased flexibility resulting from a reduction of bureaucratic complexity and procedures.
 - ii. Reduced costs resulting from improved efficiency, especially if there is a truly competitive process with clear performance criteria.
 - iii. Motivating factors:
 - 1. discontent with the performance of the public sector
 - 2. desire for more flexibility (e.g., personnel, operations, innovations)
 - 3. desire to reduce costs
 - 4. desire to "empower" service intermediaries (e.g., CBOs)
 - b. Arguments against Privatization
 - i. Major loss of public employee jobs
 - ii. Relinquishes public responsibility for public funds
 - iii. Weakens community ability to assert collective interests; decreases citizen participation in government
 - iv. High potential for fraud, financial conflicts-of-interest and cost-overruns
 - v. Any resulting cost savings are directed away from taxpayers and towards the contractor
 - vi. Threatens confidentiality of private information
 - vii. Financial conflicts of interest
 - viii. Increases temptation to reduce quality of services and "cream" the best clients to reduce costs and maximize profit.
 - b. Evidence of Effectiveness
 - i. Hatry study comparing public and private delivery of services, based on matched pairs of public and privately administered prisons as a case study found that while quality was somewhat higher in the private systems, cost results were mixed. Research findings on cost and quality of services may be biased in favor of private sector delivery because if there are no perceived problems with the public sector, there is little incentive to privatize. Also, if there is a shift in either direction, there is improvement.
 - ii. Impact on public employees
 - 1. Contracting out has caused shrinkage in the growth rate of the public sector work force
 - 2. Job loss in the government is generally offset by job gains in the private sector
 - 3. Layoffs of public employees due to privatization are uncommon
 - iii. There are successes and failures in all sectors- public, for-profit, and non-profit.
 - 1. Incentives are the determining factors
- V. Conclusions
 - a. There is no empirical evidence that the service provided by private contractors is inadequate.
 - b. There is some evidence that the quality of services may be higher in private service delivery systems than in public systems, but very mixed evidence on whether the private sector is more cost-efficient. However, the findings may be biased in favor of the private sector.
 - c. Privatization may lead to less public employees, but not a reduction in total employment. Workers are not always worse off (i.e. less benefits, but more pay).
 - d. The key factor is whether there is clear accountability for results, clear criteria for performance, and clear public objectives.

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Seven Steps to Performance-Based Services Acquisition

Office of Federal Procurement Policy. (2001). Seven Steps to Performance-Based Services Acquisition. <http://www.arnet.gov/Library/OFPP/BestPractices/pbsc/index.html>.

More detailed information and links to examples can be found on this interactive web site.

1. Establish an Integrated Solutions Team
 - a. Ensure senior management involvement and support
 - b. Tap multi-disciplinary expertise
 - c. Define roles and responsibilities
 - d. Develop rules of conduct
 - e. Empower team members
 - f. Identify stakeholders and nurture consensus
 - g. Develop and maintain the knowledge base over the project life
 - h. “Incent” the team: establish link between program mission and team members’ performance

2. Describe the problem that needs solving
 - a. Link acquisition to mission and performance objectives
 - b. Define (at a high level) desired results
 - c. Decide what constitutes success
 - d. Determine the current level of performance

3. Examine Private-Sector and Public-Sector Solutions
 - a. Take a team approach to market research
 - b. Spend time learning from public-sector counterparts
 - c. Talk to private-sector counterparts before structuring the acquisition
 - d. Consider one-on-one meetings with industry
 - e. Look for existing contracts
 - f. Document market research

4. Develop a PWS (performance work statement) or SOO (statement of objectives).
 - a. PWS
 - i. Conduct an analysis
 - ii. Apply the “so what?” test (verify need of outputs)
 - iii. Capture the results of the analysis in a matrix
 - iv. Write the performance work statement
 - v. Let the contractor solve the problem
 - b. SOO
 - i. Start with the acquisition’s “elevator message”
 1. should be an explanation of how the acquisition relates to the agency’s program or mission need and what problem needs solving
 - ii. Describe the scope
 - iii. Write the performance objectives into the SOO
 - iv. Make sure the government and contractor share objectives
 - v. Identify the constraints
 - vi. Develop the background
 - vii. Make the financial checks and maintain perspective

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5. Decide how to Measure and Manage Performance
 - a. Review the success determinants
 - b. Rely on commercial quality standards
 - c. Have the contractor propose the metrics and the quality assurance plan
 - d. Select only a few meaningful measures on which to judge success
 - e. Include contractual language for negotiated changes to the metrics and measures
 - f. Apply the contractor-type order or precedence carefully
 - g. Use incentive-type contracts
 - h. Consider “award term”
 - i. a contract performance incentive feature that ties the length of a contract's term to the performance of the contractor
 - i. Consider other incentive tools
 - j. Recognize the power of profit as motivator
 - k. Most importantly, consider the relationship
6. Select the right contractor
 - a. Compete the solution
 - b. Use downselection and “due diligence”
 - i. "Downselection" is a means of limiting the competitive pool to those contractors most likely to offer a successful solution
 - ii. Once the competing pool of contractors is established, those contractors enter a period called due diligence. "Due diligence" is used in acquisitions to describe the period and process during which competitors take the time and make the effort to become knowledgeable about an agency's needs in order to propose a competitive solution.
 - c. Use oral presentations and other opportunities to communicate
 - d. Emphasize past performance in evaluation
 - e. Use best-value evaluation and source selection
 - f. Address solutions for issues of conflict of interest.
7. Manage Performance
 - a. Keep the team together
 - b. Adjust roles and responsibilities
 - c. Assign accountability for managing contract performance
 - d. Add the contractor to the team at a formal “kick-off” meeting
 - e. Regularly review performance in a Contract Performance Improvement Working Group
 - f. Ask the right questions
 - g. Report on the contractors past performance

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Privatization of Social Services: Correlates of Contract Performance

Peat, B. & Costley, D. (2000). Privatization of social services: correlates of contract performance. Administration in Social Work, 24(1), 21-38.

- I. Background
 - a. Historically, accountability of privatized social services has focused on the structure and processes of the service delivery such as fiscal auditing, licensure requirements, and personnel qualifications. Many authors in the field have pointed out that this type of monitoring is deficient because it monitors processes and outputs rather than product and outcomes.
 - b. However, in recent years the need to focus more on outcome measures by determining the client's level of functioning as well as client and community satisfaction has been recognized.
 - c. In order to rectify a gap in the research of contracting processes, a study was developed to focus on the relationship of a variety of contract characteristics and contractor characteristics to level of contract performance. Research questions:
 - i. How can a government funding agency structure the contracting process in order to increase the probability that desired outcomes will be achieved?
 - ii. What contract and contractor characteristics impact the contracting process in general and contract performance in particular?

- II. Literature Review
 - a. Conclusions
 - i. The government funding agency and the contractor need to be clear and in agreement about the objectives
 - ii. Clear contract specifications need to be a part of a contract
 - iii. Clear contract specifications and the ability to monitor contract compliance are tightly related
 - b. Hypotheses Formed
 - i. The greater the difference in the following, the lower the level of contract performance:
 1. Hypothesis 1: between the costs proposed and costs contracted
 2. Hypothesis 2: between the number of units proposed and the number of units contracted
 3. Hypothesis 3: between the number of service categories proposed and the number of service categories contracted
 4. Hypothesis 4: between the proposed outcome plan and the outcome plan required through the RFP
 - ii. Things tied to a higher level of contract performance:
 1. Hypothesis 5: the greater the total dollar amount of the contract
 2. Hypothesis 6: the longer the contractor's years in operation
 3. Hypothesis 7: the greater the number of years the contractor has previously contracted with the government funding agency
 4. Hypothesis 8: the larger the total staff size of the contractor
 5. Hypothesis 9: the greater the total operating budget of the contractor
 6. Hypothesis 10: the closer the geographic proximity to the central office of the government funding agency
 7. Hypothesis 11: the higher the proposal rating

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- III. Study Design
- a. A content analysis approach to describe systematically and quantitatively factors which impact the contracting process.
 - b. Data obtained from a state government family and child service agency, which provides money for contracting with private nonprofit organizations to deliver a variety of social services (mainly the prevention of domestic violence, the reduction of juvenile crime, the rehabilitation of juvenile offenders and the promotion of quality child care).
 - c. Study conducted on contracts issued during 1994-1996.
 - d. A single RFP was used in the analysis, which resulted in 96 proposals of which 66 were selected for funding. Under the RFP, 66 sets of documents were used, each set including a proposal, a contract and a program evaluation summary report.
 - e. Results from a survey of 57 of 66 contractors (86%) were used to explore various contractor characteristics: length of time in business, total number of staff, total operating budget, and total number of years experience as a contractor with the state.
 - f. Four content areas to be studied:
 - i. Cost
 - ii. Units
 - iii. Service categories
 - iv. Outcome plan
 - g. Program evaluation reports were used to determine level of contractor performance. Information in these reports come from:
 - i. Site monitors' visits to the contractors
 - ii. Information gathered through monthly, semi-annual, and annual reports submitted by contractors
 - iii. Reports obtained from the fiscal department of the funding agency
 - h. Program evaluation reports were quantified by contract monitors by rating each as "needs improvement", "satisfactory", or "above average".
 - i. Background information about the purchase of service contracting process
- IV. Study Variables
- a. Dependent variable: contract performance
 - b. Independent variables:
 - i. Contract Characteristics
 1. cost
 2. units
 3. service categories
 4. outcome plan
 - ii. Contractor characteristics
 1. dollar amount of contract
 2. years in operation
 3. years as a contractor
 4. staff size
 5. operating budget
 6. geographic proximity to government funding agency
 7. proposal rating
- V. Methods

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- a. Pearson Product-Moment Correlation analysis- to test the relationship between all the independent variables (excluding outcome plan) and the dependent variable and to quantify the strength of the relationships
- b. Regression analysis- to determine the extent to which the independent variables, which are significant in the correlation analysis, predict the level of contract performance.

VI. Findings

- a. Hypotheses 3, 10 and 11 were supported through the correlation analysis.
- b. Hypotheses 10 and 11 were supported through the regression analysis (which determines the predictive value of the independent variables for performance level).

VII. Discussion

- a. Changes in the number of service categories between time of proposal and time of contract can directly impact level of contract performance.
- b. The further in proximity the contractor was from the funding agency, the poorer the level of contract performance.
- c. Proposal rating affects contract performance.

VIII. Policy Implications

- a. Funding agency may need to look at a means by which to reduce the need to make revisions (i.e. the difference in the number of service categories proposed and contracted).
 - i. More specific RFPs: what type of services the funding agency is wanting, how much they are willing to fund and in what regions.
- b. Determine why contractors in outlying areas have lower levels of performance.
- c. Funding agency may want to reconsider the current scheme for proposal rating, ranking, funding recommendations and performance evaluation to make sure objectivity is maintained.

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Privatization: Lessons Learned by State and Local Governments

United States General Accounting Office. (March 1997). Privatization: Lessons Learned by State and Local Governments. <http://frwebgate.access.gpo.gov/cgi-bin/useftp.cgi?IPaddress=162.140.64.21&filename=gg97048.pdf&directory=/diskb/wais/data/gao>.

- I. Background
 - a. A study of privatization efforts by the following governments:
 - i. Georgia
 - ii. Massachusetts
 - iii. Michigan
 - iv. New York
 - v. Virginia
 - vi. City of Indianapolis
 - b. The purpose was to identify lessons learned that were generally common in implementing privatization initiatives.
 - c. Interviews and document reviews focused on privatization efforts that have:
 - i. occurred since 1991
 - ii. had high cost savings
 - iii. resulted in continued or improved service
 - iv. involved activities similar to those performed by the federal government.
 - d. The privatization efforts covered a variety of mission-related activities.
- II. Lessons Learned
 - a. Privatization requires a Political Champion
 - i. In introducing and sustaining privatization initiatives, political leaders should:
 1. anticipate a need to develop
 2. communicate a privatization philosophy
 3. garner public, business and political support
 - b. Implementation Structure needed to guide Privatization Efforts. May include:
 - i. A government-wide commission to identify privatization opportunities and set privatization policy
 - ii. A staff office that can support agencies in their efforts and oversee implementation
 - iii. A framework for making decisions
 - c. Legislation and/or resource changes may be needed to promote the use of privatization
 - i. Necessary to signal to managers and employees that the move to privatization is serious
 - d. Reliable and Complete Cost Information Needed to Support Privatization
 - i. To assess overall performance
 - ii. To simplify privatization decisions and make them easier to implement
 - iii. To justify to potential critics
 - e. Strategies Needed to Manage Workforce Transition
 - i. Employee involvement
 1. involving employee unions helps initial efforts and can set the tone for future privatizations

Bibliography and Article Summaries

- ii. Training to provide skills for either competing against the private sector or monitoring contractor performance. Helpful skills for employees:
 1. knowledge of the existing government program
 2. ability to analyze work flows and processes
 3. ability to develop methods to eliminate inefficiencies
 4. knowledge of cost-estimation techniques
 5. ability to apply methods of financial analysis
 6. ability to determine and write concise and specific contract requirements to delineate exactly what the contractor is responsible for
 7. knowledge of methods for monitoring the performance on contractors.
 - iii. Creating a safety net for displaced employees, such as:
 1. offering early retirement, severance pay, or a buyout
 2. ensuring that employees' concerns about compensation issues are addressed
 3. placing workers in other government units
 4. offering job transition assistance (i.e. career planning and training) to workers moving to the private sector
 - f. Enhanced Monitoring and Oversight of Performance is Needed when Privatization is Used
 - i. Monitoring Privatization
 1. Contract auditing ensures contractors are paid and obligations are fulfilled
 2. Performance monitoring is very difficult and important
 - a. Write specific work statements
 - b. Focus on the ease of measuring a service's objectives when considering to privatize it
 - c. Enhance employees' skills in this area, as it's commonly the weakest link in the privatization process
 - d. Sometimes require new or innovative approaches (often goes beyond checklist type reviews)
 - ii. Oversight of Privatization
 1. Independent oversight is critical and provides an unbiased evaluation
- III. Appendices contained in report:
 - a. Forms of Privatization and Frequency of Use in State Programs and Services
 - b. Expert Panelists on GAO's review of State and Local Privatization Efforts
 - c. Overview of Recent Privatization Efforts in the Six Governments
 - d. Analytical Frameworks Used by Indianapolis, Michigan and Virginia
 - e. Major Contributors and Acknowledgments
 - f. Glossary of Privatization-Related Terms
 - g. GAO Privatization Products Related to State and Local Governments