



Building a Better Workforce: **How States Can Use the Workforce Innovation & Opportunity Act to Turbocharge Workforce Development**

The Workforce Innovation and Opportunity Act of 2014 (WIOA), which supersedes the Workforce Investment Act of 1998, presents an extraordinary opportunity to improve job and career options for our nation's workers and jobseekers through an integrated, job-driven public workforce system that links diverse talent to businesses. It supports the development of strong, vibrant regional economies where businesses thrive and people want to work and live.

Vision Statement for WIOA and the Workforce System (Training and Employment Guidance Letter, No 9-14)

On July 22, 2014, President Obama signed into law the Workforce Innovation and Opportunity Act (WIOA), the first major piece of federal workforce legislation since the Workforce Investment Act (WIA) of 1998. Following years of bipartisan negotiation, the Act revamps how \$2.6 billion dollars will flow to state and local labor boards and requires states to develop unified planning across workforce-related programming. The US Department of Labor plans to release regulations for WIOA in spring 2015. WIOA incorporates new opportunities for states and regions to innovate using 'Pay for Performance' (PFP) contracting. Local workforce investment boards are authorized to use up to 10% of their funding for PFP contracts and additional funding will remain at the state level to drive support toward high-performing service providers.

These legislative changes present exciting opportunities. The below recommendations are intended to help governors, workforce agency commissioners and state workforce boards leverage this flexible funding to support their citizens to find and keep high-quality jobs. We focus on opportunities at the state level—both to create the infrastructure for new types of government contracting, and to better engage local WIBs (Workforce Investment Boards) in Pfp.

Innovation Capital in the Governor’s Reserve Fund

The Act entrusts new funding to states to catalyze innovation. The WIA appropriations in 2013 allocated 5% of total funds to the Governor’s Reserve; the 2014 budget boosted this to 8.75%; the recently-passed 2015 budget increased the fund still further to 10%; and in 2016, it may increase to 15%, depending on Congressional Appropriators.

This increase in flexible funding can have real impact on both workers and employers. It represents a significant source of capital that can be invested in strategic initiatives—building stronger systems, unleashing innovative programs, bolstering measurement and accountability—to improve outcomes for participants. These kinds of smart investments can help more people find work and improve their skills, boosting regional productivity and economic stability by meeting the needs of business. While states have used this funding in a variety of ways in the past, WIOA specifically authorizes the use of Pfp as one of its eligible activities for the first time. In addition, increased overall funding at the state level provides governors with an opportunity to test innovative approaches and promote the growth of evidence-based services through innovative performance-based funding mechanisms.

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Paying for Performance

While performance-based contracting is not new, Pfp requires a different and often unfamiliar approach for many states. Contracts are rigorously measured against pre-defined metrics of success, which ensure services result in meaningful impact. They measure, for example, not just how many people are reached by a given service, but what difference it makes in their lives: how many find jobs, retain them, and ultimately achieve higher earnings. These outcome metrics are systematically tracked; and while they do not necessarily require a third-party evaluation against a comparison group, tracked data is often publically released, helping to build the sector by sharing learnings about successes and failures. Pfp uses funding which is contingent, sometimes entirely, on meeting these pre-defined outcome metrics.

Two Paths for Building a Performance-Based Sector:

I. Building an Infrastructure for Effectiveness

Governors, workforce administrators, and other state leaders can use their expanded WIOA formula funds (alongside nonfederal dollars) to accelerate the development of stronger systems. Smart investments in such systems will help to improve transparency and to scale models that work. Potential investments could:

- **Fund feasibility research.** Good Pfp deals require research and economic modeling. States can set aside funding to support this feasibility research—investigating which intervention or population presents the highest potential for Pfp contracting, how to mitigate perverse incentives, how to develop strong contracts, and how to price outcomes. (Note that investment in feasibility research could also be specifically for “pay for success” projects as described below.)
- **Directly deliver technical assistance to local workforce areas.** For the first time, local Workforce Investment Boards (WIBs) have received specific statutory authority to fund social service delivery via Pfp contracts. WIOA allows states to use their own funds to support these efforts—for example, funding studies to identify specific populations for assistance or providing training to WIBs on how to work with vendors to contract for appropriate outcomes.
- **Provide matching funds to incentivize local Pay for Performance contracts.** Local Workforce Investment Boards may be hesitant to put their new Pfp authority into practice, preferring to use these funds to maintain or expand current programming. States could encourage innovative, effectiveness-based contracts by matching local funds with Reserve funds to incentivize local WIBs to pilot Pfp.
- **Create ‘effectiveness evaluators.’ It is challenging to develop and analyze strong evidence of a program’s effectiveness.** WIOA funding could be used to enhance capacity at the state level to evaluate service program benefits and service provider effectiveness. States could invest in specialists to improve data collection and performance analysis efforts, as well as to identify, develop and monitor new Pfp opportunities.
- **Support education and sharing best practices.** Convening agency leaders and specialists can help to identify promising areas for Pay for Performance.
- **Improve and integrate data systems.** Good data and tracking support smarter decisions.

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States can provide grants to improve data capture systems; expand data sharing across agencies; make meaningful outcomes data available to service providers to create feedback loops; and link data sets to state and federal labor and wage data—building on innovations such as those funded by the Workforce Data Quality Initiative.

- **Develop standard PfP contracting and pricing (“rate sheet”).** In order to expand the PfP field to include more service providers, states and local jurisdictions can use existing government administrative data and program evaluations to set a standard “price per outcome.” This price could be offered as a performance payment to any provider who can generate that outcome. This would dramatically reduce the burden of complex and costly evaluations, while still holding service providers accountable to desired outcomes. Rates per outcome could vary across populations to avoid perverse incentives for “creaming,” or could include bonus payments for serving higher risk populations.

II. Paying For Success

Pay for Success (PFS) is about measurably improving the lives of people most in need by driving resources toward better, more effective programs. Unlike PfP, Pay for Success enables federal, state, and municipal governments to partner with high-performing service providers by tapping private investments for the upfront program costs. If, following a rigorous evaluation, the program is successful in reaching pre-determined outcomes, then government repays those who put up the upfront investment. If the program exceeds pre-determined outcomes, the government pays a small return on the investment; if it does not achieve results, government pays nothing.

For example, New York State initiated a Pay for Success agreement in 2013. The State, with grant support from the U.S. Department of Labor, agreed to pay for positive outcomes for 2,000 high-risk, formerly incarcerated individuals served by the Center for Employment Opportunities (CEO), one of our nation’s foremost evidence-based nonprofits. The agreement tracked if those individuals exhibited higher employment and lower rates of recidivism over 5.5 years. To fund working capital for the project, Social Finance and Bank of America Merrill Lynch raised \$13.5 million from over 40 impact investors and philanthropic foundations. At the end of the project, New York State will make performance-based payments based on the results of a randomized controlled trial evaluation.

In this way, PFS is an evolution of PfP contracting, marrying performance contracts, private capital, and rigorous measurement to ensure government learns what works while paying only for impact. Governors could also use state WIOA funds to directly fund PFS projects. Examples could include:

- **Initiate a workforce development project.** Governors could spur a workforce development PFS project using WIOA funds as a full or partial source of outcome payments—paying if, and only if, outcomes are achieved.

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- **Commission a PFS feasibility study.** To identify the right combination of target population, intervention, and service provider, states can contract external advisors to develop a detailed analysis assessing potential transactions.
- **Support performance-demonstration pilots.** Many promising workforce programs have good programmatic data and great leadership, but lack evaluations against a rigorous control group. Exceptional providers with limited evidence could use demonstration funds to set up a rigorously evaluated pilot; those who succeed in reaching outcome targets would then be well positioned for future PFS projects. Such pilots could be done in partnership with foundations and/or local research institutes with required “matching funds” to leverage the WIOA funds.

Most importantly, state governments should invest in the time to understand innovations in performance-based contracting tools more deeply, including Pay for Success —setting the stage to act and scale value-creating services for those that need them most. ●■

Social Finance US is a nonprofit that is dedicated to mobilizing capital to drive social progress. We believe that everyone deserves the opportunity to thrive, and that social impact financing can play a catalytic role in creating these opportunities. Caitlin Reimers Brumme (creimers@socialfinanceus.org) is a Director on the Capital Markets team; Jake Segal (jsegal@socialfinanceus.org) is an Associate Director on the Advisory team.

Jobs for the Future works to ensure economic opportunity for all. Our innovative college and career pathway models give those struggling to succeed access to needed knowledge, skills, and credentials. We partner with education, workforce, and business leaders to understand the labor market and design systems to sustain a pipeline of skilled workers. We advocate with policymakers for state and federal policies to support this work. Maria Flynn (mflynn@jff.org) is Senior Vice President and the head of JFF’s Building Economic Opportunity Group.