

Performance Measurement in Human Services Contracts

Utilization, Operational Feasibility, and Value in New York City

by Jack Krauskopf

The use of performance measures in public contracts with nonprofit service delivery organizations is a growing practice. This is particularly true in New York City where government has made a strong commitment to performance contracting. Performance measurement can demonstrate the quality of service delivered and ensure accountability by organizations that contract with government. It is important to analyze the contribution of this practice to both public understanding of the impact of services and to the effective functioning of the government-nonprofit system that typifies delivery of human services.

Most City departments that contract with nonprofit service providers include performance indicators that must be reported on a regular basis. In some cases, payments to the nonprofit contractors are based on performance, while in others, specified indicators must be reported and do not affect payment on current contracts, although they may be factors in decisions about renewal and extensions of contracts. This basic distinction between performance-based contracts, in which payments to contractors are deter-

mined by performance milestones, and performance standards, in which performance measures must be reported but do not determine payments, is an important one.

The development and implementation of performance contracts is done individually by each City department. It does not appear that there are any overall policies or guidelines. Neither contract rules issued by the Procurement Policy Board, the city agency that establishes contracting regulations under the City Charter, nor the requirements of the Mayor's Office of Contract Services (MOCS), which manages the contracting process, create procedures for how performance measures are developed or implemented.

Nor is there any central source for information about performance contracting. Neither MOCS, the Office of the Comptroller nor the Mayor's Office of Operations track or report on the use of performance contracts and/or the measures used by departments in their contracts with nonprofit and for-profit providers of services. To get the information for our inquiry, we needed to go department-by-department and even program-by-program to determine the measures used, whether they are the basis for payment, how performance is docu-



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mented, and how satisfied the City departments are with both performance and process.

Performance-Based Contracts

As a result, the nature of performance indicators, which are often developed at the program level within departments, vary widely, as do the milestones to be achieved and the means used to document performance.

Generally, measures establish milestones that determine all or a portion of the payment that agencies receive under their contracts with City departments. Some contracts are "hybrid" or partly performance-based—meaning that a percentage of the payments to the contractor are based on meeting performance milestones, and a portion of the payments are paid according to the line-item budget for the contract.

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The Human Resources Administration (HRA), which administers the City's welfare program, has the most extensive history with performance-based contracts. (See "HRA: Leading the Way" below.)

The Department of Homeless Services, which was one of the first City agencies to develop performance incentives for paying its contractors, actively utilizes performance-based contracting to place people from homeless shelters into permanent housing. Current performance measures emphasize housing placement out of shelters for homeless individuals and families. Bonuses or penalties of 5% are awarded in the amount of the contract for the subsequent year following the documented performance.

The Department of Homeless Services has also recently restructured and renegotiated its street outreach contracts to provide one contract for each of the five boroughs of New York City, including performance-based measures of reduced street homelessness and placement into permanent housing. And the department contracts through its HomeBase program with community-based organizations in areas of the City that have generated high numbers of homeless families to prevent such placements into City-funded shelters, basing payments partly on diversion of families from the City's shelter entry center and partly on line-item budgets.

Some City contracts

for children's services contain provisions for performance-based payments. For example, the Department of Youth and Commu-

nity Development's Out-of-School Time (after school) program, which began two years ago, requires documented enrollment and

HRA: Leading the Way

The Human Resources Administration (HRA), which administers the City's welfare program, has the most extensive history with performance-based contracts. Its Back-to-Work program (formerly Employment Skills Programs and Skills Assessment Placement) includes eight contracts that are all performance-based and which total \$17 million. Payments are based on contractors completing pre- and post-employment plans, placement into unsubsidized jobs, and retention in employment for 90 and 180 days. Job placements and retention must be documented by pay stubs from employers. Other contract provisions apply to client referrals, assessment, Work Experience Program assignments, access to works supports (Earned Income Tax Credit, Food Stamps, health benefits, etc.) and other requirements, but these provisions do not relate directly to contractor payments. For-profit contractors, of which there are three, can earn 10-15% profit, but must reinvest most of it in the program. Nonprofit organizations must use 100% of payments to enhance services or return amounts to HRA.

HRA also contracts for adult basic education, including English language study, with two contractors in the BEGIN program (Begin Employment, Gain Independence Now) totaling more than \$9 million. These contracts base performance payments on conduct of orientation, client work readiness progress scores, and receipt of GED or other certificates or licenses—in addition to job placement.

In addition, HRA administers two WeCARE (Comprehensive Assessment, Rehabilitation and Employment) contracts for \$24 million and \$91 million that are hybrid contracts—partly performance-based and partly cost reimbursement—for welfare recipients with medical and psychiatric conditions that require assessment and treatment to make them able to work. The performance measures include completion of bio/psychosocial assessments, individualized plans for employment, work activities, placement and retention into subsidized or unsubsidized jobs, and securing of federal disability benefits (SSI/SSDI). Agencies are also reimbursed for providing case management.

HRA reports overall job placements of 6,000-8,000 clients per month and six-month retention rates of 75%-82%. However, it is difficult to relate this data to the particular programs that are performance-based. Other public reports measure client engagement in work and work-related activities, and detailed data is reported for each of 24 Job Centers but not in a form that can be connected to the contractors' (vendors) performance.

The Department of Small Business Services (DSBS), which administers the federal Workforce Investment Act (WIA) programs for adults, also utilizes performance measures in its employment contracts. But this department uses a different system than HRA. The DSBS performance contracts are for its six Workforce 1 Career Centers and Business Solutions Centers. The Workforce 1 Centers are aligned with the federal requirements under WIA, and payments are based on job placements as a percentage of target placements, continuing employment after six months, employer "fulfillment" (for strategic employers), and employment with the same employer. (See Appendix 4)

Besides having different milestones, DSBS and HRA use different means to verify and document contractor performance. HRA vendors gather and submit employer pay stubs directly to HRA staff as evidence of job placement and retention, while DSBS uses an outside contractor to validate their vendors' milestones. It should be noted that four of the same vendor agencies work for both HRA and DSBS.

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New York City Human Services Contracts—Value and Number

NEW YORK CITY DEPARTMENT	FISCAL 2007 VALUE	FISCAL 2006 VALUE	FISCAL 2007 NUMBER
Administration for Children's Services	\$2,221,373,768	\$1,792,396,416	340
Dept. of Homeless Services	\$556,386,540	\$242,652,154	87
Human Resources Administration	\$375,959,226	\$532,005,002	162
Dept. of Health & Mental Hygiene	\$253,619,149	\$701,488,015	435
Dept. of Youth & Community Development	\$195,490,506	\$138,136,853	2123
Dept. for the Aging	\$172,416,209	\$368,475,368	649
Dept. of Small Business Services	\$34,785,386	\$43,625,207	38
Dept. Juvenile Justice	\$17,187,203	\$8,056,537	11
Dept. of Housing Preservation & Development	\$10,344,057	\$1,559,688	96
Dept. of Probation	\$5,094,895	\$4,873,895	3
Other Agencies	\$7,183,692	\$2,217,694	132
TOTAL	\$3,849,840,630	\$3,835,486,829	4076

Source: Mayor's Office of Contract Services, Agency Procurement Indicators, Fiscal Year 2007.

attendance, for which its contractors are responsible or subject to a penalty of 10%. The Administration for Children's Services (ACS), which is the City's public child welfare and child care department, has an elaborate evaluation system for rating foster care agencies. And its child care providers are becoming subject to full-enrollment/attendance requirements, for which they are at risk of payment reductions based on shortfalls.

It is clear from this preliminary investigation that City departments are increasing the applications of performance milestones to the process for paying its human services contractors.

Performance Standards

Much more common than performance-based measures are performance standards that contracting agencies must report to City departments, but which do not

constitute a basis for payment on their contracts. Performance according to such standards can affect renewal and continuation of contracts, but payments are based on the line-item budgets that have been negotiated.

All City human services agencies require their contractors to report indicators of performance. These range from senior citizen centers under the auspices of the Department for the Aging, which report numbers of meals served, to various programs under the Human Resources Administration—including domestic violence, home care, HIV/AIDS, and adult protective services.

What do Nonprofit Providers Think?

For the most part, performance-based contract milestones and performance standards are prescribed by City agencies without extensive

consultation with service providers. In some cases, City departments have been willing to modify provisions in response to concerns expressed by the contracting agencies, but there has not generally been a process to develop a consensus as to what milestones and indicators are appropriate.

Nonprofit human services agencies generally support performance contracting, but have substantial reservations and concerns about the way it is being applied and implemented. It is clear from a Baruch College survey and from discussions with service providers that the reporting requirements are considered burdensome and agencies do not feel that they are compensated for the costs involved. Reporting and documentation requirements, even for similar programs, are not consistent among City departments, and where automated, generally use information

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data systems that are unique to each program. Thus, contracting agencies must develop separate response capabilities for each program area for which they contract. There is clearly greater risk for contractors under performance-based contracts, but the combination of the two kinds of requirements increases the administrative burden on agencies, especially those with multiple City contracts.

Regarding the financial risks involved in performance-based contracts, agencies feel that there is always a downside for not meeting milestones, but there is little or no upside for performance that exceeds targets. Either there is no reward, or the reward is deferred into the subsequent contract year. Agencies want a system that rewards superior performance with flexibility that would allow funds to be transferred among programs that the agency administers, which is a practice that does not seem possible under current City contracting provisions. There are substantial numbers of nonprofit organizations that contract with several or many City departments and programs and would welcome a performance-based contract process that allowed funds to be shifted among programs.

How Does Performance Contracting Perform?

While the use of performance-based contracts and performance standards is expanding, there is not good documented evidence of which approach produces better results and under what conditions. The current pattern of separate department-by-department performance reporting does not generally enable City government to provide the public with broad assessments of progress toward

major social outcome objectives regarding children, family and individual well-being. A reasonable question to ask is whether the individual indicators being measured can be accumulated to provide evidence of trends and status of poverty, family conditions, children's security and development, employability of the workforce, socioeconomic mobility, and other over-arching social welfare goals. To do so would require agreement across City departmental and contracting agency spheres about appropriate social goals, what indicators should be utilized, and how to adjust current performance measures to yield specific data that could be accumulated to inform the City, service providers, and the public about progress being made.

The following recommendations are intended to improve and support the practice of performance measurement in New York City human services contracting. Any changes should be incremental and should not undermine the system of accountability that has been established through the work done to date by City government.

Recommendations:

The City should consult widely with nonprofit human services provider agencies and the organizations that represent them to develop appropriate indicators of program-specific performance and, wherever possible, to develop common and consistent means to report and document them.

Special attention should be paid to reporting requirements for agencies with multiple City contracts.

The City and provider agencies should develop over-arching outcome measures that are supported

by program-specific indicators and that can be used to assess progress toward achieving broad social goals.

The administrative costs of these measurement and reporting systems should be identified and shared in an equitable way by the City and the contracting agencies.

As New York State develops increased performance contracting requirements, City and State officials should coordinate their efforts with regard to performance indicators, means of reporting and documenting performance, and overall measures of social outcome goals.

Finally, research should continue to complete the reconnaissance of City department performance contracting measures and practices. Discussions with major service providers and organizations that represent them should also continue, leading to case studies of the impact of performance contracting on service delivery and to further recommendations for improved practices in the joint City-nonprofit system that typifies New York City human services.

In addition, work should be done to determine the direction of New York State in establishing performance measures in its contracts and to compare these requirements with those of the City. Foundations and corporate funders are also establishing performance measures that should be included in this analysis.

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