



SOCIAL POLICY RESEARCH
ASSOCIATES

Evaluation of the WIA Performance Measurement System

Survey Report
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Prepared by:

Social Policy Research Associates

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U.S. Department of Labor
Employment and Training
Administration
200 Constitution Ave. NW
Room N-5637
Washington, D.C. 20210

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1330 Broadway, Suite 1426
Oakland, CA 94612
Tel: (510) 763-1499
Fax: (510) 763-1599
www.spra.com

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EXECUTIVE SUMMARY

This report includes the results of two separate sets of quantitative analyses for our *Evaluation of the WIA Performance Measurement System*. In the first chapter, we present results from an analysis of the local area survey, which was mailed in the fall of 2004 to all LWIAs throughout the nation. These results detail the specific policies and procedures that local areas have adopted in response to and furtherance of the WIA performance measurement system. In addition, this chapter discusses local area perceptions of the system and their perceptions of the state's role in implementing it. The second chapter of this report details how state-level policies, as coded from the written plans and guidance developed by each state, and the local-level policies are associated with the characteristics of customers served by WIA, the services they receive, and the outcomes they obtain. This chapter thus examines how the various policies and procedures developed by states and local areas affect who is being served under WIA and how they are being served.

Local Area Survey of the Performance Measurement System

We received completed responses from 455 of the 572 local areas that were mailed a survey, which represents a response rate of 80%. Several key findings emerge from analysis of this survey. These findings were categorized into several sections, including those concerning: the initial negotiation process, incentives, sanctions and technical assistance, relationships with providers and partners, impacts on who is served and the services provided, and the use of measures in program management and improvement.

Initial Negotiation Process

Significant diversity exists among local areas in terms of their feelings about the quality of the initial negotiation process. The majority of local areas felt that the process involved some negotiation but that more attention could have been given to local concerns. Approximately one third of local areas felt that the initial negotiation process was extremely minimal or non-existent. A small percentage of local areas were completely satisfied with the initial negotiation process.

In spite of the fact that most local areas felt the initial negotiation process could have involved more consideration to local issues, most local areas reported that their initial levels were attainable. This may be due to the fact that many local areas have adapted their programs in order to facilitate positive performance outcomes.

Incentives, Sanctions and Technical Assistance

Most states have implemented policies to award incentives and impose sanctions upon local areas for exemplary and poor performance, respectively. The possibility of receiving sanctions has impacted some aspect of WIA program design in approximately two-thirds of local areas. The possibility of receiving incentives has influenced WIA programs in a somewhat smaller percentage; just over one-half of local areas.

Technical assistance is also very common. The great majority of local areas have received performance related technical assistance. Performance TA tends to focus on all of the measures and is frequently provided to local areas regardless of whether they have failed a measure or are in danger of doing so.

Relationships with Providers and Partners

The majority of local areas attempt to ensure performance through relationships with eligible training providers and adult and youth contracted service providers. In more than 60% of local areas, all eligible training providers are required to achieve local performance levels, and in an additional 25% of local areas at least some providers are required to meet these levels. In addition, nearly all local areas hold youth service providers contractually responsible for achieving local performance targets. Finally, two-thirds of local areas reported that they use incentives and/or sanctions in relationships with service providers.

In most local areas, the performance measurement system does not have a substantial impact on the availability of eligible training providers or youth providers. However, a significant minority of local areas (30%) reported that the performance measurement system serves to discourage numerous youth service providers and/or eligible training providers from submitting applications to serve WIA customers.

Most local areas make substantial use of WIA partners, especially in the provision of core services. However, the performance measures have a negative impact on coordination among WIA partners in a subset of local areas. Approximately 30% local areas reported that the performance measures decrease partner willingness to be actively involved in the One-Stop system and one half of local areas reported that the performance measures decrease willingness to co-enroll clients.

Impact on Who is Served and What Services are Provided

According to local area responses, the performance measurement system has had a substantial impact both on which customers are served and what services are offered. Key points are highlighted below:

- More than 80% of local areas make strategic decisions regarding the time of exit in order to improve the probability of achieving positive performance outcomes.
- Most local areas also use strategies such as targeting or the time of registration in order to select customers who are likely to improve performance. Evaluation of customer motivation is an important factor in the selection process. However, we found little evidence that local areas are choosing not to serve traditionally hard-to-serve customers populations. Rather, targeting tends to focus on populations with barriers and low-income customers.
- Significant diversity exists among local areas as to perspectives on whether the performance measures have served to expand, limit or have had no impact on the services offered by the One Stop Centers and providers.
- Two-thirds of local areas have made the decision to alter the relative emphasis placed on the service tiers (core, intensive and training). Typically, these local areas have made the decision to place more emphasis on intensive and/or training services.

Use of WIA Measures and Alternative Measures for Program Management and to Improve Program Quality

Nearly all local areas (82%) report that they use the performance measures to assess continuous improvement. Local areas report that the performance requirements provide an overall goal and the outcomes enable them to determine what services are effective. However, the use of the WIA performance measures in improvement efforts is constrained by the time lag necessary to obtain outcomes using UI wage records outcomes. Primarily due to this time lag, only 46% of local areas reported that the performance measures are helpful in informing day-to-day management decisions.

Nearly 60% of local areas have chosen to adopt additional measures of program performance. The most commonly used measures track enrollments, job placements, customer satisfaction, program costs, and services to employers.

Effects of State and Local Performance Policies on Customers, Services, and Outcomes

The results from the local area survey are those self-reported by local areas and represent these areas' perceptions of the performance measurement system. The second chapter of this report uses statistical analysis to formally examine how the policies developed by states and locals have

actually affected who is served under WIA and how they are served. This analysis relied on our coding of written state policies and guidance collected as part of this evaluation, and the coding of the local area survey. These policies were included in regression models that also included local area economic and population characteristics and individual-level data drawn from the WIASRD file, which is a comprehensive record of WIA exiters.

Overall, many of the results in the chapter are not conclusive and do not suggest that variations in state policies have substantial impact on the customers who are served under WIA, the services they receive, or the outcomes they obtain. There is, however, one significant and important conclusion that can be drawn from the data. The provision by states to local areas of incentive awards based on performance seems to increase service to a variety of customer groups that tend to be less job-ready and have poorer work histories. This result is confirmed by similar results for states with a single local workforce area, which are subject to federal incentive policies. It is also confirmed by similar results for the provision of incentives to providers by local areas.

This result suggests that fears that the WIA performance system might induce local areas to focus services on better-prepared individuals are unfounded. Rather, the analysis in this report suggests that the performance system spurs service to those with poorer work histories and, thus, poorer future employment prospects. For example, local areas in states that provide incentives are more likely to serve less job-ready individuals with poor work histories. Although this and similar findings may seem counterintuitive, they may, in fact, be very calculated decisions that reflect a desire to serve those who stand to gain the most from WIA and, as a result, show the most substantial improvement on the performance measures. In other words, individuals with low or no prior earnings can show far more significant earnings gains than can those who have an established and recent work history. Similarly, serving the unemployed allows local areas to earn credit on the entered employment measure, while serving those already employed would not do so. Thus, these results may simply reflect local areas' decisions about which customers will gain the most from WIA services, both for the customers' sake and for the sake of positive performance outcomes.

In this respect, then, it would seem that the presence of the earnings change and replacement measures offsets the influence of the other measures in affecting which customers are served. But we cannot say conclusively that this is true, especially because we also uncovered some contradictory evidence. If local areas in states with performance incentives were following a strategy to increase earnings change and replacement, one would expect to see an increase in the earnings change outcomes and, perhaps, a decrease in the other outcomes in those states. While we found some significant relationships between state policies and outcomes, we did not find

that provision of incentives increased the earnings change measures. To the contrary, we found that more stringent incentive criteria seemed to decrease adult earnings change. Thus, decisions about whom to serve may be made with the earnings change or replacement measures in mind, but, if so, these decisions have little affect on the actual performance on these measures.

Ultimately, then, much of the analysis concerning the effects of state and local policies is inconclusive, in part because states have stuck fairly closely with the system as promulgated at the federal level. Thus, there is relatively little variation across these states that would enable us to examine more fully how these variations are associated with different customer characteristics, services, and outcomes. Importantly, however, in each of our analyses, we found little to suggest that those most in need of WIA services have a difficult time receiving those services because of any state or local concern for achieving high performance. Rather, states and locals, while focused on achieving strong performance, also seem focused on providing needed workforce services to those who can most benefit from them. In this sense, then, the performance measurement system has achieved one of its purposes by establishing benchmarks and standards for states and local areas to achieve without altering the intent of the workforce system to provide services to those who can benefit from them.

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I. ANALYSIS OF THE LOCAL AREA PERFORMANCE MEASURES SURVEY

Introduction

The first round of site visits, conducted in the spring of 2003, provided us with detailed information on the implementation of the WIA performance measurement system in eight states, as well as the impact of this system on WIA service design and delivery. In order to develop an overall picture of how the performance measurement system operates in local areas across the nation, a survey was administered to all local areas in the summer of 2004. In this chapter, we discuss the findings from this survey.

Survey Administration

The data collection process took place over a six-month period during the summer and fall of 2004. In July of 2004, a paper survey was mailed to each of the 572 local areas in the 50 states and the District of Columbia.¹ Instructions enclosed with the survey also directed the local area to a website where the respondent might complete an online version of the survey, if he/she preferred to do so. A second copy of the survey was mailed to all local areas in August of 2004 and a reminder post-card was sent in early September. Over the next two months, all local areas who had not completed the survey received two email reminders and at least one follow-up phone call by SPR staff. In December, Department of Labor Regional Program Officers conducted a final round of phone calls to local areas who had not submitted a survey at that point. By the end of December 2004, we had received 455 surveys, covering 80% of local areas

¹ Two local areas were not asked to complete the survey. One of these local areas serves the Navajo Nation in the state of Arizona. While this local area submits performance data to the WIASRD, their relationship to the Department Of Labor is different in several respects from other local areas nationwide. Therefore they were not included in the study. The second local area, formerly Region 7 in Ohio, divided into several different local areas at the start of PY04, the time at which the survey was originally administered. Due to the fact that the former local area no longer existed and the several new local areas had not yet had time to develop performance policies, upon consultation with former and current WIA directors in Ohio, it was determined that neither the old nor the new local areas should be asked to complete the survey.

nationwide. The findings presented in this chapter are based on survey responses from these 455 local areas.

Comparison of Survey Sample with Non-Respondents

Factors such as state policies, local economic conditions, and customer characteristics can have a substantial influence on the manner in which local areas choose to implement the performance measurement system. Therefore, it is important to ensure that, in terms of these factors, the survey sample is representative of local areas nationwide.

Our survey sample includes strong representation from nearly all of the 50 states and the District of Columbia. With the exception of Alaska, the survey sample includes at least 50% of the local areas in each state and the District of Columbia. In 47 states and the District of Columbia at least 60% of local areas completed surveys and in 40 states and the District of Columbia, at least 70% of local areas were survey respondents.

We also conducted analysis to compare the local economic conditions and demographic characteristics of the survey sample with those of local areas that did not complete the survey. Data for this analysis were drawn from the Bureau of Labor Statistics Current Population Survey (unemployment rates), the United States 2000 Census (all other economic and local population characteristics), and the Workforce Investment Act Standardized Record Data system (WIASRD) (characteristics of WIA customers). Our analysis includes demographic indicators of the local population in addition to customer characteristics, because both types of characteristics can influence local area planning and policy implementation.

**Exhibit I-1:
Characteristics of Survey Respondents and Non-Responders**

Characteristic	Average for Survey Respondents (n=455)	Average for Local Areas that did not Complete the Survey (n=118)²
Economic Conditions and Related Characteristics		
Unemployment Rate for PY03	5.9%	6.0%
Average Earnings (1999)	\$29,189	\$31,308
Poverty Rate (2000)	12.5%	11.9%
Population Size ³	335,381	307,327
Percentage of the Population living in Urban Areas	69%	71%
Demographic Characteristics of the Local Population⁴		
Percentage of Adults Without a High School Diploma	16%	16%
Percentage of Adults with a Bachelors Degree	23%	25%
Percentage of Youth that are High School Dropouts	10%	10%
Percentage of the Local Population that Receives Public Assistance	3%	3%
Percentage of Unemployed Adults that are not White	35%	36%
Percentage of Low Income Youth that are not White	44%	46%
Percentage of Unemployed Adults that are African American	16%	20%
Percentage of Low Income Youth that are African American	18%	23%
Percentage of Unemployed Adults that are Latino	13%	10%
Percentage of Low Income Youth that are Latino	17%	16%
Percentage of Unemployed Adults that are Asian American	2%	2%
Percentage of Low Income Youth that are Asian American	3%	3%
Percentage of Adults that are Limited English Proficient	3%	3%
Percentage of Youth that are Limited English Proficient	2%	2%

² The former Region 7 in Ohio is included in this analysis as a non-respondent. Data are used from the old rather than the new local areas as the available WIASRD data reflect the LWIA boundaries prior to PY04.

³ For population size, medians are presented rather than averages, as the averages may be skewed by a few very large or very small local areas.

⁴ When this information was available, characteristics are reported for the segment of the adult and youth populations that is most likely to receive WIA services: unemployed adults and low income youth. For some characteristics, information is only available for the overall population of adults and youth (education level, English proficiency) or the entire population at large (public assistance).

**Exhibit I-1 Continued:
Characteristics of Survey Respondents and Non-Responders**

Characteristic	Average for Survey Respondents (n=455)	Average for Local Areas that did not Complete the Survey (n=118) ²
Characteristics of WIA Customers for PY03⁵		
Total Number of Adults and Dislocated Workers Served ⁶	324	283
Total Number of Youth Served	145	138
Percentage of Adults/Dislocated Workers Without a High School Diploma	21%	20%
Percentage of Adults/Dislocated Workers with a Bachelors Degree	10%	10%
Percentage of Youth that are High School Dropouts	23%	23%
Percentage of Adults that Receive Public Assistance ⁷	13%	16%
Percentage of Adults that are Low Income ⁸	72%	70%
Percentage of Adults/Dislocated Workers that are Not White	36%	39%
Percentage of Youth that are Not White	54%	58%
Percentage of Adults/Dislocated Workers that are African American	20%	24%
Percentage of Youth that are African American	33%	39%
Percentage of Adults/Dislocated Workers that are Latino	11%	9%
Percentage of Youth that are Latino	16%	13%
Percentage of Adults/Dislocated Workers that are Asian American	3%	4%
Percentage of Youth that are Asian American	2%	3%
Percentage of Adults/Dislocated Workers that are Limited English Proficient	3%	3%
Percentage of Youth that are Limited English Proficient	2%	2%

We see from Exhibit I-1, that there is little variation between survey respondents and non-responders in terms of local economic conditions, local population characteristics and characteristics of WIA customers served. Thus, there is little reason to consider these survey respondents unrepresentative of local areas nationally.

⁵ Individuals exiting from WIA services between April 1, 2003-March 31, 2004, the latest year of data currently available in the WIASRD.

⁶ For number of customers served, medians are presented rather than averages as the averages may be skewed by a few very large or very small local areas.

⁷ Information on public assistance is not collected for dislocated workers.

⁸ Information on poverty status is not collected for dislocated workers.

Topics Addressed by the Local Area Survey of the WIA Performance Measurement System

The survey included questions focused on several major topics related to the implementation of the performance measurement system and the impact of this system on local area programs, including:

- Implementation of the performance measurement system
- The quality of the initial negotiation process between the state and local area to set performance levels
- State policies designed to promote high performance, including incentives, sanctions and technical assistance, and the impact of these policies on local programs
- State and local policies regarding the operationalization of measures and the use of supplemental data to track outcomes
- The impact of the performance measurement system on relationships with contracted service providers, eligible training providers and WIA partners
- The manner in which the performance measurement system influences which customers are served
- The impact of the performance measurement system on service design and delivery, including program costs
- The contribution of the performance measures to local efforts to improve management operations and program quality
- Additional performance measures used by local areas
- Local perspectives regarding the overall benefits and negative impacts of the performance measurement system

This chapter will discuss findings pertaining to these topics. While we will focus on local area perspectives gathered from survey responses, where relevant, we will also draw upon findings from our analysis of state performance policy documents. The analysis of state policies is discussed in more detail in Chapter II.

Implementation of the Performance Measurement System: State Policies and Local Response

Implementation of the performance measurement system involves the development of several key state policies and practices. Most importantly, states establish the performance levels that local areas must meet. In order to increase LWIA interest in achieving these levels, states may create policies to provide incentive funding and impose sanctions for exemplary and poor performance respectively. In addition, states may also provide technical assistance to local areas

focusing on strategies to meet performance goals. This section will discuss the performance related policies developed by states, local area perception of these policies and the impact of state policies on local program design.

Negotiation of Performance Levels

The local area survey asked LWIAs to describe their perceptions of the process of negotiating initial performance levels with their state, including the quality of negotiation, factors considered, the fairness and attainability of their initial negotiated levels, and any adjustments that were made to these levels. States with only one local area were excluded from this analysis.

Quality of Negotiation

The consensus of local areas is that the initial negotiation process with their state was neither extensive nor adequate. Nearly one third of local areas surveyed (29%) stated that the process involved no negotiation at all. This is not surprising given that our analysis of federal and state policy documents indicated that 13 of the 42 states with more than one local area simply assigned the statewide levels to all local areas. An additional 55% of local areas felt that the process involved only minimal negotiation. Given the minimal level of negotiation reported by nearly all LWIAs, it is not surprising that two-thirds (66%) of local areas did not feel that the state gave adequate attention to the issues raised by the local representatives during the negotiation process. Overall perceptions regarding the limited nature of the initial negotiation process generally were in line with findings from our first round of site visits.

Factors Considered in Negotiation

Six states use formal adjustment models to determine performance levels for the local areas. More common is informal analysis of factors such as local economic conditions and the characteristics of customers served. Even so, only 50% of local areas reported that states consider local economic conditions when determining performance levels. An even smaller percentage of local areas reported that states considered the characteristics of their customers (36%) or the services they provide (24%). Finally, 47% of local areas stated that the negotiation considered JTPA or other historical data.

Fairness of Initial Negotiated Levels

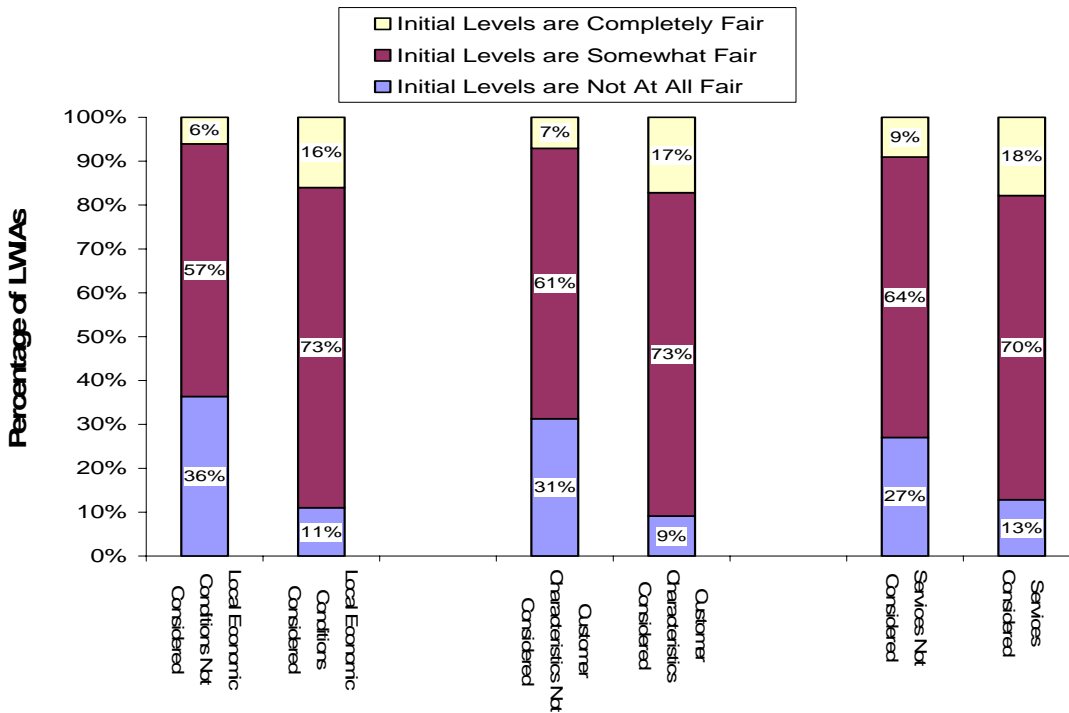
Overall, nearly two-thirds of local areas (66%) reported that their initial negotiated levels were ‘somewhat fair’. Not surprisingly, perceptions of fairness were related to the extent that local areas felt the states considered issues of importance to them in the negotiation process. For instance, as shown in Exhibit I-1, 29% of local areas who felt that the state gave adequate consideration to local issues reported that their initial levels are ‘*completely fair*,’ in comparison to only 2% of local areas who felt the state did not give adequate consideration to local issues.

**Exhibit I-2:
LWIA Perception of the Fairness of Initial Levels**

Fairness of Initial Levels	All LWIAs	LWIAs who feel that the State gave Adequate Consideration to Local Issues in the Negotiation Process	LWIAs who feel that the State did not give Adequate Consideration to Local Issues in the Negotiation Process
Not at All Fair	24%	4%	33%
Somewhat Fair	66%	67%	65%
Completely Fair	11%	29%	2%

Perceptions of fairness are also related to whether specific factors were considered in the negotiation process. Exhibit I-3 displays LWIA perceptions about the fairness of their initial levels. Local areas are grouped according to whether local economic conditions, customer characteristics and services were considered in the negotiation process.

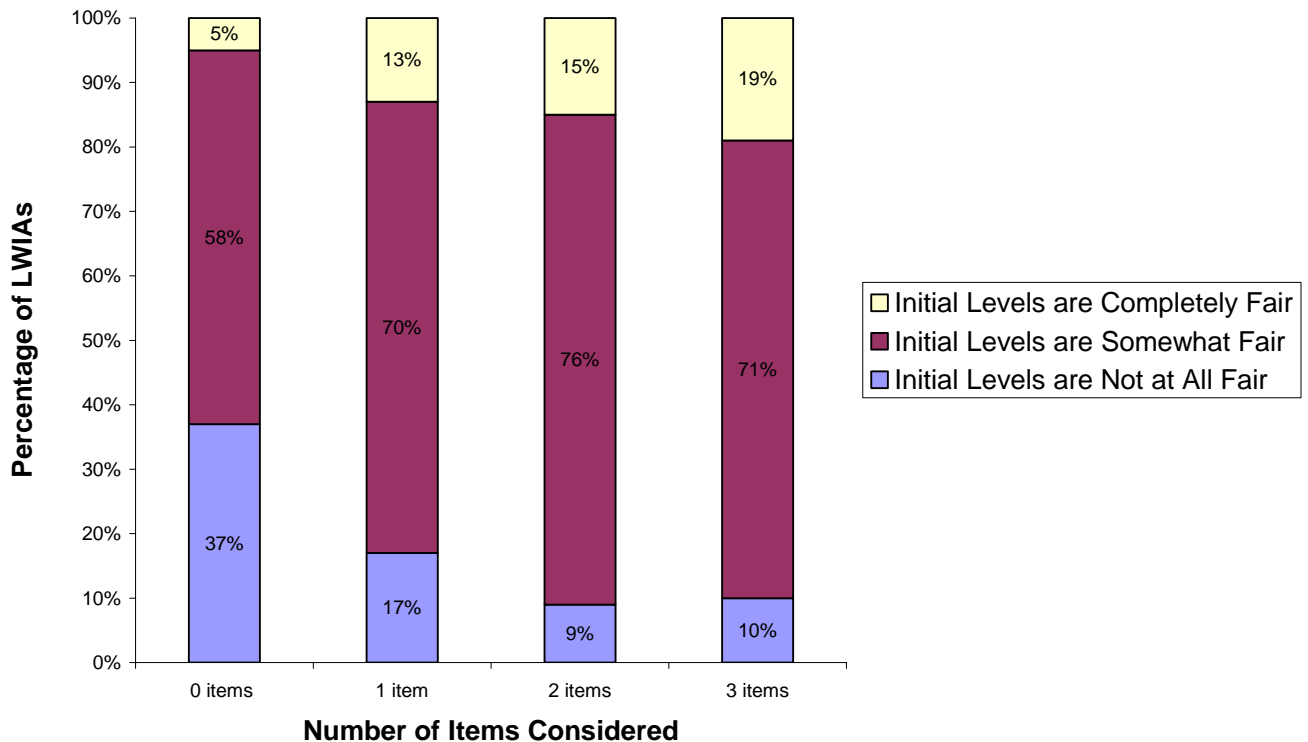
**Exhibit I-3:
Perception of Fairness of Initial Levels by Items Considered in Initial Negotiation Process**



Consideration of each item (economic conditions, customer characteristics or services) is associated with an increase in the percentage of local areas who report their levels as being ‘completely fair’. Correspondingly, the percentage of local areas who report that their levels are ‘not fair at all’ is higher when each of the three items was not considered in the initial negotiation process.

Nearly two-fifths of LWIAs (37%) reported that more than one of the items shown above were considered in their initial negotiation process. The overlap in terms of which items were considered in the negotiation process makes it difficult to isolate the relationship between each specific factor and local perception regarding the attainability of performance levels. However, we conducted additional analyses to examine whether the number of factors (economic conditions, customer characteristics and services) considered in the initial negotiation process is related to LWIA perception regarding the fairness of the initial levels. The results of this analysis are shown in Exhibit I-4 below.

**Exhibit I-4:
Perceived Fairness of Initial Levels by Number of Items Considered in the Initial Negotiation Process**



We see from Exhibit I-4 that, when at least one of the three items is considered, local areas are significantly more likely to believe that the initial negotiations were somewhat or completely fair. However, the consideration of additional items is not associated with a significant increase in the perceptions of fairness.

Attainability of Initial Levels

In spite of the fact that nearly all LWIAs felt that the initial negotiation process was not substantial, 75% of the LWIAs reported that their initial negotiated levels are most likely attainable⁹. This may be due to the fact that, as we will discuss in subsequent sections, LWIAs have developed policies and programs that are designed to facilitate positive performance outcomes.

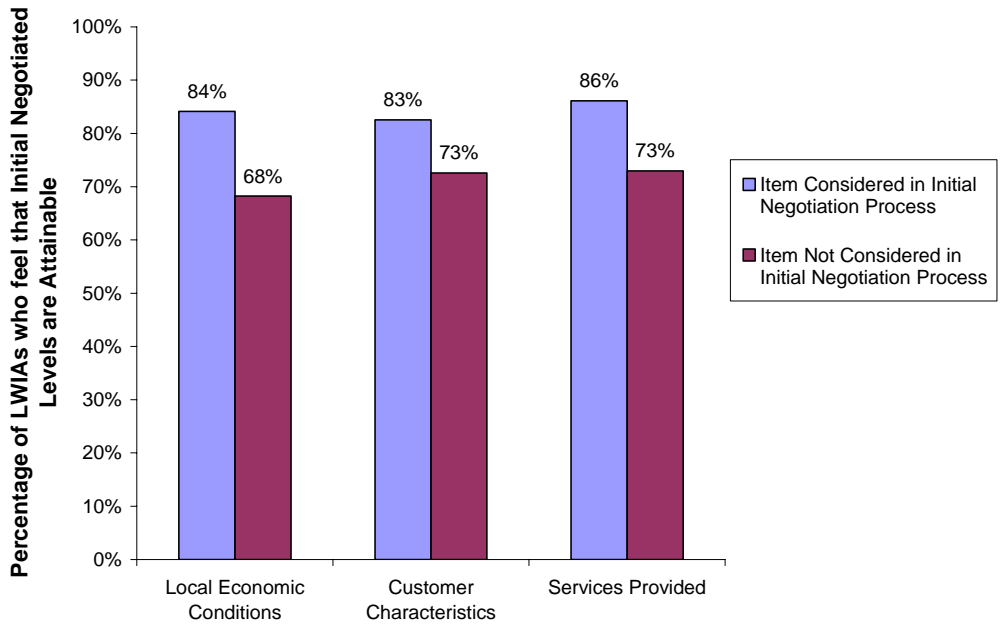
Opinions regarding the attainability of initial levels did vary according to the extent that the state considered local issues in the negotiation process:

- Of LWIAs who reported that the state gave adequate consideration to local issues, 88% feel that their initial levels are attainable.
- Of LWIAs who reported that the state did not give adequate consideration to local issues, 69% feel that their initial levels are attainable.

More specifically, as shown in Exhibit I-5, perceptions regarding the likelihood that performance levels can be achieved vary according to whether economic conditions, customer characteristics and services provided were considered in the negotiation process. Consideration of each of these items is associated with an increase of at least 10 percentage points in the number of LWIAs who believe their initial levels are attainable.

⁹ This includes a very small percentage of LWIAs (2%) who reported that their levels are definitely attainable.

**Exhibit I-5:
Percentage of LWIAs who Feel that Initial Negotiated Levels Are Attainable by Items Considered in the Negotiation Process**



As with perceptions of fairness, we found that the significant factor associated with an increase in the percentage of local areas who believe their initial levels are attainable is the consideration of *at least one* of the aforementioned items (economic conditions, customer characteristics, services provided). When at least one of these items was considered, 84% of local areas reported that their initial levels are attainable as compared to only 66% of local areas whose initial negotiations addressed none of these issues. The consideration of additional items is not associated with an increase in the likelihood that the LWIA will believe its initial negotiated levels are attainable.

LWIAs who reported that their initial levels are not attainable were asked to describe the factors that make their levels unattainable. The most common responses are shown in Exhibit I-6 below.

**Exhibit I-6:
Factors that Make Initial Levels Unattainable**

	Number of LWIAs
Local Economic Conditions	54
High Wage Jobs (Manufacturing) Replaced by Low Wage Jobs (Service Sector)	20
Participant Characteristics	16
Insufficient Negotiation with State	11
Use of JTPA Data in Setting Levels	8
Total Number of Survey Respondents Reporting that their Levels are Probably or Definitely Not Attainable	106

By far the most common factor mentioned was difficult local economic conditions such as layoffs and unemployment rates that have remained high. Of those who listed local economic conditions as an issue, a substantial number provided additional clarification, describing a labor market in which relatively high wage manufacturing jobs are being replaced by lower wage jobs in the service sector. This condition can make it difficult to achieve the earnings replacement measure in particular. Smaller numbers of LWIAs reported that the characteristics of the customer population, such as low educational levels or multiple employment barriers, contribute to difficulties in meeting performance levels. Some of these LWIAs commented that characteristics of dislocated workers are also problematic as these customers frequently have substantial work histories but few transferable skills.

Finally, 19 LWIAs felt that the negotiation process contributed to performance levels that are difficult to attain. Eleven LWIAs felt that the process involved insufficient negotiation, whereas eight LWIAs found the use of JTPA data problematic given the differences between that program and WIA.

Adjustment of Initial Levels

Although most local areas describe the initial negotiation process as minimal, the state not infrequently responded to these negotiations by lowering the LWIA performance levels. Overall, 44% of LWIAs reported that the initial negotiations resulted in a decrease in their performance levels. While 30% of LWIAs reported that these decreases were ‘slight’, the remaining 14% reported that the decrease was ‘moderate’ or ‘substantial’.

Finally, a small percentage of LWIAs (13%) reported that the initial negotiation process resulted in an increase in their performance levels.

Requests for Revisions of Initial Levels

Thus far, we have focused on the initial process used by states and LWIAs to negotiate performance levels for PY 2000-2003. LWIAs also had the option during the three-year period to ask the state to revise their initial levels. Approximately half of LWIAs (51%) asked the state to revise the initial negotiated levels. As shown in Exhibit I-7, the frequency with which LWIAs asked states to make revisions to the negotiated levels was associated with two factors: the amount of initial negotiation with the state and the perception of the attainability of the initial negotiated levels.

**Exhibit I-7:
Factors Associated with LWIA Requests to Revise Initial Levels**

Type of Local Workforce Investment Area	Percentage of LWIAs Requesting Revisions to Initial Performance Levels
All Local Workforce Investment Areas	51%
At Least 'Minor' Initial Negotiation with the State	56%
No Initial Negotiation with the State	40%
Initial Levels Perceived as Attainable	48%
Initial Levels Perceived as not Attainable	63%

Not surprisingly, LWIAs were more likely to ask the state to revise the initial performance levels when their levels were perceived as unattainable. The fact that LWIAs were more likely to request revisions when the initial process of setting the levels had involved at least minor negotiation suggests that one factor promoting requests for further negotiation is a belief on the part of the LWIA that the state will be willing to negotiate. Nevertheless, requests for revisions were made by 40% of LWIAs whose initial negotiation process was reportedly non-existent. One possible explanation for this is that these LWIAs felt that the state would be more responsive the second time. Indeed, LWIAs interviewed as part of the site visits expressed the view that the states had become more willing to engage in negotiation during the years since the initial implementation of WIA.

Initial Negotiation Process: Variation Among Types of Local Areas

Local perceptions of the initial negotiation process did not vary by local area size, extent of urbanization or local economic conditions.

Incentives

One important way in which states can potentially increase local interest in performance outcomes is by offering incentive funds to local areas who achieve exemplary performance outcomes. By the fall of 2004, of the 42 states with more than one local area, 35 had policies in place to provide incentive funds to local areas based on exemplary performance.¹⁰ In states that provide incentives for performance, 73% of LWIAs reported that they have received such an incentive award.¹¹ Not surprisingly, there seems to be some association between the existence of state performance incentives and the likelihood that LWIAs will place special importance on performance outcomes: In states with formal incentive policies, 57% of LWIAs reported that it is ‘very important’ to exceed their performance levels, as compared to only 45% of LWIAs in states that do not have policies to provide performance incentives.¹²

Overall, of local areas who reported that their state provides incentives for exemplary performance, 56% indicated that the possibility of receiving incentive funding has had an impact on LWIA policies and programs. Forty percent reported that the possibility of receiving incentives has impacted some aspect of their service design and 37% stated that incentives have impacted which customers they choose to serve.¹³

Sanctions

As the counterpart to incentive funding, states may also impose sanctions upon LWIAs that do not achieve a minimal level of performance. By the fall of 2004, of the 41 states with more than one local area from which we could obtain information,¹⁴ 36 had developed formal policies that outline the process for imposing sanctions upon LWIAs for poor performance. Two of the remaining states are in the process of finalizing a formal sanction policy. Of the 36 state sanction policies, 11 include explicit references to financial sanctions. For some states, this takes the form of a reduction in LWIA allocation; in others, local areas are ineligible to compete for state incentive funds while the sanction is in effect.

¹⁰ We analyzed state policies obtained from 48 states. For the remaining two states (Oklahoma and Georgia), information was drawn from the Local Area Survey of the WIA Performance Measurement System.

¹¹ This translates into 62% of all survey respondents.

¹² This difference was not quite statistically significant ($p = .08$).

¹³ Of local areas in states with formal incentive policies, 92% reported that their state provided incentives for performance. The slight discrepancy may be due to the difference between a formal policy and the actual provision of incentives to local areas; newer local area staff may also not be aware of state incentive policies.

¹⁴ We were not able to obtain information on Oklahoma’s policies.

Although nearly all states have sanction policies, and over 90% of survey respondents have failed at least one measure since the beginning of WIA,¹⁵ only 33% of LWIAs reported receiving any form of sanction, including technical assistance for failing a measure and corrective action plans.¹⁶ Financial sanctions are typically reserved for local areas that fail the same measure two years in a row. While 42% of survey respondents have failed the same measure two years in a row,¹⁷ a very small number of local areas (13) reported receiving financial sanctions, such as being ineligible for incentive funds (7 LWIAs) or receiving a reduction in local allocation (6 LWIAs).

Although few LWIAs have actually received sanctions and nearly none have received financial sanctions, the possibility of receiving sanctions has nevertheless had an impact on LWIA policies and programs. Of local areas who reported that their state imposes sanctions for poor performance, 70% indicated that the possibility of receiving sanctions has had an impact on customer selection and/or service design. Just over one half (54%) stated that the possibility of sanctions impacts which customers they choose to serve and 51% reported that potential sanctions have impacted some aspect of their service design.¹⁸

The existence of a state sanction policy that specifies *financial* sanctions is also associated with a small increase in the likelihood that LWIAs will use incentives and/or sanctions in contracts with service providers. In states that have a sanction policy outlining financial sanctions for poor performance, 75% of LWIAs use incentives and/or sanctions in relationships with service providers, as compared with 64% of LWIAs in states that do not have a policy explicitly mentioning financial sanctions for poor performance.

¹⁵ This figure includes survey respondents from states with more than one LWIA. Through PY02, 90% of these survey respondents had failed at least one measure, when PY03 is included this figure increases to 91%. It is unlikely that local areas would have provided technical assistance or issued sanctions based on PY03 outcomes by the time the surveys were completed in the summer and fall of 2004.

¹⁶ 33% of LWIAs in states with more than one local area. Not surprisingly, no local areas reported receiving sanctions when their state did not have a policy to impose them.

¹⁷ For PY 00-02 including survey respondents from states with more than one local area. See Footnote 5 for explanation of selected time frame. When PY03 data are included, 53% of survey respondents from multiple LWIA states had failed the same measure two years in a row.

¹⁸ Of local areas in states with formal sanction policies, 83% reported that their state imposes sanctions. The discrepancy may have to do with varying local area definitions of what constitutes a sanction (e.g. financial reductions only vs. all forms of sanctions?), as well as the difference between a state sanction policy and the actual implementation of sanctions by the state. This analysis was restricted to the sample of local areas who reported that their state imposes sanctions because local areas who indicated otherwise were asked to skip the question on the impact of the possibility of receiving sanctions.

Technical Assistance

States also provide technical assistance to local areas in order to assist them with meeting performance goals. Nearly four-fifths (79%) of local areas report that they have received technical assistance from the state focusing on some aspect of WIA performance.¹⁹ Technical Assistance may be provided in several forms. The most common of these is a technical training session, which was provided to 76% of LWIAs. Smaller percentages of LWIAs received written guidance (44%) and targeted telephone assistance (24%).

States provide performance related technical assistance for several reasons. Exhibit I-8 shows common reasons for receiving TA. Several local areas reported receiving TA for more than one reason.

**Exhibit I-8:
Reasons LWIAs Received Performance Related Technical Assistance**

Reason for Receiving Performance Related Technical Assistance	Percentage of LWIAs
General TA on Performance Measures	57%
Local Request for TA	36%
Failure on One or More Measures	31%
State Failed a Measure	2%

We see from Exhibit I-8 that the most common reason that states provide technical assistance is to give LWIAs general guidance regarding the performance measurement system, including methods for improving performance outcomes. In addition, local areas are as likely to request TA as the state is to require it due to poor performance by local areas. These findings suggest that performance related TA is typically provided in a proactive manner, to facilitate positive performance and prevent problems before they occur.

Local areas were also asked to describe which performance measures were covered by the technical assistance they received. Exhibit I-9 shows the measures most frequently addressed by technical assistance.

¹⁹ Single local area states are excluded from analysis.

**Exhibit I-9:
Measures Addressed by Technical Assistance Sessions**

Measure	Number of LWIAs who Received Technical Assistance Addressing the Measure
All Measures	172
	In addition to those LWIAs listing “All”
Youth Measures	51
Earnings Change/Earnings Replacement Measures	39
Credential Measures	27
Younger Youth Skill Attainment	8
General Issues Only, e.g. data management, service design to promote performance	32
Total Number of LWIAs responding to the question ²⁰	298

We see from Exhibit I-9 that it is most common for technical assistance to address all of the WIA performance measures. When specific measures or groups of measures were targeted, the focus was commonly placed on youth measures, earnings change/earnings replacement measures or credential measures. This is not surprising as these are the measures that local areas have expressed the most concern about their ability to meet.²¹

Finally, a small percentage of LWIAs reported that the TA they received did not focus on the measures per se, but rather on general issues such as data collection and management and service design to ensure positive performance. LWIAs were not explicitly asked whether these general topics were addressed in their TA session. Some LWIAs included this information by way of explanation that their technical assistance did not focus on specific measures. It is very likely that many LWIAs whose technical assistance focused on all or specific groups of measures also received guidance on general information on data management and service design.

²⁰ Of survey respondents, 348 reported receiving technical assistance. Fifty of these LWIAs did not respond to the question asking which measures were addressed.

²¹ From interviews conducted in the first round of site visits and scattered references throughout open-ended survey questions.

Implementation of the Performance Measurement System: Measures and Data

Implementation of the performance measurement system also involves several decisions regarding the specific measures and data used to capture them that may have a significant impact on performance outcomes. First, states and in some cases local areas must make decisions as to the definition of two measures: credential (for adults, dislocated workers and older youth) and younger youth skill attainment. Local areas also must determine whether special emphasis will be placed on achieving particular WIA measures. Finally, states and local areas must decide whether supplemental data will be used to provide documentation of customer outcomes.

Operationalization of Measures

Credential

Federal WIA policy does not provide a strict definition regarding what types of certificates should qualify as credentials for completing training. Rather, the federal policy encourages states to work with local workforce investment boards to develop local credentials for the completion of training that equips individuals to enter or retain employment. Given the flexibility of the federal policy, there may be significant variation among state and local credential policies. These differences in policy may contribute to differences in outcomes on the credential measures.

We analyzed state level policies regarding the definition of credential for 49 states.²² Of the 41 states with more than one local area, six have implemented credential policies that allow less local flexibility than the federal policy, e.g. restricting the use of locally recognized credentials to the completion of OJT or customized training only. Given the looseness of the federal guidelines for the definition of credential,²³ the remaining 35 states allow for considerable local flexibility in terms of determining what will count as a credential. However, only 62% of LWIAs in these states reported that their state allows for local flexibility in the definition of credential. The remaining LWIAs reported that a uniform state-mandated definition is required. This suggests that many local areas are not aware of the flexibility they apparently have in terms of deciding

²² We were not able to gather information on Oklahoma's policies.

²³ The definition of credential as outlined in TEGL 7-99 includes: nationally recognized degree or certificates or state/locally recognized credentials, including but not limited to high school diplomas, GEDs, post-secondary degrees/certificates, recognized skill standards, licensure and industry-recognized certificates, state education agency recognized certificates and certificates for the completion of training services that are designed to equip individuals to enter or re-enter employment, retain employment or advance into better employment.

what constitutes a credential, or that states' written policy is not always reflective of the informal guidance they have provided..

Local areas who reported that they are allowed to develop a customized definition of credential were asked to provide information on what types of credentials are accepted. Most local areas gave descriptions that mirrored the federal definition of credential outlined in TEGL 7-99.²⁴ However, as shown in Exhibit I-10 a small number of local areas provided additional detail regarding locally recognized credentials they have developed in conjunction with their workforce investment boards.

**Exhibit I-10:
Types of Locally Recognized Credentials Developed by Local Areas**

Type of Locally Recognized Credential	Number of Local Areas Using this Type of Credential
Completion of Job Readiness Workshops	24
Achievement of Specific Competencies and Skill Sets that are not formally recognized on state or national level	18
Specific Skills Valued by Local Employers	17

The types of credentials shown in Exhibit I-10 extend the traditional concept of an occupational certificate to include overall job readiness and the needs of specific employers. In the first round of site visits, we found that locally defined credentials such as those listed in Exhibit I-10 were frequently used by local areas. This suggests that additional local areas may also have developed these or similar types of locally recognized credentials. However, the majority of local area responses did not provide sufficient detail for this to be conclusively determined.

Younger Youth Skill Attainment

Younger youth skill attainment consists of three types of goals: basic skills goals, occupational skills goals, and work readiness goals. As with credentials, the federal government provides only broad guidelines as to how each of these goals should be defined. Although we could not conclusively examine state-level policies related to younger youth skill attainment, survey responses indicate that 46% of local areas²⁵ believe that their state allows local flexibility in the definition of younger youth skill attainment goals. Unfortunately, there appears to be significant disagreement among LWIA respondents within specific states as to the whether such flexibility

²⁴ See footnote 23.

²⁵ From states with multiple local areas.

is permitted. In 33 of the 42 states with more than one local area, some LWIAs reported that the state provides a mandated definition of younger youth skill attainment whereas other LWIAs stated that local customization of the measure is allowed. This suggests that significant confusion exists among local areas as to state policies regarding local customization of this measure.

Local areas who reported that their state allows for local customization of the younger youth skill measure were asked to provide their local definition of this measure. The great majority of the 185 local areas who responded to the question gave general descriptions that did not vary significantly from the federal definition of younger youth skill attainment goals outlined in TEGL 7-99²⁶. However, a small number of local areas gave evidence of having developed stricter definitions of what constitutes a basic skill goal. Twenty-eight local areas reported that to achieve a basic skill goal, youth must achieve an increase in basic skills equivalent to ½ - one grade level. It is likely that additional local areas have operationalized basic skill goals in the manner described above. However, the majority of LWIA responses did not provide sufficient detail for this to be conclusively determined.

Measures Emphasized

Nearly 90% of local areas reported that they emphasize all measures equally. However, a small number of LWIAs reported that they placed emphasis on specific measures within one or more of the funding streams. Adult, Dislocated Worker and Youth measures that receive special emphasis are shown in Exhibit I-11 below.

²⁶ The federal definition of younger youth skill attainment goals includes three types of goals: 1. A measurable increase in basic educational skills (basic skills goal); 2. Skills necessary for proficiency in specific occupations (occupational skills goal); and 3. Overall readiness for the world of work including job search techniques, appropriate workplace attitudes and behaviors and daily living skills (work readiness skills goal).

**Exhibit I-11:
Number of LWIAs Emphasizing Specific Performance Measures**

Measure	Number of LWIAs Emphasizing the Measure for Adults	Number of LWIAs Emphasizing the Measure for Dislocated Workers	Number of LWIAs Emphasizing the Measure for Youth
Entered Employment	21	16	8
Retention (Adult, Dislocated Worker, Older Youth)	9	6	5
Earnings Change/Replacement	11	12	8
Credential	3	3	9
Diploma			6
Skill Attainment			4
Retention (younger youth)			2
Total Number of Survey Respondents that Emphasize Specific Measure(s) within the Funding Stream	38	34	31

Of the extremely small number of LWIAs who place emphasis on specific measures, entered employment is the measure most likely to be emphasized followed by earnings change/earnings replacement and credential for older youth.

Supplemental Data

Entered Employment and Retention outcomes are primarily tracked using the Unemployment Insurance wage records system. However, this system does not capture all individuals, such as individuals who are self-employed, federal employees and railroad and postal workers. Therefore, some states and local areas choose to use additional data to supplement the outcomes captured by UI wage records. Responses from the survey indicate that 74% of LWIAs use some form of supplemental data. Common sources of supplemental data are shown in Exhibit I-12 below.

**Exhibit I-12:
Sources of Supplemental Data Used**

Type of Supplemental Data	Number of Local Areas Reporting Use of this Type of Supplemental Data
Employer Verification	169
Pay Stub, Tax Form, W-2	94
Client Contact	75
Partner Data and Administrative Records	16
Business License	6
Total Number of Survey Respondents that Use Supplemental Data	332

We see that the most common type of supplemental data used is verification provided by the employer. This may include conversations with employers and/or written documentation. Official documents such as pay stubs, W-2 forms and tax forms are the second primary source of supplemental data that is used. In addition, many LWIAs use follow up contact with clients as a method of documenting employment and retention outcomes. Most respondents did not specify as to the format of these client self-attestations, e.g. written form, telephone contact, etc. A small number of local areas use additional sources of data such as administrative databases or business licenses (for the self-employed).

Although the great majority of local areas chose to use supplemental data, these local areas were divided as to their opinions of the impact these data have on their employment and retention outcomes. Only 40% of LWIAs who use supplemental data feel that these data have a substantial impact on the outcomes. The majority of LWIAs (56%) reported that the additional data have only a slight impact on their performance outcomes. The remaining 4% of local areas felt that the supplemental data do not impact their performance outcomes at all.

Local areas that choose not to use supplemental data were asked to explain the rationale behind this decision. By far the most frequent response was that the state does not use supplemental data when determining outcomes. Therefore, some LWIAs felt that there was not sufficient benefit to collecting supplemental data. In addition, a small number of LWIAs reported that the cost and time required to collect supplemental data prohibit its use.

Performance and Relationships with Providers and Partners

Local areas may also take steps to ensure positive performance outcomes through relationships with eligible training providers, adult and youth contracted service providers and WIA partners.

This section will examine the types of relationships that exist, the strategies that are used to promote performance, and the broader impacts on the WIA service delivery system.

Types of Providers Used for Adult and Dislocated Worker Services

For 77% of local areas, Individual Training Accounts (ITAs) are the primary method used to provide training services to adult and dislocated workers.²⁷ A small percentage of local areas (10%) favor the use of contract service providers and the remaining 13% of local areas place equal emphasis on contract training and ITAs. Local areas with high unemployment (above 6.5%) are slightly more likely to use contract training providers: 16% of local areas with unemployment rate above 6.5% emphasize use of contract training providers as compared to 8% of local areas with unemployment rates below 6.5%. Anecdotal information from the first round of site visits suggests that some local areas with high unemployment favor the use of contract training such as OJT and customized training because the employer frequently commits to hiring the customer at the completion of training.

Strategies Used to Promote Performance: Eligible Training Provider List

Customers may use ITAs to attend training programs on the Eligible Training Provider List (ETPL). Therefore, one key manner in which local areas can facilitate positive performance outcomes is by ensuring that the ETPL includes only providers with a proven track record of training individuals who have achieved positive employment outcomes. Over two-thirds (68%) of local areas review (or have the state eligibility board review) the past performance of providers when determining their initial eligibility for the ETPL.

The state plays a key role in establishing ongoing performance requirements for eligible training providers. Most local areas have not chosen to set performance levels higher than those outlined by the state. While 60% of states allow local areas to establish higher levels, only 19% of local areas have chosen to do so²⁸. This may be because many local areas may feel that the levels set by the state are sufficient to ensure positive outcomes. Indeed, 63% percent of local areas reported that performance requirements for eligible training providers are equal to or higher than local performance targets.²⁹ An additional 25% of local areas reported that ETPL performance

²⁷ This is not surprising given that WIA legislation requires ITAs as the primary method for training delivery (WIA §134.d.4.G1).

²⁸ Between 59-61% of local areas; some responses indicating 'other' were unclear.

²⁹ Performance requirements for providers' WIA students. This percentage is the same regardless of whether or not the local area set performance requirements higher than the state.

requirements vary by the specific measure (20%) and/or population served by the provider (9%). For these local areas, ETPL performance requirements are in line with LWIA targets some percentage of the time.

Impact of the Performance Measurement System on the Availability of Eligible Training Providers

While ETPL performance requirements can help to ensure that only qualified institutions are used to provide ITAs, a potential risk is that the performance and corresponding reporting requirements might discourage even qualified providers from applying, thereby unnecessarily limiting customer choice. However, the performance measurement system is not currently a major deterrent for training providers in most local areas. Only 21% of local areas reported that the performance measurement system discourages numerous providers from applying for eligibility. A larger percentage (40%) reported that the system discourages a few providers from applying, and the remaining 39% indicated that the performance requirements have no impact on provider interest in being on the ETPL.

Local areas who reported that the performance requirements discourage providers from applying for eligibility were asked to describe the reason(s) why this is the case. Exhibit I-13 shows the most common responses given.

**Exhibit I-13:
Aspects of the Performance Measurement System that Discourage Training Providers from Applying for Eligibility**

Aspect that Discourages Potential Applicants	Number of Local Areas
Time and Cost Required to Track Outcomes	154
Performance Measures are Difficult to Achieve	29
WIA Funds only a Small Number of Students	29
Total Number of Survey Respondents Reporting that the Performance Measurement System Discourages Providers from Applying for Eligibility	273

We see that by far the most common reason given is the reporting requirements associated with the performance accountability system. A substantial number of local areas reported that at least a few providers are deterred by the investment of time and money needed to track outcomes for all WIA participants. By contrast, only a small number of LWIAs reported that the actual performance levels discourage providers from applying. A small number of local areas offered the additional perspective that some providers feel that the burden associated with the

performance measurement system is not worth their while given the fact that WIA only provides funding to a small number of participants.

Although this was not specifically mentioned by local areas, the requirement that ETPL applicants submit historical performance information also appears to be a factor that discourages potential eligible training providers. Among local areas that require historical performance information, 65% reported that the performance accountability system discourages at least a few potential ETPL applicants, as compared to 54% of local areas that do not require historical performance information.

Although the performance measurement system discourages numerous providers from applying for eligibility in only 21% of local areas, it is important to examine whether this has an adverse effect on the ability of this subset of local areas to provide training to customers. Exhibit I-14 shows the percentage of LWIAs who reported that there are a sufficient number of providers for adult services in their local area who meet eligibility requirements and are willing to participate in WIA, grouped by the extent to which the performance measurement system discourages providers from applying for eligibility.

**Exhibit I-14:
Availability of Adult Service Providers**

Extent to Which Performance Measurement System Discourages Providers from Applying for Eligibility	Percentage of LWIAs who Reported that there are a Sufficient Number of Providers for Adult Services
Performance Measurement System Does Not Discourage Providers	85%
Performance Measurement System Discourages a Few Providers	80%
Performance Measurement System Discourages Numerous Providers	65%
All Local Areas	79%

We see from Exhibit I-14 there is a definite relationship between the extent that the performance measurement system discourages service providers from applying for eligibility and the availability of adult service providers. When numerous providers are discouraged from applying for eligibility, only 65% of local areas report that there are a sufficient number of adult service providers, as compared to 85% when no providers are discouraged. This suggests that the performance measurement system can have the unintended adverse effect of limiting the number of available adult providers with the consequence that there are not sufficient providers to meet customer needs.

This is not to suggest that the performance measurement system is inappropriately weeding out adult providers. It may be that the providers who choose not to apply for eligibility do not have the capability to successfully serve WIA participants. In this case, the problem is not the performance accountability system, but rather the lack of appropriate providers. However, as was shown in Exhibit I-13, it is not the performance outcomes themselves, but the extensive WIA reporting requirements that are most frequently listed as a factor that discourages providers from applying for eligibility. If the reporting requirements were scaled back and the administrative burden on providers lessened, local areas might find that additional qualified providers would be willing to apply for eligibility and subsequently serve WIA customers.³⁰

Types of Youth Service Providers

While ITAs may be occasionally used to provide training to older youth, youth programs are typically offered by contract service providers. These programs are frequently provided by organizations with expertise in youth development and may operate quite independently from the rest of the One-Stop system. Exhibit I-15 shows common types of organizations with whom local areas contract to provide services and programs for youth.

**Exhibit I-15:
Types of Organizations Used to Provide Youth Services**

Type of Provider	Percentage of Local Areas that Use this Type of Provider	Average Number of Providers Used (for local areas that use this type of provider)
Community-based Organizations	77%	4.0
Secondary Schools (e.g. High Schools)	59%	3.4
Post-Secondary Schools (e.g. Community Colleges, Universities)	37%	2.5
For-profit Providers	34%	2.1
Other Types of Organizations	22%	2.7

We see from Exhibit I-15 that community-based organizations are the type of agency most frequently used to provide youth services. CBOs are used by more than 75% of local areas, the largest percentage for any type of provider. In addition, the average number of CBOs used is

³⁰ For a further discussion of these issues, please see a recent report (completed for DOL, ETA), D'Amico and Salzman, *An Evaluation of the Individual Training Account/Eligible Training Provider Demonstration: Final Report* (2004).

higher than for other types of agencies. Secondary schools are the second most frequently used type of provider, receiving contracts from nearly 60% of local areas. Nearly one fourth of local areas contract with other types of organizations to provide youth services, most of which are state or local government agencies.

There is significant variation in the total number of youth providers used by local areas. While 10% of local areas use only one provider, 11% of local areas use 15 providers or more. The most providers used by any survey respondent is 133³¹. Not surprisingly, both the overall number of providers and the number of different types of providers vary by the size of the local area. Exhibit I-16 shows the average number of youth providers and provider types, grouped by local population size.

**Exhibit I-16:
Average Number of Youth Providers and Number of Different Types of Youth Providers
by Size of Local Area**

Population of Local Area	Average Number of Youth Providers	Average Number of Different Types of Providers³²
Less than 200,000	4.4	1.8
200,000-400,000	6.3	2.3
400,000-1,000,000	8.6	2.5
More than 1,000,000	19.8	2.9
All Local Areas	7.5	2.3

As would be expected, larger local areas contract with a greater number of providers, representing a more extensive variety of provider types³³. However, the average increase of 15 providers between the largest and smallest local areas only results on average in one additional type of provider. It is not surprising that a local area that contracts with only four providers would only use two types of providers. However, one might expect that a local area contracting with 20 providers would use four or five different types of providers. These findings suggest

³¹ The median number of youth providers per local area is 5 and the median number of different types of providers used is 2. Providers listed as ‘other’ are considered to be one type for the purpose of this analysis.

³² Providers listed as ‘other’ are considered to be one type for the purpose of this analysis.

³³ The overall associations between population size and both number of providers and type of providers are statistically significant (using OLS regression). Using chi square, for number of providers, local areas with populations over one million are significantly different from the other local areas; for number of types of providers, local areas with populations under 200,000 are significantly different from other local areas.

that larger local areas tend to contract with multiple providers of the same type rather using the entire spectrum of available types of providers.

Strategies Used to Promote Performance: Selection and Contracts with Youth Providers

Similar to eligible training providers, a variety of strategies are frequently used by local areas to promote positive performance among youth service providers:

- In order to gauge provider ability to achieve desired outcomes, 82% of local areas require youth provider applicants to submit historical performance information.
- Once youth providers are selected, 84% of local areas use contracts that include explicit performance requirements.

Performance requirements for youth service providers are strongly linked to local area performance targets. Of local areas that include explicit performance requirements, 66% require that providers achieve outcomes equal to the LWIA performance levels. An additional 23% of local areas set performance targets for youth service providers higher than local area targets. The remaining 11% local areas that include explicit performance requirements determine the performance levels on a program by program basis; only one local area specified that requirements for youth providers are unilaterally below the LWIA's performance levels.

The likelihood that local areas use explicit performance requirements in contracts with youth service providers varies according to both the local poverty rate and the size of the local area. Over 90% (92%) of local areas with poverty rates above 15% use explicit performance requirements in youth contracts, as compared to 81% of local areas with poverty rates below 15%. While use of performance requirements in youth contracts is very common among all LWIAs, local areas in high poverty areas may want to be especially careful that their service providers are committed to achieving positive employment outcomes for the low income, often high risk youth served by WIA.

Exhibit II-17 shows the percentage of local areas using explicit performance requirements in relationships with youth service providers, grouped by the size of the local area population.

**Exhibit I-17:
Use of Explicit Performance Requirements in Contracts with Youth Providers by Size of Local Area**

<u>Size of Local Area</u>	<u>Percentage of Local Areas that Use Explicit Performance Requirements in Contracts with Youth Service Providers</u>
Less than 200,000	75%
200,000-400,000	83%
400,000-1,000,000	88%
More than 1,000,000	91%

From Exhibit 17, we see an overall statistically significant association between population size and the probability that the local area will use explicit performance requirements in contracts with youth service providers.³⁴ Because large local areas contribute substantially to their state’s overall performance outcomes, they may feel extra pressure to achieve their performance targets. Holding youth providers accountable to the same targets is one way to ensure that these levels will be reached.

Impact of the Performance Measurement System on the Availability of Youth Providers

As with the ETPL, while the aforementioned strategies may ensure that only the most qualified providers serve WIA youth, the requirements may also have the unintended effect of decreasing the number of qualified providers that are interested and willing to participate in WIA programs. Fortunately, only 16% of local areas reported that the performance accountability system discourages numerous youth providers from responding to requests for proposals. An additional one-half of local areas (46%) did report that the performance accountability system discourages a few youth providers from applying.

Local areas who reported that the performance measurement system discourages youth providers from submitting proposals were asked to explain why this is the case. Common responses are shown in Exhibit I-18 below.

³⁴ There is an overall statistically significant association using logistic regression. Using chi-square, the only statistically significant difference among pairs of groups is between local areas with less than 200,000 and those with populations between 400,000 and 1,000,000. The number of LWIAs with populations larger than 1,000,000 is very small, rendering the difference between this group and those with populations less than 200,000 not quite statistically significant (.06).

**Exhibit I-18:
Aspects of the Performance Measurement System that Discourage Youth Providers from Submitting Proposals**

Aspect that Discourages Youth Providers	Number of Local Areas
Time and Cost Required to Track Outcomes	76
Concern about Achieving Performance Levels	66
Too Many Reporting and Performance Requirements for the Level of Funding Provided	16
Performance/Tracking Requirements are Especially Difficult for New and/or Small Providers	10
Total Number of Survey Respondents Reporting that the Performance Measurement System Discourages Youth Providers from Submitting Proposals	268

We see from Exhibit I-18 that, similar to ETPL applicants, the extensive reporting requirements are the aspect of the performance accountability system that most frequently discourages youth provider applicants. However, a significant number of local areas also reported that concern about the performance standards themselves also discourages potential youth service providers. A few local areas specifically mentioned that the use of performance based contracts (where payment is withheld if specified outcomes are not achieved) contributes to this concern. A smaller number of local areas provided the additional response that the performance requirements are viewed as excessive given the level of funding that is available through WIA. Finally, a few local areas mentioned that the performance and/or reporting requirements are especially difficult for recently established and small providers and serve to deter these providers from submitting proposals.³⁵

Although local areas were not specifically asked to comment on non-performance related aspects of WIA that discourage youth providers, some local areas chose to provide this information. Twenty three local areas commented that WIA requirements such as the strict eligibility criteria and the 10 required program elements serve to discourage youth providers from submitting proposals. Nine local areas also noted that the minimal amount of WIA funds also serves to deter providers, irrespective of the performance measures.

³⁵ We did not find that either the use of explicit performance requirements in youth contracts or the requirement that youth applicants include historical performance information when submitting proposals were associated with an increased likelihood that any or numerous youth providers are discouraged from submitting proposals. This is not surprising due to the fact that these policies are used by nearly all local areas and are in essence standard elements of the performance accountability system; therefore an adequate control sample does not truly exist.

As we have mentioned, 62% of local areas reported that the performance measurement system discourages at least a few providers, although three-fourths of these local areas did not feel that the accountability system discourages numerous providers. The question thus arises as to whether the fact that the performance measurements system deters some number of providers in most local areas has an impact on the overall availability of service providers in those local areas. Exhibit I-19 shows the percentage of LWIAs who reported that there are a sufficient number of youth service providers in their local area who meet eligibility requirements and are willing to participate in WIA, grouped by the extent to which the performance measurement system discourages providers from submitting proposals.

**Exhibit I-19:
Availability of Youth Service Providers**

Extent to Which Performance Measurement System Discourages Youth Providers from Submitting Proposals	Percentage of LWIAs who Reported that there are a Sufficient Number of Youth Service Providers
Performance Measurement System Does Not Discourage Youth Providers	80%
Performance Measurement System Discourages a Few Youth Providers	67%
Performance Measurement System Discourages Numerous Youth Providers	34%
All Local Areas	67%

We see from Exhibit I-19 that there is a very strong relationship between the extent to which the performance accountability system discourages potential youth providers and the availability of youth providers. Local area responses to open-ended questions concur with these findings. When local areas who report that there are not a sufficient number of youth service providers were asked what factors contribute to this situation, the second most common response was WIA regulations, performance and reporting requirements.

Of specific concern is the finding that, among local areas who report that the performance measurement system discourages numerous providers, only 34% believe there are a sufficient number of youth providers who are willing and eligible to participate in WIA. While this applies to a small percentage of local areas (only 16% of LWIAs feel that the performance measures discourage numerous applicants), the findings nevertheless highlight the issue that when many youth providers in a local area have difficulty with the performance accountability system, recruiting and maintaining enough providers becomes a challenge.

As was discussed in the section on eligible training providers, these findings do not necessarily suggest that the performance measurement system is inappropriately screening out youth providers. It may be that the providers who choose not to apply do not have the ability to implement a successful WIA program. In this case, the problem is not the performance accountability system, but rather the lack of capable providers. However, as was shown in Exhibit I-18, the most frequent reason youth providers are discouraged by the performance measurement system is the extensive reporting requirements. If the reporting requirements were decreased, local areas might find that additional qualified providers would be more inclined to submit proposals to serve WIA youth.

Strategies Used to Promote Performance: Incentives and Sanctions in Contracts with Service Providers

Local areas also promote performance by including performance-based incentives and/or sanctions in contracts with providers. Two thirds of local areas reported that they use incentives and/or sanctions in their contracts with service providers.³⁶ Common forms of incentives and sanctions are listed in Exhibit I-20 below.

**Exhibit I-20:
Forms of Incentives and Sanctions Used in Contracts with Service Providers**

Type of Incentive/Sanction	Number of LWIAs
Decision whether to Renew Contract is based on Performance Outcomes	170
Termination of Contracts for Poor Performance Outcomes	54
Payment Increase or Decrease based on Performance Outcomes	112
Corrective Action Plan	36
Share in Incentive Funding Awarded to Local Area	13
Total Number of Survey Respondents that use Incentives/Sanctions in Contracts with Providers	298

We see from Exhibit I-20 that local areas define incentives and sanctions broadly. The most common form of incentive/sanction is the possibility of renewal at the conclusion of the contract. These local areas reported that they would only issue additional contracts to providers that have achieved satisfactory performance outcomes. Approximately one third of these local areas take

³⁶ We found that what some local areas consider to be incentives, others consider as sanctions, and vice versa. Therefore these two strategies were combined for the purpose of tabulation.

the additional step of terminating the relationship mid-contract if the provider is not meeting performance targets. The second frequent type of incentive/sanction is payment based on performance outcomes. In such cases, a portion of the contract payment is typically paid upon the achievement of outcomes specified in the contract. If outcomes are not achieved, this payment is withheld.

When asking about selection of providers and use of incentives and sanctions, the survey did not distinguish between traditional contracted service providers and eligible training providers. Open ended survey responses as well as interviews from the first round of site visits indicate that some local areas do use a type of sanction in relationships with providers that receive payment through ITAs. In such situations the ITA is the equivalent of a performance based contract to serve one individual; payment is withheld until the customer has completed training and achieved positive employment outcomes.

Two findings from the first round of site visits provide additional context in understanding the use of incentives and sanctions in contracts with service providers. First, we found that performance based contracts typically include a broad spectrum of performance measures that include the WIA performance measures and other measures to assess customer flow and real time performance outcomes. Following this model, the survey did not restrict responses to incentives/sanctions that are used specifically to promote positive outcomes on the WIA performance measures. Secondly, we found that existence of sanctions does not always indicate that they will be enforced.

The use of incentives/sanctions in relationships with service providers varies according to the size and geographic location (urban vs. rural) of the LWIA. Exhibit I-21 shows the percentage of survey respondents that use incentives/sanctions in contracts with service providers, grouped by the percentage of the local population that lives in urban areas.³⁷

³⁷ The U.S. Census definition of urban, which includes urbanized areas and urban places is used throughout this report. To provide some context, nationwide, 79% of individuals live in urban areas. Approximately 60% of local areas have populations that are at least 79% urban.

**Exhibit I-21:
Use of Incentives/Sanctions in Contracts with Service Providers by Extent of Urbanization**

Percentage of Population that lives in an Urban Area	Percentage of Local Areas that Use Incentives/Sanctions in Contracts with Service Providers
Less than 50%	52%
50%-90%	69%
More than 90%	75%

We see from Exhibit I-21 that a greater degree of urbanization is associated with an increased likelihood that the local area will use incentives/sanctions in relationships with contracted service providers. Local areas serving predominantly rural populations stand out as being substantially less likely to use incentives/sanctions than other local areas³⁸.

Exhibit I-22 shows the percentage of local areas that use incentives/sanctions in contracts with service providers grouped by the size of the local area. Here we see that population size is also associated with an increased likelihood that the local area will use incentives/sanctions in relationships with contracted service providers. This pattern is most dramatic for local areas serving populations greater than one million, who are particularly likely to use incentives/sanctions in contracts with service providers.³⁹

**Exhibit I-22:
Use of Incentives/Sanctions in Contracts with Service Providers by Size of Local Area**

Size of Local Area	Percentage of Local Areas that Use Incentives/Sanctions in Contracts with Service Providers
Less than 200,000	56%
200,000-400,000	66%
400,000-1,000,000	68%
More than 1,000,000	94%

³⁸ This overall association is based on logistic regression analysis. Using chi-square tests, local areas that serve populations that are under 50% urban are significantly different from those with populations that are more than 50% urban.

³⁹ This overall association is based on logistic regression analysis. Chi-square tests reveal that local areas serving populations greater than one million are significantly different from smaller local areas.

The information from Exhibit I-21 and Exhibit I-22 together form a cohesive pattern that indicates that use of incentives and sanctions is least common in the smallest and most rural local areas, and is most common in very large LWIAs, which are typically located in the largest metropolitan areas. This pattern is likely the result of two factors. First, because the performance of very large local areas has a very strong impact on the overall performance of the state, these local areas may feel additional pressure to achieve performance outcomes. Incentives and sanctions are one way to ensure provider cooperation with efforts to achieve performance targets. Secondly, rural areas, who have fewer providers to choose from, may feel reluctant to sanction and potentially alienate the local providers that are willing to participate in LWIA.

Impact of Incentives and Sanctions on the Availability of Service Providers

We did not find any significant relationships between the use of incentives/sanctions and the availability of adult or youth providers or the likelihood that eligible training providers or youth providers are discouraged from participating in WIA.

Availability of Adult and Youth Providers: Additional Considerations

Thus far we have focused on the relationship between the performance measurement system and the availability of adult and youth service providers. However, the geographic location of the local area also appears to contribute to the availability of adult and youth service providers. Exhibit I-23 shows the percentage of LWIAs reporting that there are a sufficient number of adult service providers and youth service providers grouped by the percentage of the population that lives in urban areas.

**Exhibit I-23:
Availability of Adult Service Providers by Urbanization of Local Area**

Percentage of Population that lives in an Urban Area	Percentage of LWIAs Reporting that there are Sufficient Number of Adult Service Providers	Percentage of LWIAs Reporting that there are Sufficient Number of Youth Service Providers
Less than 50%	79%	68%
50%-90%	74%	61%
More than 90%	90%	78%

We see from Exhibit I-23 that the LWIAs with the largest proportion of urban residents are also the most likely to report that there are a sufficient number of adult and youth service providers. This suggests that the most densely populated areas also have the most available service providers per capita. We see a slight trend that indicates that predominantly rural areas have

more available providers than areas that are predominantly urban but with a significant rural population. However, differences among these groups are not statistically significant.⁴⁰

Open ended responses support the analysis presented above. LWIAs that reported that there are not a sufficient number of adult and/or youth service providers were asked what factors contribute to the lack of providers in their area. The most common response was that the rural location of the LWIA makes it difficult to locate a sufficient number of service providers.

Analyses we have presented thus far indicate that complex relationships exist among the strategies designed to enhance performance outcomes, provider responses to these policies, the size of and level of urbanization of the local area and the availability of service providers. In Chapter II of this report, we will conduct multivariate analysis to determine the impact of these specific factors on customer outcomes.

Performance Measures and Relationships with WIA Partners

WIA partners also play a key role in the implementation of WIA. Partners help WIA staff to provide services to customers in two primary ways. First, the responsibility of providing core and intensive services may be shared among partner agencies. Second, WIA registrants may be co-enrolled with other partners who provide services that customers need. Strong collaboration and appropriate use of partners can increase the likelihood of achieving performance outcomes.

Role of Partners in Providing Core and Intensive Services

There is considerable diversity among local areas in how they have allocated the responsibility for providing core and intensive services. Most local areas (67%) share the responsibility of providing core services with multiple partners including the Employment Service (ES). WIA is primarily responsible for providing core services in only 22% of local areas. Interestingly, an even smaller percentage of local areas (10%) reported that ES alone is primarily responsible for providing core services.

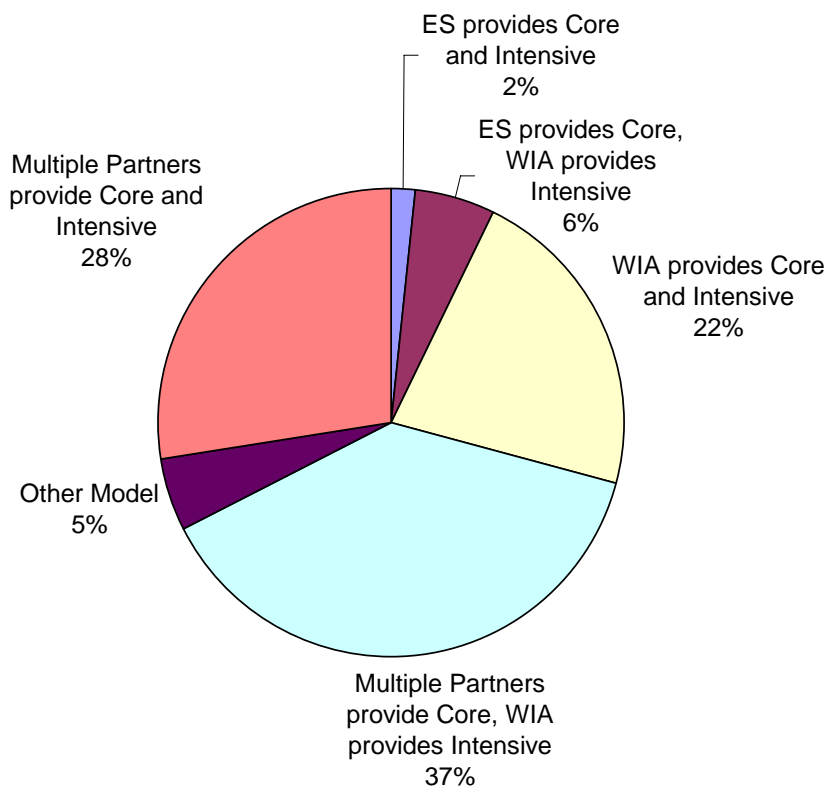
WIA resources are used more heavily to provide intensive services. Two-thirds of local areas reported that WIA is primarily responsible for providing intensive services, including 28% of local areas who reported that intensive services are exclusively provided by WIA. The most urbanized local areas are even more likely to use WIA to provide intensive services; 76% of

⁴⁰ In interpreting these results, it should be noted that census definitions of 'urban' and 'rural' do not completely coincide with local WIA staff members' more casual use of these terms. For instance, Tulare County staff describe the community as a 'rural', although according to census definitions, 81% of the population lives in urban areas. It is not inappropriate to consider all local areas whose population is less than approximately 90% urban as facing some of the same issues as the most rural areas.

these areas report that intensive services are primarily provided by WIA. The second common model, used by 31% of local areas, is to use provide intensive services through multiple partners including ES.

The strategies used to provide core and intensive services described above can be combined into five general models of service delivery. Exhibit I-24 shows the percentage of local areas that use each of these models.

**Exhibit I-24:
Models Used by Local Areas to Provide Core and Intensive Services**



We see from Exhibit I-24 that partners play a substantial role in the provision of WIA core and intensive services. Two of the three most common models of service delivery heavily involve multiple partners, either as providers of core and intensive services or as providers of core services only. Under the third frequently used model, WIA has primary responsibility of providing both core and intensive services. However this model is the only design that does not involve partners in the delivery of WIA services and is used by less than 25% of local areas. Because partners play a significant role in providing WIA core and intensive services, partner

responses to and involvement with the performance measurement system are particularly important and can substantially impact customer outcomes.

Impact of the Performance Measurement System on Partner Involvement in the One-Stop System

Survey respondents were asked to describe the extent to which the performance measures impact partner willingness to be actively involved in the One-Stop system. The majority of local areas (62%) reported that the performance measures do not impact partner willingness to be involved in the One-Stop system. In addition, 10% of local areas reported that the performance measures actually increase partner willingness to be involved in the One Stop. However, 28% of local areas reported that the performance measures reduce partner willingness to be actively involved in the One Stop system. In sum, the performance measurement system does not appear to have a negative impact on partner integration in most local areas, although a significant subset of local areas do struggle with this issue.⁴¹

One major factor that can influence partner response to the performance measurement system is the extent to which they see the performance measures as aligned with their agency goals and objectives. The common measures will certainly serve to increase the relevance that the performance measures have for WIA partners and can facilitate further partner integration into the One-stop system. In addition, some states have implemented ‘common’ performance measures that apply to some or all WIA partners, and some local areas have developed One-Stop system measures for which all partners are responsible. Survey responses and findings from the first round of site visits indicate that, when these measures exist, they tend to focus on customer flow and services provided rather than customer outcomes.

However a small percentage of survey respondents (6%) did report that many WIA partners have the same measures as those specified in WIA. An additional 24% reported that a few of the partners have the same measures. Because so few local areas reported that many partners have the same measures as WIA, it is not possible to determine with statistical accuracy the impact that this has on partner attitudes toward the performance measurement system. However, the trends in the data do suggest partners are more accepting of the performance measurement system when they share the same measures as WIA:

- When many partners have the same performance measures as WIA, only 17% of local areas reported that the performance measures reduce partner willingness to be actively involved in the One-Stop system

⁴¹ 76 local areas gave a response of ‘don’t know’ to this question; these responses were treated as missing data.

- When no or a few partners have the same performance measures as WIA, 32% of local areas reported that the performance measures reduce partner willingness to be actively involved in the One-Stop system⁴².

These trends suggest that the implementation of the federal common measures will increase partner willingness to be actively involved in the One-Stop system.

Impact of the Performance Measurement System on Willingness to Co-Enroll Clients

In addition to the WIA core and intensive services described above, partners also provide additional services and programs that may not be available through WIA, such as special programs for older workers and disabled customers and low-cost childcare and transportation for TANF clients. WIA staff can incorporate these services into the customer's individual service plan through co-enrolling them in a partner program. As these additional services frequently make it easier for customers to achieve their employment goals, co-enrollment can increase the chance that customers will achieve positive employment outcomes.

Although in principle co-enrolling customers can help to improve customer outcomes, co-enrollment can also create problematic situations from a performance standpoint. As we have seen, partners are not typically responsible the same performance measures as WIA. Rather, these programs have their own goals and standards that may not align well with the WIA performance standards. Understandably, WIA staff may be reluctant to co-enroll their customers in programs whose immediate goals run counter to the WIA performance measures. In most local areas, this concern appears to override any beliefs about the benefits of co-enrollment for performance⁴³.

- More than half (53%) of local areas reported that the performance measures reduce WIA staff willingness to co-enroll clients.
- A much smaller number of local areas (20%) reported that the performance measures increase WIA staff willingness to co-enroll clients
- The remaining 27% of local areas reported that the performance measures do not impact WIA staff willingness to co-enroll clients.

Decisions about co-enrollment are thus somewhat of a 'catch 22' situation. While the services provided by partner programs can help to improve customer outcomes, the disparate performance goals may also hinder efforts to achieve positive outcomes. The common measures

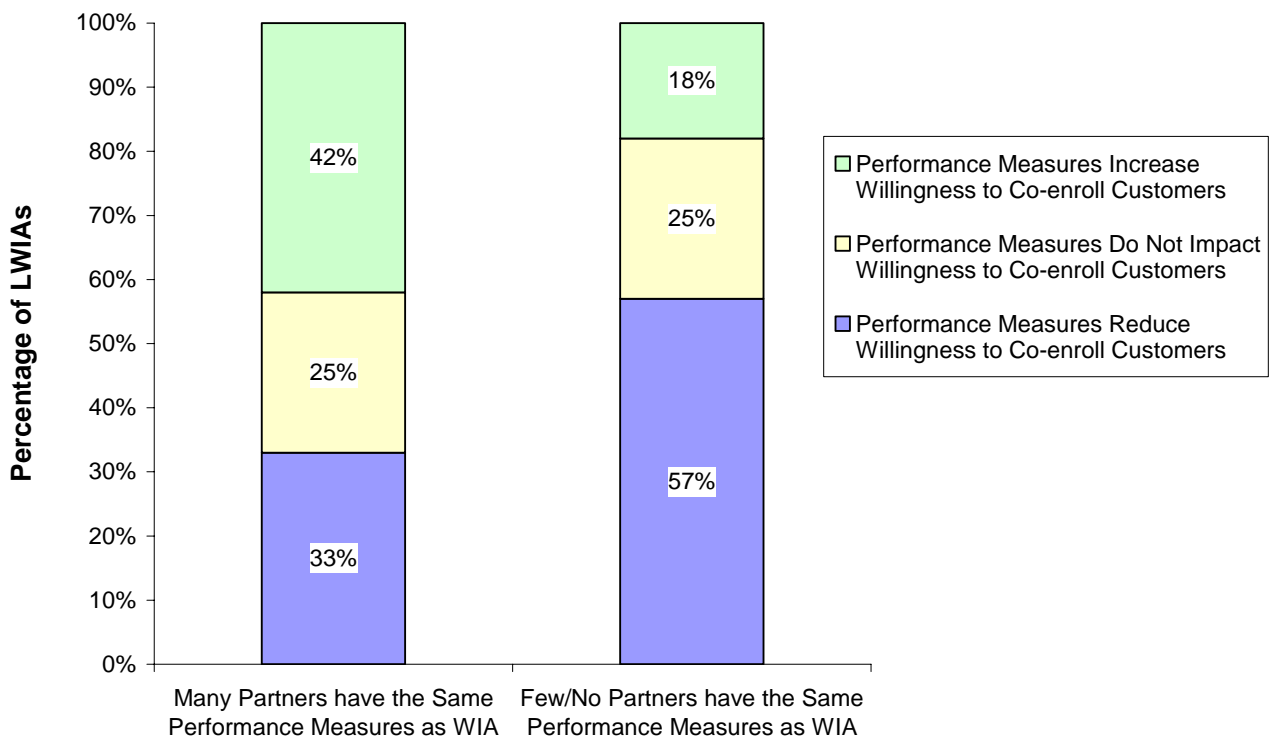
⁴² Percentages do not differ whether a few or no partners share the WIA performance measures.

⁴³ 77 local areas indicated that they 'did not know' whether the performance measures impact staff willingness to co-enroll customers. These responses were treated as missing data.

will help to solve this dilemma by establishing a single set of performance goals for which all partner workforce programs are responsible.

As we have mentioned, in a small percentage of local areas, many partners already have the same performance measures as WIA. These local areas have in effect served as informal pilot sites for the implementation of common performance measures and can illustrate what the likely impact of the common measures will be. Not surprisingly, these local areas are less likely to report that the performance measures decrease willingness to co-enroll clients and are more likely to report that the performance measures increase willingness to co-enroll clients. Exhibit I-25 shows local area perception of the impact of the performance measurement system on willingness to co-enroll clients, grouped according to whether partners have the same performance measures as WIA.

**Exhibit I-25:
WIA Staff Members' Willingness to Co-Enroll Customers**



We see from Exhibit I-25 that substantial differences exist between local areas where many partners share the WIA performance measures and those where few or no partners share the WIA performance measures. These findings provide additional support for the idea that providing a

common set of performance measures will increase One-Stop integration and willingness to co-enroll customers.

Co-Enrollment Between ES and WIA: Additional Factors

Two additional factors also influence the extent of co-enrollment between ES and WIA. These are the service design used to provide core services and the size of the local area. Exhibit I-26 shows the percentage of local areas reporting that there is substantial co-enrollment between ES and WIA grouped by the program(s) used to provide core services to customers.

**Exhibit I-26:
Extent of Co-Enrollment Between ES and WIA by Program(s) Used to Provide Core Services**

Program(s) That Provide Core Services	Percentage of Local Areas reporting that there is Substantial Co-enrollment between ES and WIA
ES (primarily or exclusively)	59%
Multiple Partners including ES and WIA	59%
WIA (primarily or exclusively)	33%
All Local Areas	53%

Not surprisingly, we see from Exhibit I-26 that substantial co-enrollment between ES and WIA is much more likely when ES plays a significant role in providing core services to WIA customers.

Local Area Perception of the Impact of the Performance Measurement System

Thus far we have discussed several strategies that local areas can use to help to ensure positive performance outcomes, including requests for technical assistance, supplemental data, ETPL requirements and performance based contracts with providers. This next section examines perhaps the two most important steps local areas can take to improve performance. These are the selection of customers that are likely to achieve positive outcomes and the use of services that are effective in helping customers to achieve them. While these strategies can help to improve performance outcomes, they may also serve to restrict the types of customers who receive WIA services and/or the types of services that are provided. This section will explore the impact of the performance measurement system on which customers are served and what services are provided.

Customer Focused Strategies

Three primary strategies may be used to focus on customers who are likely to achieve positive performance outcomes. Each strategy takes place at a different point in the service delivery process. The first of these is to *target* customers that are likely to achieve positive performance outcomes. The second strategy is to *register* customers who have demonstrated that they have the ability to achieve positive employment outcomes. The final strategy is based on decisions to *exit* customers who will achieve positive performance outcomes.

Targeting

Local areas may choose to target one or more specific groups of customers for service, such as low income individuals, older workers or displaced homemakers. This targeting may or may not be related to the performance measures. Overall, 55% of local areas report that they target particular groups for services. Common types of customers targeted for service are shown in Exhibit I-27.

**Exhibit I-27:
Customers Targeted by Local Areas**

Type of Customer	Number of Local Areas Targeting this Type of Customer
Low Income Individuals	127
Public Assistance Recipients	55
Limited Education (high school dropouts, individuals with low literacy or limited basic skills)	52
Disabled Individuals	48
Ex-Offenders	38
Veterans	36
Mature Workers	27
Out of School Youth	29
Limited English Proficient Individuals	21
Specific Ethnic Groups	19
Teen Parents and/or Single Parents	16
Youth in Foster Care	15
Total Number of Survey Respondents that Target Specific Customer Groups	248

We see from Exhibit I-27 that there is considerable variety in the types of individuals targeted by local areas. However, a general pattern emerges in that local areas tend to target individuals with specific barriers to employments, such as disability or limited English proficiency. The most frequently targeted customer groups, low income customers and individuals receiving public assistance, frequently face multiple barriers such as low education levels and limited occupational skills. Interestingly, customers with employment barriers are typically considered to be risky in terms of performance outcomes. One possibility is that the performance measures do not impact decisions regarding which customer groups are formally targeted. Another possibility is that targeting is primarily used to improve outcomes on the earnings change and earnings replacement measures, because, when they are able to find work, low income customers might be expected to have high post-program, relative to pre-program earnings.

Local areas that target specific customer groups were asked the extent to which the performance measures influence their targeting practices. Results are shown in Exhibit I-28.

**Exhibit I-28:
Influent of the Performance Measures on Local Area Targeting of Customer Groups**

Extent to Which the Performance Measures Influence Targeting	Percentage of Local Areas (Sample: Local Areas that Target Customers)
Performance Measures Do Not Influence Targeting	33%
Performance Measures Somewhat Influence Targeting	39%
Performance Measures Substantially Influence Targeting	28%

We see a fairly even distribution in terms of the influence that the performance measures have on the targeting of specific customer groups. While 33% of local areas that target specific types of customers do so without regard to the performance measures, 28% report that the performance measures have considerable influence on which customers they choose to target for services. Given that most of specific groups targeted could be considered hard-to-serve customers, it is somewhat surprising that two thirds of local areas report that the performance measures influence their targeting practices. One explanation is that described above, namely that low income customers are targeted for the purpose of improving outcomes on the earnings change and earnings replacement measures. Indeed, of the local areas who indicated that the

performance measures influence targeting, 80% reported that they target low income customers.⁴⁴ Equally plausible is that local areas target but in more complex ways than could be captured by the survey. In other words, it is possible that these areas target low-income customers, but only those who they think will get jobs (i.e., they target within the specific target groups identified in the survey). Unfortunately, we could not capture this level of detail within the survey to discern if this is, indeed, happening in a number of local areas.

Registration

The desire to achieve positive performance outcomes can also impact which customers are registered into WIA. Just over 40% of local areas (41%) reported that the performance measurement system influences decisions regarding when an individual is eligible to register in WIA. These respondents were asked to describe the specific manner in which the performance measures influence registration decisions. Common responses are shown in Exhibit I-29 below.

**Exhibit I-29:
Performance Related Factors that Influence the WIA Registration Process**

	Number of Local Areas
Registration of Customers Likely to Achieve Positive Performance Outcomes	82
Overall Ability to Succeed	21
Commitment Level/Motivation to Succeed	19
Work Readiness/Employment Barriers have been Addressed	15
Completed Activities to Demonstrate Motivation	10
Consider Impact of Prior Wages on Performance	18
Time (Date) of Registration is Structured to Achieve Positive Performance Outcome (e.g. quarter of registration)	21
Registration Postponed to decrease Pre-Program Wages	14
Prior Earnings Impact Decisions (no details provided)	11
Total Number of Survey Respondents that Answered the Question ⁴⁵	122

⁴⁴ We calculated this figure by combining two separate questions, including whether they target low income or public assistance customers and the performance measures influence targeting, and whether the performance measures increase the likelihood that customers with low or no prior earnings will be targeted.

⁴⁵ Although 184 local areas reported that the performance measures influence decisions regarding when an individual is eligible to register for WIA, several chose not to answer the open-ended question that followed. In addition, approximately 30 local areas provided responses that were difficult to interpret or did not seem to directly apply to the question.

We see from Exhibit I-29 that the performance measures impact eligibility for WIA registration in two general ways. First and more commonly, performance measures contribute to decisions regarding *which* customers will be registered. Customers are selected for registration in WIA based (at least in part) on the likelihood that they will achieve positive performance outcomes. Several local areas provided further clarification on specific criteria that are considered; those most commonly mentioned were the overall ability to achieve successful employment outcomes, commitment to training and/or finding employment, and work readiness. Several of the local areas who indicated that work readiness is a consideration stated that registration would simply be delayed until employment barriers have been addressed. In addition, a small number of local areas require customers interested in WIA to complete activities designed to demonstrate work readiness and/or commitment level. Finally, some local areas reported that they are less likely to register customers with high prior wages who would likely have a negative impact on the earnings change or earnings replacement measures.

The desire to achieve positive performance outcomes may impact the *time* at which a customer is registered in a small number of local areas. Of the 21 local areas who reported that the date of registration is selected to achieve positive performance outcomes, the majority specifically mentioned that this is done to decrease the level of pre-program wages and thereby improve outcomes on the earnings change and/or earnings replacement measures. An additional 11 local areas reported that prior wages influence the registration process but did not specify whether the impact is in terms of which customers are registered or the date at which they are registered.

The survey question examining the impact of the performance measures on the registration process was broadly worded to incorporate both the time of registration as well as criteria used in the selection process. In addition, many local areas chose not to answer the open-ended question describing the specific impact of the performance measures on registration processes. Therefore it is difficult to quantify exactly how many local areas screen out customers based on their ability to achieve positive performance outcomes. In general however, findings appear to support our conclusions from the first round of site visits: While ability to complete training and motivation to find employment are often considered before registering a customer, there is not evidence that local areas frequently screen out ‘hard-to-serve’ customers.

Exit

The final customer focused strategy that may be used to facilitate positive performance outcomes is strategic decision making regarding the time of exit from WIA. Nearly all local areas (81%) reported that the performance measures influence decisions regarding when to exit a customer from WIA. These local areas were asked what performance related criteria they use to determine the appropriate exit time. Many local areas gave very general responses to this question. While

indicating that the exit point is selected to maximize positive performance outcomes, they did not specify the decision making criteria used. However, some local areas gave more specific responses; common themes are shown in Exhibit I-30 below.

**Exhibit I-30:
Performance Related Criteria Used to Determine the Time of Exit from WIA**

Criteria	Number of Local Areas
Employed	106
Employed long enough that the placement appears stable and secure	22
Employed with Earnings Gain/Earnings Replacement	33
Obtained Credential	15
Achieved Positive Performance Outcome(s) (not specified)	40
End of Quarter	40

We see from Exhibit I-30, that by far the most common method used is to delay exit until the customer has been placed into a job. By delaying exit until the customer is employed, the local area increases the likelihood that a positive ‘entered employment’ outcome will be achieved. A subset of these local areas delay exit until the customer has been employed for a long enough period that the job placement appears to be secure and job retention seems likely. In addition, a smaller number of local areas delay exit until a credential has been obtained and/or a wage increase/replacement has been received. Finally, 40 local areas reported that they would exit a customer when positive performance outcomes have been achieved, but did not specify which measures are considered when making this determination.

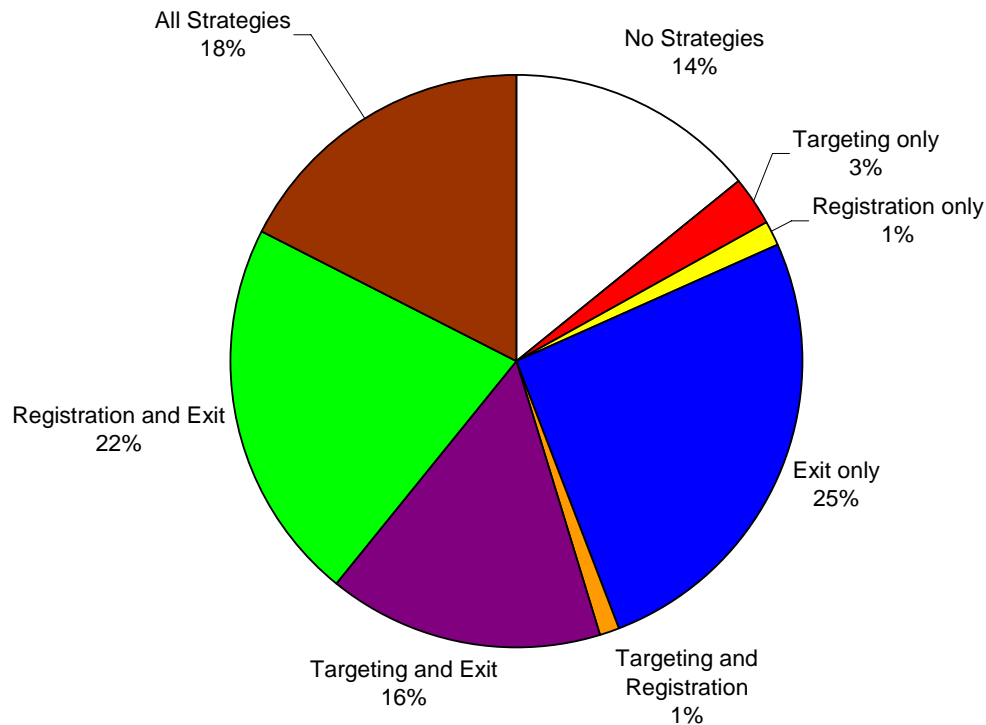
An additional 40 local areas reported that the performance measures influence the time of exit in a slightly different manner. These local areas stated that exits are made toward the end of the quarter in order to increase the likelihood of positive outcomes. It seems plausible that, in order for such a strategy to be successful, exit must also be delayed until the customer has obtained employment, though local areas did not explicitly cite this as a factor in waiting until the end of a quarter to exit their customers..

Use of Multiple Customer Focused Strategies: Targeting, Registration and Exit

Thus far, we have discussed three customer focused strategies that local areas may use to facilitate positive performance outcomes. Local areas may opt to use none of these strategies, one of these strategies or multiple strategies together. Exhibit I-31 displays the frequency with which various combinations of customer focused strategies are used. Local areas who reported

that the performance measures influence their targeting practices are considered to use targeting as a performance enhancement strategy.

**Exhibit I-31:
Types of Customer Focused Strategies Used by Local Areas to Improve Performance**



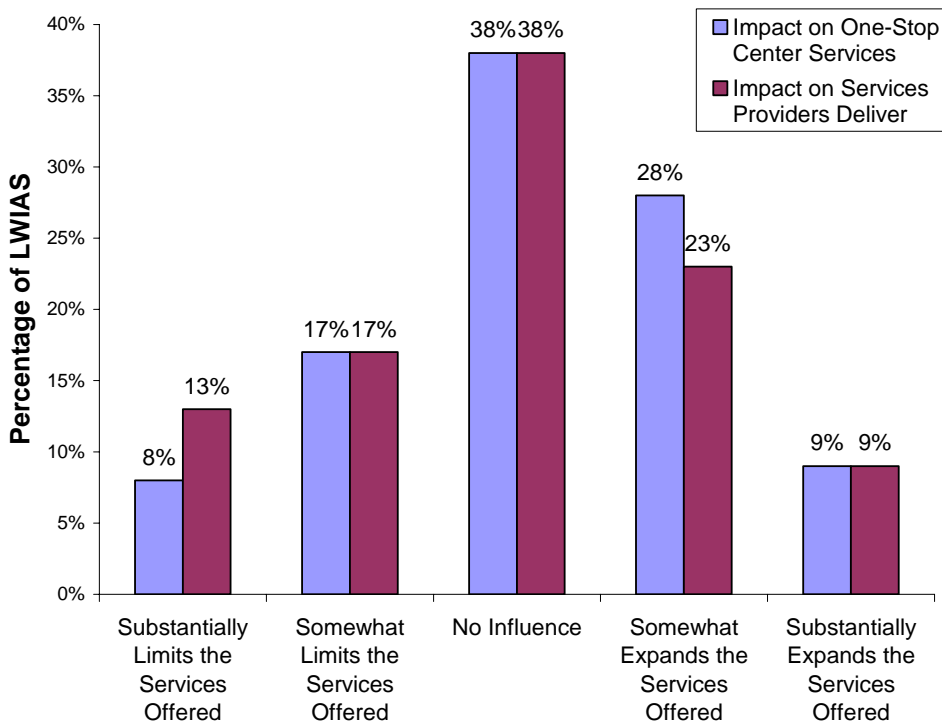
We see from Exhibit I-31 that considerable variation exists among local areas in terms of the mix of customer-focused strategies that are used. Overall, the largest percentage (39%) of local areas have chosen to use two customer selection strategies, which nearly always includes exit and either targeting or registration. In addition, 29% of local areas use one strategy and 18% use all three strategies. A small percentage of local areas (14%) do not use any customer-focused strategies to improve performance outcomes.

Service Design

In addition to using the customer-focused strategies described above, local areas may also choose to provide services that have proven to be particularly effective in terms of performance outcomes. This applies to One-Stop Center services as well as programs offered by contracted and eligible training providers. Local areas were asked to report the extent to which the

performance measurement system has influenced One-Stop services and provider services. In addition, they were asked whether the result has been to expand or limit the services that are provided. Exhibit I-32 shows the influence of the performance measurement system on One-Stop and provider services.

**Exhibit I-32:
Impact of the Performance Measurement System on Services Offered by One-Stop Centers and Service Providers**



We see from Exhibit I-32 that, across local areas, the overall influence of the performance measurement system on One-Stop services is very similar to the influence on services offered by providers. In addition, for each type of service, there is considerable variation among local areas in terms of their perception of the impact of the performance measurement system on services provided:

- For both types of services, nearly 40% of local areas reported that the performance measures have had no impact at all on what services are offered.
- Local areas were more likely to report that the performance measurement system has led to an expansion of One-Stop services (37%), as compared to limiting these services (25%).

- For services offered by providers, local areas were equally likely to report that the performance measurement system has resulted in providers expanding (32%) as opposed to limiting services offered (30%) .

In sum, there are clearly multiple local perspectives regarding the impact that performance accountability has on the quality of services provided to customers. Significant percentages of local areas hold the contrasting opinions that the performance measures lead to more services, result in fewer services, and have no impact on services at all⁴⁶. This perspective varies somewhat according to the poverty rate of the local area. Forty percent of local areas with high poverty rates (above 15%) reported that the performance measurement system has had an impact on services provided by One Stop Centers, as compared to only 27% of local areas with poverty rates below 15%. Local areas whose customer base is predominantly a low income population with multiple barriers to employment may have made special efforts to provide One-Stop services that will enable hard-to-serve populations to achieve positive outcomes⁴⁷.

Finally, it is important to consider the fact that 25 and 30% of local areas believe that the performance measures serve to *limit* the services offered by One-Stop Centers and providers respectively. This suggests that service designs that are selected to enhance performance outcomes are not necessarily in the best interests of WIA customers. While these service designs can lead to improved performance, they may at times be in conflict with the WIA goal of providing a comprehensive menu of employment services that allows sufficient choice and meets the needs of all customers.

Influence of the Performance Measures on the Relative Emphasis Given to Core, Intensive and Training Services

The relative emphasis placed on core, intensive and training services is one specific aspect of service design that has been adjusted by many local areas in order to achieve performance goals. Overall, 67% of local areas reported that the performance measurement system has had at least some impact on the relative emphasis given to the three service tiers. When the performance measures lead local areas to adjust the relative emphasis given to the specific service tiers, this typically results in greater emphasis being placed on intensive services and/or training. Of local

⁴⁶ Overall, the impact of the performance measures on service design is somewhat more extensive than what we found in the first round of site visits, where respondents stressed that there was minimal impact except in terms of increased attention to follow-up services and more focus on specific types of training.

⁴⁷ This impact may expand or limit services.

areas who reported that the performance measures influence the relative emphasis given to the three service tiers:⁴⁸

- 73% place additional emphasis on Training
- 75% place additional emphasis on Intensive Services.
- 56% place additional emphasis on both Intensive Services and Training
- 27% place additional emphasis on Core Services

The majority of local areas appear to believe that the counseling, assessment and occupational skill development provided through intensive and training services will lead to stronger performance outcomes than the light touch job placement services that are offered during core services. Due to the fact that intensive services are frequently seen as a bridge to training services, it is not surprising that additional emphasis is frequently given to both of these service tiers.

Program Costs

A final important element of local area WIA programs that can be impacted by the performance measurement system is the cost of operating these programs. Local areas were asked to assess the impact that the performance measurement system has had on several types of administrative and service delivery costs. Exhibit I-33 summarizes these responses.

**Exhibit I-33:
Impact of the Performance Measurement System on WIA Program Costs**

Type of Cost	Percentage of Local Areas Reporting that the Performance Measurement System Increases this Type of Cost
Documenting Outcomes	79%
Follow-up Services	77%
Case Management	73%
Providing Services	63%
Administrative Costs	45%
Registration Process	42%
Selecting Contractors	40%

⁴⁸ Local areas who reported placing emphasis on two of the three service tiers were also included in this analysis. Local areas who indicated that, due to the performance measures they place greater emphasis on all service tiers (56), were excluded from analysis.

We see from Exhibit I-33, that the performance measurement system frequently leads to an increase in costs associated with documenting outcomes and direct service provision, such as case management and follow up. This is not surprising, given that follow-up services and outcome tracking activities are frequently implemented or enhanced for the purpose of achieving performance goals.⁴⁹ By contrast, less than half of local areas reported that the performance measures increase more general operating costs, such as administrative costs and the cost of selecting contractors.⁵⁰

Use of WIA Performance Measures and Alternative Measures to Inform Program Management and Improve the Quality of Service

Performance outcomes provide a barometer of the success of program operations and the quality of services offered to customers. As such, the measures serve as a source of data for local areas, which can indicate what aspects of service delivery are effective and any changes that should be made. In this final section we will focus on the factors that influence local area use of the performance measures to achieve local goals, such as improving the quality of services provided to customers. We will also examine state and local use of additional measures of program performance and continuous improvement programs.

Use of WIA Measures for Program Management and to Improve Program Quality

Performance outcomes can be used to improve service quality in two key ways. First, the outcomes can inform ongoing, day-to-day decisions regarding program management and operations. This requires a relatively quick analysis and application of the data. Performance measures can also be used to assess the extent to which outcomes improve over time and can help to determine what long-term programmatic adjustments should be made.

Nearly all local areas (82%) reported that they use the performance measures to assess continuous improvement. This suggests that most local areas believe the WIA performance measures are useful indicators of overall program success. However, less than half of survey respondents (46%) reported that the performance measures are helpful in managing the day-to-day functioning of programs. The difference in responses is likely a result of the time lag

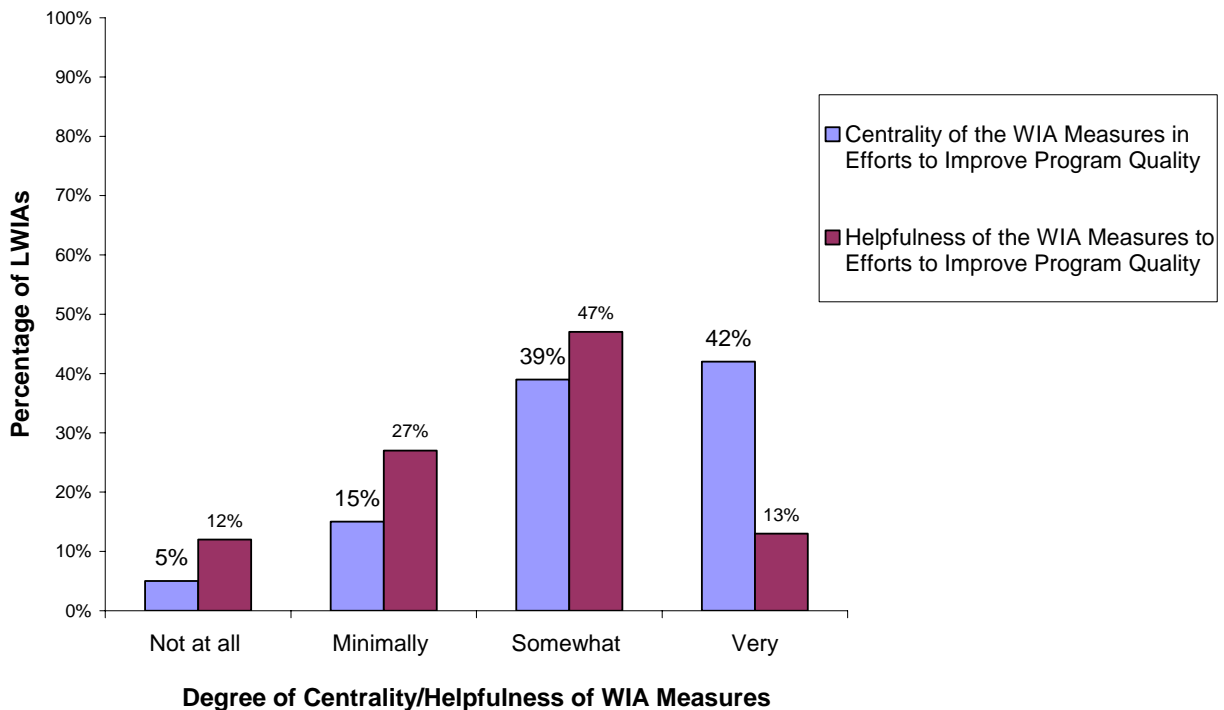
⁴⁹ Interestingly, the use of supplemental data is not associated with greater likelihood that these costs will be increased.

⁵⁰ For each type of cost a very small percentage of local areas reported that the performance measurement system leads to a decrease in that type of cost (less than 2% for all costs except selecting contractors [6%]).

associated with UI data. When local areas were asked to describe reasons why the performance measures are not helpful for informing day-to-day management practices, by far the most common response was that the data are not provided in a timely enough manner to be useful in making real-time decisions.

Local areas were also asked the extent to which the performance measures are *central* to the success of overall efforts to improve program quality, as well as the degree to which the performance measures have been *helpful* in these efforts. Responses are summarized in Exhibit I-34 below.

**Exhibit I-34:
Centrality and Helpfulness of the WIA Performance Measures in Overall Efforts to Improve Program Quality**



We see from Exhibit I-34 that the majority of local areas believe that the WIA performance measures are at least somewhat helpful (60%) and central (81%) to their overall efforts to improve program quality. However, the measures are much more likely to play a very central role in improvement efforts than they are to be very helpful to these efforts. Open ended responses provide some indication to why this is the case. When local areas were asked to discuss the reasons why the performance measures play a central role in guiding overall improvement efforts, one of the most common responses was that the performance outcomes are very important to the Department of Labor. In other words, as some local areas explicitly stated,

they must achieve their performance goals if they want to have continued access to financial resources. The implication is that, for some local areas, the measures are the focus of improvement efforts because they are mandated by law, not because they help local staff to improve the quality of their programs.

Local areas were given several opportunities to discuss the ways in which the performance measures are helpful for day-to-day program management, continuous improvement activities and overall efforts to improve program quality. They were also asked to describe the factors that serve to limit the use of the performance measures for these activities. Common responses are presented in Exhibit I-35 and Exhibit I-36.

**Exhibit I-35:
Contributions of the WIA Performance Measures for Program Management and Improvement Efforts**

Benefit	Number of Local Areas
Performance Outcomes Indicate whether Services are Effective	90
Performance Levels Provide a Goal or Target	74
Performance Outcome Requirements Result in Improved Services	67
Performance Outcome Requirements Encourage Enrollment of the Most Appropriate Customers	16

As shown in Exhibit I-35, local areas report that the performance measures help to improve program quality in four key ways. First, the performance levels serve as targets to strive for and as such provide local areas with a set of overall goals. Several local areas reported that these goals provide needed focus to their activities and programs. Secondly, in order to achieve the requirements (levels) set by the state, local areas have improved the quality of services provided, frequently offering additional case management and follow-up services. In addition, a small number of local areas reported that these requirements have also resulted in a more rigorous screening process to select customers for WIA services. Rather than viewing this process as restricting access to services, these local areas believe that the process leads to the selection of customers who are the most suitable and will benefit the most from WIA services. Finally, and most frequently cited, performance outcomes provide an indication of whether services are effective in helping customers achieve their employment and training goals. If performance outcomes are low, local areas can make the appropriate adjustments to service design.

**Exhibit I-36:
Factors that Limit the Usefulness of the WIA Performance Measures for Program
Management and Improvement Efforts**

Reason	Number of Local Areas
Data Issues	
Time Lag in Receiving Data	151
Other Data Issues (not accessible, not reliable)	7
Scope and Definition(s) of the Measures	
Do not Apply to WIA Partners	25
Measures are Too Numerous and Complex	19
Overall Focus of the Measures	
Measures Provide Information that is not Relevant or Necessary to Achieve Local Goals of Providing Quality Services that Meet Customer Needs	118
Local Area Focuses on Providing Services that Customers Need, not Performance	51
Measures Discourage Service to the Hard-to Serve Customers	28
Unfortunately, the Performance Measures Drive Program Design Too Much	17

In contrast, we see from Exhibit I-36 that three types of issues serve to limit the usefulness of the performance measures for program management and improvement efforts. The first of these includes problems with the performance outcome data. The most frequently mentioned concern was the time lag associated with UI wage records, which limits local ability to analyze outcomes and implement appropriate changes in a timely manner. The second type of issue relates to the parameters of the performance measures themselves. A relatively small number of local areas expressed frustration that there are too many measures, that the definitions are complex and difficult to understand and that the measures only apply to WIA and are not applicable to the entire workforce development system. The new common measures will address this second set of concerns.

Finally, many local areas reported that performance outcome data is not relevant or necessary for the local area to provide quality services that meet customer needs. Some local areas provided further clarification, stating that performance *outcomes* do not necessarily reflect the quality of services that were provided. However, many of these local areas simply reported that their focus is on providing the services that their customers need rather than on ‘the performance numbers game’. Other local areas offered the more critical view that the performance requirements are actually in conflict with local area goals, as they discourage serving customers who are a performance risk. Finally, a small number of local areas admitted that they give attention to

performance outcomes that they feel would be more appropriately directed toward meeting customer needs.

Additional Local Performance Measures

In order to improve service quality and program operations, local areas may also choose to develop their own performance measures. Overall, 59% of local areas use their own measures as additional indicators of program performance. Another 7% of local areas have considered adopting additional performance measures, but have not implemented these measures as of yet. Common types of additional performance measures are shown in Exhibit I-37.

**Exhibit I-37:
Additional Performance Measures Used by Local Areas**

<u>Type of Measure</u>	<u>Number of Local Areas</u>
Volume Measures:	
Number of Customers Enrolled	58
Number of Customers Exited	12
Outcome (Proxy) Measures	
Number of Job Placements	55
Earnings Change	12
Proxy for WIA Measures (to counteract time lag in data)	6
Services to Customers	
Customer Satisfaction	50
Services to Employers	41
Cost Measures	
Measures of Program Cost	54
Total Number of Survey Respondents that have Implemented Additional Performance Measures	270

The additional performance measures used by local areas fall into four general categories. The first of these are volume measures, which capture the number of customers that are served. The measure most frequently used to capture customer volume is the number of enrollees; a smaller number of local areas track customer exits. The second type of additional measure are proxy indicators for WIA performance outcomes. The most commonly used proxy measure captures the number of customers who were placed into jobs. Typically, this measures employment status

at the time of exit from WIA.⁵¹ In addition, a small number of local areas track changes in customer earnings. The third type of additional measure looks more closely at the quality of services provided to job-seeking and employer customers. One method used to capture this information is through customer satisfaction surveys. Finally, local areas have implemented measures to determine the cost of providing services. Some of these local areas have developed measures that assess the return on investment for providing WIA services to customers.

Factors that Influence the Use of Additional Measures: Attitudes Regarding the WIA Performance Measures

Given that the WIA performance measures are quite extensive in scope, the question arises as to what factors lead to the decision to also adopt additional performance measures. The conclusion that immediately comes to mind is that local areas implement additional performance measures to address what they perceive as the limitations of the WIA performance measures. However, examination of survey responses indicates that the decision to adopt additional measures is not simply a reaction to perceived inadequacies in the WIA performance measures, but is based on a more complex set of factors. Exhibit I-38 shows the percentage of local areas who have implemented or considered adopting additional performance measures, grouped by local perception as to the helpfulness of the WIA performance measures in efforts to improve program quality.

**Exhibit I-38:
Use of Additional Local Performance Measures by Perceived Helpfulness of the WIA Measures in Improving Program Quality**

Helpfulness of the WIA Performance Measures to Overall Efforts to Improve Program Quality	Percentage of Local Areas that have Adopted or have Considered Adopting Additional Performance Measures
Not at All Helpful/Minimally Helpful	60%
Somewhat Helpful	69%
Very Helpful	75%
All Local Areas	67%

Exhibit I-38 shows a pattern indicating that, when local areas believe the WIA performance measures are helpful for efforts to improve program quality, the local area is *more* likely to consider implementing additional measures of program performance. Although, at first glance

⁵¹ Many local areas did not provide detail as to the time frame of job placement measures, those that did nearly always indicated that these measures are captured at time of exit.

this pattern appears counter-intuitive, it is not illogical if we consider the concept of performance measures more broadly. In order to consider adopting additional measures of program performance, local areas must believe that performance outcomes in general are helpful to the process of making improvements to WIA programs. It is not surprising that local areas who value performance measurement in general would also be more likely to find the WIA performance measures helpful for making program improvements.

However, it is likely that the specific focus and parameters of additional measures are guided by a desire to expand on the information that is available through the WIA performance measures. This idea is supported by the relationship between adoption/consideration of additional measures and attitudes regarding the helpfulness of the WIA measures for day-to-day program management:

- Of local areas that believe the WIA measures are *helpful* for day-to day management, 63% have adopted or considered adopting additional performance measures.
- Of local areas that believe the WIA measures are *not helpful* for day-to day management, 71% have adopted or considered adopting additional performance measures.

The difference between the two groups of local areas is not quite statistically significant ($p=.07$). Nevertheless, the trend provides some support for the notion that the specific additional measures are selected in order to address the limitations of the WIA performance measures. For instance, additional measures often track outcomes at exit because the time lag in receiving WIA performance outcomes makes those measures difficult to use for day-to-day program management.

Factors that Influence the Use of Additional Measures: Local Area Characteristics

The adoption of additional performance measures also varies according to the size and geographic location of the local area. Exhibit I-39 shows the percentage of local areas that have adopted additional performance measures, grouped by the size of the local area.

**Exhibit I-39:
Use of Additional Measures by Size of Local Area**

Population of Local Area	Percentage of Local Areas that have Adopted Additional Measures
Less than 200,000	52%
200,000-400,000	57%
400,000-1,000,000	63%
More than 1,000,000	81%

This exhibit reveals that the largest local areas are especially likely to have implemented additional performance measures.⁵² Two factors may make large local areas more likely to implement additional performance measures. First, due to the fact that large local areas serve customers through extensive networks of providers, they may feel a greater need to have formal proxy indicators that provide reasonable estimates of what their performance outcomes will be. In contrast, small local areas may be able to quickly gather the same information through informal discussions with the few service providers that they use. Second, large local areas have more extensive administrative structures, which provides them with additional flexibility in terms of allocating resources and assigning staff responsibilities. This flexibility is most likely helpful for establishing ancillary processes such as the selection, tracking and analysis of additional measures.

Factors that Prevent the Adoption of Additional Measures

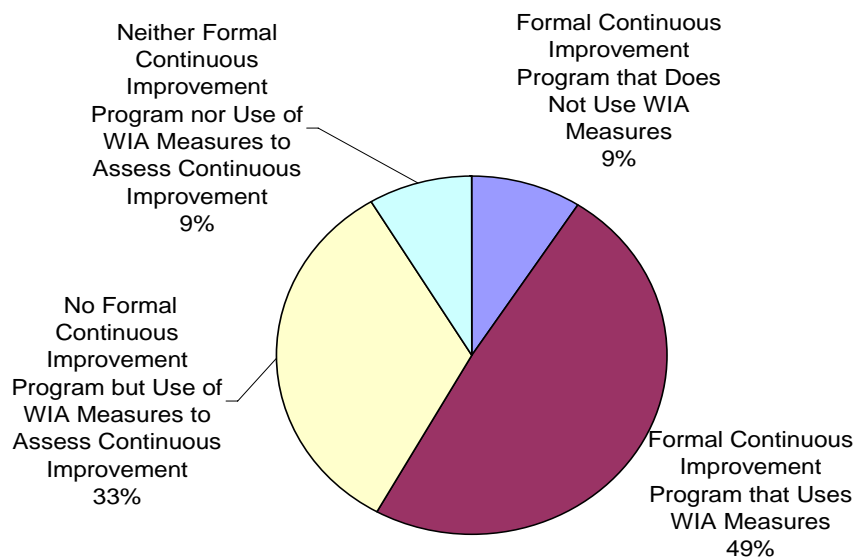
As has been mentioned, 7% of local areas have considered adopting additional measures but have not implemented any additional measures as of yet. In addition, 14% of local areas have adopted only a portion of the additional measures they initially considered. These local areas were asked to describe the factors that lead to decisions to not adopt some or all of the additional measures that were considered. The response most frequently given was that implementation of additional measures requires significant financial resources and/or staff time. While these local areas understand the value of additional performance measures, they do not believe that the benefit is worth the investment of resources required to track and analyze the additional information.

⁵² Overall differences due to population size are significant using logistic regression. Using chi-square, the only significant difference is between the largest areas and all other groups.

Formal (Explicit) Continuous Improvement Programs

Finally, local areas were asked if they have set up an explicit continuous improvement program. Slightly over one half of local areas (58%) have established a formal continuous improvement program; the majority of these programs use WIA measures to assess continuous improvement. Exhibit I-40 shows local use of formal continuous improvement programs as well as the use of WIA measures to assess continuous improvement.

**Exhibit I-40:
Use of WIA Performance Measures and Explicit Continuous Improvement Programs to
Achieve Continuous Improvement**



We see from Exhibit I-40 that nearly one half of local areas have established an explicit continuous improvement program incorporating the WIA performance measures. In addition, 33% of local areas use WIA performance measures to assess continuous improvement but have not established a formal program to do so. Formal continuous improvement programs that do not include the WIA performance measures are uncommon.

Local areas that have established formal continuous improvement programs were asked to describe the format of these programs. Common program elements are shown in Exhibit I-41 below.

**Exhibit I-41:
Elements of Local Area Formal Continuous Improvement Programs**

Program Element	Number of Local Areas
Use of WIA Measures to Assess Continuous Improvement	213
Mystery Shopper Program	40
Customer Satisfaction Surveys	36
Use Baldrige Criteria	27
Provide Training/Technical Assistance to Staff	13
Focus on Employer Customers	8
Total Number of Survey Respondents with Explicit Continuous Improvement Programs	255

We see from Exhibit I-41 that, aside from the WIA measures, the most commonly used methods to collect data on program quality are customer satisfaction surveys and mystery shopper programs. Whereas customer satisfaction surveys allow local areas to incorporate the customer point of view, mystery shopper programs provide an opportunity to gather detailed first-hand data on interactions between customers and front-line staff. Finally, a small number of local areas have chosen to base their continuous improvement on the Baldrige Criteria. It should be noted that many local areas gave very general responses when asked to describe their continuous improvement programs, often merely stating that there is a continual quality improvement team that sets goals and monitors program activities. Therefore, it is likely that continual improvement program elements listed in Exhibit I-41 above are in fact used more frequently than the data would suggest.

Overall Reaction to the Performance Measurement System

Finally, local areas were asked to provide an overall assessment of the impact of the performance measurement system on their WIA program. More specifically, they were asked to describe any unanticipated benefits and unanticipated negative impacts that have occurred as a result of the performance accountability system.

Unanticipated Benefits

A small but significant portion of local areas (22%) of local areas reported that implementation of the performance measurement system has brought benefits that were not anticipated at the outset. A wide variety of different types of benefits were described; those most frequently mentioned are listed in Exhibit I-42.

**Exhibit I-42:
Unanticipated Benefits of the Performance Measurement System**

Unanticipated Benefit	Number of Local Areas
Better Service Quality	24
More Follow-up Services	9
More focus on job retention and career advancement	3
Increased Availability of Reliable Data	9
More Focus on Outcomes	8
Having an Accountability System is Good for WIA's Public Image/Public Relations	6
Local Area Received Incentive Funds	4
The Measures Help to Set and Overall Goal and Focus	3
Partners are More Integrated	3
More Focus on Customer Satisfaction	2
Better pre-screening of Customers	2
Total Number of Survey Respondents Reporting that there have been Unanticipated Benefits	95

We see from Exhibit I-42 that the most frequently mentioned unanticipated benefit of the performance accountability system is that it has resulted in higher quality services being offered to customers. One way in which this has been manifested is in additional follow-up services that are being provided to customers. Another aspect of service quality that was highlighted is increased focus on long term job retention - on placing customers ‘in a career not just a job’. From local area responses, it appears that the retention and earnings change measures may have inspired these improvements in service quality.

As Exhibit I-42 shows, numerous additional types of unanticipated benefits were mentioned. One that is particularly interesting is the benefit in terms of public relations. While local areas did not provide details, the comments imply that the public tends to have the perception that government programs are not held accountable to taxpayers, the business community or the customers they serve. In the opinion of these local areas, the WIA performance measurement system is serving to counteract this perception and thereby enable local areas to build stronger relationships with their stakeholders and the community at large. This in turn can help to bring in additional resources, enhance WIA services and ultimately result in improved performance outcomes.

Unanticipated Negative Impacts

Nearly all local areas (78%) reported the implementation of the performance measurement system has had negative impacts that were not anticipated at the outset. Specific items that were frequently mentioned are shown in Exhibit I-43. While local areas were asked to list unanticipated negative consequences, it appears that many local areas simply described more what they believe to be negative impacts of the performance measurement system, regardless of whether these were anticipated from the start of WIA.

**Exhibit I-43:
Unanticipated Negative Impacts of the Performance Measurement System**

Unanticipated Negative Impact	Number of Local Areas
Customers with Employment Barriers and/or Individuals with High Prior Wages are Less Likely to be Served	52
Increased Costs and Staff Time	25
Impacts Service Design and Quality	22
Performance Measures are Confusing, especially for WIB members	17
The Focus is on Performance rather than the Customer	5
Total Number of Local Areas who reported that there have been Unanticipated Negative Impacts due to the Performance Measurement System	258 ⁵³

The themes shown in Exhibit I-43 echo local area perspectives presented throughout this report. Local area concerns regarding the negative consequences of the performance measurement system focus around two key issues. The first is that the need to achieve performance goals can conflict with the desire to provide quality services to all customers who need them. In order to meet performance standards, local areas make decisions about which customers to provide and what services to offer. As we have shown, at times this results in certain types of customers being less likely to be served. In addition, local areas may implement service designs that are effective in terms of performance outcomes but may not meet the needs of all customers. The second key issue highlighted in Exhibit I-43 addresses the fact that significant staff time and/or financial resources must be devoted to staff activities that support performance but do not directly benefit customers, e.g. documenting outcomes. Finally, although this is not a negative consequence per se, several local areas expressed concern that the complex nature of the

⁵³ When asked to describe the unanticipated negative impacts, many local areas simply mentioned that the measures are unrealistic and difficult to achieve or repeated responses to earlier questions e.g. data is too old to be useful, poor economy makes measures challenging, etc.

performance measures makes them difficult for WIB members and other stakeholders to understand, which decreases the utility of performance outcomes for the larger community.

Summary

In this chapter, we have described the key results derived from our survey of local areas, which was administered in the fall of 2004. We received 455 responses to this survey, for an 80% response rate. These responses yielded several key findings to our understanding of how the performance measurement system has been implemented at the local level, including findings concerning the initial negotiations, incentives and sanctions, relationships with providers and partners, impacts on who is served and what services are provided, and the use of WIA and alternative measures to monitor and improve program quality.

For example, the majority of local areas felt that the initial negotiation process involved some negotiation but that more attention could have been given to local concerns. Approximately one third of local areas felt that the initial negotiation process was extremely minimal or non-existent and a very small percentage of local areas were completely satisfied with the initial negotiation process. Despite this, most local areas reported that their initial levels are likely attainable.

Additionally, most states have implemented policies to award incentives and impose sanctions upon local areas for exemplary and poor performance, respectively. The possibility of receiving sanctions has impacted some aspect of WIA program design in approximately two-thirds of local areas, while the possibility of receiving incentives has influenced WIA programs in a somewhat smaller percentage. Further, the great majority of local areas have received performance related technical assistance. This technical assistance tends to focus on all of the measures and is frequently provided to local areas regardless of whether they have failed a measure or are in danger of doing so.

We also found that in more than 60% of local areas, eligible training providers are required to achieve local performance levels and in an additional 25% of local areas at least some providers are required to meet these levels. In addition, nearly all local areas hold youth service providers contractually responsible for achieving local performance targets. Further, two-thirds of local areas reported that they use incentives and/or sanctions in relationships with service providers. Despite this, according to most local areas, the performance measurement system does not have a substantial impact on the availability of eligible training providers or youth providers. However, a significant minority of local areas (30%) reported that the performance measurement system serves to discourage numerous youth service providers and/or eligible training providers from submitting applications to serve WIA customers.

Most local areas make substantial use of WIA partners, especially in the provision of core services. However, approximately 30% of local areas reported that the performance measures decrease partner willingness to be actively involved in the One-Stop system and one-half of local areas reported that the performance measures decrease willingness to co-enroll clients.

Responses to the survey also suggest that the performance measurement system has had a substantial impact on both which customers are served and what services are offered. For example, more than 80% of local areas make strategic decisions regarding the time of exit in order to improve the probability of achieving positive performance outcomes. Additionally, most local areas also use strategies such as targeting or the time of registration in order to select customers who are likely to improve performance, often focusing on customer motivation as an important factor in the selection process. However, we found little evidence that local areas are choosing not to serve traditionally hard-to-serve customers populations. Rather, targeting tends to focus on populations with barriers and low-income customers. Finally, two-thirds of local areas have made the decision to alter the relative emphasis placed on the service tiers (core, intensive and training), typically by placing more emphasis on intensive and/or training services.

The vast majority of local areas (82%) report that they use the performance measures to assess continuous improvement, both by using the performance requirements as an overall goal by analyzing the outcomes to determine which services are effective. However, the use of the WIA performance measures in program improvement efforts is constrained by the time lag necessary to obtain outcomes using UI wage records outcomes. Primarily due to this time lag, only 46% of local areas reported that the performance measures are helpful in informing day-to-day management decisions. Perhaps as a result, nearly 60% of local areas have chosen to adopt additional measures of program performance. The most commonly used measures track enrollments, job placements, customer satisfaction, program costs, and services to employers.

Finally, very large local areas are more likely to have implemented policies to ensure positive performance outcomes. The largest local areas are more likely to use incentives and /or sanctions in relationships with service providers, to make explicit contractual requirements for youth providers, to have implemented additional performance measures and to have established formal continuous improvement programs. Because these local areas frequently account for a substantial proportion of their states performance outcomes, they may feel additional pressure to achieve performance targets.

In the next chapter, we examine how the local policies and approaches described in this chapter may have been impacted by state-level policies. Additionally, we explore whether variations in state- and local-level policies impact the customers who are served under WIA, the services they receive, and the outcomes they obtain.

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II. EFFECTS OF STATE AND LOCAL PERFORMANCE POLICIES ON CUSTOMERS, SERVICES, AND OUTCOMES

In this chapter, we attempt to assess quantitatively the effectiveness of the WIA performance accountability system. The major challenge to a quantitative analysis of the effectiveness of the WIA performance accountability system is that the system promulgated by ETA is the same everywhere. Therefore, there is no natural "experiment" that would allow us to compare some local areas operating under the WIA performance system and others operating a different system. Thus, a more subtle approach is called for.

Our approach takes advantage of the fact that, although the system put forth by ETA is identical for all states, there is critical variation in state performance policies. Under WIA, states have broad flexibility in developing their own performance accountability policies, including policies regarding how performance levels are set and how incentives and sanctions are applied to local areas. By incorporating these varying factors into a quantitative analysis, we can assess how variations in state performance policy affect who is served, the services provided, and the outcomes attained. From the results of this analysis, we can infer the effects of the Federal performance-accountability system.

For example, although most states provide financial incentives to local areas based on performance, some do not. We might find that outcomes are higher in states that provide incentives based on local performance. We could then conclude that performance incentives furthered the WIA objective of increasing outcomes. Thus, our analysis aims to identify how specific policies influence outcomes by examining the effect of variations in state approaches and procedures.

In the remainder of this chapter, we first describe how we coded state performance policies. Next, we look at how we coded local policies. We then describe our methodological approach and data sources. Finally, we present our quantitative analysis of the effects of state and local performance policies on customers, services, and outcomes.

How We Coded State Policies

State policies are the key variables in this quantitative analysis. To develop these variables we obtained and coded state policies related to performance issues.

We used a three-pronged approach to obtaining state policies. First, some states make their WIA policies available on a public website. For these states, we downloaded copies of the policies to minimize the burden placed on state staff. Second, in other states we telephoned appropriate state staff and requested copies of the policies. Finally, in some states, some written policies were not available. In these states, we conducted an unstructured interview with state staff to learn about their key policies.

We requested WIA policies covering the following performance-related issues:

- Policies for negotiating performance goals with local areas
 - If and how they take into account customer characteristics, services and economic conditions. For example, do they use a model?
 - Who initially proposes goals (the state or the local workforce areas) to start negotiation?
- Incentives
 - Whether local workforce areas can earn incentives based on performance.
 - Criteria for determining which local workforce areas are eligible for incentives.
 - How the size of a local workforce area's incentive is determined?
 - The size of the incentive pool relative to the total allocation of local areas.
- Sanctions
 - The rule for determining which local workforce areas fall into sanction modes for the first and second year.
 - The nature of first year sanctions.
 - The nature of second year sanctions.
 - Does the extent of sanction depend on the degree of failure?
 - Can local areas lose allocation as part of sanction?
- Other policies that might affect characteristics of, services received by, and outcomes obtained by customers including:
 - Registration point.

- Policies regarding the priority for low-income individuals.
- Other policies regarding priorities of service.
- Policies regarding how they define credentials.

A senior staff person with extensive experience with performance policies was responsible for coding the state policies. This individual read all state policies and coded significant variations among states.

Most state policies largely mimicked the existing federal policies. For example, incentive and sanction policies for local workforce areas often mirrored the federal incentive and sanction policies for states. Therefore, in coding the policies we strived to identify significant differences between the state's policy and the corresponding federal policy.

After initially reviewing state policies, we identified areas where there was a significant variation among states for potential use in our analysis. We coded these policies to group states with similar policies. These policy groupings included:

- Single workforce area states.
- Setting performance goals.
- Incentive policies.
- Sanction criteria.
- Definition of credential.

The specific policies we coded in each of these areas are discussed below.

Single Workforce Area States

Single workforce area states are subject to federal incentive and sanction policies and usually do not have their own incentive and sanction policies. Therefore, we did not code incentive and sanction policies for these states. Instead, we included a variable for single workforce area states in our models. There are nine states with just a single local workforce area.

Setting performance goals

WIA calls for states to negotiate goals with local areas, just as ETA negotiates goals with states. The nature and extent of this negotiation varied among states. We identified several modes for the negotiations.

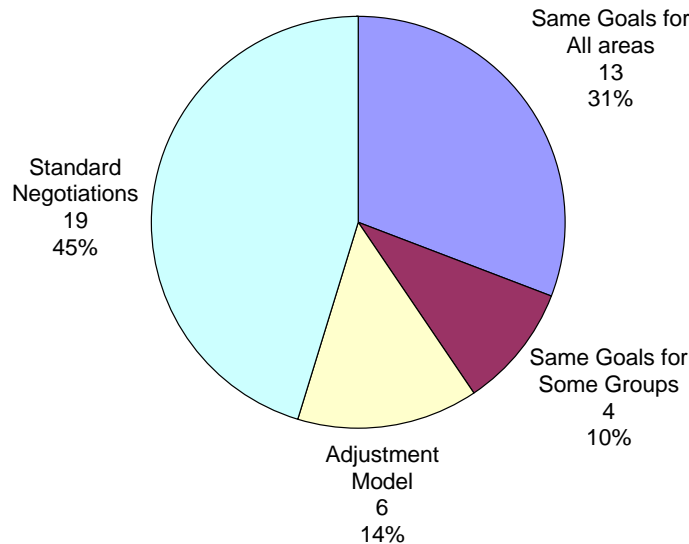
- State proposes local goals. States differ in whether the state or local area first proposes the local goals to begin negotiations. Although we coded this policy, we decided that the coding was not accurate due to ambiguities in the policies and

discrepancies between how we read the state policy and what local areas in the state told us in the local survey.

- State goals used for all local areas. In some states, goals did not vary among local areas; rather the goal that the state negotiated with ETA was applied to all local areas. In some states, the same goal was applied across all local areas for each of the performance measures; in other states, the same goal was used for selected performance measures, often the employment and credential rate and younger youth skill attainment. We identified states that used the same goal for all local areas using the negotiated goals reported in the states' annual reports.
- Adjustment model used to set initial goals or available to assist negotiations. In a few states, models that adjusted goals for customer characteristics or local economic conditions were used to help set goals.

The pie chart in Exhibit II-1 shows the distribution of states among these modes. States with a single workforce area are excluded from the graph. Thirteen states (31%) set the same performance goals for all local areas in the state. Another 4 states (10%) set the same goals for at least one customer group. Just six states (14%) use a model to help set initial standards. The remaining 19 states (45%) use the standard negotiation process.

**Exhibit II-1
Methods States Use to Set Performance Goals¹**



¹ Excludes states with a single local workforce area.

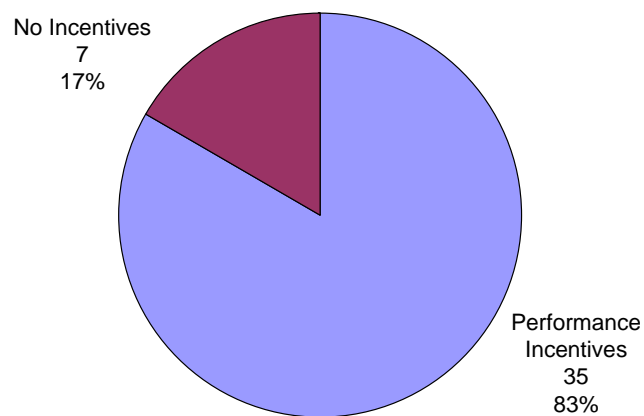
Incentive policies

WIA allows, but does not require, states to provide performance incentives to local areas. Therefore, one of the incentive policies we coded is:

- State provides monetary incentives to local areas based on performance.

As shown in Exhibit II-2, we found that 35 states or 83% of the states with more than one local area provided performance incentives to local areas.

**Exhibit II-2:
Provision of Performance Incentives to Local Areas²**



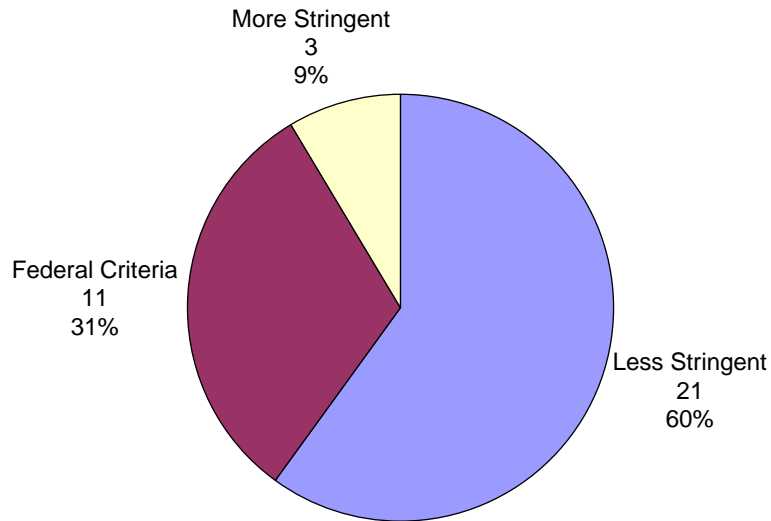
States that provide incentives to local areas must also develop criteria for determining which local areas qualify for incentives. Most states model their incentive criteria on the criteria that DOL uses to award incentives to states. For a state to receive incentives from DOL, average performance relative to goal must exceed 100% for all three customer groups (adults, dislocated workers, and youth) and for the two customer satisfaction measures.³ Most states model their incentive criteria after these federal criteria. However, some states established incentive criteria that were either more or less stringent than the federal criteria. Therefore, we created a variable that coded the stringency of incentive criteria:

² Excludes states with a single local workforce area.

³ The state must also meet performance criteria for WIA Title II Adult Education and Literacy programs and Title I of the Carl. D. Perkins Vocational and Technical Education Act. However, these other criteria are not used by states when awarding incentives to local workforce areas.

- Criteria for incentives are more/less stringent than federal criteria. This variable was coded as -1 for states with less stringent criteria, 0 for states that used the federal criteria, and +1 for states with more stringent criteria.

**Exhibit II-3:
Criteria States Use to Qualify Local Areas for Incentive Awards⁴**



As shown in Exhibit II-3, 11 states—or 31% of the 35 states providing incentive awards—qualify local areas for incentives using the federal criteria. The majority (21 states or 60%) of states awarding incentives use less stringent criteria. Less stringent criteria include, for example, policies that allow a local area to receive an incentive for one performance measure even if performance on other measures is below the goal. Just 3 states (9%) use more stringent criteria. More stringent criteria include, for example, policies that require average performance relative to goal to exceed 100% for all measures and not just on average for each customer group.

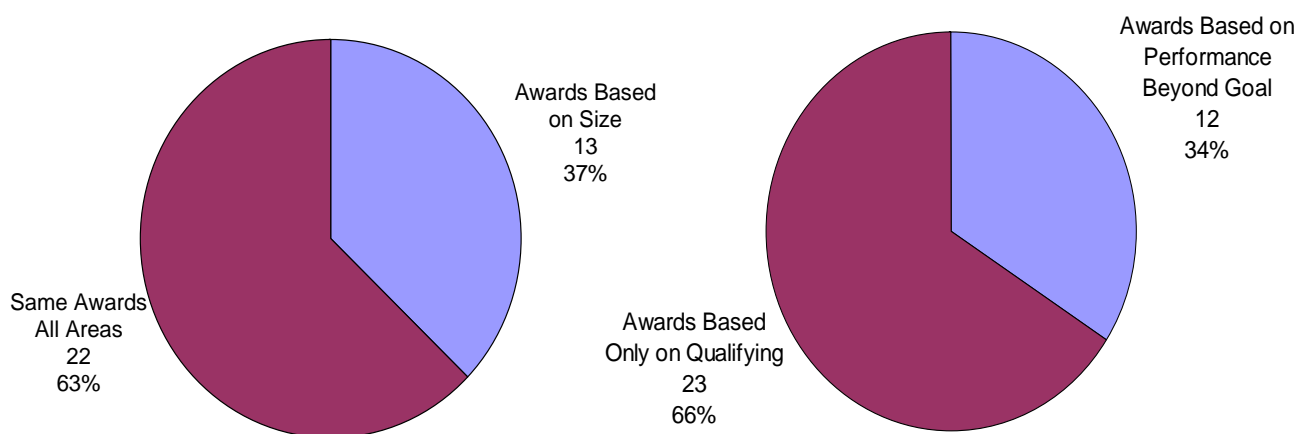
Once states decide which local areas are qualified for incentives, they must also determine the size of the incentives. We looked at two aspects of the formulas states use to determine incentives: whether incentives are based on the size of the local area and whether incentives vary according to the extent by which performance goals are exceeded. Therefore, we coded two aspects of the states incentive formula:

- Performance incentive proportional to allocation.
- Performance incentive depends on the extent to which the goal is exceeded

⁴ Includes only the 35 states giving incentive awards for performance.

In some states, local areas that qualified for incentives received awards based only on their performance, so that two local areas with the same performance would receive the same award, regardless of their size. In this case, receiving incentives would be much more important to small local areas than to large local areas. In other states, the award was proportional to the local area's allocation. In this case, receiving an incentive would be equally important to all local areas, regardless of size. As shown in Exhibit II-4, 22 states, or 63% of states awarding incentives, give the same incentive award to all qualifying local areas; the remaining 13 states give larger awards to large local areas.

**Exhibit II-4:
How States Determine Incentive Awards⁵**



In most states, the incentive award a local area receives does not depend on the extent to which the performance goal is exceeded—exceeding the goal qualifies that local area for the full incentives. In some states, the incentive is based, at least in part, on how far above the goal the local area's performance is. Twenty-three states (66%) give incentive award to all qualifying local areas that do not depend on how much performance exceeds the goal. However, in some cases separate awards are made for each performance measure. The remaining 12 states give awards that increase as performance increases beyond the goal.

Nearly half of states giving awards based on the size of the local area also gave awards that depended on performance beyond the goal (6 of 13 states). Only 6 of the 22 states that gave the same award to all local areas gave awards that were based on performance beyond the goal. Therefore, 16 of the 35 states giving incentives gave the same award to all qualifying local areas without regard to either the size of the local area or performance beyond the goal.

⁵ Includes only the 35 states giving incentive awards for performance.

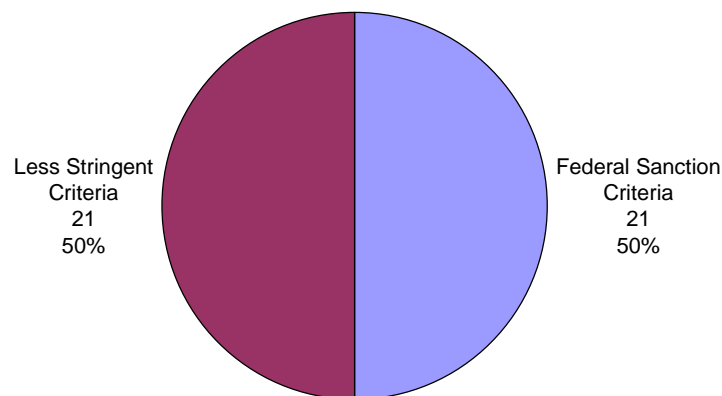
Sanction Criteria

According to federal criteria, a state fails performance overall if performance on one or more measures falls below 80% of the goal. States that fail for a first year are given technical assistance. States that fail for a second year based on the *same* performance measure are subject to a sanction providing for a reduction in allocation. Most states apply the same criteria for determining which local areas are subject to sanctions, but a few apply less stringent criteria. Less stringent criteria include, for example, only applying sanctions when performance on several measures is less than 80% of the goal. A few states use different criteria for the first and second years. In coding sanction criteria, we focused on criteria used to determine a second year of failure and coded:

- Less stringent sanction criteria.

As shown in Exhibit II-5, 21 states (50% of states with more than one local area) use criteria that are less stringent than the federal criteria. The remaining 21 states use the federal sanction criteria

**Exhibit II-5:
Sanction Criteria Used by States⁶**



There seems to be a relationship between the use of less stringent sanction criteria and the use of less stringent incentive criteria. Almost all states that use less stringent sanction criteria also

⁶ Excludes states with a single local workforce area.

used less stringent incentive criteria (6 of 7 states). Only 15 of the 28 states with both federal sanction policies and incentive awards used less stringent incentive criteria.

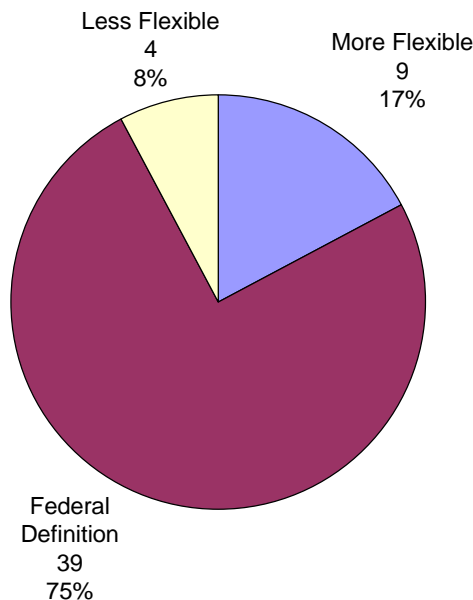
Definition of Credential

Federal guidelines give states and local areas considerable flexibility in defining credentials. Most states allow local areas to define credential within these federal guidelines. However, some states have issued guidance that provides less flexibility than the federal criteria. A few states have definitions that are more flexible than intended by the federal criteria. We coded:

- Less flexible definition of credential. In addition to credentials granted by accredited educational institutions, Federal criteria allow local areas to award certificates based on “successful completion of training services ... that are designed to equip individuals to enter or re-enter employment, retain employment, or advance into better employment.” Some states limited these certificates to on-the-job and customized training or to other specific services.
- More flexible credential criteria. A few states adopted policies that, in effect, stated that becoming employed was sufficient evidence that a trainee qualified for a credential.

As shown in Exhibit II-6, 9 states used credential criteria that were more flexible than the federal criteria and 4 states used less flexible criteria. The remaining 39 states followed the federal criteria.

**Exhibit II-6:
Flexibility of Credential Definitions**



How We Measured Local Policies

We also created variables to capture performance policies implemented at the local area level. We used factor analysis to develop indexes of local performance policies, based on responses to questions drawn from the Local Area Survey of the Performance Measurement System, described in the previous chapter.⁷ For this analysis, sixteen survey questions were grouped into two categories, each of which covers an aspect of local performance policy. These two categories are:

- Overall service design.
- Relationships with providers.

For both categories listed above, survey questions were combined into a smaller number of index variables, using factor analysis.⁸ The local policy variables used in our models are discussed below.

Overall Service Design

Nine survey questions were used to measure the overall service design of local areas. These questions capture information about the adequacy of the provider network and other features relating to One-Stop operation.⁹ Factor analysis produced four factors from this set of variables. These factors are listed below, along with the survey questions that contribute significantly to the value of the factor:¹⁰

Service Design Factor 1: Use of WIA to Provide Core and Intensive Services

This factor contains contributions from the following three survey questions:

⁷ In exploratory factor analysis, we also examined factors relating to several other dimensions of local policies, including their initial negotiation process, use of supplemental data, impact of incentives and sanctions on local WIA programs, customer selection and service design, and the use of additional performance measures. These additional factors were dropped from our final analysis, however, for one of two reasons. First, variables were removed if analysis uncovered a high degree of correlation with other variables in the model. Second, indices that had little or no significant impact on customer characteristics, services or outcomes were eliminated from the analysis

⁸ From the initial extract, a subset of factors were selected based on the following criteria. First, factors with Eigenvalues greater than 1 were selected for further analysis. Second, a sufficient number of factors were selected to ensure that at least 50% of the variance would be explained. Finally, the selected factors were rotated once in order to facilitate meaningful interpretation of the content of these factors.

⁹ The actual survey questions can be found in Appendix A.

¹⁰ The cutoff for substantial contribution is a factor loading of .6; the cutoff for some contribution is a factor loading of .3.

- The extent to which WIA is used to provide core services (substantial contribution).
- The extent to which WIA is used to provide intensive services (substantial contribution).
- Lack of co-enrollment between ES and WIA (some contribution).

This factor primarily captures the extent to which WIA staff are involved with providing core and intensive services. As was discussed in the previous chapter, WIA is the primary provider of intensive services in two-thirds of local areas. WIA staff are also involved with providing core services in nearly all local areas; however for two thirds of local areas this responsibility is shared with the ES and other partners. The extent of co-enrollment between ES and WIA also contributes somewhat to the overall factor score. Findings from the local area survey indicate that extensive co-enrollment is least frequent among local areas who rely primarily on WIA to provide core and intensive services.

Service Design Factor 2: Performance Measurement System Restricts the Pool of Available Providers

The following three survey questions contribute to this factor:

- Extent to which the performance measurement system discourages youth service providers from submitting applications (substantial contribution).
- Extent to which the performance measurement system discourages eligible training providers from submitting proposals (substantial contribution).
- Lack of sufficient number of youth service providers (some contribution).

This factor measures the extent to which the performance measurement system discourages providers from applying to participate in WIA and thereby restricts the pool of available providers. Fewer than one-third of local areas reported that the performance measurement system discourages numerous providers from submitting applications and/or proposals.

Service Design Factor 3: Emphasis on Partnerships:

The following three survey questions contributed to this factor.

- Extent to which partners share the same performance measures as WIA (substantial contribution)
- Emphasis on use of contracted providers (as opposed to ITAs) to provide services to adults and dislocated workers (substantial contribution).
- Degree of co-enrollment between ES and WIA (some contribution).

This factor measures three aspects of service design that reflect an emphasis on formal relationships with WIA partners and service providers. First, the factor captures the number of

local partners who share the same performance measures as WIA. Second, the factor measures the extent to which the local area uses contracted providers to offer services to adults and dislocated workers. As was discussed in the analysis of the local area survey, neither shared performance measures nor use of contracted training providers are common among local areas nationwide. Only 10% of local areas emphasize the use of contracted service providers over ITAs,¹¹ and a miniscule 6% of local areas reported that many partners share the same performance measures as WIA. Third, the degree of co-enrollment between ES and WIA, also contributes somewhat to this factor. Survey findings indicate that co-enrollment is more likely among local areas who report that at least some partners (e.g., ES) share the same performance measures as WIA.

A fourth service design factor (Insufficient Number of Service Providers) was initially developed as 41% of LWIAs reported that they lack access to a sufficient number of adult and youth providers who are interested in participating in WIA. However, this factor ultimately was not included in the regression models because it did not have a significant impact on the dependent variables.

Relationships with Providers

Seven survey questions were used to capture the role of performance in relationships between the local area and service providers, including eligible training providers, contracted training providers and providers of youth services.¹² Factor analysis produced two factors from these seven questions. These factors are shown below along with the survey questions that contribute significantly to the value of the factor:¹³

Relationships with Providers Factor 1: Performance Related Requirements for Providers and Applicants:

The following three survey questions contributed substantially to this factor:

- Use of explicit performance requirements in contracts with youth service providers (substantial contribution).
- Requirements that eligible training provider applicants submit historical performance information (substantial contribution).

¹¹ For adults and dislocated workers. Contracted service providers are typically used to provider services for youth.

¹² Actual survey questions can be found in Appendix A.

¹³ As with the earlier examples, the cutoff for substantial contribution is a factor weight of 0.6; the cutoff for some contribution is a coefficient of 0.3.

- Requirements that youth service provider applicants submit historical performance information (substantial contribution).

This factor captures two types of requirements that are implemented by local areas to ensure that provider services will lead to positive performance outcomes. First, some local areas hold youth providers contractually responsible for performance targets, which are typically equivalent to the local area's performance levels. Second, a review of each applicant's performance history allows local areas to determine if the provider is capable of achieving WIA performance standards. More than two thirds of local areas require eligible training providers to submit historical performance information. Each of the policies that substantially contribute to this factor have been implemented by at least two-thirds of local areas.

Relationships with Providers Factor 2: The Impact of Performance on Providers: Selection, Incentives and Sanctions

Four survey questions contributed to this factor:

- Extent to which performance measures influence which service providers are used (substantial contribution).
- Establishment of local performance requirements for eligible training providers that are higher than those set by the state (substantial contribution).
- Use of incentives and/or sanctions in relationships with providers (substantial contribution).
- Use of explicit performance requirements in contracts with youth service providers (some contribution).

This factor captures two additional methods used by local areas to ensure that providers will achieve performance goals. Whereas the previous factor measures the processes required of applicants and providers, this factor captures policies that translate these requirements into positive and negative consequences for the providers. The first method is to select new and returning providers on the basis of their performance outcomes. One specific way in which this is accomplished is by establishing rigorous performance standards for eligible training providers. The second method is to build incentives and sanctions into contracts with service providers, and on occasion into contracts with eligible training providers. Both of these methods are frequently used by local areas. More than 60% of local areas reported that the performance measures have a substantial influence on which providers are selected and two-thirds of local areas offer incentives and/or impose sanctions for exemplary and poor performance respectively.¹⁴ The use

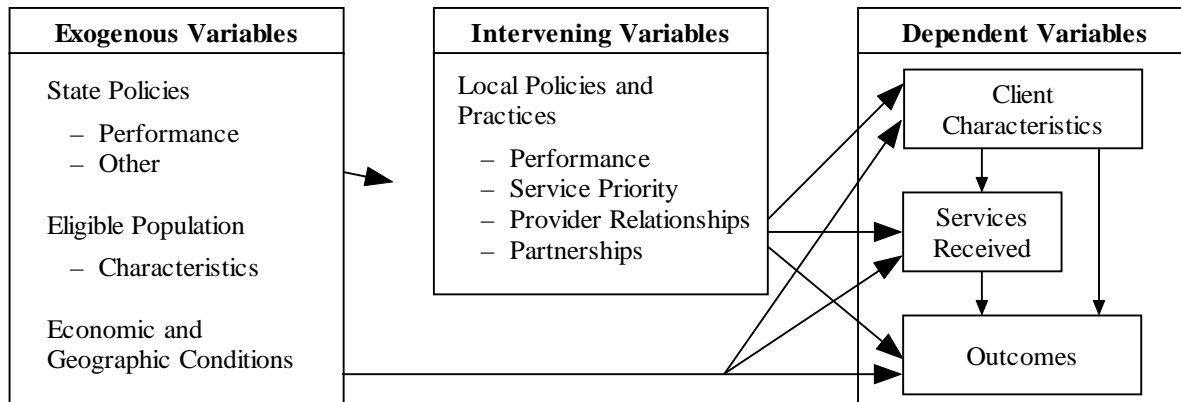
¹⁴ Fewer than 20% of local areas have established ETPL performance requirements that are higher than the state. However, as was discussed in the previous chapter, this may be a result of the state having already established rigorous performance requirements.

of explicit performance requirements in contracts with youth service providers also contributes somewhat to this factor, illustrating that there is some degree of overlap between the policies captured by this factor and the previous factor.

Methodological Approach and Data Sources

The methodological approach used in the quantitative analysis is outlined below. In the most general sense, we seek to investigate the quantitative relationships between customer characteristics, services used, performance outcomes achieved, state and local policies, eligible population characteristics, and local geographic and economic conditions. Exhibit II-7 presents the conceptual framework for our analysis.

**Exhibit II-7:
Conceptual Framework for Quantitative Analysis**



The right-hand box of Exhibit II-7 shows the dependent variables of the quantitative analysis: client characteristics, services received, and outcomes. The left-hand box shows the exogenous variables: state policies, characteristics of the eligible population, and economic and geographic conditions. The middle box shows intervening variables, which include local policies and practices. The hypothesized relationships among these variables are illustrated by the arrows connecting the boxes. For example, the exogenous variables affect the dependent variables directly, but also have effects on the intervening variables, which in turn affect the dependent variables.¹⁵

¹⁵ We estimated three other variants of this more general model as part of this analysis – those to estimate the total effects of state policies, those to estimate the effects of local policies and procedures and those to explain the intervening variables. The first of these is a reduced form model that relates the dependent variables to the exogenous variables. These models have client characteristics, services, and outcomes as the dependent variables. The independent variables are state performance accountability policies and other factors that affect

Unit of Analysis

For all the models described above the local area is the unit of analysis. All variables related to individual customer characteristics, service usage, and performance outcomes are aggregated to the local area level. Local areas are defined according to boundaries set forth in accordance with the designation of local service areas under the Workforce Investment Act.

Dependent Variables

The dependent variables in the analysis include LWIA-level indicators¹⁶ of customer characteristics,¹⁷ the services they received,¹⁸ and the outcomes they attained.¹⁹

All data for customer characteristics, services received, and performance outcomes are drawn from the Workforce Investment Act Standardized Record Data (WIASRD). The data for models with customer characteristics and services received as the dependent variable include program

client characteristics, services and outcomes, including local area economic conditions and the characteristics of the eligible population. The results from these models allow us to determine the *total* effects of state performance accountability policies on clients, services, and outcomes. Most of the analyses presented below is based on these models of total effects. The second variant is conceptually similar to the primary model displayed in Exhibit II-7. The purposes of these models are to determine the effects of local program design elements and to examine which program design elements are potential mechanisms through which state and federal performance policies affect clients, services, and outcomes. In addition, we estimated models to explain the intervening variables. These models are different in that the dependent variables are local program design elements while the independent variables include state performance policies and local economic conditions and population characteristics. The purposes of this model are to examine how the elements of local program design are affected by state policies and thereby can act as mechanisms through which state policies have influence on clients, services, and outcomes.

¹⁶ Because the unit of analysis is the local area, each of these dependent variables is measured as the percentage of individuals served by the given LWIA that exhibited a particular characteristic, received a service, or obtained an outcome.

¹⁷ Among the customer characteristics we included in our analysis were: gender, ethnicity and race, age categories, individual with a disability, education level, limited English-language proficiency, low income (adults and youth only), employment status at registration, veteran (adults and dislocated workers only), public assistance receipt (adults and youth only), single parent, not attending school (youth only), offenders (youth only), and preprogram earnings.

¹⁸ For adults and dislocated workers, we included the following service variables: received core services only, received training, issuance of ITA, type of training (i.e., adult education and basic skills, on-the-job training, other occupational training), length of participation, and cost per participant. For youth, we included: received educational achievement services, received employment services, received summer employment opportunities, received additional support of youth services, received leadership development opportunities, received follow-up services, length of participation, and cost per participant.

¹⁹ For adults, dislocated workers and older youth, we included the following outcomes in the analysis: entry into employment, retention in employment, earnings change, earnings replacement (dislocated workers), credential attainment. For younger youth, we included: attainment of goals, high school diploma attainment, placement in education, training or employment, and retention in education, training or employment.

exiters between April 1, 2003 and March 31, 2004, while data for models with performance outcomes as the dependent variables include program exiters between April 1, 2002 and March 31, 2003. These timing conventions are adopted to provide the most recent annual cohort of exiters for which data are readily available for each class of dependent variables.

When customer characteristics and services received are used as independent variables, missing values for these variables are set equal to the national average value for that particular characteristic or service. Individual records are then aggregated to the local area level so that all values represent local area averages for their respective variables.

Exogenous Variables

Exogenous variables include state performance and other WIA policies, characteristics of the eligible population, and local economic conditions, each of which is described below.

State Performance Policies

State policies are the key independent variables in the analysis. In essence the state policies "stand in" for federal performance policies in our analysis. It is by determining how variations in state performance policies affect client characteristics, services, and outcomes that we will be able to infer the effects of federal performance policies. While a richer set of state policies were explored and are described above, the state policy variables used in the analysis include:

- State provides performance incentives for local areas.
- For states that provide performance incentives, the extent to which criteria are more or less stringent than federal criteria.
- Less stringent sanction criteria for local areas compared to federal criteria for states.
- Single area states for whom the above policies relating to managing local performance are not relevant.
- Less flexible definitions of credentials.

Characteristics of the Eligible Population

The characteristics of the eligible population are likely the primary determinants of the characteristics of clients served in a local area. Thus, we included several variables in the analysis to control for these characteristics of the eligible population at the local area level.²⁰

²⁰ Among these variables, we included gender, ethnicity and race, age categories, disability, education level, limited English-language proficiency, veteran (adults and dislocated workers only), and single parent status.

These data are drawn from the 2000 United States Census, Summary File 4. Data for limited English-language proficiency and veteran status are drawn from the population of all individuals ages 18-64; data for single parent status are drawn from the population of all individuals ages 15-64. Only data covering all individuals is readily available for these variables. Data for all other characteristics of the eligible population are drawn from the unemployed and/or low-income population as this population is most relevant for analyzing the characteristics of customers accessing the WIA program. Data used in adult and dislocated worker models for gender, ethnicity and race, and age are drawn from the unemployed population ages 20 and up; data for education level are drawn from the unemployed population ages 18-64; data for disability status are drawn from the unemployed population ages 21-64. Data used in models for older and younger youth for gender, ethnicity and race, and age are drawn from low-income population ages 15-20; data for education level are drawn from the low-income population ages 18-24; data for disability status are drawn from the low-income youth population ages 16-20. All of these variables are mapped to the local area level so that data represent local area averages.

For models with customer characteristics as the dependent variables, only the variable corresponding to the particular customer characteristic of interest is included in any particular model (e.g., in models for which veteran status is the dependent variable, the variable controlling for the percentage of the eligible population that is a veteran is the only control variable used). For models with services received and performance outcomes as the dependent variables, the full set of customer characteristic control variables is included in all models.

Local Economic and Geographic Conditions

Local economic and geographic conditions are important determinants of participant outcomes. As a result, we included several factors, including the unemployment rate, average annual earnings, rural location, poverty rate, and population density, in all models to control for these factors.

Unemployment rate data are drawn from the Local Area Unemployment Statistics (LAUS) generated by the Bureau of Labor Statistics, while data for the other variables are drawn from the 2000 United States Census, Summary File 4. Census data are mapped to local areas so that data for average annual earnings, the percent of the population living in rural areas, and the poverty rate represent averages at the local area level. Unemployment rates are also mapped to their corresponding local area.

Intervening Variables

The intervening variables, included in some models, represent local program policies, practices, and service design. The process by which these variables were constructed and selected is described above. Local policies are represented by five indices that capture:

- The extent to which WIA is used to provide core and intensive services.
- The degree to which the performance measurement system restricts the pool of available providers.
- The extent to which partners share the WIA performance measures and the use of contracted providers to offer services to adults and dislocated workers.
- Performance related requirements for providers and applicants.
- The impact of performance on providers: selection, incentives and sanctions.

Effects of State Policies

In this section, we look at how state performance policies affect the types of customers served by WIA. Historically, there has been concern that performance systems may induce states and local areas to focus their services on individuals who are considered more likely to be “successes.” Because most performance outcomes measure gross outcomes, such as employment, individuals most likely to be successes typically are those with stronger labor market histories—those people who are likely to do well even without WIA services. Thus, program operators might be tempted to encourage those with strong labor market histories to move on to services beyond informational and self-service core services and to discourage those with poor work histories from doing so. Because only those individuals who move beyond informational and self-service core services are registered in WIA and included in the performance measures system, this strategy would tend to result in higher performance on gross outcomes.

In WIA’s predecessor program, JTPA, all the performance measures were gross outcomes. The situation is somewhat more complex in WIA. For adults, dislocated workers, and older youth, three of the four performance measures are gross outcomes: entered employment, retention, and credential attainment. However, the fourth performance measure, earnings change for adults and older youth and earnings replacement for dislocated workers, compares postprogram earnings to preprogram earnings. Thus, individuals with low preprogram earnings may do well because they have a lower preprogram earnings comparison. For example, if an adult with no prior earnings gets a minimum wage job, that adult’s six-month earnings change would be approximately \$5,356, far above the average of about \$3,249. Thus, to maximize earnings change, program operators might focus on individuals with low preprogram earnings. This strategy might increase performance on the earnings change measure, but might also reduce performance on the

entered employment, retention, and credential measures. Thus, the incentives provided to program operators are mixed. Depending on whether local areas are concerned about earnings change or the other measures, the performance system might induce them to serve either those with poor work histories or those with strong work histories.

Effects of State Policies on Customers

We begin by looking at the overall effects of state policies on customers without controlling for local policies. Because state policies are likely to influence local policies, controlling for local policies would result in only partial estimates of the effects of state policies.

In developing our estimates, we began by estimating models containing all the state policies that we coded. However, we ultimately restricted the state policies included in our models for several reasons. We eliminated policies that were adopted only in a few states and used summary measures for policies that were highly correlated. These restrictions did not affect our main findings.

The results of our analysis are presented in Exhibit II-8 to Exhibit II-16. Because we are conducting a large number of statistical tests, we focus on findings that show a consistent pattern of effects and ignore occasional effects that are marginally significant.

Adults

We begin by focusing on the results for adults, shown in Exhibit II-8. As shown in the exhibit, states that give monetary incentives for performance show a strong and consistent pattern of serving more individuals with characteristics normally considered indicative of poorer work histories. Groups with greater service in states with performance incentives include those who are:

- Not high school graduates.
- Females.
- Limited English-language proficient.

**Exhibit II-8:
Effects of State Policies on the Characteristics of Adults**

	<u>State Provides Performance Incentives</u>	<u>Single Area States</u>	<u>Stringency of Incentive Criteria</u>	<u>Less Stringent Sanction Criteria</u>	<u>Less Flexible Credential Definitions</u>
Female	4.6**	1.2	-1.2	3.9*	3.4*
Race and Ethnicity					
Latino	1.5	0.0	1.5**	1.7	0.2
African American	0.7	-0.3	-0.9	2.4*	0.2
Other Minority	1.1	-1.6	-0.4	-0.7	0.3
Age					
Under 18	-0.1	0.2	0.0	0.1*	0.0
18 to 19	0.7	1.9	-0.4	-0.2	-0.3
20 to 34	0.2	-0.9	-0.9	4.9**	1.5
35 to 54	0.5	-0.9	0.9	-4.4**	-0.8
55 and over	-1.0	-0.2	0.2	-0.8	-0.6
Education					
No High School Diploma	3.3**	7.3*	0.9	0.2	-0.5
High School Graduate	-2.5	-3.2	-0.3	1.4	3.5**
College Graduate	-1.0	-3.9	-0.6	-1.3	-2.8**
Limited English-language Proficiency	1.7*	1.6	0.5	0.4	0.1
With a Disability	1.0	4.9*	-0.2	0.1	-0.8
Low Income	26.5**	35.0**	-0.5	3.9	-1.5
Not Employed at Registration	3.7*	4.3	2.6**	0.1	-0.4
Veteran	-0.8	-0.3	0.8*	-0.6	-0.6
Public Assistance Recipient	3.9*	8.6	-0.5	5.1**	-4.3*
Single Parent	7.7**	9.6	3.1*	12.6**	1.7
Earnings 2nd and 3rd Quarters Before Registration					
Average ⁺	-\$1,714**	-\$2,340**	\$18	-\$647*	-\$112
\$0-\$4,999	8.8**	13.0**	-0.7	3.4*	0.4
\$5,000- \$9,999	0.0	-1.6	0.5	0.3	-0.7
\$10,000 or more	-8.7**	-11.3**	0.2	-3.7**	0.3

** Statistically significant at the 1% level.

* Statistically significant at the 5% level.

⁺ Coefficient denotes the effect on the average value of this continuous variable.

- Low income.
- Low preprogram earnings.
- Public assistance recipients.
- Single parents.
- Not employed at registration

Single workforce area states also show greater service to groups that tend to have poorer work histories, although not as consistently. Groups with greater service in single area states include those who:

- Are not high school graduates.
- Have a disability.
- Are low income.
- Have low preprogram earnings.

This result can be viewed as confirming the result for states with incentive awards because single workforce area states can receive incentives from ETA.

The stringency of the criteria for incentives awards tends to have effects on customers that are similar to, but less consistent than, the effects of providing incentives. The more stringent the incentive criteria, the greater service is to Latinos, single parents, and those not employed at registration. The one exception is that the stringency of incentive criteria leads to a small reduction in the percentage of customers with no prior earnings (not shown in the exhibit).

Thus, for adults we can conclude that providing performance incentives seems to increase service to groups that historically have had poorer work histories. Further, all the groups mentioned above, except for females, have lower than average outcomes on the entered employment and retention measures. In contrast, except for high school dropouts, they have higher average earnings change.²¹ Thus, initially, these results might seem counterintuitive in that they seem to suggest that providing incentives lead local areas to serve customers whose outcomes are likely to be lower. However, this approach makes sense when considering the poor prior earnings, because serving these customers substantially increases one's likelihood of achieving positive and sizable earnings increases. Similarly, serving those not employed at registration also increases the chance that a local area will be credited with a positive outcome, because these individuals will count toward the entered employment rate if they do find work. Thus, the incentives seem to focus local areas on serving those who are likely to give them credit

on the performance measures, even though these are the individuals who have the poorest work histories. In this way, then, the performance measurement system seems to motivate local areas to serve those who can most benefit from the public workforce system.

The estimated effects of having less stringent criteria for determining which local areas are subject to sanctions are contradictory to the effects of incentives. Like having incentives and having more stringent incentive criteria, having less stringent sanction criteria also tends to increase service to some groups with historically poorer work histories. In particular, states with less stringent sanction criteria tend to serve more:

- Individuals under age 35.
- African Americans.
- Females.
- Individuals with low preprogram earnings.
- Public assistance recipients.
- Single parents.

For most characteristics, the effects of providing incentives are larger than the effects of using less stringent sanction criteria. Thus, a combination of providing incentives and sanction criteria like the federal criteria or even less stringent would seem to have a positive effect on serving individuals with poorer work histories. As noted above, serving those with low prior earnings is entirely sensible in that these individuals can most easily observe strong positive earnings gains if they are able to find employment.

The last state policy we examine is having a less flexible credential definition. States with less flexible credential definitions tended to serve more high school graduates and females, and fewer public assistance recipients. High school graduates and females may be viewed as more likely to complete formal training programs that lead to generally recognized credentials.

Dislocated Workers

Although we do not show the table, the results on the effects of state policies on customer characteristics for dislocated workers are remarkably similar to the results for adults. For example, states that provide performance incentives to local workforce areas tend to have greater service to other ethnicities (not Latino, black, or white), individuals with lower preprogram earnings, single parents, and those not employed at registration. Similarly, providing incentives leads to greater service to individuals with poorer work histories. Further, states with a single

²¹ PY 2003 WIASRD Data Book.

local workforce area tend to serve more single parents. Also, the estimated effects for having less stringent sanction policies generally work in the opposite direction than the effects of incentives. Less stringent sanction criteria lead to reduced service to other ethnicities and individuals with low preprogram earnings. However, in contrast to the findings for adults, less stringent sanction criteria do not lead to increased services to harder-to-serve dislocated workers, such as single parents.

The stringency of states' incentive criteria has somewhat mixed effects for dislocated workers. As for adults, more stringent incentive policies tend to lead to greater service to high school dropouts. They also lead to increased service to older workers (age 55 and over), who often have difficulty obtaining reemployment. However, in contrast to the results for adults, they also tend to reduce service to dislocated workers with low preprogram earnings.

On an overall basis, however, providing incentives appears to increase service to groups with poorer work histories—either the effects of providing incentives and the effects of stringent incentive criteria are reinforcing or the net effect leads to greater service to those with poorer work histories. In particular, the negative effect of providing incentives on average preprogram earnings more than offsets the positive effect of stringent incentive criteria.

Thus, we can conclude that, for dislocated workers, a combination of providing incentives, using stringent criteria to determine eligibility for incentives, and having sanction criteria as stringent as the federal criteria generally leads to greater service to groups with poorer work histories.

Youth

The results for youth are presented in Exhibit II-9. These results continue the pattern we saw for adults and dislocated workers. States that provide performance incentives are more likely to serve youth with significant employment challenges, including youth with disabilities, offenders, pregnant and parenting youth, and single parents. However, there is increased service to youth who are employed at registration. There is also increased service to younger youth.

**Exhibit II-9:
Effects of State Policies on the Characteristics of Youth**

	<u>State Provides Performance Incentives</u>	<u>Single Area States</u>	<u>Stringency of Incentive Criteria</u>	<u>Less Stringent Sanction Criteria</u>
Female	1.6	-3.7	-1.7*	1.2
Race and ethnicity				
Latino	2.6	1.4	1.1	-2.4
African American	-2.7	-9.5	0.5	3.3*
Other Minority	0.0	0.9	-0.2	-0.2
Age				
Under 18	-6.2**	1.2	-0.5	0.1
18 to 19	3.0	-1.1	0.0	-0.8
20 to 21	3.2**	0.6	-0.1	0.7
Limited English-language Proficiency	0.2	1.7	-0.7	0.0
With a Disability	5.4*	14.5*	1.0	-1.3
Not Employed at Registration	-3.6**	-2.3	0.2	-0.1
Receiving Public Assistance	-1.2	-2.9	-1.6	-0.3
Single Parent	5.7**	1.6	1.2	1.1
Pregnant or Parenting Youth	4.1*	-1.1	0.6	3.0*
Not Attending School	2.6	2.6	-0.9	0.9
High School Dropout	-0.1	3.2	-0.4	4.5*
High School Graduate	2.7	-1.7	-0.6	-3.6*
Youth Offender	4.9**	9.7*	0.1	-0.2

** Statistically significant at the 1% level.

* Statistically significant at the 5% level.

States with a single local workforce area also tend to have greater service to some of these same groups, including youth with disabilities and offenders.

The stringency of incentive criteria has little effect on the types of youth served. The only significant effect is a reduction in service to female youth.

As for adults and dislocated workers, the effects of less stringent sanction criteria are similar to effect of providing incentives, in that service to less job ready individuals is increased. States that apply sanction criteria less stringent than the federal criteria tend to serve more high school dropouts and fewer graduates than other states.

Summary of Effects on Customers

Overall, we see a very consistent pattern in how state performance policies affect the types of customers served by WIA. Both providing performance incentives to local areas and the stringency of the incentive criteria are associated with increased service to less job-ready individuals and those with poorer work histories. States with single local workforce areas are also associated with increased service to many of these same groups. Because these states are subject to federal incentive criteria, this result can be viewed as confirming the results for state incentive policies. In contrast, sanction criteria seem to have opposite effects. Less stringent sanction criteria are associated with increased service to some of the same groups. Overall, however, the results suggest that a combination of incentive and sanction policies increases service to less job-ready individuals.

These results thus provide little support for the oft-mentioned concern that a heightened focus on performance policies, and an emphasis on incentives and sanctions based on performance, would lead areas to cream the customer pool and select only those who had the highest likelihood of achieving successful outcomes. Indeed, to the extent that local areas are enrolling some customers more than others, they seem to be doing so in the opposite way, by selecting those who have a lower likelihood of achieving successful outcomes.

Effects of State Policies on Services

We now shift to examining the effects of state performance policies on the types of services offered. Because the performance system measures the outcomes of the people who are served and does not give any “credit” for the number of people served, one strategy that local areas might use to attain high performance is to provide more costly services, such as intensive services and training, to fewer people. Thus, the mix of services might be skewed more towards training and the cost of services might be increased.

Adults and Dislocated Workers

Exhibit II-10 shows estimates of the relationship between state performance policies and services for adults and dislocated workers. These results show that there is little effect of state policies on services for adults.

**Exhibit II-10:
Effects of State Policies on the Services Received by Adults and Dislocated Workers**

	<u>State Provides Performance Incentives</u>	<u>Single Area States</u>	<u>Stringency of Incentive Criteria</u>	<u>Less Stringent Sanction Criteria</u>	<u>Less Flexible Credential Definitions</u>
Adults					
Core Services Only	-2.9	-3.7	1.0	-3.4	-4.2
Training	-6.3	-3.2	-4.7*	-0.7	12.7**
ITA Account	-1.3	9.4	0.8	-2.4	10.6*
Adult Basic Education	0.1	3.9	-1.5	0.3	0.8
On-the-Job Training	-3.8	2.4	-1.4	-2.4	-3.7
Occupational Training	3.2	6.3	1.8	4.0	1.7
Average Duration of Training (Days) [†]	15.4	-33.6	-54.0**	17.1	13.9
Average Cost per Participant [†]	-\$460	-\$977	-\$480	-\$128	-\$316
Dislocated Workers					
Core Service Only	-3.4	-3.8	1.8	0.3	-0.8
Training	-5.5	-0.1	-4.3*	-7.8*	6.7*
ITA Account	-7.7	4.9	0.3	-6.7	5.7
Adult Basic Education	0.1	3.7	-0.5	-1.7	1.9
On-the-Job Training	-1.8	1.4	-0.9	-2.4	-4.1*
Occupational Training	1.5	5.6	1.1	4.2*	2.6
Average Duration of Training (Days) [†]	8.7	-17.1	-42.0**	10.4	41.7*
Average Cost per Participant [†]	-\$758	-\$99	-\$1,253	-\$1,356	-\$1,410

[^] These results hold whether customer characteristics are included as predictors in the model or not.

** Statistically significant at the 1% level.

* Statistically significant at the 5% level.

[†] Coefficient denotes the effect on the average value of this continuous variable.

While the provision of performance incentives has no effect on the types of services received by WIA participants, states with more stringent criteria for awarding such incentives provide less training and have lower average lengths of participation. This finding contradicts our initial hypothesis that the performance system may lead to services that are more intensive.

States with less flexible definitions of credential provide more training and are more likely to use ITAs. The greater use of ITAs may result because ITAs are more commonly used for accredited institutions that award recognized credentials.

The results for dislocated workers in Exhibit II-10 are very similar to the results for adults. States with more stringent incentive criteria provide less training and have shorter average lengths of participation.

In contrast to adults, however, less stringent sanction policies seem to have an effect for dislocated workers. Less stringent sanction policies seem to reduce the amount of training, but also increase the prevalence of occupational training other than OJT among those who receive training. However, the combination of these two effects leads to reduced other occupational training overall.

As was the case for adults, states with less flexible credential definitions tend to provide more training. They also provide less OJT, perhaps because it is more difficult to meet the credential criteria with OJT, and have longer lengths of participation.

Youth

Exhibit II-11 shows the estimated effects of state performance policies on the services received by youth. The most consistent results seem to be that both the stringency of incentive criteria and the use of less stringent sanction criteria seem to increase the provision of educational achievement services, summer employment activities, and follow-up services. For most states, these effects offset so that there is little effect on youth services. However, for the common combination of less stringent incentive criteria and federal sanction criteria, the net effect is a reduction in these services. The use of less stringent sanction criteria also appears to increase the length of participation and the cost of services.

It should be noted that the reporting of youth services changed with the advent of WIA and reporting in some states and local areas appears to be inconsistent. For example, many youth are reported as receiving no services at all (8.6% of exiters from April 2003 through July 2004). Thus, it seems best not to draw strong conclusions from these results.

**Exhibit II-11:
Effects of State Policies on the Services Received by Youth**

	State Provides Performance Incentives	Single Area States	Stringency of Incentive Criteria	Less Stringent Sanction Criteria
Educational Achievement	8.5	10.0	12.1**	12.4**
Employment	1.7	12.5	-1.2	-7.4
Summer Employment	-4.6	12.0	9.8**	11.9**
Additional Support	11.8*	-3.7	2.3	7.3
Leadership Development	-1.5	22.4*	-2.1	7.5
Follow-Up	-9.7	13.5	23.1**	13.4*
Average Length of Participation (Days) ⁺	-47.3	-60.2	-16.0	77.2**
Average Cost Per Participant ⁺	-\$1,077	-\$2,181	\$177	\$2,144*

** Statistically significant at the 1% level.

* Statistically significant at the 5% level.

⁺ Coefficient denotes the effect on the average value of this continuous variable.

Effects of State Policies on Outcomes

One would expect that performance incentives and sanctions would work to increase performance outcomes. As shown in Exhibit II-12, however, our analysis shows no consistent effects of state performance policies on outcomes. These results are for measured outcomes. However, we obtained very similar results when we looked at the difference between the actual outcome and both local and state performance goals.

**Exhibit II-12:
Effects of State Policies on Outcomes**

	<u>State Provides Performance Incentives</u>	<u>Single Area States</u>	<u>Stringency of Incentive Criteria</u>	<u>Less Stringent Sanction Criteria</u>	<u>Less flexible Credential Definitions</u>
Adults					
Entered Employment	-1.6	-8.6*	-0.7	0.3	2.3
Retention	-2.6**	-6.8**	-0.8	0.3	3.6**
Credential	-1.8	-9.0	-1.5	0.5	-0.2
Earnings Change	\$44	-\$367	-\$338*	\$664**	\$278
Dislocated Workers					
Entered Employment	-0.7	-4.9	0.4	2.1*	3.4**
Retention	-1.0	-4.1**	0.4	0.6	1.8**
Credential	-2.4	-2.8	-0.2	2.3	0.5
Earnings Change	\$139	-\$614	-\$303	-\$313	\$563
Wage Replacement Rate	-0.7	-6.6	-2.8	-1.4	3.2
Older Youth					
Entered Employment	-3.0	-4.9	-3.9**	-0.9	2.6
Retention	4.8*	1.4	-1.0	-3.1	2.8
Credential	-2.0	-2.6	-6.2**	-4.1	0.7
Earnings Change	-\$81	-\$375	-\$273	\$81	-\$111
Younger Youth					
Retention	0.7	2.2	-0.7	-0.9	--
Diploma Attainment	2.6	0.9	0.1	4.5	--
Skill Attainment	4.4*	0.6	-2.3*	-3.4*	--

¹ Coefficients for 'More Stringent Definition of Credentials' policy not estimated for younger youth exiters because the credential definition does not apply to younger youth.

** Statistically significant at the 1% level.

* Statistically significant at the 5% level.

The provision of performance incentives seems to reduce adult retention, increase older youth retention, and increase younger youth skill attainment. More stringent incentive criteria seem to reduce adult earnings change, older youth credential attainment, and older youth entered employment. Less stringent sanction policies seem to increase adult earnings change and dislocated worker entered employment, but to reduce younger youth skill attainment.

Having a less flexible credential definition has no effect on attainment of credentials, but seems to increase adult and dislocated worker retention and increase dislocated worker entered

employment. Perhaps focusing on recognized credentials places credential recipients in a better position to find and keep jobs.

Overall, these scattered results regarding the effects of state performance policies on outcomes are not sufficient to lead to a strong conclusion.

Effects of Local Policies

Effects of Local Policies on Customers

Exhibit II-13 shows the estimated effects of local policies on customer characteristics for adults.²² Local areas that give performance incentives or sanctions to providers tend to serve more younger individuals, fewer college graduates, and more individuals with lower preprogram wages for both adults and dislocated workers. They also serve more adult public assistance recipients and more Latino dislocated workers.²³

These results are similar to the effects of state policies that provide performance incentives to local areas. Both providing incentives to local workforce areas and offering incentives to providers result in increased service to groups with poorer work histories.

Local areas in which the performance system is seen as limiting the availability of providers tend to serve more job-ready individuals, especially for adults. Such local areas tend to serve fewer younger adults, more better-educated adults, and more adults with higher preprogram wages. They also tend to serve more middle-aged dislocated workers. There is little effect for youth. While there is no clear explanation for this effect, it is possible that training is effectively limited to individuals with prior skills because providers are able to establish prerequisites for training.

Effects of Local Policies on Services

Exhibit II-14 shows the estimated effects for local policies on services. Here we see two results that are fairly consistent.

²² We estimated a similar model for dislocated workers. Although the results we describe in the text are stronger for adults, in general results for both adults and dislocated workers are highly similar.

²³ Although it is not shown, an additional model examining the effects of local policies on the characteristics of youth served revealed only a few, relatively scattered findings. For example, in local areas that emphasize performance requirements for providers and applicants, there seems to be less service to a number of somewhat disparate groups among youth, including youth aged 18 to 20, employed youth, single parents, pregnant and parenting youth, high school graduates, and offenders. The one commonality among these groups would seem to be that they are likely to be concentrated among older youth.

**Exhibit II-13:
Effects of Local Policies on the Characteristics of Adults**

	Performance Requirements for Providers	Performance Emphasis on Providers' Selection, Incentives & Sanctions	Use of WIA for Core & Intensive Services	Performance Measurement System Restricts Providers	Emphasis on Partnerships
Female	-1.1	0.0	-0.9	-0.9	-0.1
Race and Ethnicity					
Latino	0.7*	0.0	-0.6	-0.6*	0.3
African American	0.6	0.8	0.6	-0.4	0.2
Other Minority	0.0	-0.4*	-0.5*	0.5*	0.2
Age					
Under 18	0.0	0.0	0.0	0.0	0.0
18 to 19	0.3	0.5**	0.0	-0.4*	0.1
20 to 34	0.0	1.3*	-0.3	-1.7**	-0.7
35 to 54	-0.1	-1.3**	0.3	1.7**	0.4
55 and Over	-0.3	-0.5*	0.1	0.3	0.4
Education					
No High School Diploma	-0.1	0.2	-0.3	0.1	-0.1
High School Graduate	0.7	0.6	0.3	-1.2**	-0.3
College Graduate	-0.6*	-0.9**	0.1	1.1**	0.4
Limited English-language Proficiency	0.0	-0.2	0.0	0.4	0.1
With a Disability	0.0	-0.1	0.0	-0.1	-0.2
Low Income	0.8	1.6	0.4	-2.1	-0.3
Not Employed at Registration	0.8	0.1	-0.5	0.9	0.5
Veteran	0.3	-0.3	0.3	0.3	0.2
Public Assistance Recipient	0.2	1.2*	0.2	-0.9	1.2*
Single Parent	0.1	0.5	-1.0	-1.1	1.6*
Earnings 2nd and 3rd Quarters Before Registration					
Average ⁺	-\$69	-\$225*	-\$109	\$296**	-\$61
\$0 to \$4,999	0.2	1.2*	0.8	-1.6**	0.5
\$5,000 to \$9,999	0.0	-0.2	-0.2	0.1	-0.3
\$10,000 or more	-0.3	-1.1*	-0.6	1.5**	-0.2

** Statistically significant at the 1% level.

* Statistically significant at the 5% level.

⁺ Coefficient denotes the effect on the average value of this continuous variable.

**Exhibit II-14:
Effects of Local Policies on Services**

	<u>Performance Requirements for Providers</u>	<u>Performance Emphasis on Providers' Selection, Incentives & Sanctions</u>	<u>Use of WIA for Core & Intensive Services</u>	<u>Performance Measurement System Restricts Providers</u>	<u>Emphasis on Partnerships</u>
Adults					
Core Service Only	-0.7	0.1	2.6**	0.3	3.2**
Training	-1.0	1.4	-3.7**	-1.7	-6.2**
ITA Account	1.4	2.2	-2.7*	-2.7*	-5.8**
On-the-Job Training	0.0	0.9	0.5	-0.4	1.1
Adult Basic Education	-0.7	-1.0	-0.7	0.6	0.8
Occupational Training	-0.7	0.1	-0.2	0.0	-1.9*
Average Duration of Training (Days) ⁺	-7.7	3.6	-1.7	-8.8	-18.9**
Average Cost Per Participant ⁺	-\$369	-\$320	\$122	-\$162	-\$535*
Dislocated Workers					
Core only	-0.1	-0.3	1.4*	0.9	1.7*
Received Training	-1.2	0.4	-2.9**	-2.0	-4.2**
ITA	0.8	1.2	-1.6	-3.4*	-3.6**
OJT	-0.1	0.4	-0.5	0.7	0.1
Adult Basic Skills	0.4	-0.2	-0.5	0.2	0.7
Occupational Training	-0.8	-0.1	1.4*	-0.6	-0.8
Average Duration of Training (Days) ⁺	-12.5	3.1	4.4	-5.0	-7.7
Average Cost Per Participant ⁺	\$138	-\$882	\$844	\$85	-\$623
Youth					
Educational Achievement	0.4	0.3	1.6	0.4	0.6
Employment	-1.0	2.6	2.7	-3.8**	2.6
Summer Employment	1.3	-2.7*	0.5	0.5	-3.1*
Additional Support	-0.2	-1.9	3.5	1.5	0.7
Leadership Development	2.1	0.5	-1.5	4.1**	0.8
Follow-Up	1.5	-1.9	-3.3	-0.3	-2.6
Average Duration of Training (Days) ⁺	9.6	7.5	7.2	-6.7	3.3
Average Cost per participant ⁺	\$5	-\$549	\$314	-\$283	-\$287

** Statistically significant at the 1% level.

* Statistically significant at the 5% level.

Not surprisingly, in local areas where WIA is heavily involved with providing core and intensive services, both adults and dislocated workers are more likely to receive only core services and less likely to receive training. This result is almost tautological.

Second, in local areas where there is a greater emphasis on partnerships, adults and dislocated workers are also more likely to receive core services and less likely to receive training. They are also less likely to receive ITAs. Adults in these areas also seem to receive less other occupational training and have shorter lengths of WIA participation. Further, the emphasis on partnerships seems to reduce the average cost per adult exiter perhaps because these are sharing cost with WIA. We do not see similar effects for youth.

Effects of Local Policies on Outcomes

Exhibit II-15 shows the estimated effects of local policies on outcomes. What is most striking about this exhibit is the lack of any impacts of local policies. Although there are some scattered statistically significant results, there are about the same number that would be expected by chance even if there were no effects—just 5 significant out of 85 estimates. Thus, while it may be that the use of performance requirements for providers does lead to lower earnings change among older youth or that the use of WIA as the primary provider for core and intensive services leads to slightly lower retention rates among dislocated workers, there is no clear explanation for these effects, and they are so sporadic as to possibly be the result of random chance alone. The lack of association is important in itself, however, as it suggests little relationship between local area decisions and their customers' outcomes. Obviously, local areas vary widely in the outcomes their customers obtain, but these variations do not seem to be associated with who provides core and intensive services, whether local areas emphasize performance to and build in specific requirements for their providers, or the emphasis they place on partnerships. Of course, it is entirely possible that other local policies and decisions have an impact on customers' outcomes. Indeed, the impacts noted above on customer characteristics and services received carry through and have a resultant effect on outcomes. But the policies have little discernible impact on customer outcomes themselves.

**Exhibit II-15:
Effects of Local Policies on Outcomes**

	<u>Performance Requirements for Providers</u>	<u>Performance Emphasis on Providers' Selection, Incentives & Sanctions</u>	<u>Use of WIA for Core & Intensive Services</u>	<u>Performance Measurement System Restricts Providers</u>	<u>Emphasis on Partnerships</u>
Adults					
Entered Employment	-0.4	0.4	-0.8	0.1	0.4
Retention	0.0	-0.5*	0.1	-0.1	-0.1
Credential	-0.8	0.2	-1.4	1.3	1.1
Earnings Change	-\$19	\$94	-\$29	-\$48	-\$153
Dislocated Workers					
Entered Employment	-0.2	-0.1	-0.1	0.2	0.0
Retention	-0.2	-0.2	-0.5*	0.0	-0.2
Credential	-0.1	-0.2	-0.9	1.4*	0.2
Earnings Change	-\$39	\$89	\$37	\$91	\$108
Earnings Replacement	-0.3	0.8	0.6	0.3	0.9
Older Youth					
Entered Employment	0.0	-1.0	0.4	0.6	1.3
Retention	-0.4	-0.7	-0.2	-0.4	0.0
Credential	-0.4	-0.5	-0.9	-0.9	1.5
Earnings Change	-\$240*	\$26	\$18	\$2	\$11
Younger Youth					
Retention	-0.1	-0.8	-0.4	-0.1	0.8
Diploma Attainment	0.1	-0.8	-1.0	-2.2*	-0.1
Skill Attainment	0.9	0.1	-1.0	-0.2	0.3

** Statistically significant at the 1% level.

* Statistically significant at the 5% level.

Effects of State Policies on Local Policies

Local performance policies are not developed in a vacuum; instead, they are developed in the context of federal and state performance policies. Thus, it is interesting to examine how state policies influence local policies.

Exhibit II-16 shows our estimates of how state policies influence the local policies in our model. Of the possible associations we examine between state and local policies, there are a few significant results.

**Exhibit II-16:
Effects of State Policies on Local Policies**

	State Provides Performance Incentives	Single Area States	Stringency of Incentive Criteria	Less Stringent Sanction Criteria	Less Flexible Credentia Definitions
Performance Related Requirements for Providers and Applicants	1.8	7.3	12.9	-4.0	-18.8
Performance Emphasis on Providers' Selection, Incentives and Sanctions	-10.6	-6.4	-4.4	-9.1	-15.3
Use of WIA to provide Core and Intensive Services	11.7	-89.1*	-28.3**	-6.2	-16.0
Performance Measurement System Restricts the Pool of Available Providers	-4.3	11.6	18.8*	5.2	-28.7
Emphasis on Partnerships	2.8	-39.4	10.8	57.0**	-5.1

** Statistically significant at the 1% level.

* Statistically significant at the 5% level.

In states that use stringent criteria to award incentives, WIA is less likely to be the primary provider of core and intensive services and local areas are more likely to see the availability of providers as limited by performance policies.

In states with a single local workforce area, WIA tends to have a smaller role in providing core and intensive services. This result possibly occurs because it is easier to integrate the state-operated ES and locally –operated WIA in states where the local area is the entire state.

In states that apply sanction criteria that are less stringent than the federal criteria, local areas are more likely to emphasize partnerships.

Despite these few associations, however, overall, these results do not show a compelling relationship between the state and local performance policies that we measured. As a result, when we estimate models that include both state and local policies as independent variables (not shown), the effects of state policies are very similar to the estimates in models that do not include local policies. Thus, the effects of state policies we discussed above do not work through the local policies we measured to affect customer characteristics and services.

Summary and Implications for the National Performance Measurement System

Overall, many of the results described in this chapter are inconclusive and do not suggest that variations in state policies have substantial impact on the customers who are served under WIA, the services they receive, or the outcomes they obtain. However, the analysis does lead to one significant and important conclusion. The provision by states to local areas of incentive awards based on performance seems to increase service to a variety of customer groups that tend to be less job-ready and have poorer work histories. This result is confirmed by similar results for states with a single local workforce area, which are subject to federal incentive policies. It is also confirmed by similar results for the provision of incentives to providers by local areas.

This result suggests that fears that the WIA performance system might induce local areas to focus services on better-prepared individuals are unfounded. One might have expected that the desire to do well on the performance measures would lead local areas to focus services on those who are most likely to achieve high outcomes because the WIA performance system is primarily based on total outcomes, such as entered employment, retention, and credential attainment. The individuals most likely to achieve high results on these outcomes are those who have strong work histories—just those who are least in need of WIA services.

However, we do not see any evidence that state policies that emphasize performance by providing incentives have this effect. Indeed, just the opposite occurs. Local areas in states that provide incentives are more likely to serve less job-ready individuals with poor work histories. One potential explanation of this result is the use of a few performance measures that measure change rather than the total outcome: adult and older youth earnings change and dislocated worker earnings replacement. Because these measures compare postprogram earnings to preprogram earnings, one way to succeed on these measures might be to focus services on individuals with low preprogram earnings, which is one of the results we found.

Although we suspect that the presence of the earnings change and replacement measures more than offsets the influence of the other measures, we cannot say conclusively that this is true. Indeed, there is some contradictory evidence. If local areas in states with performance incentives were following a strategy to increase earnings change and replacement, one would expect to see an increase in the earnings change outcomes and, perhaps, a decrease in the other outcomes in those states. While we found some significant relationships between state policies and outcomes, we did not find that provision of incentives increased the earnings change measures. To the contrary, we found that more stringent incentive criteria seemed to decrease adult earnings change.

Ultimately, then, much of the analysis in this chapter is inconclusive, in part because states and local areas have stuck fairly closely with the system as promulgated at the federal level. Importantly, however, we found little to suggest that those most in need of WIA services have a difficult time receiving those services because of any state or local concern for achieving high performance. Rather, states and locals, while focused on achieving strong performance, also seem focused on providing needed workforce services to those who can most benefit from them.